

# Dr. Doom Runs for Senate

Perpetual bear Peter Schiff contemplates a move into politics.

By Michael Brendan Dougherty

PETER SCHIFF is offended. “Nobody has ever contacted me from any of the congressmen to say, ‘Hey, you saw this financial collapse coming, you nailed it exactly,’” he says, adding impatiently, “I pretty much got it exact.”

If nobody from Washington wants to call him, Schiff figures, he will call Washington. “I don’t seem to be able to make a difference as a private citizen. No one there seems to care what I say,” he complains. He plans to make them care by challenging Sen. Chris Dodd in 2010. “People say things can’t be changed in there,” he says. “If they’re right, then the country is finished.”

Schiff is president and chief global strategist of Euro Pacific Capital, a brokerage firm in Westport, Connecticut, one of the richest towns in the richest county in America. Over the past five years, he has achieved notoriety as a talking head on financial news outlets like CNBC and Fox Business. TV bookers began to like him for his contrarian views on the economy. He was “Dr. Doom,” a “perma-bear,” a “doomsayer.” He served as a punching bag for the pin-striped optimists telling us to buy, buy, borrow, then buy some more.

Now he is offended because he was right. After Bear Stearns collapsed and AIG had to be rescued shivering in a financial alleyway, a video emerged on YouTube entitled “Peter Schiff Was Right,” compiling clips of his predictions of financial disaster and the dim-witted hosts who laughed at him. The video

was broadcast on “The Daily Show,” making him a minor Internet celebrity.

According to Schiff’s own estimates, however, his bookings are down 75 percent. The financial networks lost ratings as the gloom settled on them, and now they are filling the airwaves with talk of impending recovery. But where Art Laffer and Larry Kudlow see “green shoots,” Schiff finds rot. He believes that the bad times are going to get much worse: “This was just a financial crisis, a symptom of the economic crisis to come.”

In his 2006 book, *Crash Proof: How to Profit From the Coming Economic Collapse*, Schiff compares the world economy to an island on which five Asians and one American have been stranded. The castaways get hungry and devise a system in which the Asians divide up the work of hunting, farming, cooking, preparing, and serving the food, while the American is assigned the job of eating. “Modern-day economists,” Schiff writes, “would have you look at the situation just described and believe that the American is the lone engine of growth driving the island’s economy, that without the American ... the Asians on the island would be all unemployed.” In the real world, Schiff speculates, the only reason Asians have not voted Americans off their economic island is the stubbornness of Asian central banks that continue to accept America’s dollars, or as Schiff calls them, “worthless IOU’s.”

He predicts that Asia will decouple

itself from the debt-ridden caboose that is the American economy and turn its savings into domestic consumption. That process will leave America in a heap while Asians play with their new toys. The financial strategy of Euro Pac is designed to protect Schiff’s clients when the dollar drops to zero. He does not welcome America’s collapse, but he will be ready. He’s been preparing for his whole life.

Schiff’s parents divorced when he was young. He and his brother Andrew often moved as their mother changed jobs, from Connecticut to Manhattan, then to Florida and southern California. But their father, Irwin, still exercised considerable influence on his boys, particularly when it came to understanding economics.

Irwin Schiff was born into a large, middle-class, Roosevelt-loving Jewish family. His father immigrated to the United States after living in Russia and Poland at the turn of the century. “He came here with nothing,” Peter says. Irwin’s father made a living as a carpenter, and Irwin attended the University of Connecticut, earning a B.A. in accounting and economics. The brothers still don’t know when and how their father became so ardent a follower of the Austrian school of economics, a free-market philosophy that detests central banks and wants to see a return to a gold-backed dollar. “We know where we got our economics,” Andrew says, “But we can’t explain how our father came to it.”

Irwin threw himself into the 1960 Goldwater campaign in Connecticut and became well known among Austrian economists in America. His attempt to impart that school to his two young sons turned into books like *How An Economy Grows and Why It Doesn't*, an introductory economics lesson in the form of a comic book, which is now available online.

In 1974, Irwin Schiff moved from merely criticizing government intervention in the economy to actively resisting it. He scratched out "U.S. Individual Tax Return" from the top of his 1040 form and replaced it with the words "U.S. Individual Income Confession," then wrote in various assertions that the income tax was unconstitutional. Irwin's attempt to

Schiff graduated from UC Berkeley in 1987 with a degree in finance and accounting and began working at Shearson Lehman Brothers. "I could see the clients were getting ripped off," he says. "We were pushing a lot of crap on them. I wasn't, but most were." The firm was unloading shares of stocks they were paid to sell, a conflict of interest, he says, "and the client came out on the short end."

Schiff decided to leave Shearson. He stayed at his dad's apartment in New York as Irwin left for yet another prison sentence, took over fulfilling orders for his father's books, and spent a few months in Europe to clear his head. Then he returned to California, where he still had his license, and worked for a

seems to be foreordained by Connecticut's Republican establishment as their next moderate loser, and Tom Foley, a Bush-appointed ambassador to Ireland.

Unfortunately for Schiff, his following is dispersed nationwide among Austrian economists and the kind of young people energized by Ron Paul's presidential bid. He is virtually unknown among the Republican Party in Connecticut.

"What I have to do is say to them, 'Why are you Republicans? What do you believe in? Do you believe in big government, just not quite as big?'" he says. To Schiff, it's obvious that Simmons, who voted for the Patriot Act and the Americans with Disabilities Act, does not meet the standard. "Republicans are so easy to corrupt when they get in power because they want to stay there," he says. "I don't. I can make more money here."

In addition to his imprisoned father and radical ideas, Schiff has another electoral hurdle: his likeability—or lack thereof. The certainty of his pessimism can be unnerving. During the housing boom, "people wouldn't even want me around," he admits, "I would have a hard time keeping quiet about things. I would try to tell them that what they were doing was wrong."

He still cannot keep his mouth shut. When I met him at his mostly unfurnished mansion in Connecticut—he rents—he was mocking Hank Paulson's televised testimony about Bank of America before the House Oversight Committee: "You buy Merrill Lynch and you go bankrupt and we'll help you. That's what he's saying!"

Asked about his living arrangements, Schiff smirked, "My landlord's barely getting 1 percent over the mortgage on the rent. If he has to do any repairs, he'll be underwater." If he comes off as a know-it-all, it's because everything that has happened in the past two years has proved to him that he knows it all.

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prove to the United States government that its main source of revenue was illegitimate and immoral earned him a conviction for tax evasion in 1978. He was jailed for the first time in 1980. But that didn't deter him. In the 29 years since, Irwin has spent nearly 9 years in jail and is currently serving a 13-year sentence at the Terre Haute Federal Correctional Complex. He is set to be released in 2016, when he will be 88.

Though neither of his sons will discuss the emotional toll this has taken on their family, by 1980, Peter had begun urging his father to cease what he saw as futile resistance. He admits today that he finds Irwin's intellectual case compelling, but is completely disinclined to imitate his father's radical methods or his idealism. "The problem with my father is that he's not practical," Peter says coldly. "He was always going to lose."

small firm with another broker, Mark Anderson. The two spent days and nights cold-calling prospective clients.

As the '90s edged toward a tech-stock bubble, Schiff became bearish on America and began moving his wealth offshore. He found ways to make buys directly on foreign exchanges and bought property trusts, utilities, and resource companies—"stuff no one was interested in." Meanwhile, he began warning clients and friends to sell their tech stocks before the NASDAQ came crashing down to earth. He gained credibility from that collapse and with it new business. Today, Euro Pacific has over 15,000 clients and about \$1.5 billion under management.

Schiff's prospective Senate run is still in the exploratory phase. Before he can take on Chris Dodd, he has to beat Rob Simmons, a former congressman who

Schiff slouches deeply in his couch. He is an isolated man. He is a specialist in a service industry who denounces reliance on a service economy. He likes being booked for television, but looks down on his fellow panelists as propagandists and morons. Divorced and graying at 46, he is occasionally visited by his son or his girlfriend from New York City. He is a non-practicing Jew, with little apparent interest in religion. *The Israel Lobby*, the much discussed book describing the distorting effects of pro-Israel sentiment on American foreign policy, sits on one of his shelves along with other books about Judaism. None look like they've ever been read.

Andrew Schiff, who is managing the press for the exploratory campaign, says his first task is to humanize his brother. "What gets you elected is people have to

only trying to do it because if I don't do it, who's going to do it? If somebody doesn't do it, the country is screwed." This is a counterintuitive campaign pitch to say the least.

What difference can one man make? Schiff isn't sure, but he wants to find out. "Maybe some of these politicians are not evil. Maybe they care a little bit about the country. As more and more of my predictions have come true—of course they are all going to come true, there's nothing I'm saying that's not going to happen—at some point the politicians will actually respond." Schiff for Senate is like an experiment: let's see what happens if you bring a hard-headed hard-money advocate to the upper chamber.

So far, Schiff's fans are responding. On Aug. 7, he received over \$350,000 in a Ron Paul-style money bomb, which

another about the culture war. Immigration is irrelevant to him because he believes that the Fed's policies, if left unchanged, will cause Americans to abandon the country *en masse*. When asked about foreign policy, he says, "We won't be able to afford a foreign policy." Fine, but does he have thoughts on the justice of the Iraq War? "Sure," he says, without revealing them, "but the point is we can't afford it."

His followers see him as a prophet, yet a prophet's role is not merely to predict disasters and watch them unfold. A prophet calls his people back to the truths they've abandoned.

For Schiff, the entire financial world is a lie piled on top of a lie—from the brokerage houses that advise clients to buy the stocks the institution is paid to sell, to the banks that loan out many times more money than they collect in deposits, to the Fed that is supposed to discipline market actors but bails them out instead. The greatest falsehood of all is the dollar itself, a piece of paper redeemable in nothing. We no longer know the value of things or can predict our ability to pay, and this, Schiff says, will bring us to ruin. If civilization is the ability to make promises and keep them, then the Fed is making this commercial Republic uncivilized.

America may be living in apocalyptic times, but the thing about prophets is that they tend to be passed over for the Rob Simmonses of the world—the guy who knows about fishing lures, who tells us that things are turning the corner and we can rest easy.

"They will have never seen anyone like me before," Schiff says of his potential Senate colleagues. The truth is they never want to see Schiff in the first place. ■

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get a sense of you and like you. Peter is not great one-on-one. He's not a guy who spends a lot of time talking about the best fishing lures to use."

The crazy part is that Peter Schiff has a chance at all. Republicans in Connecticut are so desperate for new ideas and credibility, so shell-shocked by the collapsing financial bubble, that they may just pin their electoral hopes on Schiff. Who cares if he's a doomsayer who believes the worst times are ahead, that he lives like a hermit in an empty rented mansion and can't stop scolding people? He was right when the whole world was wrong. No one likes the guy who tells hard truths—until they hit rock bottom. The GOP is just about there.

"I don't want to do this. I don't want to go to the Senate," Schiff insists. "I'm

gives him more cash on hand than Rob Simmons. His ability to self-finance and to bring out-of-state donors will surely attract attention from a weakened GOP. The *Hartford Courant* has profiled him. And his clairvoyance on the housing crisis contrasts favorably with Chris Dodd's complicity with disgraced mortgage lender Countrywide. Republicans have been looking for a different kind of candidate who can win in the Northeast. In Schiff, that's exactly what they have, whether they like it or not.

He is a new thing on the scene: a conservative declinist who ignores culture and demographics. To Schiff, issues besides the economy are ancillary—or really just economic issues in disguise. He is pro-choice and generally pro-gay, but he doesn't seem to care one way or