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From the bestselling author  
of THE CRASH OF '79

PAUL  
ERDMAN'S  
MONEY  
GUIDE

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THE INTERNATIONAL  
HANDBOOK OF  
PRACTICAL FINANCE

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Paul E. Erdman was born in 1932 in Stratford, Ontario, and educated at Georgetown University, at the School of Foreign Service, Washington DC, and at the University of Basel, Switzerland, where he took his MA and PhD. His occupations have included consulting economist to the European Coal and Steel Community, Executive Vice-President of Electronics International Capital in Bermuda and Vice-Chairman of the United California Bank in Basel. His bestselling books have included *The Billion Dollar Killing*, for which he was awarded an 'Edgar' by the Mystery Writers of America, *The Silver Bears*, *The Crash of '79* and his most recent novel *The Last Days of America*. He is married with two daughters.

*Fiction titles by Paul Erdman in Sphere Books:*

*THE CRASH OF '79*

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# *Paul Erdman's Money Guide*

**An Investor's Guide to Economics and Finance**

**PAUL ERDMAN**



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for Constance and Jennifer



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# Preface

Books on economics and finance tend to reflect the immediate environment in which they were written. Thus in the 1970's, when inflation was rising toward double digits, we had a plethora of doom-and-gloom books which, inevitably, concluded by suggesting that we head for either the hills or Switzerland, gun and gold in hand.

Recently, reflecting an environment in which we are enjoying both a strong economic recovery in the United States, one which is beginning to spread to Europe, and extraordinarily low rates of inflation on both continents, we have been getting a plethora of onward-and-upward books which, inevitably, end with the Dow-Jones Industrial Average at 3,000 and Western capitalism once again triumphant.

I have tried to avoid both extremes. Although by nature I am probably an optimist, I think by training I am also a realist. My background in economics tells me that despite the current recovery and low rates of inflation, the West is far from solving some very serious and deep-seated problems. To name just two: the \$750 billion\* debt owed our banks by the less-developed world; and the enormous deficits being amassed by the non-Communist world, more than \$200 billion by the United States and more than \$400 billion by the remaining countries.

\*The convention for a billion has various meanings. In this edition a billion is a thousand million.

How are we going to finance these deficits and these debts if they continue to grow ever larger? If we fail to get these problems under control, at some point they will overwhelm our system and combine to create credit crunches, banking crises, the revival of inflation, the return of deep recession.

Or will they?

Is it possible that the 1980's will be different? Is it possible that we are in a new era – one in which growth will once again prove sustainable, in which the application of electronics and genetic engineering to our society will revive the industrialized world? Are the 1980's perhaps the decade in which the United States will lead the way back to prosperity as a result of its fostering of the technological development and financing of these sunrise industries, with Japan close on its heels, and Western Europe determined to emulate both? As a result of the renewed growth in the entire developed world, and the renewed confidence in the strength of the system which will result, will it not be possible, if not to solve, at least to postpone . . . and postpone . . . the problems until, perhaps, they just go away?

The future no doubt lies somewhere between these two points of view. As you read the initial part of this book you will probably find yourself increasingly disturbed, because it is in that first part that I dwell on the deficit and debt problems and their possible economic and financial consequences. But as the exploration process continues in the rest of the book, you will, I hope, note that I become increasingly optimistic. Believe me, the end is *not* near.

As Casey Stengel, the legendary baseball coach, said, 'The game is not over until the game is over'. Well, our capitalistic game, our money game, is far from over. It is still the only economic system that works and works well for most of the citizens who are able to participate in it. Sometimes the system malfunctions, and we – all of us – suffer. This will be as true of capitalism in the future as it has been in the past. Thus this 'futuristic' book is full of downs – and then ups. But although I have tried to provide a strong dose of reality, I hope that when you have finished it you will agree that if this book has a bias, that bias is on the whole an optimistic one.

# Acknowledgements

I would like to express my thanks to Tom Rosenthal of Secker & Warburg in London for first suggesting and then sponsoring this book.

I am especially indebted to Jason Epstein of Random House in New York. If this book has elements of 'quality', they are due to the high standards he sets as an editor and the excellent advice he renders as a scholar.



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