U.S. Debt Crisis May Cause 'Fall of Rome' Scenario, Duncan Says

By Patrick Rial

Sept. 23 (Bloomberg) -- U.S. budget deficits will continue to pile up in the next decade, eventually reaching an unsustainable level that may result in an economic collapse, according to Richard Duncan, author of "The Dollar Crisis."

The U.S. has little chance of resolving its deteriorating financial position because the manufacturing industry continues to shrink, leaving the nation with few goods to export, said Duncan, now at Singapore-based Blackhorse Asset Management.

In "The Dollar Crisis," first published in 2003, Duncan argued that persistent current account deficits by the U.S. were creating an unsustainable boom in global credit that was destined to break down, resulting in a worldwide recession.

"The bad news is at the end of a 10-year period we're still not going to have fixed the problem," Duncan said in an interview in Hong Kong yesterday. "Eventually it will lead to high rates of inflation well down the line and really destabilize things to the point where there may be irreparable damage. A kind of 'Fall of Rome' scenario."

The federal budget deficit will total $1.6 trillion this year, while combined shortfalls are forecast to total $9.05 trillion in the next 10 years, according to projections from the nonpartisan Congressional Budget Office.

The U.S. has run a current account deficit every year since 1982 except one, with a peak of $788 billion in 2006. Foreign purchases of U.S. debt has propped up the dollar and allowed a credit-fueled spending boom by the nation's consumers, according to Duncan.

Falling Wages

U.S. workers are now likely to face declining wages and that may create a political backlash against free-trade policies, he said. The nation's jobless rate jumped to a 26-year high of 9.7 percent in August, while wages logged a 2.6 percent increase from the previous year.

"As unemployment remains above 10 percent well into the foreseeable future, it won't be long before Americans start voting for protectionism," Duncan said. "That's going to be bad because protectionism will mean world trade will diminish and will overall reduce global prosperity."

Once the U.S. debt burden becomes too large and the government can no longer sell debt to the public the Federal Reserve will likely step in and monetize it, resulting in high levels of inflation, he said.

Economic Crisis

The MSCI World Index plunged by a record 42 percent last year as the collapse of Lehman Brothers Holdings Inc. triggered a credit crunch that forced financial institutions to post more than $1.6 trillion in losses and writedowns.

As an analyst, Duncan began warning of imbalances in Thailand's economy in 1993 that eventually led to the devaluation of the baht in 1997 and a regional economic crisis. The nation's SET Index dropped as much as 88 percent from its 1994 peak to a low in 1998.

Prior to joining Blackhorse, Duncan was the head of investment strategy at ABN Amro Asset Management. He has also held positions at James Capel, Indosuez W.I. Carr and Salomon Brothers.

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