August 22, 2005 Few Americans truly understand how our Federal Reserve system enables Congress to spend far beyond its means, but the cycle of spending and printing money affects all of us. Simply put, the more money our Treasury prints, the less every dollar is worth. Our pure fiat money system, in place since the last vestiges of a gold standard were eliminated in the early 1970s, has reduced the value of your savings by 80%. Disregard the government's Consumer Price Index, which substantially underreports price inflation. Monetary inflation is true inflation, and we only need to look at the cost of homes, cars, energy, and medical care to recognize that a dollar buys far less today than ever. Economist Mark Thornton of the Ludwig von Mises Institute lays out a sobering case against the long-term health of the U.S. dollar. He identifies several facts and trends that bode ill for millions of Americans counting on dollar-denominated assets to fund their retirements. First, federal debt continues to grow exponentially and shows no sign of abating. Americans were shocked at the notion of a $1 trillion federal debt in 1980; just 25 years later the total approaches $8 trillion. The Bush administration and the current Congress have increased spending at rates unseen since the New Deal and Great Society eras, and single-year deficits now exceed $500 billion. There is zero political will in Washington to curb spending, as evidenced by the shameful transportation bill recently passed by Congress. Second, federal entitlement programs like Social Security and Medicare will not be "fixed" by politicians who are unwilling to make hard choices and admit mistakes. Demographic trends will force tax increases and greater deficit spending to maintain benefits for millions of older Americans who are dependent on the federal government. Faced with uncomfortable financial realities, Congress will seek to avoid the day of reckoning by the most expedient means available-- and the Federal Reserve undoubtedly will accommodate Washington by printing more dollars to pay the bills. Third, future administrations are unlikely to challenge a foreign policy orthodoxy that views America as the world's savior. We are hemorrhaging billions of dollars every month in Iraq, and we waste billions more every year through foreign aid and overseas meddling. A foreign policy based on nation-building and the imposition of "democracy" abroad, in direct contravention of our founders' admonitions, is not economically sustainable. In Korea alone, U.S. taxpayers have spent nearly one trillion in today's dollars over 55 years. A permanent military presence in Iraq and the wider Middle East will cost enormous amounts of money. Finally, we face a reordering of the entire world economy. China, Japan, and Asia in general have been happy to hold U.S. debt instruments in recent decades, but they will not prop up our spending habits forever. Foreign central banks are increasingly reluctant to hold more U.S. dollars, understanding that American leaders do not have the discipline to maintain a stable currency. When the rest of the world finally abandons the dollar as the global reserve currency, both Congress and American consumers will find borrowing money a more expensive proposition. All of these factors make it likely that the U.S. dollar will continue to decline in value, perhaps precipitously, in the coming decade. Will it take an economic depression before the American public finally holds the political class accountable for its reckless borrowing, spending, and counterfeiting? The greatest threat facing America today is not terrorism, or foreign economic competition, or illegal immigration. The greatest threat facing America today is the disastrous fiscal policies of our own government, marked by shameless deficit spending and Federal Reserve currency devaluation. It is this one-two punch-- Congress spending more than it can tax or borrow, and the Fed printing money to make up the difference-- that threatens to impoverish us by further destroying the value of our dollars.