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When Will the Dollar Collapse?

The U.S. dollar: The world's worst reserve currency, except for all the others—for now.

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Dark clouds loom for the world's dominant currency. Despite some positive financial news in the United States, nations are reducing their reliance on the U.S. dollar. In its stead, they are filling their vaults with gold, euros, yuan and other currencies.

The Central Bank of Russia accelerated its dedollarization efforts last year and dumped 98 percent of its dollar reserves. It then moved \$44 billion into euros, \$44 billion into yuan, and almost \$13 billion into 274 tons of gold bullion.

And Russia is far from the only nation turning away from the greenback. Kazakhstan and Turkey cut their dollar reserves in half last year and loaded up on 51 tons of gold bullion apiece. China sold 5 percent of its dollar reserves, and bought 10 tons of gold. Ireland dumped 14 percent of its dollar reserves, Switzerland dumped 6 percent of its dollar reserves, and Japan dumped 2 percent of its dollar reserves. Altogether, around 60 nations reduced their central bank's dollar holdings last year, while over two dozen nations boosted their gold reserves.

Demand for gold has soared to its highest level since U.S. President Richard Nixon killed what was left of the gold standard in 1971. This is a sign that nations are losing faith in the American currency.

The world economy is propped up by the U.S. economy, but the U.S. economy is a house built on a bad foundation. The U.S. government collected \$3.3 trillion in taxes last year, but spent \$4.1 trillion. It had to borrow \$779 billion just to meet expenses. The national debt rose more than \$1.2 trillion to an unbelievable \$21.5 trillion. And net *interest* on this debt rose to *\$371 billion*. The Congressional Budget Office estimates that America will be spending more on interest than national defense within a decade.

These statistics are hard to fathom. For perspective, compare the government to a household. Slash seven zeros from the official figures, and it is like a well-to-do family that earns \$330,000 a year—yet spends \$410,000 a year. This family put a staggering \$78,000 on its credit card last year, even though it already had \$2,150,000 in credit card debt. It pays \$37,000 a year *in interest*, and it no longer pretends to have a plan to pay off its debts. No well-managed bank would lend this family more money.

The U.S. government has spent like this for decades, and nations keep lending it all the money it wants at historically low interest rates. Why?

Banks keep lending America money because the dollar is the world's dominant reserve currency. Nearly 45 percent of the world's debt is denominated in dollars, and about 52 percent of international trade is conducted in dollars. Since banks around the world need a lot of dollars to conduct business, almost 62 percent of foreign exchange reserves are held in dollars.

The high demand for dollars keeps the interest rate on America's debt low. Because many people want to own dollars, they want to buy dollars. Purchasing U.S. debt in the form of U.S. Treasury bonds is an easy way to do that. And since so many people want to buy these bonds, America's government can sell them at incredibly low interest rates.

But as nations lose faith in the U.S. financial system and sell off their dollar reserves, the situation is changing. The dollar is losing its reserve currency status. Its value is decreasing, and the interest rate that banks charge America for loans is rising. The only reason the dollar has not collapsed is that the world's other major currencies are in even worse shape than the dollar. Since there is currently no viable alternative reserve currency, banks grudgingly continue to use the dollar—despite its flaws.

This will change—and soon!

Millennia ago, the Bible foretold that the U.S. would be plagued by debt in the end time, and it strongly indicates that the dollar will lose its reserve currency status to a European superpower.

Almighty Dollar

The U.S. dollar was not always a reserve currency. Before World War I, the British pound sterling was the dominant currency, and the dollar was barely used outside the borders of America. But the Federal Reserve Act of 1913 centralized the U.S. banking system as nations around the world began abandoning the gold standard so they could pay for their military expenses with borrowed paper currency. America then became a lender of choice as nations bought U.S. bonds denominated in Federal Reserve Notes.

When Britain finally abandoned the gold standard in 1919, banks started reducing their dependency on the British pound and turned to the U.S. dollar.

The dollar's position as the world's dominant reserve currency grew stronger during World War II. America sold weapons, supplies and other goods to the Allied powers in return for gold. By the war's end, the U.S. owned the majority of the world's gold reserves. Since no other nation could establish a gold-backed currency, the world's biggest economies fixed the exchange rate of their currencies to the dollar. In 1944, at a conference in Bretton Woods, New Hampshire, America promised that any dollar could be redeemed for its value in gold. So the dollar became the new gold standard.

During the 1950s, over 90 percent of the world's debt was denominated in dollars. An economic downturn in the early 1970s, however, caused nations to lose faith in the dollar's stability. So they started demanding gold for the dollars they held in reserve. Rather than watch American gold reserves deplete, President Richard Nixon abandoned what was left of the gold standard. To ensure that the dollar remained the world's dominant reserve currency, he negotiated a deal with the Saudis. He promised to arm and protect Saudi Arabia if the Saudi royals would denominate all future oil sales in dollars. The Saudis agreed, and the dollar became an oil-backed currency.

The fact that the Organization of the Petroleum Exporting Countries uses dollars in all its oil transactions creates a massive demand for U.S. currency. It is partially due to this demand that the average interest rate on a 10-year loan to the U.S. government fell from 7.56 percent in 1974 to 2.69 percent today.

Since nations need dollars to buy oil and other goods, they buy dollars in the form of U.S. Treasury Bonds (which are like an IOU from the U.S. government). Since demand for Treasury Bonds is high, interest rates are low. This means the U.S. can continue racking up debt by selling IOUs around the world without having to worry too much about the costs of servicing its expanding debt.

Former French Finance Minister Valéry Giscard d'Estaing called America's ability to borrow at low interest because of the dollar's reserve currency status an "exorbitant privilege." This privilege is based on a high demand for U.S. Treasury Bonds. When the dollar is no longer in international demand, the U.S. will lose its ability to borrow cheap money, and interest payments on the national debt will consume a burgeoning portion of America's gross domestic product.

New System

No currency reigns forever. The same pressures that unseated the French franc in the 19th century and the British pound in the 20th century will unseat the dollar in the 21st century.

What caused national banks to stop using the British pound for their transactions in 1919? It was primarily Britain's debt. Governments looked at how much Britain owed, its economic output and the fact that its currency was backed not by gold but by the belief that it was valuable—and they stopped believing.

Today, America has a far worse debt, and it continues to borrow. Nations are losing faith in the dollar's stability; they just have no other option—yet.

Many European leaders want the euro to replace the dollar as the world's dominant reserve currency, but worries that the EU may fall apart have prevented central banks from wholeheartedly embracing the euro. Likewise, many Chinese government officials want the yuan to replace the dollar as the world's reserve currency, but China's lack of currency transparency has been a stumbling block.

"There is no alternative to the dollar," British political economist Mark Blyth told the *New York Times*. "We're stuck with the dollar, which gives the United States astonishing structural power" (February 22).

Until a good alternative emerges, nations worried about America's debt must move slowly: They can only *gradually* decrease their dollar holdings as they reluctantly buy euros and yuan.

But the status quo is ripe for change if the eurozone truly unites into a German-run superstate, or if China relaxes the yuan's peg to the dollar. Many nations and individuals desperately want these changes. But if history is any guide, it will take a shock to overturn the world's financial system.

The shock that catapulted the dollar to dominant reserve currency status between 1913 and 1919 was a banking crisis in Europe that prompted central banks to load up on American currency. Ironically, it may be a banking crisis in America that prompts central banks to load up on European currency.

The late Herbert W. Armstrong predicted that a financial crisis in America would likely be a catalyst prompting Europe to unite. Specifically, he warned in 1984 that a massive banking crisis in America "could suddenly result in triggering European nations to unite as a new world power larger than either the Soviet Union or the U.S." (co-worker letter, July 22, 1984).

In other words, a banking crisis could scare European nations into surrendering control to a central authority. Once the euro is supported by a central government strong enough to regulate its member states' tax and spending policies, the dollar's day as the dominant reserve currency will be over. The greenback will be a co-regent with the euro at best, an isolated North American currency at worst.

Economic Siege

This shocking forecast is not just based on present financial conditions. It is also based on Bible prophecy. In his landmark book *The United States and Britain in Prophecy*, Mr. Armstrong explained that the Anglo-Saxon peoples who settled Britain and the United States are actually descendants of the ancient Israelites. This astonishing truth means that all end-time prophecies in the Bible concerning Israel are primarily directed at the United States and Britain. A series of prophecies in Deuteronomy reveals the specific curses that will descend on end-time Israel after it turns from God's law.

"But it shall come to pass, if thou wilt not hearken unto the voice of the Lord thy God, to observe to do all his commandments and his statutes which I command thee this day; that all these curses shall come upon thee, and overtake thee. ... The stranger that is within thee shall get up above thee very high; and thou shalt come down very low. He shall lend to thee, and thou shalt not lend to him: he shall be the head, and thou shalt be the tail. ... The Lord shall bring a nation against thee from far, from the end of the earth, as swift as the eagle flieth; a nation whose tongue thou shalt not understand And he shall besiege thee in all thy gates, until thy high and fenced walls come down, wherein thou trustedst, throughout all thy land: and he shall besiege thee in all thy gates throughout all thy land, which the Lord thy God hath given thee" (Deuteronomy 28:15, 43-44, 49, 52).

This passage predicts debt problems when it says, “He shall lend to thee, and thou shalt not lend to him.” It also indicates trade war and crippling economic sanctions when it says, “[H]e shall besiege thee in all thy gates.”

Other prophecies reveal that Assyria will be “the rod” of God’s anger and “the staff” of His indignation against America (Isaiah 10:5; Lamentations 5:6; Ezekiel 23:9). [*The United States and Britain in Prophecy*](#) explains how the ancient Assyrians settled in modern-day Germany. So, it will ultimately be Germany that partners with nine other nations in Europe to besiege and invade the U.S. (Revelation 17:12-13). This is a shocking prophecy that can only be fulfilled if a European superstate surpasses America in economic and military might.

How will this come to pass?

Every indication is that a global financial crisis is about to drop the U.S. from its present dizzying heights, allowing Europe and its allies to usurp its economic dominance.

Currency Collapse

If a massive financial crisis centered in America is the catalyst that sparks the rise of the seventh and final resurrection of the Holy Roman Empire, as Mr. Armstrong predicted, then the world is in for another change in reserve currencies. And with modern technology, it will be even swifter than the last time.

When investors start dumping dollars and rushing to other currencies, demand for U.S. Treasury Bonds will plummet and interest rates will spike. The U.S. is already spending 11 percent of its total tax revenue just to pay the interest on its debt. But if interest rates returned to the level they were at just four decades ago, during the 1981–82 recession, America would have to spend 44 percent of its tax revenue on interest.

It would struggle to finance both an army and a massive welfare state.

Under such conditions, it would be almost impossible for the government to borrow money. The nation would be forced to either slash spending or start printing money instead of borrowing. That would mean printing over \$2 trillion every year just to pay interest on the debt and keep the government running. Money printing on such a scale cannot go on indefinitely without causing hyperinflation. The value of each individual dollar would decline as the nation pumped out more and more dollars.

Once the dollar loses its reserve currency status, economic collapse will follow hard!

For insight into what happens when a financially isolated nation has to print massive amounts of money to remain financially solvent, look at Venezuela. When this nation entered an economic crisis in 2013, its government responded by printing 500 million bolívars. This expanded the nation’s broad money supply by 70 percent—and caused the bolívar’s value to plummet 44 percent. In the five years since, the nation has printed another 80 trillion bolívars, and their value has dropped to the point where you literally have to be a millionaire to buy a cup of coffee.

Similar conditions are coming to America after the dollar is dethroned and the nation is economically besieged.

It is time to heed the warning and understand that God will allow economic calamity to come upon America for a reason: to correct people for turning away from His commandments and statutes.

These prophecies are alarming—but if you are moved to action and stirred to seek out God and His protection, then there is nothing more exciting on this planet! ■

THE UNITED STATES AND BRITAIN IN PROPHECY

People of the Western world would be stunned—dumbfounded—if they knew! The governments of the United States, Britain, Canada, Australasia, South Africa would set in motion gigantic crash programs—if they knew! They could know! But they don't! Why?

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