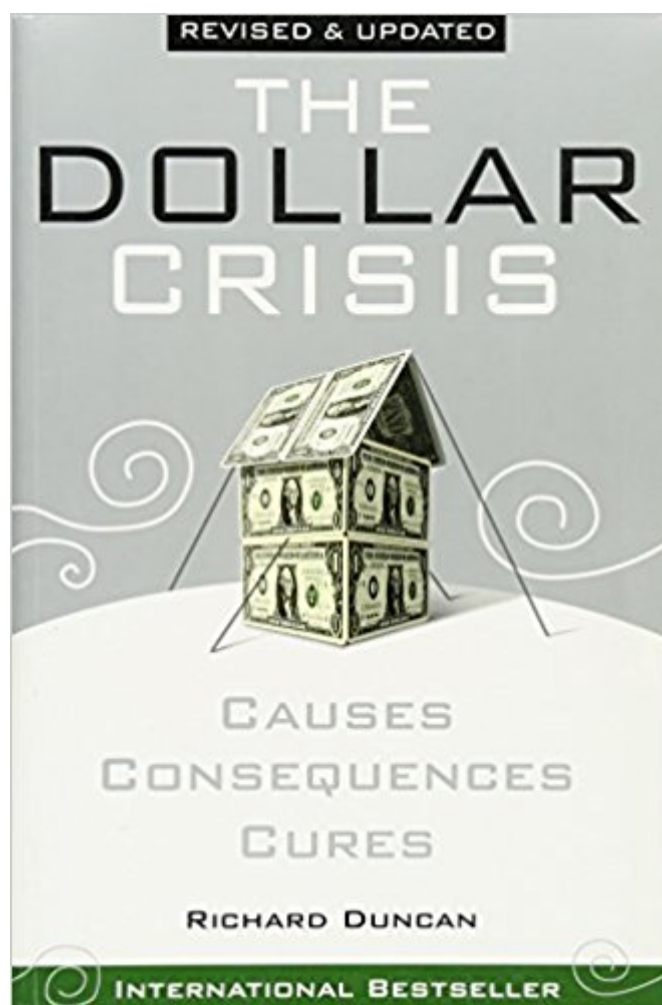




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# The Dollar Crisis: Causes, Consequences, Cures



## Synopsis

In this updated, second edition of the highly acclaimed international best seller, *The Dollar Crisis: Causes, Consequences, Cures*, Richard Duncan describes the flaws in the international monetary system that have destabilized the global economy and that may soon culminate in a deflation-induced worldwide economic slump. *The Dollar Crisis* is divided into five parts: Part One describes how the US trade deficits, which now exceed US\$1 million a minute, have destabilized the global economy by creating a worldwide credit bubble. Part Two explains why these giant deficits cannot persist and why a US recession and a collapse in the value of the Dollar are unavoidable. Part Three analyzes the extraordinarily harmful impact that the US recession and the collapse of the Dollar will have on the rest of the world. Part Four offers original recommendations that, if implemented, would help mitigate the damage of the coming worldwide downturn and put in place the foundations for balanced and sustainable economic growth in the decades ahead. Part Five, which has been newly added to the second edition, describes the extraordinary evolution of this crisis since the first edition was completed in September 2002. It also considers how the Dollar Crisis is likely to unfold over the years immediately ahead, the likely policy response to the crisis, and why that response cannot succeed. The Dollar Standard is inherently flawed and increasingly unstable. Its collapse will be the most important economic event of the 21st Century.

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Posterity may remember *The Dollar Crisis* as a seminal book in the field of 21st century economics.

Indeed, rarely has a book offered such a grim yet, well argued view of the current economic situation facing the world.-- Steven Irvine, FinanceAsia Duncan writes like a man who's already seen tomorrow. -- James Grant, Grant's Interest Rate Observer I held a class for about 150 people on the book entitled "The Dollar Crisis," authored by Richard Duncan. If you want to better understand why the real estate bubble bust and the crash of the dollar will probably lead to a prolonged recession, you may want to read this book sooner rather than later. In a nutshell, we really do not have a real estate bubble... the world is in a currency bubble. In other words, the governments of the world have printed too much "funny" money and cash will soon turn to trash. • Even if you are not in real estate or are saving dollars, you may want to read this book to find out what you need to invest in now, before the bubble bursts. If you are in stocks and mutual funds, you definitely want to read this book.-- Robert Kiyosaki, author of Rich Dad, Poor Dad I would like every one of my subscribers to click on to .com and buy a new book that has just been published entitled, "The Dollar Crisis, Causes, Consequences, Cures." • The book costs around twenty bucks and is worth ten times that amount. • The author, Richard Duncan has a great background and is as smart as they come. • He explains why he sees a crashing dollar and a severe recession coming up in the US • plus a world recession. • This is no wild-eyed guru, this is a guy who knows what he's talking about and a guy who understands money and the world monetary system • he's worked for both the World Bank and the International Monetary Fund. • Please buy this book!-- Richard Russell, Dow Theory Letters Richard Duncan crisply explains why payback time for years of credit excesses, payments imbalances and securitized sub-par lending is imminent. Mr Greenspan, your time is up. --Philip Bowring, International Herald Tribune Richard Duncan's excellent book • we cannot recommend it enough.-- Bill Bonner, The Daily Reckoning Richard Duncan • is one of the brightest financial analysts I know. Richard is the author of one of my favorite books called The Dollar Crisis: Causes, Consequences, Cures.-- John Mauldin, Thoughts from the Frontline For a preview of how it might play out, consult Richard Duncan's recently revised book, The Dollar Crisis: • Causes, Consequences, Cures. • Just try to sleep after digesting its thesis that the world's biggest economy is looking like a huge and growing Ponzi scheme.--William Pesek Jr., International Herald Tribune

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**William Pesek Jr.**, International Herald Tribune

Since the breakdown of Bretton Woods in the early 1970's and the end of the gold standard, the dollar has become the international reserve currency. The 20 years prior to 1970 international reserves increased only about 55%, but since 1970, with the adoption of the dollar standard, reserves have increased over 2,000%. This is primarily a result of US current account deficits, which last year ran about \$600 billion - about 3% of GDP. Asian central banks hold about \$2 trillion US dollar-denominated reserve assets. This surge in international reserves has created huge

imbalances and it is the subject of this book by financial analyst Richard Duncan. The dollar standard has allowed the US to finance incredibly large deficits by printing more dollars. The dollar standard has on the upside ushered in the age of globalization that has allowed Asian economies - first Japan, then the Tigers, and now China - to develop by exporting to the US without importing equal amounts, leaving Asian central banks with large stockpiles of dollar reserves. And what can Asian central banks do with these reserves? About the only thing they can do is invest in US corporate stocks and bonds, T-bills, and US agency debt such as Fannie Mae and Freddie Mac. (We've been enjoying low mortgage rates because the Asian central banks buy up our debt so we can take out more.) And all these investments in return allow US consumers to buy more of their exports - call it vendor financing. According to Duncan, these current account deficits and current account surpluses have already wrought havoc with the world economy: it caused the asset and stock market bubble in Japan in the 1980s; it caused the currency crisis in Malaysia and Thailand in the 1990s (Duncan was an analyst working in Thailand at the time and correctly predicted its occurrence); and it is currently fueling the real estate boom in the US. Asia's export-led strategies require that dollar reserves are reinvested in the US; this prevents their currencies from appreciating. Indeed, if the Bank of China or the Bank of Japan were to invest in the Euro or any other currency, the bankers and politicians of those countries would quickly protest because it would drive up their currencies and make their exports less competitive. So then with the US increasing the world's international reserves at a rate of \$600 billion a year, everyone is still happy for the time being. Asian countries are growing rapidly and American consumers have endless supplies of credit - using their homes as ATMs - however, this imbalance, unsustainable and in the long run, will precipitate an economic crisis. Even correcting this imbalance, if not done prudently, could precipitate a world economic slowdown. This book was written before the recent decision by China to stop pegging the yuan to the dollar. This was a baby step in the right direction. Duncan's analysis of the problem is very good, his policy recommendations, however, are questionable. He suggests, for example, giving global central bank status to the International Monetary Fund. That's a nonstarter for reasons obvious to Republicans. He also advocates a global minimum wage, giving workers more money to soak up excess supply. I can already hear the critics screaming no "world government." The main problem that needs to be addressed - and Duncan stresses it many times - is that there needs to be a regulatory mechanism in foreign-exchange markets. Central banks intervene in currency markets for their own benefit - such creating an export strategy - instead of looking for ways to smooth global business cycles. China, with its revaluation of its currency, is looking to become a responsible global player - we hope. If the powers that be do not act in concert

to coordinate a soft landing of the current imbalances, we will all be heading for some frightening times.

His explanation of causes and consequences are better than anything I have ever read on this subject. However, I completely disagree with his cures....\$20 trillion dollars in debt has shown that the solution is absolutely not in the hands of politicians and bureaucrats.

Wonderful read. The author has lots of stats & references, which is essential in an opinion-based book like this (in my view). It's great to have a viewpoint, but if you can't reference facts objectively, it's a rant and I likely wouldn't read it. This book, however, referenced IMF figures, and had lots of charts that were objectively prepared. Also, the author was dead on right with his predictions of a financial problem with the GSEs. This was an amazingly correct call. I would say the appeal would be for finance & investment community. You'd need to be comfortable with the financial institutions and players, otherwise his references may seem arcane and spurious. Right now, with the dollar going up, it's a good time for the author to write a follow up book, as clearly the dollar crisis has not happened the way the author writes. However, given his prescient call on the GSEs, a follow up book on what's happened to the dollar as of late would be a worthwhile read. Also, even with the dollar ascendancy of late, this book is a good read, as it provides a well researched alternative perspective.

Easy for a financial layperson to read and understand while still getting his message of how things have evolved in finance and monetary policy in the US and the world. And how the US ties into the world economy (or the world economy ties into us). If you want to learn about trade balances and how they effect a countries economic system this is a book you would want to read.

I never studied Economics at college so this book became my 101 and explained in depth why foreign countries, until recently, kept buying our US Treasury Notes even though they knew we were trillions of dollars in debt. Intuitively I suspected the current bull market was on borrowed time but this book spells out in detail how our current relative affluence is about to end and nothing can stop this train wreck from happening. This train wreck is not just the end of the latest bull market but the beginning of a severe recession and depression. Richard Duncan brings together the separate catastrophes of Peak Oil, Global Warming, the Collapsing Dollar and the Loss of its Reserve Currency Status and, the Lack of American Savings to clearly explain why the good times are about

over. So be warned that this book is not a comfortable read. If like me you are wanting to absorb the message quickly, rather than try to nit pick his findings, then I would fault his over-use of charts and data tables. I started skipping them after I realized they were extra detail and not essential to the theme of the book. Richard Duncan goes to lengths to explain how we are part of a global economy and gives a plausible reason why the only way out of the coming depression, which mainly is the result of severe trade imbalances between the US/Europe and ASEAN countries, is for these third world exporting countries to raise their living standards. This will likely mean an internationally agreed minimum wage for all forms of labor. Only by using a flat playing field can free trade occur as it is intended to. Other informative books to read in this genre are "Crash Proof" by Peter Schiff (Dr Doom) Crash Proof: How to Profit From the Coming Economic Collapse (Lynn Sonberg Books) and The Coming Economic Collapse: How You Can Thrive When Oil Costs \$200 a Barrel by Dr. Stephen Leeb. Having read these and other publications I am now cashing in all my diversified US Dollar denominated investments held by a major Wall Street investment house, in order to buy quality foreign stocks and bonds directly from foreign stock exchanges using their own strong currencies. There are ways explained in this book on how to mitigate the coming extreme pain but we will all suffer a diminished life style.

Groundwork for understanding world economy

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