

Chapter 1 of *The Coming Collapse of the Dollar and How to Profit From It*

Illusions of Prosperity

During the final two decades of the twentieth century, the U.S. economy was the envy of the world. It created 30 million new jobs while Europe and Japan were creating virtually none. It imposed its technological and ideological will on huge sections of the global marketplace, and produced new millionaires the way a Ford plant turns out pickup trucks. U.S. stock prices rose twentyfold during this period, in the process convincing most investors that it would always be so. Toward the end, even the federal government seemed well run, accumulating surpluses big enough to shift the debate from how to allocate scarce resources to how long it would take to eliminate the federal debt.

As the coin of this brave new realm, the dollar became the world's dominant currency. Foreign central banks accumulated dollars as their main reserve asset. Commodities like oil were denominated in dollars, and emerging countries like Argentina and China linked their currencies to the dollar in the hope of achieving U.S.-like stability. By 2000, there were said to be more \$100 bills circulating in Russia than in the U.S.

But as the century ended, so did this extraordinary run. Tech stocks crashed, the Twin Towers fell, and Americans' sense of omnipotence went the way of their nest eggs. As this is written in early 2004, three million fewer Americans are drawing paychecks. The federal government is borrowing \$450 billion each year to finance the war on terror as well as an array of new or expanded social programs. Short-term interest rates have been cut to an incredible one percent, and while growth is finally accelerating, borrowing at every level of society is rising even faster.

The dollar, meanwhile, has become the world's problem currency, falling in value versus other major currencies and plunging versus gold. The whole world is watching, scratching its collective head, and wondering what has changed. The answer, as will become clear in the next few chapters, is that everything has changed, and nothing has. The spectacular growth of the past two decades, it now turns out, was a mirage generated by the smoke and mirrors of rising debt and the willingness of the rest of the world to accept a flood of new dollars. Just how much the U.S. owes will shock you. But even more shocking is the fact that we're still at it. Like a family that has maintained its lifestyle by maxing out a series of credit cards, America is at the point where new debt goes to pay off the old rather than to create new wealth. Hence the past few years' slow growth and steady loss of jobs.

So why say that nothing has changed? Because today's problems are new only in terms of recent U.S. history. A quick scan of *world* history reveals them to be depressingly familiar. All great societies pass this way eventually, running up unsustainable debts and printing (or minting) currency in an increasingly desperate attempt to maintain the illusion of prosperity. And all, eventually, find themselves between the proverbial devil and deep blue sea: Either they simply collapse under the weight of their accumulated debt, as did the U.S. and Europe in the 1930s, or they keep running the printing presses

until their currencies become worthless and their economies fall into chaos.

This time around, governments the world over have clearly chosen the second option. They're cutting interest rates, boosting spending, and encouraging the use of modern financial engineering techniques to create a tidal wave of credit. And history teaches that once in motion, this process leads to an inevitable result: Fiat (i.e., government-controlled) currencies will become ever less valuable, until most of us just give upon them altogether. These are strong words, we know. But by the time you've finished the next two chapters we think you'll agree that they are, unfortunately, quite accurate.

Now, what does a collapse in the value of the dollar mean for your finances? Many things, mostly bad but some potentially very good. First, it hurts people on a fixed income, because the value of each dollar they receive plunges. Ditto for those who are owed money, because they'll be paid back in less-valuable dollars (hence the disaster about to hit many banks). Bonds, which are basically loans to businesses or governments that promise to make fixed monthly payments and then return the principal, will be terrible investments, since they'll be repaid in always-depreciating dollars. For stocks and real estate, the picture is mixed, with a weak dollar helping in some ways and hurting in others. We'll walk you through this labyrinth in Chapter 17.

The only unambiguous winner is gold. For the first 3,000 or so years of human history, gold was, for a variety of still-valid reasons, humanity's money of choice. As recently as 1970, it was the anchor of the global financial system. And since the world's economies severed their links to the metal in 1971, it has acted as a kind of shadow currency, rising when the dollar is weak and falling when the dollar is strong. Not surprisingly, gold languished during the 1980s and '90s, drifting lower as the dollar soared, and being supplanted by the greenback as the standard against which all things financial are measured. But now those roles are about to reverse once again. In the coming decade, as the dollar suffers one of the great meltdowns in monetary history, gold will reclaim its place at the center of the global financial system, and its value, relative to most of today's national currencies, will soar. The result: Gold coins, Gold-mining stocks, and gold-based digital currencies will be vastly better ways to preserve and/or grow wealth than dollar-denominated bonds, stocks, or bank accounts.

That, in a nutshell, is the story. The rest of this book will put some meat on this chapter's rhetorical bones, but as historians once said of Aristotle, all that follows is mere elaboration.