Rise of Alternatives as the US-Led Global Order Falters

By Doug Casey

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International Man: Since the invasion of Ukraine, we've seen the US and its European allies institute unprecedented sanctions on Russia. In a bold move, the US government also froze the US dollar reserves of the Russian central bank.

In response, Russia demanded payment in rubles in exchange for its energy.

What's your take on this new phase of economic warfare?

Doug Casey: It's a massively stupid and destructive move on the part of the US. There's no upside to what the US is doing in fighting this economic war against Russia—or, for that matter, in backing the Zelensky regime in the Ukraine—but huge downside from every point of view.

Essentially the US and Western powers have confiscated hundreds of billions of dollars of assets from the Russian government, as well as individual Russians. It's theft, pure and simple. It acts as a warning shot to everybody in the world: Your assets are not safe in Western countries. It's a reason to get out of the US dollar and use something else.

It's backfired on the US. It's helping devastate Western economies by cutting off the flow of Russian oil, and especially natural gas, to Europe. Further, the Russians now demand payment in rubles. The ruble is now a much stronger currency because, in order to pay the Russians, the world has to buy rubles. The Russians have taken a page from the US playbook. Decades ago, the Saudis said they would only accept US dollars in payment for oil. And so, people had to buy dollars if they wanted Saudi oil.

The US is acting to destroy confidence in its currency, as well as the stability and perceived honesty of the dollar-based system. That's extremely dangerous for a currency that rests on nothing but confidence. Something like this can cause confidence to blow away like a pile of feathers in a hurricane.

The issuer of the dollar, the bankrupt US Government (or its facilitator, the Fed), will give you nothing specific in exchange for them. But they can issue unlimited numbers of them. The dollar has been an IOU nothing for many years. But the charade is approaching an end. The US Government is now like a poker player "on tilt."

International Man: Recently, Vladimir Putin traveled to Iran. As a result, Iran's National Oil Company announced a $40 billion energy deal with Russia's Gazprom. It's safe to say they won't be using the US dollar in their transactions.

What does this mean for future geopolitical alliances and economic dealings that undermine US dominance?

Doug Casey: The US is in serious decline—financially, economically, and sociologically—and the world knows it. Only a fool wants to hold the unsecured liability of a bankrupt government, especially one that's so arrogant as to believe it can confiscate assets arbitrarily.

The major export of the US now, as it's been for the last 40 years, is US dollars. We don't really produce that much anymore. We ship people dollars. In return, they ship us vast amounts of material goods. Ships arrive in US ports full of products; they "dead head" on the return trip, mostly empty. The US has transformed itself from a nation of producers and creditors into a nation of consumers and debtors.

Our major export is dollars, not wheat and Boeings. Meanwhile, the US government is creating more dollars by the trillions in order to prop up the domestic economy. This is going to end very badly for the dollar's use in international transactions.

Even though domestic prices are rising at something like 15%, the dollar has been quite strong in recent months against other currencies. The reason for that paradox is debt. Almost all of the world's debt is denominated in dollars. And in order to service those debts, especially with interest rates now headed up, people need dollars.

So there's been a scramble for dollars to service all the debt. It's really rather perverse.

International Man: Russia and China recently announced their interest in developing a new reserve currency with other BRICS countries.

What would this mean if there was a serious rival to the US-led system?

Doug Casey: It's been in the cards for years.

Countries that are our adversaries—like Russia and China—use the US dollar to trade between each other. Why? It's quite strange, since those hot potato dollars all have to clear through New York. The reason is that the Russians don't really trust the Chinese yuan, and the Chinese don't trust the Russian ruble. They're both fiat currencies, of little value outside the borders of the countries that issued them. It's the same with the Indians, the Iranians, the Brazilians, the South Africans, and everybody else—they can't use each other's currencies. They've basically used dollars since the end of WW2.

All of the world's currencies- every single one—are "fiat" units, essentially political footballs, whose numbers and values can fluctuate radically and randomly. The dollar is just the biggest and best of the bunch. It won't be replaced easily, because the whole world has gotten so used to using it. Nobody wants to use a unit controlled by Washington, but what's the realistic alternative? Flaky Third World governments run by sociopaths are incapable of putting together a new super fiat currency—that just adds another layer of risk and complexity. They can all see that even the euro, an artificial Esperanto currency, is on the edge of imploding. None of these governments have the same interests, and they certainly don't trust each other.

What's going to happen? They'll default to gold for settling accounts among each other. I'm not saying they'll allow their subjects to save in and trade in gold—that's most unlikely. But I think it's inevitable for settlements between governments. The only alternative is barter—"I'll trade you a thousand tonnes of cocoa for two used tanks, 500 cows, and 100 tonnes of wool." A flea market transaction that's not very likely in a complicated industrial world… That's why money was invented.

The world is going back to gold. Not because any government or economist wants to—rather just the opposite. But it's not likely to happen except at much higher prices of gold unless there's a credit collapse and scores of trillions of dollars of stocks, bonds, bank deposits, and other debt are wiped out. On the bright side, the approximately 6 billion ounces of gold that now exist will still be here.

Current events are leading to the end of the US dollar system. And when the US dollar is not needed or wanted for international trade, everybody will dump it. All those dollars will flood back to the US, where they must be accepted by law. Nobody's going to want them abroad. Or not much more than they desire the Indian rupee, the Colombian peso, or the Ukrainian hryvnia.

They're going to come back to the US to buy US real estate, US shares, and US businesses.

All those dollars that we've been exporting for decades have held down domestic inflation because they've been floating around abroad, driving up foreigner's prices. They'll come back to the US. Domestic prices will skyrocket upwards at the same time the dollar collapses, and the title to US assets are transferred to foreign citizens.

All those dollars being exported for decades resulted in an artificially high standard of living for Americans. When they come back—and they will come back as the world stops choosing dollars—the standard of living in the US will drop substantially.

International Man: The US dollar, the euro, the Russian ruble, the Chinese yuan, and the rest of them are all fiat currencies.

That being said, what advantages do countries with valuable commodities have over others as all fiat currencies continue to lose value?

Doug Casey: It's great to have valuable commodities, but you can't use oil for money. If that's all there was to it, Venezuela, Nigeria, Iraq, and Kazakhstan would be among the world's richest countries. The same is true for every other country with valuable commodities. In fact, the countries with the most mineral wealth tend to be the poorest and most unstable. But that's a discussion for another time.

Money is not wealth in itself. But it represents wealth. It represents an excess of production over consumption. A good money has got to have certain characteristics.

It has to be durable; that's why we don't use wheat as money. It has to be divisible; that's why you don't use artwork as money. It has to be convenient; that's why you don't use lead as money. It has to be consistent; that's why you can't use real estate as money. And it has to have some type of use value in itself; that's why you can't use paper as money.

That's why the world is going to go back to gold. There's a case that can be made for silver and a case that can be made for Bitcoin. And that's about it. We'll see how things sort out in the chaotic world we're facing. And here is a statement to shock the average reader: Government should have no involvement with money. Money—like banking, interest rates, the markets, and the economy—should be totally divorced from politics. That's why gold, not paper, is real money.

Where is the price of gold going? Relative to bushels of wheat, or pounds of coffee, or pounds of copper, my guess is that it's about right at the moment. In fact, I've been saying for several years that gold is reasonably priced, at an equilibrium, relative to dollars. It's not at giveaway levels like it was in 1971 at $35 or in 2001 at $260.

If the dollar is going to survive, it should be redeemable with a fixed amount of gold. They say the US owns 265 million ounces of gold. But how many dollars are there? Like the dollar itself, that number is something of a floating abstraction. Guesses vary. Especially because there are many definitions of what money is—not to mention near-money and credit. Numbers are bounced around from $6 trillion to $80 trillion. The number is probably academic and possibly unknowable.

Divide 265 million into any of the figures "economists" conjure, and you come up with a very large number. Just to finance a typical approximate annual US trade deficit of about $500 billion, the entire gold horde would immediately disappear even if gold were priced at $2,000. Maybe the price of gold should be $20,000 or more.

So what's going to happen? I think the answer is chaos. The world's going back to gold because we're headed for a chaotic financial situation, and gold is the only financial asset that's not simultaneously somebody else's liability. And it's an understatement to say none of these governments trust each other or each other's paper currencies.

International Man: How do you see the world's geopolitical chessboard changing in the coming years? What are the investment implications?

Doug Casey: If you look at various times in history—the world's map changed tremendously from, say, 1910, when everything was mellow and prosperous, to 1920, when most everything was unrecognizable. The world looked one way in 1940 and totally different in 1950. My guess is that the world of 2020, which has already changed immensely, will be hugely different by 2030, 8 years from now.

Beyond 2030 we're looking at a science fiction reality. There's a good chance we'll have something like a civil war in the US. And/or serious secession movements.

It's even more likely that Canada will break up. The same thing is going to happen to Mexico and Brazil. All of Africa will restructure. Many European countries are likely to break up—Spain and areas of France. Italy only became a country 170 years ago. Germany only unified 150 years ago. Russia is likely to break up into smaller ethnic countries for sure.

Like it or not, people will migrate from Africa and the Middle East to Europe by the scores of millions.

Millions of Chinese will migrate from China to Africa, and the Africans won't much like it. People from everywhere, not just Latin America, will flow into the US and Canada.

The colors of the map on the wall are going to be running in the years to come. That's going to have profound investment implications. Among them, a lot of currencies are going to dry up and blow away.

It's going to start happening in this decade. So buckle up.

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