Will 2025 witness the onset of the US Dollar Crisis?

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Let us start with the elephant in the room—the US National Debt. The US has many other structural issues—persistent fiscal and trade deficits, multiple asset bubbles, a high U6 unemployment rate, etc. But, none of these would matter today if not for the National Debt being stratospherically high at $36.4 trillion (> 130% of the GDP). This has been a bipartisan increase, with more than 45% of this accumulated National Debt of the last 235 years (since 1789) incurred in just the previous 8 years.

	National Debt (in trillions)	Growth in National Debt
Trump 1.0 (2017-2020)	19.97 to 27.74	Amount (trillions) – 7.77 Percentage (%) – 38.9%
Biden (2021-2024)	27.74 to 36.15	Amount (trillions) – 8.41 Percentage (%) – 30.3%
Trump 2.0 (2025 – 2028)	**A Housing Bubble burst in 2025 will grow the Debt to $50+ trillion within the subsequent 18 months.**	

To understand how loose and unconventional the monetary policy has been for the last few decades, here are the numbers:

Accumulated Debt between 1789 and 1981 (192 years) : $ 1 trillion i.e. $ 0.005 trillion/year
Debt to GDP in the year 1981: 31%

Additional New Debt between 1982 and 2008 (27 years) : $ 9 trillion i.e. $ 0.33 trillion/year
Debt to GDP in the year 2008: 67%

Additional New Debt between 2009 and 2024 (16 years) : $26 trillion i.e. $ 1.6 trillion/year
Debt to GDP in the year 2024: 133%

Obviously, the US government's deficits have been on a parabolic path for the last few decades. Monetary Inflation (MI), i.e., an increase in the supply of money and credit, has been the GO-TO solution for every crisis: COVID-19, GFC 2008, NASDAQ 2000, LTCM 1998, 1987 stock market crash, etc. This has created the illusion that MI is an elixir and can be relied upon to fix everything. Donald Trump, the King of Debt, has grown up / aged witnessing it.

For a President who promised to pay down the National Debt during his campaign in 2016 (using what else but tariffs on imports), Trump grew the National Debt the most in absolute terms for any President in a single term till Biden usurped the dubious record. Trump 2.0 will certainly beat Biden's record by a wide margin.

I would not be entirely surprised if Trump 2.0 overtakes that record in the first 2 years.

Of course, the one problem that MI cannot fix is Price Inflation. As long as price inflation was benign, or even more importantly, the perception of price inflation was benign, MI would "appear to work." It's important to understand that MI only creates the illusion of solving the problems by artificially boosting asset prices and never addresses the structural imbalances (i.e., "liquidation of the malinvestments," as Austrian Economists would prefer to state) in the economy.

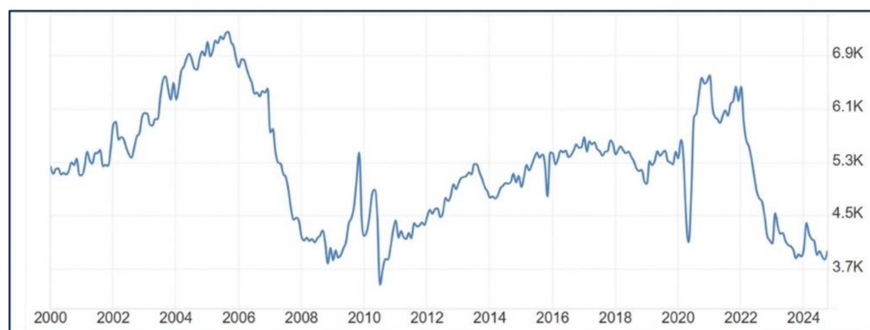
If the MI after 2008 had indeed resolved the structural imbalances – fiscal and trade deficits, asset bubbles, etc. – the US would not have the same problems today. Indeed, all that MI has achieved is to postpone the problems, and this procrastination has resulted in the issues becoming substantially larger today. For example, National debt has almost quadrupled in this interim period, and trillion-dollar trade deficits are the norm today, as are the $2-3 trillion fiscal deficits.

What will the Monetary Inflation after a Housing Bubble (HB) 2.0 Crash result in?

Readers can look at several statistics – the median price of US houses, the US Housing Affordability Index, etc. to understand that we are on the verge of the bubble bursting. If not for many emergency banking measures like the Bank Term Funding Program and the accounting pretence that allow the banks not to "Mark to Market" their bond portfolios, we would already have witnessed the HB2.0 burst. These are very reminiscent of the measures adopted after the GFC 2008, which temporarily allowed housing prices to stabilize while allowing banks to maintain the illusion of solvency.

But neither are the housing prices affordable today, nor are the banks solvent. The markets must resolve both issues sooner rather than later. The liquidity in the housing market has dried up and cannot return until there is a meaningful correction in housing prices, i.e. a housing burst. That is the only way affordability can be restored in the markets.

US Existing Home Sales



Source : National Association of Realtors

The liquidity in housing sales has collapsed in absolute terms to an annualized rate of 4M units/month i.e. almost the same rate as witnessed after the GFC 2008.

When seen in the context of Total No. of housing units, No. of working individuals (i.e. potential buyers) etc, the collapse is even worse than the GFC 2008 numbers.

I guess market forces will bring about the much-required housing burst in the next few months. Trump could inadvertently provide the PIN through tariffs on lumber imports from Canada that could increase construction costs, tax cuts that could

send the deficits/price inflation soaring, etc. All these events would lead to an increase in long-term interest rates entirely independent of what the US Fed does at the short end.

Bubbles always find a pin, and the specific event that bursts the housing bubble is irrelevant. But when it bursts, it will devastate the US Economy and the US Dollar. From that perspective, this crisis will be very different from the GFC 2008 despite the similarities. For generals who are always used to fighting the previous battle, this will present the potentially nightmarish scenario, i.e., an inflationary depression—a problem for which the Keynesian quiver has no arrows. The only arrow they have is MI, which will make the problem of inflationary depression worse.

Here is how the numbers could potentially look like in a couple of years if we have the HB2.0 burst later this year.

	Value	Comments
FY 2024 Federal Revenues	$ 4.92 trillion	
FY 2025 Projected Revenue	$ 5.04 trillion	
Assuming the Housing Bubble 2.0 Burst in H1 2025		
FY 2026 Federal Revenues	$ 4.5 trillion	**Between FY 2009 and FY 2008, Federal Revenues collapsed by > 15% from $2.5 to $2.1 trillion.**
FY 2026 National Debt	$ 50 trillion	**Assuming a 35% increase in National Debt as happened after GFC 2008.**
FY 2026 Interest on National Debt	$ 2.0 trillion	**Assuming a 4% interest rate on National Debt. Current Rate is 3.3%.**
Interest Expense as % of Revenue	**44.4 %**	**Can the US Dollar survive this?**

The question of why MI seemed to work after GFC 2008 but will end up breaking the US Dollar this time around is explained in the table above. The bankrupt nature of the Federal government finances should become apparent even to Wall Street, which has hitherto been drunk with the kool-aid of the Federal Reserve all these decades. We will not have to wait till 2026 for the currency markets to reflect the above. Within a few weeks of the Housing Bubble 2.0 bursting, we should see gold well north of $3000/oz, perhaps even touching $4000/oz in 2025.

So why can't the US Fed implement ZIRP (Zero Interest Rate Policy) as it did after the GFC 2008? Firstly, it should be evident that ZIRP has not solved any fundamental issues in clearing the bubble years' malinvestments. All that it managed was to create a bigger bubble to replace the one that burst in 2008. Incidentally, the 2008 bubble resulted from the MI implemented as a solution to the bursting of the NASDAQ 2000 bubble.

So, the US Fed has been serially replacing one bubble with another, with each subsequent bubble being much bigger than the one that bursts. The MI

implemented after the GFC 2008 is greater by an order of magnitude than the MI after the NASDAQ 2000 burst. Therefore, the consequences of the bubble bursting today would be pronouncedly different from what we witnessed in 2009. As many Austrian Economists have said, the 2008 crash will resemble the proverbial "Sunday school picnic" compared to what lies ahead.

But assuming we want to repeat the mistake and create an even bigger bubble, is that even doable today? The answer is an emphatic "No" due to reasons stated earlier: Price Inflation.

Any self-appraisal mechanism, especially by governments, would be far from portraying the objective reality. The measurement of Price Inflation by governments around the world is no different. But despite all of these flawed measures, the Fed inflation gauge has been well above their target of 2% for the last several years.

We also know that MI is always the leading indicator and Price Inflation is the lagging indicator. So while gold prices might be trading at nominally high prices today, when adjusted for the MI, these prices are even lower than the $35/oz gold traded for in 1971. As further explained in my book, we should witness at least a 10-fold rise in gold prices in the years ahead.

The Commodity Index has been on an uptrend since the bottom during April 2020 when Crude Oil futures were negative. There was a moderate pullback with the Fed rate hikes in 2022.

But the Monetary Inflation since the GFC 2008 points towards a period of sustained rise in Commodity prices for the decade ahead.

So, the Federal Reserve's ability to cut rates and inflate another bubble would be severely constrained in the face of raging price inflation. Commodity prices after a pause post the 2022 rate hikes are on an upward trajectory again, and this should take price inflation back to the high single digits in the next year or two. What will the Fed do under those circumstances? Increase rates to handle the price inflation OR cut rates to prop up asset prices after the housing bubble burst?

My guess is they will do both—metaphorically. They will increase interest rates in public to fight inflation; behind the scenes, they will do QE (they might call it something else) to prop up asset prices. And they will fail to meet both objectives. This monetary policy combination is not new, and many banana republics (and developing economies) have tried it for decades—only to remain as banana republics.

The Dollar Crisis Ahead

This crisis has been in the making since 1971, when the US went off the Gold Exchange Standard. Dr.Ron Paul joined politics in 1971 for precisely this reason: to put the US Dollar back on the Gold Standard.

It has been an incredibly long waiting period, but we are finally at the stage where the proverbial can no longer be kicked down the road. When history is written, Gold prices decisively crossing $2000/oz in February 2024 would be seen as the start of the US Dollar or perhaps even the Global Currency Crisis. The problem that afflicts the US economy – out of government expenditures, excessive regulations, loose monetary policy afflicts a very large number of countries today. The US Dollar will, however, be the epicentre as it is the world's reserve currency.

If I were to draw a comparison to World War - I, gold crossing $2000/oz would be the equivalent of the murder of Archduke Ferdinand in 1914. Many of the smaller currencies – Mexican Peso, Brazilian Real, Bangladesk Takka, SriLankan Rupee to name a few have all had significant devaluations in the last couple of years though these have been treated as isolated incidents.

Much of the media has been asleep, with little discussion about the fate of fiat currencies in the years ahead. 2025 will change that and bring monetary economics back to the center stage. The sooner our governments recognize the inevitable transition, the better. But even the best-case scenario will not be an easy way forward from the monetary abyss we are in today.

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About the Author: Shanmuganathan Nagasundaram (aka Shan) is an Economist based in India. He has published more than 100 columns in Newsletters worldwide on the topic of Lassiez Faire Economics and the Gold Standard. Shan published his first book "RIP USD: 1971-202X ...and the Way Forward" in July 2024 where he forecasts an imminent Inflationary Depression for the US that will last a decade or longer. He also outlines the prognosis wherein the world's monetary system would revert to a Gold standard before the end of this decade as compared to the Paper currency standard that has prevailed since 1971.