

QUICK SAVANT

***Principles for Dealing with
the Changing World Order***

WHY NATIONS SUCCEED AND FAIL

NOTE FROM QUICK SAVANT

This lengthy summary begins with a Ray Dalio synopsis of *Principles of Dealing with the Changing World Order*. A full analysis of his chapters on China follows.

This book and the audiobook are meant to complement as study aids, not to replace Ray Dalio's book.

THE CHANGING GLOBAL ORDER

The days ahead will be vastly different from those we have lived through in the past. This has always been the case. Over my 50 years of global macroeconomic investment, I have learned that the most significant events that astonished me did so because they never occurred during my lifetime.

These terrible shocks prompted me to go back over five hundred years of history for comparable scenarios. I discovered that they had happened many times before, with the rise and fall of the Dutch, British, and American empires. And every time they did, it symbolized how the world was changing. By studying history, I was able to predict the future.

The United States ran out of money and defaulted on its obligations while I was a teenage clerk on the New York Stock Exchange floor. Gold was the currency utilized in international transactions. Paper money, such as the dollar, had no intrinsic worth other than the ability to be exchanged for gold. By printing more paper money checks than gold in the bank to trade for them, the United States was spending much more money than it was making at the time. The quantity of gold in the US declined as individuals exchanged these checks for gold cash at the bank. People holding dollars raced to swap them before the gold ran out, as it became clear that the US could not meet its promises for the current paper money.

Recognizing that the US would soon run out of real money, President Nixon went on television to inform the world that the US was violating its commitment to allow people to swap their dollars for gold. He did not phrase it that way, of course. He expressed it more politely, without implying that the US was defaulting. The economy of a country determines

the currency's strength. The American economy is unquestionably the most powerful in the world.

The Secretary of the Treasury is authorized to take whatever steps are necessary to protect the dollar against speculators. The dollar's convertibility into gold or other reserve assets would be temporarily halted, except in quantities and situations assessed to be in the best interests of monetary stability and the United States.

I stood there in astonishment, recognizing that money as we knew it was ending. What a disaster! I anticipated the stock market to crash the following day, so I arrived early on the trading floor to prepare. When the opening bell sounded, chaos ensued, but not the type I had anticipated. The market was up - a lot up - and continued to rise by almost 1%. That startled me since I had never previously seen a currency depreciation. When I looked back in history, I found that the same event had occurred before and had the same result. Then there was the relationship between paper dollars and gold, which the United States was running out of since it was spending more paper money checks than gold to trade for them. On the radio, President Roosevelt said the country's commitment to swap currencies for gold would be broken. This was the first step in the government's attempt to rebuild our financial and economic infrastructure. The second step was legislation that was quickly enacted by Congress. This legislation also authorized the creation of a program breaking the gold connection which permitted the US to continue spending more than it earned by printing additional paper dollars. Each dollar's worth declined as the number of dollars increased without a rise in the country's wealth. As more dollars entered the market without equivalent increases in productivity, they were utilized to purchase stocks, gold, and commodities, causing their prices to soar.

As I learned more about history, I saw that the same event happened several times. I had noted that governments had run out of money and required more from the beginning of time when they spent much more than they earned in taxes. As a result, they produced a lot more money, causing the value of the currency to plummet and the prices of practically everything to increase, including stocks, gold, and commodities.

I first learned that when central banks issue a lot of money to alleviate a crisis, purchasing equities, gold, and commodities is a good idea since their value will increase.

In contrast, paper money's value would plummet.

This printing of money also helped alleviate the debt problem caused by mortgages and the economic crisis caused by pandemics. It is virtually guaranteed to happen again in the future.

As a result, I recommend that you remember this idea. These events pointed me in a different direction. To comprehend what is coming at you, you must first understand what has gone before you. That notion prompted me to research how the roaring twenties bubble evolved into the Great Depression of the 1930s, which provided me with the knowledge I needed to predict and benefit from the decline into the bust.

All these events prompted me to acquire an almost instinctive need to look back in time for comparable scenarios to better prepare for the future.

Three major events in the previous several years inspired me to do this research. First, despite decreasing interest rates to zero, nations do not have enough money to service their obligations. As a result, their central banks started printing a large amount of money to do so. Second, large internal disputes arose due to widening wealth and value disparities. This manifested in political populism and divisiveness between those on the left who want to redistribute money and those on the right who want to protect those who already have it.

Third, between China and the United States, there is an expanding external confrontation between the great developing power, China, and the leading great power, the United States. I saw that all of these things had occurred, previously and almost invariably resulted in changes in local and global financial and other systems.

Within nations, there exist internal governing orders, which are usually written out in constitutions. There is also a global order for managing countries, traditionally outlined in treaties. Internal needs vary at different periods more than international orders. However, these orders frequently shift after conflicts, whether inside or between nations, national disputes between states, as well as civil wars inside countries. They occur when revolutionary new forces overcome old orders that are weak. The US internal order, for example, was established in the constitution during the American Revolution and continues to operate today, even after the American Civil War. With the Russian revolution, Russia overthrew its old system and erected a new one, which was comparatively bloodless. When the Chinese Communist Party won the civil war, the country's present internal order was established.

Following the Allied victory in World War II, when the United States emerged as the dominant world force, the present world order, often known as the American world order, was established. The workings of global governance and monetary systems were laid out in accords and treaties. The Bretton Woods Agreement created a new global financial system, with the dollar as the world's premier reserve currency. A reserve currency is a currency that is widely acknowledged across the globe, and possessing one is a vital aspect of a country's ability to become the world's wealthiest and most powerful empire. A new global order emerged with new dominating power and monetary system. These transformations occur in a timeless and universal cycle that I call the "grand process."

My new book takes the reader through the rise and fall of the Dutch empire and the guilder, the British empire and the pound, the rise and early fall of the United States empire and the dollar, the rise and fall of the Chinese empire and its currencies, as well as the rise

and fall of the Spanish, German, French, Indian, Japanese, Russian, and Ottoman empires. To better comprehend China's trends, I looked into the rise and fall of Chinese dynasties and their monetary systems over the centuries. Because examining these indicators at once might be perplexing, I will concentrate on the four most important: the Dutch, British, American, and Chinese. The pattern will become apparent immediately.

The rises and falls occurred in overlapping cycles of approximately the same period of years, with transition intervals in between. Because leading powers do not surrender without a struggle, these two transitions have often been times of intense warfare. So, how can I gauge the might of an empire? I utilized eight metrics in my research. The overall control measure for each nation is calculated by averaging them all together. Education, creativity and technological development, worldwide market competitiveness, economic production, the volume of international commerce, military might, the power of their financial center for capital markets, and the strength of their currency as a possible reserve currency are the factors to consider.

We can observe how powerful each nation is today, how strong it was in the past, and whether it is increasing or weakening since these powers are quantifiable. Looking at sequences from various nations, we can observe how a typical cycle unfolds. We can simplify it a little to concentrate on the pattern of cause-effect interactions that drive the rise and fall of a specific empire.

More education usually leads to more innovation, technological growth, and eventually, the currency's status as a reserve currency. These factors subsequently dropped in a similar sequence, encouraging each other's fall. Let us look at the normal chain of events that leads to these surges and dips inside a nation. A cycle starts after a significant event, usually a war, that creates a new dominant power and a global order. Because few want to challenge this authority, there is typically a time of calm and prosperity. People are increasingly betting on continuing this calm and prosperity as they have become used to it. To do so, they borrow money, resulting in a financial bubble.

When most transactions are made in its currency, it becomes a reserve currency, resulting in even greater borrowing. At the same time, growing prosperity unequally distributes wealth. As a result, the wealth gap between the affluent and the poor usually widens. "The wealthy "haves" vs. the impoverished "have-nots" belies a constant conflict.

The financial bubble eventually bursts, resulting in money printing and growing internal strife between the affluent and the poor, culminating in a revolution to redistribute wealth. This might take place in a calm manner or as a civil war. While the empire suffers internal strife, its influence dwindles compared to rising exterior competitor forces. Most often, external conflicts arise when a newly emerging power becomes strong enough to compete with a dominating entity experiencing internal breakdowns. New winners and losers emerge from these interior and exterior conflicts. The victors then join together to construct a new global order. The cycle starts all over again.

Looking back, I realized that these cause-and-effect interactions were responsible for the Roman empire's growth and fall. I noticed how the tales of each of these cycles intertwined before, during, and after, just as each narrative intertwined to create the epic year story that is our collective history. And, like human life cycles, no two are alike, albeit the majority are. They are propelled by logical cause-and-effect linkages that evolve from birth to strength, maturity to weakness, and, eventually, demise. However, claiming a person's life cycle takes years on average ignores the fact that many live far shorter and longer lives. While age may be a decent predictor of future lifespan, health indicators are a better way to go. It is possible to accomplish the same thing with empires and their vital indicators.

I discovered that observing signs of power shifts allowed me to identify what stage a nation was in, which helped me predict what would happen next. Now I will go through the cycle in more depth. I will tell you about the previous few years of history and show how the Dutch, British, American, and Chinese empires followed similar patterns, years marked by large cycles. I will divide the average process into three segments to explain it. Powerful revolutionary leaders generally launch successful new orders, internal and external, by accomplishing four things. First, they achieve power by outnumbering the opposition

regarding public support. Second, they consolidate control by converting, weakening, or destroying the opposition. Third, they create processes and institutions that enable the nation to function effectively. Fourth, they carefully choose their successors or devise methods since an empire needs many excellent leaders over many generations.

Because the leadership is powerful and has widespread support, there is usually a time of calm and expanding wealth shortly after the struggle is won. During this phase, the country's leaders must devise a superior system for increasing the country's riches and influence.

To begin, kids must have a solid education, including teaching information and skills and training in strong character, politeness, and work ethic. They are typically conducted at home, in schools, and in religious organizations. This promotes a healthy respect for norms and regulations, social order, minimal corruption, and the ability to unify around a shared goal and collaborate effectively. They go from manufacturing fundamental things to developing and creating new technologies due to this. The Dutch, for example, rose to overcome the Habsburg empire and become highly educated. They became so inventive that they were responsible for a quarter of all major inventions worldwide. The most significant of them was the construction of ships capable of traveling across the globe and collecting vast sums of money and the establishment of capitalism as we know it today to fund those travels. They improved their thinking by being open to the greatest thought in the world, as do all greatest empires.

Consequently, the country's citizens become more productive and competitive in global marketplaces, as seen by their expanding economic production and share of international commerce. This is already occurring since the economies of the United States and China are nearly equivalent in the production and percentage of global commerce. As nations become increasingly internationally integrated, they must safeguard their trade channels and foreign interests. As a result, they build formidable military capabilities. If properly implemented, this cycle results in high revenue growth, which may be utilized to fund expenditures in education, infrastructure, and R&D. They must also devise mechanisms to motivate and empower individuals who can create or make money. The most successful

empires in these situations adopted a capitalist strategy to generate productive entrepreneurs. Even China, ruled by the Chinese Communist Party, employed a capitalist strategy although they will never admit to being “capitalists.”

They must improve their capital markets to do so effectively like their loan, bond, and stock markets, to name a few. This enables individuals to invest their money, finance research and development, and profit from the achievements of those who make great things happen. The Dutch East India Firm was the first publicly-traded company and the first stock market to support it, both of which were critical components of the system that generated immense wealth and power. As a natural result, the world's most powerful empires developed the world's most important financial centers for attracting and distributing capital. When the Dutch were in charge, Amsterdam was the world's financial center, London was when the British were in order, New York is now, and China is rapidly developing its financial centers.

Above all, capitalists, governments, and armed forces must collaborate. The Dutch were good at cooperating. The government awarded the Dutch East India Company a trading monopoly and had its own legally sanctioned military to go out into the global marketplaces to create and grab money. Following in the footsteps of the British East India Company, the British coordinated their political, commercial, and military activities similarly. The US Military-Industrial Complex, like the Chinese system today, followed suit.

As the country grows into the world's biggest trade empire, its transactions must be paid in its currency, making it the favored worldwide money. People all across the globe desire to save in their currency since it is so generally acknowledged and extensively utilized, making it the chosen haven for riches. As a result, it is the world's most important reserve currency.

The guilder was the world's most important reserve currency when the Dutch-led world trade was in full swing. When the British were in charge, they used the pound. And the

dollar has been since the United States took the lead. China's currency, the yuan, or renminbi is becoming more widely used as a reserve currency. The empire can borrow more than other countries because it has a reserve currency.

This is a significant benefit. Consider that for a moment. People throughout the globe are eager to save and, as a result, lend their money back to the empire. That is not available to countries without a reserve currency. Recall the United States; if the empire runs out of money, it can always create more. The imperial reserve currency's extravagant privilege leads to a surge in borrowing and the start of a financial bubble. Since the beginning of recorded history, a succession of cause-and-effect linkages has led to mutually supporting financial and military capabilities, boosted by the borrowing capacity of a reserve currency. All of the world's most powerful civilizations followed this road to the top. While most of these qualities are maintained at the peak phase, the seeds of their collapse are contained within the fruits of their success. As individuals in these wealthy and powerful nations earn more money, they become more costly and less competitive in comparison to those in other countries prepared to work for less money. Simultaneously, individuals in other nations naturally replicate the leading power's tactics and technology, thus reducing the leading power's competitiveness. British shipbuilders, for example, had less costly labor than Dutch shipbuilders.

As a result, they hired Dutch designers to design better ships that less expensive British workers could build, making them more competitive, resulting in the British rising and the Dutch falling out of favor. Furthermore, when individuals get wealthier, they are less likely to labor as hard. They have more free time, explore the finer and less productive aspects of life, and may sometimes become decadent. During the rise to the top, from those who had to fight for wealth and power to those who inherited it, values change from generation to generation. They are less battle-hardened, accustomed to luxuries, and a comfortable lifestyle, making them more vulnerable to challenges. The Dutch empire's golden era and the British empire's Victorian era were both prosperous periods.

People used to do well begin to wager on the good times and borrow money, resulting in financial bubbles. Naturally, the financial benefits are distributed unequally. As a result, the

wealth disparity widens. Rich individuals utilize their superior resources to enhance their authority. Therefore, wealth disparities are self-reinforcing. For example, they give their children more advantages, such as higher education, and they use their political influence to their benefit.

As a result, the divide between the affluent "haves" and the impoverished "have-nots" widens regarding values, politics, and opportunities. Because less fortunate people believe the system is unfair, resentment grows. However, as long as most people's living standards continue to rise, these resentments do not become a source of conflict. Having the world's reserve currency always leads to excessive borrowing and adds to the country's massive indebtedness to international lenders. While this increases spending power in the near term, it negatively impacts the country's financial health and currency. In other words, the empire appears to be strong when borrowing and spending are high, but its finances are weak. Borrowing allows the government to retain its dominance beyond its basics by funding domestic overconsumption and overseas military engagements necessary to keep the empire going.

The expense of sustaining and defending the empire will always exceed its earnings. As a result, owning an empire is no longer profitable. For example, the Dutch empire became overextended across the globe, and to maintain its territories and trade routes, it fought more costly wars with the British and other European countries. As competing nations, notably Germany, rose, the British empire grew equally vast and bureaucratic and lost its competitive advantages, leading to an increasingly costly weapons race and global war. The United States has spent around \$8 trillion on foreign wars and their aftermath, as well as on various military activities and sustaining military bases in nations. Yet, it still is not spending enough to support its military rivalry with China in the region surrounding China. Richer countries ultimately get even more in debt due to borrowing from poorer ones that save more. It is one of the first signals of a change in wealth and power. This began in the United States when the country's per capita income was comparable to China's. It began borrowing from the Chinese, who wanted to save in dollars since the dollar was the world's reserve currency.

Similarly, the British drew heavily from their weaker colonies, and the Dutch did the same at the height of their game. If the empire runs out of new lenders, people who hold its currency start looking to sell and get out rather than purchase, save, lend, and get in, and the empire's power begins to wane creating a downward spiral. Internal economic weakness, expensive foreign conflict, or both are to blame for the collapse. Typically, the fall is slow at first, then abrupt. The financial bubble bursts when the empire's debts grow enormous. There is an economic downturn, and the empire can no longer borrow the money it needs to settle its obligations. This puts the government in a difficult position, forcing it to choose between defaulting on its obligations and printing a large amount of fresh money. It always opts to produce a large amount of new currency. Gradually at first, and then enormously. This lowers the currency's value and raises inflation. The Dutch experienced a financial crisis due to financial excesses and the cost of the Fourth Anglo-Dutch War.

Similarly, the British were repaying their debts and financial excesses from the two world wars. Since the 1990s, the US has gone through three cycles of debt, finance, booms, and busts, with the central bank intervening each time with tougher measures.

The internal conflict between the rich and the poor, as well as different ethnic, religious, and racial groups, greatly increases when the government has trouble funding itself, when the economy is bad, and most people's living standards are declining, and when there are large wealth, value, and political gaps. This leads to political fanaticism, which manifests as left- or right-wing populism. Those on the left want to redistribute wealth, whereas those on the right want to keep it in the hands of the wealthy. Taxes on the wealthy typically rise during such times, and when the rich fear their wealth and well-being will be taken away, they move to places, assets, and currencies where they feel safer. The empire's tax revenue is reduced due to these outflows, resulting in a classic, self-reinforcing hollowing-out process.

When wealth flight becomes severe enough, governments make it illegal. Those attempting to flee begin to panic. These tumultuous conditions reduce productivity, reducing the economic pie and increasing conflict over how to distribute the shrinking

resources. Both sides have populist leaders who promise to take control and restore order. That is when democracy is most threatened since it cannot manage the turmoil, and that is when people are most likely to turn to a strong populist leader to bring order to the crisis. As the internal crisis worsens, some sort of revolution or civil war is triggered to redistribute wealth and impose major reforms. This may calm and sustain the status quo, but it is more frequently violent and disrupts it.

The Roosevelt redistribution of wealth revolution, for example, was largely peaceful and preserved the established internal order. The French, Russian, and Chinese courses, on the other hand, were much more violent and resulted in new internal regimes. This internal strife weakens the empire, making it susceptible to emerging exterior adversaries who, perceiving its domestic weakness, are more willing to attack it. This increases the likelihood of a major international confrontation, particularly if the adversary has developed a similar force. Defending oneself and one's empire against competitors necessitates significant military expenditures, which must be made when domestic economic circumstances worsen, but the empire cannot afford it. Because there is no sustainable framework for resolving international issues amicably, these conflicts are usually handled via power struggles. As the dominant empire faces more challenges, it must choose between fighting and fleeing. Fighting and losing is the worst consequence, but withdrawing is also terrible since it allows the competitor to gain ground and sends a message to those nations debating which side to support that the empire is weak. Poor economic circumstances lead to increased battle for riches and power, leading to war.

Wars are expensive. At the same time, they cause seismic movements in the globe that realign the new orders with the new realities of money and power. The classic cycle ends when people who possess the falling empire's reserve currency and debt lose trust and sell them. Less than 1% of the currencies have existed since surviving today, and they have all been depreciated. The Dutch experienced this following their loss in the Fourth Anglo-Dutch War when they could not repay the large debts incurred during the conflict. This resulted in a bank run and a frantic sell-off, resulting in huge money creation that depreciated the currency and rendered the empire irrelevant.

The British experienced this after WWII when they could not repay the vast debts, they had taken on to fuel their war effort, despite their triumph. As the US and the dollar became dominant, this resulted in a series of money creation, devaluations, and sell-offs of the British pound, ushering in a new global order. The United States has not yet reached this position at the recording time. The great sell-off in dollars and dollar debt has not started yet, even though it has vast debt, spends more than it makes, and covers this imbalance by borrowing and printing large sums of new money. While major internal and external conflicts are occurring for various reasons, they have not yet escalated into wars. Eventually, whether violent or not, new victors emerge from these wars, who band together to reorganize the losers' debts and political institutions, establishing a new global order. Then the old cycle and empire end, and the new one begins, and the process is repeated. I just threw a lot of information at you to paint a picture of how a typical cycle works. Of course, not all of them go precisely as planned, but the vast majority do, to the point that it seems that the tales of rises and falls are the same, with the only differences being the clothing the people wear and the technology they use.

So, where do we go from here?

The horizon. Most empires have their heyday and then fade away. Reversing a downward trend is difficult because it necessitates undoing much that has already been accomplished, but it is possible. It is easy to see which stage of the big cycle an empire is in, how fit it is, and whether its condition is improving or worsening by looking at these indicators, which can help estimate how many years it has left. These estimations are not exact, and the cycle may be prolonged if people in control pay attention to and improve their vital indicators.

One can estimate a person's longevity by knowing how old they are, how fit they are, whether or not they smoke, and a few other basic vital signs.

It is possible to accomplish the same thing with empires and their vital indicators. It will not be exact, but it will be wide in scope and provide clear guidance on improving lifespan. A nation's biggest conflict is frequently with itself, over whether it can make the difficult choices required to maintain prosperity. We need to make more money than we spend and treat one other nicely. The other things I stated - excellent education, ingenuity, competitiveness, and so on - are means of achieving these two goals.

My goal in sharing this picture of how the world works and a few principles for dealing with it effectively is to help you recognize where we are and the challenges we face. Then you can make the informed decisions necessary to successfully navigate these most challenging times.