

# The Real Crash

By: Peter Schiff

Tuesday, May 22, 2012

I first came to national attention back in 2008 and 2009 when the housing and credit markets imploded. I became known as the guy that other market “experts” laughed at when I warned of trouble brewing in the seemingly indestructible American economy. After the wheels ground to a halt in mid-2008, people noticed that my book *Crash Proof*, originally released in early 2007, read like a detailed preview of many of the events that eventually unfolded.

Three years later I am now catching heat from many who assume that my predictions actually fell short. They argue that I was able to anticipate the crash but that I severely underestimated the resiliency of the American economy. They admit that we took an “unexpected” blow to the chin, and that it left a lingering bruise, but they argue that we never hit the canvas like I predicted we would.

However, they mistakenly assumed that the crash I was warning about was solely a housing led credit bubble. While that was part of it, I never saw it ending there. The crash that most concerned me was the one that would result from the government’s response to the initial crisis. My concern was not that our economy would succumb to the disease that I had diagnosed, but instead would be taken down by the “cure” that the government unleashed to combat it.

When the government’s delaying tactic, which involves continuous borrowing and money printing is no longer tenable, the dollar could collapse, interest rates and consumer prices could soar and the U.S. economy could implode. That’s the real crash that I was warning about, and the one we all need to be worried about now.

This is the subject of my new book “[\*The Real Crash: America’s Coming Bankruptcy, How to Save Yourself and Your Country\*](#).” For now it is just a prophecy but as with my first book, it soon may be regarded as history. Unfortunately, the policies of both the Bush and Obama administrations, and the Ben Bernanke led Federal Reserve, have vastly raised the chances that my catastrophic view will come to pass. However, it’s not all gloom and doom — I devote a large majority of the book to solutions. The real crash may be inevitable, but what we do in response is not. We can follow on the path that I recommend back to prosperity, or we can continue on our current course which I believe will lead to economic ruin.

When looking back from a point in the future, I believe that the years immediately after the credit collapse of 2008 will stand out as a period of dangerous economic negligence. We have bought ourselves some time by sweeping enormous problems under the rug. Through a combination of political cowardice, economic ignorance, and false confidence, we are digging ourselves into a hole so deep that it may take generations to crawl out.

Most people assume that half way through 2012 we have made some important positive strides since flirting with the brink of economic catastrophe in the dark days of 2008. Although no one is wildly celebrating the below trend 2 to 3 percent GDP growth, we are continuously reminded that we have turned the corner and that our situation is better than many other regions around the world. But what has really changed?

Immediately prior to the crash, the United States economy was experiencing unprecedented consumer debt levels, persistently high trade deficits, historically large government budget deficits, high-energy prices, and a moribund manufacturing sector. Four years later, all of these problems have gotten worse. And unlike four years ago, we are now saddled with the highest unemployment rate in generations and levels of public debt that would have been unimaginable then. Yes we are no longer technically in recession. But I believe that is just an illusion created by perhaps the cheapest, and most obvious, trick ever devised.

I had argued that our economic growth prior to the crisis was largely a function of the real estate bubble. When that bubble popped, I knew that the economy would have to shrink. And that's just what happened. From 2008 to 2009 our national GDP (of around \$14 trillion) contracted by \$212 billion. To prevent any further dips, the government aggressively spent, borrowing heavily to do so. To the relief of just about everyone, these moves did stop the nominal contraction. From 2010 to 2011 the U.S. GDP expanded by \$502 billion, and from 2011 to 2012 it added an additional \$508 billion. All told, from the end of 2008 the U.S. economy added a cumulative \$798 billion in GDP. But those gains came at a very high price.

The combined federal deficits for the same time frame come in at a staggering \$4.2 trillion! In 2009 alone the feds chalked up a chart breaking \$1.4 trillion in debt (the deficit was a mere \$161 billion in 2007). In other words, we borrowed five times more than we grew. This "strategy" for growth is no different from an individual who loses half his income, but continues to spend by running up credit card debt. Could this be described as economic growth? But that's just how we are describing our

current economy, and for the large part, expert economists, politicians, investors, and academics all agree.

I felt certain before writing *Crash Proof* that the government would never let the economy contract far enough to restore balance and sustainability. I knew the spending and deficits would head off the charts. I thought those realities would push down the dollar and cause foreign creditors to shun American government debt. However, I did not factor in the reprieve we have gotten from the false perception that Europe is in even worse shape than we.

As the curtain eventually falls on the drama unfolding in Europe, the world will refocus its attention on the more spectacular events in the U.S. The sovereign debt crisis that is now playing out in Europe will cross the Atlantic, and when it opens here [The Real Crash](#) may indeed finally begin. The average American will have a front row seat but will hardly enjoy the show.

---

[http://www.europac.net/commentaries/real\\_crash](http://www.europac.net/commentaries/real_crash)