

*For international investment expert [Doug Casey](#), there's more than a recession on the horizon... he recommends battening down now for the rough seas ahead... with some special information about making sure your investments can weather the coming storms.*

## **The Greater Depression and What You Should Do About It**

By Doug Casey

I believe in the existence of the business cycle. That's partly because almost everything in life is cyclical, which has been recognized at least since the tale about Joseph and the seven fat years and seven lean years. The Austrian school of economic thinking explains why the business cycle keeps coming around and does so without relying on a soothsayer to interpret your dreams. I urge you to read the appropriate chapters in either *Crisis Investing for the Rest of the 90's* or *Strategic Investing* for a full explanation. But, in a nutshell, government intervention in the economy – through taxes, regulation and, most importantly, currency inflation – causes distortions and misallocations of capital that must eventually be unwound. The distortions degrade the general standard of living, and the economy goes into a recession (call that an incomplete cleansing). Or it goes into a depression – wherein the entire sickly structure comes unglued.

The last real depression took place in the 1930s. The economy very nearly went over the edge again in the early '70s and again in the early '80s. Both times massive re-inflation of the currency papered the problems over (but at a cost). Meanwhile, most importantly, continuing technological innovation and increased savings (motivated by the fear of bad times) led to recovery. Since then we've had 25 years of what Herman Kahn predicted would be "The Long Boom."

Unfortunately, much, much more severe taxes, regulations, and inflation have caused much, much more severe distortions in the economy – especially over the last 15 years. And the boom was financed largely by debt, which made everybody feel and act much wealthier than they really were. It's as though you borrowed a million dollars and spent it all on wine, song and high living. For a while, you'd have a high standard of living and perhaps have a lot of fun. But eventually, when you either paid the money back with interest or were forced into bankruptcy, your standard of living would take a painful drop. The U.S., in particular, has been living far above its means, burning up its own capital and trillions more borrowed from abroad.

This isn't news to readers of *International Speculator* or even the intelligent layman who follows the news. Oddly enough, there's one glaringly obvious thing that is not in the news today at all. That's the fact that interest rates – nominal rates too, but especially "real," after-inflation rates – are close to their lowest levels in history. And in today's extraordinarily risky environment, they're artificially low. This, and the reasons for it, should be headlines.

All over the world, but especially in the U.S., currencies are being inflated radically; M3 is rising at about 18% per year. Without exception, interest rates eventually reflect inflation. Therefore interest rates are going to rise radically. Governments are currently suppressing rates by lending money cheaply and promiscuously, to keep both borrowers and commercial lenders from going under. But rates are soon going to explode – especially long-term rates. My guess is that we'll see at least the levels of the early '80s, which would mean 15%+ for long-term Treasury bonds. And I'll say that's coming within a couple or three years at the outside.

The government wants low rates, obviously, because low rates make it a lot easier for homeowners to pay their mortgages, among other things. But they forget that low rates also discourage saving – which is the one thing that can actually bring down real rates. Officialdom is

between a rock and a hard place, and they're choosing to inflate the currency, hoping to stave off an epidemic of bankruptcy among consumers who borrowed and among the financial institutions that did the lending. The effort will fail and both groups will go bankrupt, simply because the whole society has been living above its means. That will result in large-scale commercial bankruptcies and unemployment.

Higher interest rates will absolutely hammer the economy.

It seems to me a near certainty that we're about to enter something I have long called "The Greater Depression." I suspect it will be inflationary (in the direction of what Germany underwent in the early '20s, or Zimbabwe today), rather than what the U.S. had in the '30s. I should somehow trademark the term "Greater Depression," except that I'm sure *Boobus americanus* would then blame me for it.

Here I'd like to pinpoint my prime candidate for the Decline and Fall of the Roman Empire, since it almost seems America has been reading pages from their playbook since day one. Many reasons have been evoked for the fall: moral turpitude, immigration, barbarian invasion, Christianity, lead pipes, etc., etc. My candidate is economic stagnation brought on by taxes, regulation and inflation. I'd love to discuss that assertion in detail, but that's not what this article is about.

### **What should you do?**

Reduce your standard of living now (while the situation is still under control), greatly increase your savings (in gold, which is real money) and rig for greatly changed patterns of production, consumption, employment and business for a considerable time. The hurricane that's just starting to hit the economy will both trigger and worsen problems in other areas. Starting with politics, because nearly everyone today believes the ridiculous notion that the government should guide the economy.



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