

Will the US Government Shutdown Lead to the Privatization of State Programs?

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by Anna Mikhailova

As the US government shutdown enters its second week, economists and politicians around the world give their take on how the US got here, what happens next, and whether other countries should be worried. Michel Chossudovsky, a Canadian economist and Professor of economics at the University of Ottawa, joined the Voice of Russia special project "Worldwide Shutdown" to talk about the effects the largest stalemate in the latest US history might have on us all.

US is playing Russian roulette with the world economy. Failure by the world's largest borrower to pay its debt is unprecedented in modern history and is likely to devastate stock markets from Canada to South Africa, as US government bonds are the pillar of global financial markets. The hardest blow would fall on the Asian stock exchange. China is the largest holder of U. Treasuries, with \$1.3 trillion in July, according to Treasury data. Japan follows with \$1.1 trillion. Michel Chossudovsky says the market shocks would be enough to tip the US back into recession and drag the world economy down.

"I would suspect that if there is default this would wreak havoc in the money markets, it would possibly also backlash on China and Japan which are the US largest creditors. My main concern is that this showdown rather than shutdown is likely to set the stage for the fading out of major government programs whereby the private sector would take over", says Chossudovsky.

According to economists, even if the Treasury prices aren't affected by a default, the damage in other markets could be devastating. We all remember how the US stocks fell 7 percent in one day when Congress rejected the government's bank-rescue package in 2008, before passing it a few days later. However, the US hasn't defaulted since 1790 and nobody seems to believe it would happen now. Nevertheless, the negative effects of the shutdown would not pass unnoticed in the long-term, Michel Chossudovsky points out.

"I suspect that some form of a political solution will be reached but the broader structural relationship will not be resolved, namely a fact that we are in a depression, that the US economy is bankrupt, that the Federal government is not able to pay its debts and that the Federal government is not in a position to finance government programs", Chossudovsky asserts. "The likelihood is that this would then backlash on the real economy, on the development of public sector activities but also on broader private sectors, particularly

regional and local economies which will be devastated”.

And still the question “what if” bothers analysts. Imagine the unimaginable. US default would not only halt a \$5 trillion lending mechanism for investors who rely on Treasuries and blow up borrowing costs for billions of people and companies, but also bring down the banking system – Dr Ethan Ilzetzki from the London School of Economics and Political Science says.

“The US Treasury is used as a reserve for most private banks in the world and for many central banks in the world”, says Ilzetzki. If all of a sudden these treasuries were defaulted on or even if they lost a significant amount of their value because of the market panic this would have a disastrous impact on the balance sheets of banks everywhere around the world. So this would be an enormous banking crisis, this would have great spillover on other countries, particularly those that are reliant on US dollar for trade and have a lot of reserves in their central bank in the form of dollars”.

While there is no end in sight to the partial shutdown of the US government, and fears are rising of that most momentous of accidents, a Default, the impact of this event on the world economy and its main players is predicted to be mixed – immediate and far-reaching for some, annoying but minimal for others. Whichever it would be for you we will keep you updated on the Worldwide Shutdown.

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