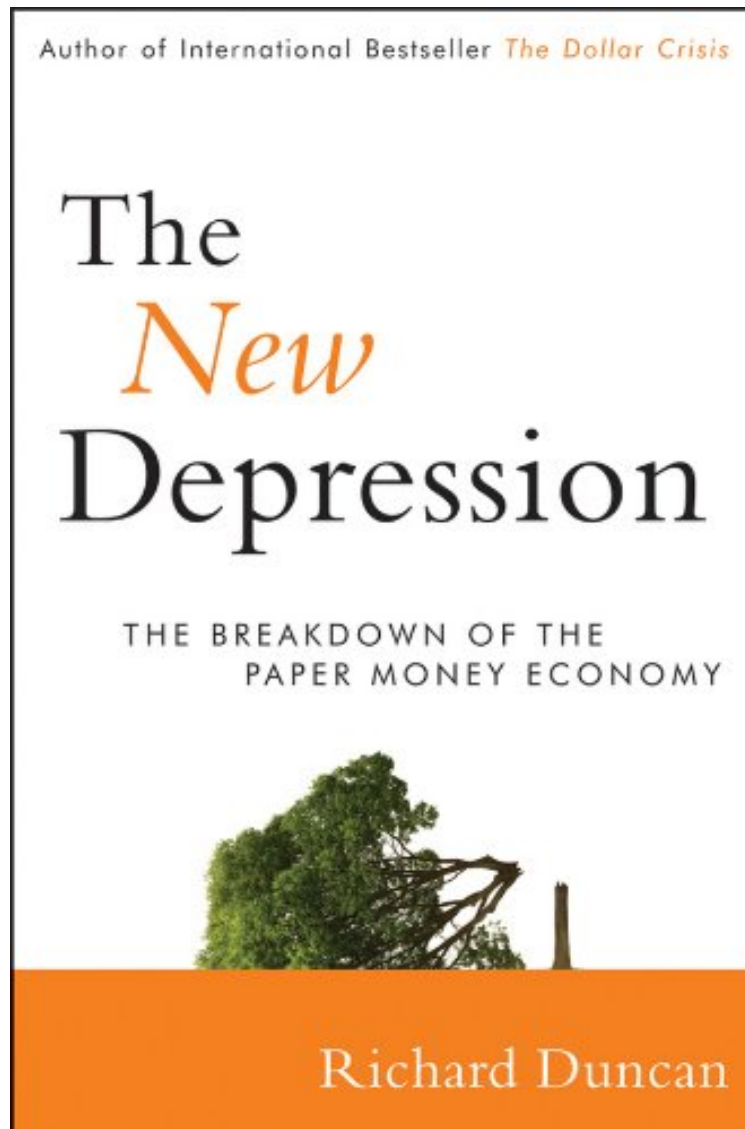


(Read ebook) The New Depression: The Breakdown of the Paper Money Economy

The New Depression: The Breakdown of the Paper Money Economy

Richard Duncan

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Richard Duncan : The New Depression: The Breakdown of the Paper Money Economy before purchasing it in order to gage whether or not it would be worth my time, and all praised The New Depression: The Breakdown of the Paper Money Economy:

84 of 84 people found the following review helpful. Best Macro Econ Book of the Last 10 YearsBy Tom GThe New Depression is an important book. I think the subject matter is beyond the grasp of a mass market audience but not at all boring or too complicated for those with some financial education or a keen interest in the subject. I mention this point because a few chapters necessarily lay a logic foundation for what follows and that requires some discussion of money

and credit. Don't be scared off by my mild caveat. This tightly written 179 page exposition explains the credit based economy since 1968. This book brings it all together and explains how we arrived at the economic ledge and the limited policy options remaining. Duncan starts by quickly showing how the expansion of credit has driven our economic growth. America continued it's economic expansion after leaving the gold standard by switching to an economy of credit/spending from saving/investing. It explains America's financial relationship with China/Asia and how we're all in this together and none are without sin. The progression he presents is absolutely convincing and sweeps away the confusion and incompleteness of the piecemeal theories that dominate financial market discussions. This understanding is monumentally important to the investor who stands stunned looking at a world of negative interest rates and wondering about inflation versus deflation. It's truly a matter of financial survival for many of us. This book is not about blame or angry opinion but a mature and rational analysis. Terrible policy decisions were made in the past. The continuum of folly brought us to the credit collapse of 2008. Duncan places you in the shoes of the Fed chairman and the Treasury Secretary as they stand on the ledge discussing what to do next. Shocked themselves, they wonder what is politically possible and how much time have we left. Want to be the fly on the wall and hear the truth? Get the book. Worth every nickel. 187 of 199 people found the following review helpful. lucid diagnosis, dubious treatment

By Lance B. Sjogren

This is the first book I have read by Duncan and I find it very thought provoking. Note that Duncan approaches the subject of the contemporary economy from an American perspective, and I, also being an American, will discuss it from a US-centric perspective. I believe his most central concept is that we currently operate under an economic system that is based on an ever-increasing expansion of credit, which he calls, for lack of a better word, "Creditism". He seems to substantially share the view of the Austrian school of economics that this state of affairs, which was triggered by the abandonment of the gold standard, and aggravated by a virtual elimination of any capital reserve requirements for the issuance of debt, is a tragic one. A number of other books I have read recently on the economic crisis have also emphasized the key role that debt expansion has played in the economy being where it is today. He is perhaps unique, however, in asserting that debt is in fact now the cornerstone of our economic system. He asserts that economic growth or decline is caused by the expansion or contraction of credit, and provides what appears to be some pretty good evidence of how ups and downs in the economy were caused by fluctuations in total credit. ("TCMD" Total Credit Market Debt) And that overall there has been an exponential increase in TCMD over the last 60 years or so, which was the cause of the prosperity that has prevailed during that period. That assertion makes a good deal of sense to me, although another explanation of the prosperity of the late 20th century that some have made is that it was driven by the availability of abundant cheap energy. That seems to me to also be a pretty credible hypothesis. I am inclined to believe that both probably played a major role. With regard to the post-2008 crash in the US, he shows how the short-term ups and downs in the economy since then were caused by the specific actions taken by the Federal Reserve. Another key point he makes is that Ben Bernanke is incorrect in claiming that China's heavy purchase of US government debt is funded with savings. He contends that it is in fact funded by Yuan freshly-printed by the Chinese central bank. I was interested in his opinion on China. He seems to share the mainstream view that China has no choice but to continue buying up government debt from the west else the Chinese economy would collapse. He asserts that China cannot switch from an export economy to a domestic-based one because Chinese cannot afford the goods produced by Chinese factories, only westerners can. For those familiar with the views of Peter Schiff, you will recognize that not everyone agrees with that assessment. Schiff believes the west is in fact an economic albatross around China's neck, and it would prosper more if it would simply redirect its focus to its domestic economy and transition out of exporting. Another point Duncan makes in the book, is that we have undergone a lengthy period of massive debt expansion in which price inflation has not been commensurate with that debt expansion, and the reason is that highly inflationary economic policies have been accompanied by a huge drop in labor costs associated with the replacement of domestic labor with low-wage foreign labor. This is a point contemporary Austrians such as Peter Schiff have also made. Schiff points out that the most prominent mandate central banks tend to be tasked with is price stability, while he points out that deflation is actually a characteristic of a healthy market economy- it means that higher productivity is lowering prices and making products more affordable. In Duncan's final chapter on inflation and deflation he cites past periods of them and it appears the latter 19th century was deflationary along the lines of what the Austrians would characterize as "healthy deflation". Despite the numerous instances in which Duncan asserts that the Austrians have correctly diagnosed the economic realities of our times, his prescription for the future bears no resemblance to theirs. He opposes austerity measures for the US on the basis that they will trigger a depression. He believes the "cold turkey" approach of the Libertarians (disciples of the Austrian school) of switching to a system of free-market economics would cause a catastrophic Depression. Duncan feels that if the originators of Austrian economics were around today they would see things his way, although I sincerely doubt it. Certainly the contemporary followers of that philosophy do not. It seems to me Duncan raises a very legitimate question regarding the Libertarian solution. Would the transition really simply be a short bout of economic pain followed by a glorious return to an economy based on free market capitalism that would provide long-term prosperity? Or could the transition last decades or longer, and involve a complete collapse of the economy, leading to tyranny, violence, mass starvation? Even if that is the path to the Promised Land, if is

impossible to travel that path without dying on the way, then it is of dubious merit. Or as Duncan puts it, it took hundreds of years to get from the fall of the Roman Empire to the Renaissance. Duncan's prescription for the future is basically massive government stimulus to keep the credit expansion continuing. He seems to feel that this could lead to a stronger economy if that stimulus were spent very wisely. However, here it appears to me that he is on extremely shaky ground. This has probably been said by others before, but it seems worth stating: It is far easier to refute than to assert. Duncan wants a "moon shot" type program to transition the US to solar energy. Well, I am not an economist but I am a retired engineer and although I was not in the energy field I do have done a fair amount of reading on the subject. And, one thing I try to impress on people is that while I believe solar energy is in all probability the primary energy solution for mankind in the long term, it will be many decades before solar will have the ability to provide a substantial portion of our energy. And throwing massive amounts of money at it will not necessarily speed it up much. There are major breakthroughs still needed. There have been incredible advances in photovoltaic cells that have improved their efficiency while drastically lowering their cost. But, since solar is an intermittent source, the solar cell is only one piece of the puzzle. I believe Duncan is totally incorrect that the price of gasoline could be brought way down. His \$1 a gallon is in my view delusional. As to the electric car, which he also advocates, I believe it has great potential, but battery technology is still a long way from being adequate to produce an electric car with comparable functionality to an internal combustion vehicle. Furthermore, there are all sorts of essential uses of fossil fuels for which we are a lot further still from having any substitute. Aviation fuel, plastics, agricultural fertilizers are a few examples. It seems that often these days people, particularly those on the political left, seem to feel that scientific advances can be created by government decree. And such a view is not totally unfounded, as evidenced by the example of the program to put a man on the moon. But to overly generalize that concept is in my view foolhardy. Suppose the government decreed that scientists develop a mechanism to "beam a person up" to an inhabitable planet elsewhere in the galaxy within ten years, and that they will be given a virtually unlimited budget to assure their success. How many people would bet that such a program would succeed? Only a handful of disturbed individuals would. What this shows is that while a large-scale project driven by the government can be successful, it must not only be well-run but be directed at a realistically achievable objective. The only solid point I would grant him is that Creditism does serve as an ENABLER for the sort of massive government stimulus he proposes. Because interest rates are forced to artificially low levels by the economic policy-makers, and it appears that state of affairs can be continued for the foreseeable future, despite the unprecedented spiral of debt, the US government still has the capacity to engage in massive additional borrowing. I believe there may also be some parallel in Duncan's economic prescription to that proposed by the adherents of "Modern Monetary Theory". I wanted to get familiar with that philosophy and bought Wray's book "Understanding Modern Money", which seemed to be the most respected book on the subject. However, I stopped when I got to what seemed to be his first major proposal, that government employment of the unemployed be used as a mechanism to regulate inflation. It seemed to me that idea has obvious fatal flaws. However, my curiosity is picking up again and I look forward to continuing with that book now that I have read Duncan's. I believe the energy situation is almost opposite of how Duncan views it. Fossil fuels will be becoming scarce in coming decades. Renewables will be incapable to replace them to any meaningful degree for decades. Nevertheless, we need to AGGRESSIVELY fund energy research to expedite the transition from fossil fuels as quickly as possible. However, for several decades, renewable energy will NOT be an economic boon, it will be a money sink, as we spend billions toward government-funded research that will have no economic payoff for decades. In fact, if Duncan were right that throwing hundreds of billions of dollars at deployment of solar energy would have an economic payoff in the near term, the private sector could do it. It is the fact that the basic research needed to make alternative energy a reality will have no payoff for a number of decades that is the precise reason that such research must be funded by the government. But do not engage in "faith-based" deployment on a large-scale of a technology that is at far too primitive a level of development to be able to provide an economic benefit at the present time. Such policy would simply be another "Decline of the Roman Empire" act of imperial hubris which would hasten the collapse of modern civilization. Some other questions that come to mind with regard to Duncan's prescriptions. 1). Does he show no interest in returning to Capitalism because he believes such a system has no inherent virtue over Creditism, or because he believes that the transition would have such catastrophic consequences for mankind that there is "no going back"? 2). Does he believe that Creditism can continue indefinitely? As far as I can tell he appears to believe that massive government stimulus funded by debt could trigger economic growth that would save the economy. His main concern seems to be staving off calamity in the short term. Exactly what sort of economy would exist beyond that under his regime seems very murky. I suspect that if he gave more detail it would raise a whole lot of new questions. 3). Regarding his energy plan: If a massive government energy program is a key to our economic woes, who says solar is the right choice? I happened to listen to an interview on financialsense.com today by a spokesman for Thorium reactors. Why not a multi hundred billion dollar program to develop Thorium reactors? Not that I am an advocate of Thorium reactors, but I bet that a stronger case could be made that they could be a solution to our energy needs in the next 100 years than the case that could be made for solar. I should emphasize that I do not mean to suggest that I support such a massive hail mary program for any energy technology, be it solar, Thorium, or whatever. I

see that in the liner notes it says Duncan's book "The Corruption of Capitalism" described the long series of US policy mistakes responsible for the crisis. It also outlined the policies necessary to permanently resolve it. Perhaps that book elaborates in more detail on Duncan's economic prescription and what his rationale is for how it could somehow. So I look forward to getting that book and seeing if he sheds more light in there as to how he sees Creditism playing out in the long term. But at this point, I do not find Duncan's economic prescription to be credible. It seems to me we have two choices. 1) The cold-turkey discontinuation of Creditism proposed by the Libertarians, for which it is unclear whether the negative consequences are a "lesser evil" than other alternatives. 2) Continuation of large fiscal deficits and associated debt creation in nominal terms, but with the currency devaluing faster than the debt rises, so that the US works its way out of debt by a slow-motion (probably over a period of decades) default of its currency. This will amount to a gradual downsizing of the standard of living in the United States. I believe that to some degree actually does constitute a "solution" to our economic problems, since I believe one of the most fundamental problems for the United States is that we have a standard of living that is above our means, and that is sustained by debt expansion that cannot be continued indefinitely. As Peter Schiff has in my view accurately pointed out, the recession is not the disease, it is the cure. The prosperity of the early 2000s was not a genuine prosperity, it was a debt-fueled bubble "prosperity". Attempting to get the economy to "recover" is an attempt to restore an economic illness that had the appearance of prosperity. The continuation of the status quo is the likely path for the future. Attempts at severe austerity by the Tea Party folks would be punished on election day since the public will not tolerate the economic pain they would cause, regardless of whether or not they would be a prudent thing to get the economy back on a sound footing. On the other hand, economic policymakers will not have the option of accelerating the debt bubble, since they will have to hold down the official rate of inflation in order to suppress wage increases that would risk the onset of a hyperinflationary spiral. They will also have to limit government spending increases to no more than the official rate of inflation, which, being artificially suppressed, will mean that government spending will actually be decreasing in real terms, even while not under any sort of formal "austerity" regime. Thus, we can expect the economy to shrink at a gradual rate in the coming years. Scarcity of oil and gasoline could, however, exacerbate that and trigger a public groundswell in favor of the resumption of bubble-blowing. "Growing our way out" of debt is a third way that is proposed, and I believe it is possible we could have a little growth that could help, but I believe politics, demographics, and energy supply all render it very implausible that there will be appreciable economic growth in the foreseeable future. The one wild card would be a revolutionary breakthrough in energy, something Duncan appears to believe could be created by wise bureaucrats with blank checks; whereas I believe it could only happen quickly if a researcher out there somewhere happens to stumble on something revolutionary that unleashes abundant and low-cost renewable energy. On financialsense.com today Jim Pupilava asserted that the US debt burden post WW2 was addressed through a combination of financial repression (policy-driven inflation accompanied by interest rates that provide a negative rate of return for savings) and economic growth. My belief is that this time around we won't have much growth to help, so financial repression will be the primary mechanism by which debt is eventually brought under control. Decades of mild economic torture or a few years of economic hell are probably the only options we have, but the choice is moot because the public will inevitably feel the former is a less onerous alternative. In the meantime, I have found this book a fascinating and thought-provoking one, and although some of Duncan's assertions seem highly questionable to me, we should all welcome exposing ourselves to different perspectives and not be too quick to dismiss them out of hand. That Duncan has a lot of very intelligent things to say in this book leads me to the view that all his opinions deserve serious consideration. 7 of 7 people found the following review helpful. Duncan's Keel Runs Deep By Francis J. Maguire I listened to an interview of this author on the Financial Sense podcast with Jim Pupilava on iTunes about a week ago (early April 2012). I was immediately struck by the fact that this guy's keel runs deeper than most. So I immediately looked for his book on . A telltale sign that it would be a worthwhile purchase was that the publisher is Wiley. In my work, I read a lot of engineering texts concerning wireless technology and I have found that Wiley consistently selects superior authors and publishes the best texts overall in this rather complicated technical area. I read Duncan's short book quickly and although I am not an economics expert, from a layman's point of view, I recommend it highly because he sets forth the difficult problem he sees facing the world economy in a clear and convincing way that stays focused. The bottom line as he sees it is that we are not engaging our political discourse around solving our 50 trillion dollar debt problem. He calls for a particular kind of political leadership from Washington that I think could be likened to President Kennedy's call in the early sixties to land a man on the moon by the end of that decade. Everyone knows the economic benefits that program threw off. It was a relatively small effort, as compared to what we need to do now, but the idea is to stop bickering and get political agreement: what we really need is to launch a far more ambitious government-sponsored advanced technology investment program right now, not later. The government can borrow the money at low rates now and if it's invested intelligently, it's possible we can get out of the mess we find ourselves in. Admittedly, that's a lot of "ifs" but there's also some hope with this kind of an approach. The consequences of continuing on our present course without doing something like he proposes will be nothing short of disastrous for everyone, that is, hyper-inflation, severe deflation, or both, followed by political upheavals including the possibility of war such as followed the last depression. You can also see a video of a recent

presentation by Duncan at his webpage delivered to an Asian audience: [...]Great book!

Why the global recession is in danger of becoming another Great Depression, and how we can stop it When the United States stopped backing dollars with gold in 1968, the nature of money changed. All previous constraints on money and credit creation were removed and a new economic paradigm took shape. Economic growth ceased to be driven by capital accumulation and investment as it had been since before the Industrial Revolution. Instead, credit creation and consumption began to drive the economic dynamic. In *The New Depression: The Breakdown of the Paper Money Economy*, Richard Duncan introduces an analytical framework, The Quantity Theory of Credit, that explains all aspects of the calamity now unfolding: its causes, the rationale for the government's policy response to the crisis, what is likely to happen next, and how those developments will affect asset prices and investment portfolios. In his previous book, *The Dollar Crisis* (2003), Duncan explained why a severe global economic crisis was inevitable given the flaws in the post-Bretton Woods international monetary system, and now he's back to explain what's next. The economic system that emerged following the abandonment of sound money requires credit growth to survive. Yet the private sector can bear no additional debt and the government's creditworthiness is deteriorating rapidly. Should total credit begin to contract significantly, this New Depression will become a New Great Depression, with disastrous economic and geopolitical consequences. That outcome is not inevitable, and this book describes what must be done to prevent it. Presents a fascinating look inside the financial crisis and how the New Depression is poised to become a New Great Depression Introduces a new theoretical construct, The Quantity Theory of Credit, that is the key to understanding not only the developments that led to the crisis, but also to understanding how events will play out in the years ahead Offers unique insights from the man who predicted the global economic breakdown Alarming but essential reading, *The New Depression* explains why the global economy is teetering on the brink of falling into a deep and protracted depression, and how we can restore stability.

.com Q A with Richard Duncan, author of *The New Depression* Richard Duncan This is a very ambitious book. Its theme is that a new credit-driven economic system has replaced Capitalism in recent decades and is now at risk of breaking down into a New Great Depression. Is that correct? Yes. In 1968, when the United States stopped backing dollars with gold, the nature of money changed. The distinction between money and credit became blurred and the constraints on credit creation were eliminated. Over the next 40 years, total credit in the US expanded 50 times from \$1 trillion to \$50 trillion. That explosion of credit financed unprecedented global prosperity. There is now a grave danger that this new credit-fuelled economic paradigm will break down into depression because the private sector cannot bear any additional debt. But why do you call this a new economic paradigm? Isn't that just the way Capitalism works? No. Capitalism was an economic system in which the private sector created growth through a process of investment, profit and capital accumulation (hence Capitalism), in an ongoing cycle. The government played very little role. Our economic system has not worked like that for decades. The US government now spends \$25 out of every \$100 spent in the economy (25% of GDP) and the central bank "creates" the money and manipulates its value. That is not Capitalism. Moreover, the economic dynamic is no longer driven by investment and capital accumulation. Our system is driven by credit creation and consumption. Creditism is a more appropriate name for it. Creditism has created extraordinarily rapid growth for decades, but now seems to have hit its limit to create more growth because the credit that has already been extended can no longer be repaid. Therefore, no further credit expansion appears possible. Why do you believe credit growth is so vital for economic growth? Since 1952, there have only been nine years when total credit (adjusted for inflation) grew by less than 2% in the United States. Every time there was a recession; and the recession did not end until there was another large surge of credit expansion. In this book you introduce the Quantity Theory of Credit. What is that? The Quantity Theory of Credit is an adaptation of the centuries-old Quantity Theory of Money--adapted to make it pertinent to this new age of fiat money. It is a simple, but powerful, analytical framework that explains all aspects of this crisis: its causes, the government's policy response to it thus far, what's likely to happen next and the impact that future developments will have on asset prices. On the topic of asset prices, will this book help individuals make better investment decisions? Yes. Chapter Seven lays out scenarios of how events are likely to unfold between now and 2015; and describes how asset prices would be impacted under each scenario. Chapter Ten discusses why asset prices now move in unexpected ways compared with the way they would be expected to behave within a Capitalist system. It also discusses the prospects and consequences of inflation and deflation, as well as the advantages offered through diversification. Finally, do you believe the global economy will collapse into a New Great Depression and what will happen if it does? The flaws of our new economic model, Creditism, are all completely obvious now. However, there are extraordinary opportunities that exist within this system that we as a society have not yet grasped. They are described in Chapter Nine. My goal in writing this book was to point out what those opportunities are so that we can avoid the terrible economic calamity that may be inevitable otherwise. Should we fail to understand and take advantage of the opportunities our new economic system presents, the economic and geopolitical consequences are likely to be dire. Chapter Eight, Disaster Scenarios, spells out just how bad things could become if we don't come to grips with the nature of our new economic system and implement a bold and imaginative

strategy that ends this crisis.