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Devaluation of the U.S. Dollar

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What some people see as unprecedented U.S. government and Federal Reserve policies could reduce the value of retirement dollars – along with every other U.S. dollar! This means retirees' purchasing power could shrink – and if that happens their retirement savings could shrink as well. This guide reviews compelling economic factors in play and how those factors could affect American savers.

Summary: Against a backdrop of the ongoing global pandemic and some of the actions of the current presidential administration, American savers must face the potential consequences of recent and anticipated fiscal and monetary policies. Among those consequences: a rapidly ballooning national debt and soaring inflation. One of the most profound challenges resulting from the perfect storm of economic factors is a possible reduction in the dollar's purchasing power through high inflation. We presently are experiencing the highest inflation numbers in decades. And as we do, the buying power of retirement savers is being negatively affected at the very time some of them need it most.

Here's a look at what's hurting the value of the U.S. dollar...

Inflation. A chronic inflation rate of just 3% can cause a drop in a retirement saver's purchasing power over time. How much of a drop? At an inflation rate of 3% per year, a retirement saver with $500,000 would need in 20 years *more than $900,000* to afford what his half-million dollars buy today. And that's just 3%!

At this time, U.S. inflation is running at 7.5%. If inflation were to average that over 20 years, you would need *more than $2 million* to equal the purchasing power of your $500,000 today.

Will inflation in America really remain that high for that long? We don't know. What is important to recognize – more than any one specific inflation number – is just how much the long-term effects of chronically high inflation could affect us.

Quantitative easing (QE). At the onset of the pandemic, the Federal Reserve resurrected the same QE policy it first implemented in 2008 to fight the Great Recession. Monetary policy in the U.S. for most of the last 15 years has been highly accommodative, and QE has been an integral part of that accommodation. From the Great Recession through September 2021, the

Fed grew its balance sheet from $870 billion to $8.5 trillion.[1] And along the same lines, the nation's M2 money supply grew nearly 36% from just December 2019 to August 2021.[2]

Now that a higher level of inflation has taken root, the central bank is changing course and tapering asset purchases as it prepares to raise interest rates. Given the cyclical nature of our economy, however, it's unlikely Americans have seen the last of easy-money policy – including QE. For one thing, it's worth remembering that when the Fed tried to raise interest rates eight years after keeping rates at record lows in the wake of the Great Recession, they were unable to sustain the effort. Once the Federal Funds rate approached 2.5% in early 2019, it was determined the economy could handle no additional tightening. Shortly thereafter, accommodation returned and rates headed back down.[3]

Moreover, the Federal Reserve has suggested it could view QE as just another tool in its monetary policy toolbox, one to be applied regularly as it sees fit and not limiting its use to crisis situations.[4] Should the central bank start seeing QE that way, the implications for dollar strength and inflation could be significant.

National debt. The national debt recently rose above $30 trillion – and keeps moving higher. Many factors have contributed to this ballooning of the debt, including government spending (more about that shortly) enabled by extensive periods of accommodative monetary policy. There now are projections the national debt could grow to more than 200% of GDP by 2051 and that interest on the debt – just interest – could consume nearly half of federal revenues by then, as well.[5]

As the debt (and *interest* on that debt) continues to grow, the question arises whether the country might someday default on its obligations. Up to this point, default has been avoided. And how has that been done? In a country that seems to demonstrate little interest in restraining spending and that also seems to find it politically inexpedient to raise taxes, default has been avoided by printing money…which, based on standard economic principles, can lead to dollar-debasing inflation.

COVID-19 measures. It's true that much of the QE and related government spending we saw in 2020 and 2021 occurred as a function of the pandemic. Amid the ongoing health crisis, the U.S. appeared to use some of the same tools we previously used to address the subprime mortgage crisis. The government significantly expanded fiscal expenditures to prevent a long-term economic recession. In fact, 2020 and 2021 saw the two highest annual budget deficits in the nation's history. For its part, the Federal Reserve initiated unlimited quantitative easing to support these spending efforts, injecting massive liquidity into the economy and artificially stimulating the stock market through a program of large-scale asset purchases.[6]

The pandemic has been persistent. New COVID variants keep emerging and hospitals are still having to deal with patients. A permanent resolution to this worldwide health event remains elusive. If the government and central bank find it necessary to continue applying extensive pandemic-defense fiscal and monetary measures, it's reasonable to believe that we could see even greater dollar instability.

Government spending. The reduction of dollar strength – and retirement savers' purchasing power – can be a direct result of government deficit spending. That can be particularly true when deficit spending is enabled by a Federal Reserve that not only keeps interest rates exceptionally low but itself purchases a good portion of that debt. Currently, the Federal Reserve owns roughly 30% of the national debt.[7]

The current administration seemingly has moved forward with substantial spending initiatives *beyond* those singularly devoted to protecting the nation from the pandemic's economic fallout.

Going "big picture," it is reasonable to conclude that there could be a great deal of deficit spending in our future AND that any increased deficit spending could have an impact on the purchasing power of your retirement dollars.

Another thing to consider: The global dominance of the U.S. dollar is tied to our currency credit with other nations based on U.S. economic strength. The government's unlimited money-printing policies and growing debt levels could be increasingly concerning to foreign markets, which could, in turn, lead to even further weakening of the dollar.

Social Security and Medicare. In 2018, *USA Today* reported that Social Security and Medicare are projected to suffer a potentially stunning 82-trillion-dollar cash deficit in the next three decades. The projected addition of 74 million retiring baby boomers to the programs' rolls, receiving benefits three times as large as lifetime contributions, doesn't help.[8]

These so-called entitlement programs are supposed to be self-funded, but it doesn't quite work out that way. The cash deficits now being experienced by these programs are offset in part by the government issuance of Treasury securities – borrowing, in other words – which, of course, adds to the debt and can in turn further destabilize the dollar.

It's unclear how the government is planning to ultimately solve this crisis. Again, because these programs were designed to be self-funded, the solution is *supposed* to be in the form of either raising taxes or slashing benefits – neither of which is politically popular. This reality raises the possibility that government borrowing to help fill these significant gaps could be relied on even more in the years to come. If that happens, the purchasing power of retirement accounts could be further reduced.

What will happen next?

If a loss in purchasing power continues, the possible implications, including chronic high inflation, could grow to a point of true concern. Americans already are seeing the effects of all these conditions. The Federal Reserve typically targets a 2% inflation rate per year, for example, with the idea that 2% represents a healthy economy that is neither anemic nor overheating. However, inflation (year-over-year) has been at 5% or higher since May 2021, and, at the time of this report, is at 7.5% – a 40-year-high. Moreover, there are leading economists who suggest inflation could *remain* high for several years to come.[9]

What should retirement investors do to fight back?

The dollar has lost 99% of its original buying power since the creation of the Federal Reserve. Although few believe the dollar will collapse outright, the long-term effects of chronic dollar weakness and instability could have a profound effect on all Americans' retirement savings. However, there is still time to use effective diversification to potentially offset harmful effects of dollar-weakening economic influences.

In the current economic landscape, don't get caught off-guard. It's more important than ever to learn what this concern about the dollar means for retirement savings.

Ask your Augusta customer success agent for more free information on how tangible gold and silver can help you effectively diversify your savings. Better yet, ask about attending a free Augusta Gold & Silver Web Conference and learn how to unlock the power of precious metals.

[1] Charles Lane, Washington Post, "Joe Biden isn't a socialist, but his nominee to regulate banks has pretty radical ideas about the Fed" (October 13, 2021, accessed 2/21/22).

[2] John Greenwood and Steve H. Hanke, Wall Street Journal, "The Monetary Bathtub Is Overflowing" (October 21, 2021, accessed 2/21/22).

[3] Randall W. Forsyth, Barron's, "As Inflation Roars, the Fed Faces a Thorny Choice" (December 12, 2021, accessed 2/23/22).

[4] Reuters.com, "Fed debating if balance sheet should be regular tool, Daly says" (February 8, 2019, accessed 2/21/22).

[5] Alan Rappeport, New York Times, "Mounting federal debt puts the U.S. at risk of a fiscal crisis, Congressional Budget Office warns." (October 22, 2021, accessed 2/21/22).

[6] Jamie Redman, Bitcoin, "$9 Trillion in Stimulus Injections: The Fed's 2020 Pump Eclipses Two Centuries of USD Creation" (October 5, 2020, accessed 1/10/21).

[7] Federal Reserve, fred.stlouisfed.org, "Federal Reserve Total Assets" (accessed 2/21/22).

[8] David Schoenbrod and Brian Riedl, USA Today, "Cuts in Social Security and Medicare are inevitable. Delaying reform will make it worse." (August 15, 2018, accessed 2/21/22).

[9] David Lin, Kitco.com, "Inflation is now at 7%, the highest in 40 years, and will stay until 2024 - Steve Hanke" (January 13, 2022, accessed 2/23/22).