



INTERNATIONAL MAN

GUIDE TO SURVIVING AND THRIVING DURING AN ECONOMIC COLLAPSE

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TIMING THE COLLAPSE: RON PAUL SAYS WATCH THE PETRODOLLAR

By Nick Giambruno, Senior Editor

*The chaos that one day will ensue from our 35-year experiment with worldwide fiat money will require a return to money of real value. **We will know that day is approaching when oil-producing countries demand gold, or its equivalent, for their oil rather than dollars or euros** [emphasis added]. The sooner the better.*

—Ron Paul

What Ron Paul is referring to here is the petrodollar system. It's one of the main pillars that's been holding up the US dollar's status as the world's premier reserve currency since the breakdown of Bretton Woods.

Paul is essentially saying that, if we want to better understand the answer to the elusive question of “*When will the fiat US dollar collapse?*”, we have to watch the petrodollar system and the factors affecting it.

At the 2013 Casey Research Summit, I had the chance [to speak](#) extensively with Dr. Paul on this subject, and he told me that he stands by his assessment.

I believe this is critically important, because once the dollar loses this coveted status, the window of opportunity to take preventative action will definitively shut for Americans.

At that moment, I believe the US government will become sufficiently desperate and implement the destructive measures that governments throughout the world and throughout history have all taken (overt capital controls, wealth confiscations, people controls, price and wage controls, pension nationalizations, etc.).

But it's not just the financial implications that need to be considered. The destruction of the dollar is going to wipe out the wealth of a lot people, and that will cause political and social consequences that will likely be worse than the financial consequences.

The three points to understand here are:

1. You absolutely must be internationalized before the US dollar loses its status as the premier reserve currency. Internationalization is your ultimate insurance policy.
2. The US dollar's status as the premier reserve currency is tied to the petrodollar system.
3. The sustainability of the petrodollar system is linked to Middle East geopolitics. Having lived and worked in the Middle East for a number of years, this is a topic I know a thing or two about.

FROM BRETTON WOODS TO THE PETRODOLLAR

The dollar's role as the world's premier reserve currency was established in 1944 by the Allied powers in what was known as the Bretton Woods international monetary system.

Being victorious in WWII and possessing the overwhelmingly largest gold reserves in the world (around 20,000 tonnes) allowed the US to reconstruct the global monetary system with the dollar at its center.

Simply put, the Bretton Woods system was an arrangement whereby a country's currency was tied to the US dollar through a fixed exchange rate, and the US dollar itself was tied to gold at a fixed exchange rate.

Countries accumulated dollars in their reserves to engage in international trade or to exchange them with the US government at the official rate for gold (\$35 an ounce).

By the late 1960s, exuberant spending from welfare and warfare, combined with the Federal Reserve monetizing the deficits, drastically increased the number of dollars in circulation in relation to the gold backing it.

Naturally, this caused countries to accelerate their exchange of dollars for gold at the official price.

The result was a serious drain in the US gold supply (20,000 tonnes at the end of WWII to around 8,100 tonnes in 1971, a figure supposedly held constant to this day).

Nixon officially ended convertibility of the dollar for gold to halt the gold outflow, thus ending the Bretton Woods system, on August 15, 1971.

The US had defaulted on its promise to back the dollar with gold.

The central justification that the gold-backed dollar had provided as to why countries held the dollar in their reserves and used it as a medium of international trade was now gone.

With the dollar no longer convertible into gold, demand for dollars by foreign nations was sure to fall and with it, its purchasing power.

OPEC passed numerous resolutions after the end of Bretton Woods, stating the need to retain the real value of its earnings (including discussions about accepting gold for oil), which resulted in the cartel significantly increasing the nominal dollar price of oil in the wake of August 15, 1971.

If the dollar was to sustain its status as the world's reserve currency, a new arrangement would have to be constructed to give foreign countries a compelling reason to hold and use dollars.

Nixon and Kissinger would end up succeeding in retaining the dollar's premier status by bridging the gap between the failed Bretton Woods system and the emerging petrodollar system.

THE PETRODOLLAR SYSTEM

Between the years of 1972 to 1974 the US government completed a series of agreements with Saudi Arabia to create the petrodollar system.

Saudi Arabia was chosen because of its vast petroleum reserves, its dominant influence in OPEC, and the (correct) perception that the Saudi royal family was corruptible.

In essence, the petrodollar system was an agreement that, in exchange for the US guaranteeing the survival of the House of Saud regime by providing a total commitment to its political and security support, Saudi Arabia would:

1. Use its dominant influence in OPEC to ensure that all oil transactions would be conducted only in US dollars.
2. Invest a large amount of its dollars from oil revenue in US Treasury securities and use the interest payments from those securities to pay US companies to modernize the infrastructure of Saudi Arabia.
3. Guarantee the price of oil within limits acceptable to the US and act to prevent another oil embargo by other OPEC members.

The need to use dollars to transact in oil, the world's most traded and most strategic commodity, provides a very compelling reason for foreign countries to keep dollars in their reserves.

For example, if Italy wants to buy oil from Kuwait, it would have to first purchase US dollars on the foreign exchange market to pay for the oil, thus creating an artificial market for US dollars that would not have otherwise naturally existed.

This demand is artificial, since the US dollar is just a middleman in a transaction that has nothing to do with a US product or service. It ultimately translates into increased purchasing power and a deeper, more liquid market for the US dollar and Treasuries.

Additionally, the US has the unique privilege of not having to use foreign currency but rather using its own currency, which it can print, to purchase its imports, including oil.

The benefits of the petrodollar system to the US dollar are indeed difficult to overstate.

WHAT TO WATCH FOR

The geopolitical sands of the Middle East have been rapidly shifting.

The faltering strategic regional position of Saudi Arabia, the rise of Iran (which is notably not part of the petrodollar system), failed US interventions, and the emergence of the BRICS countries providing potential future alternative economic/security arrangements all affect the sustainability of the petrodollar system.

In particular, you should watch the relationship between the US and Saudi Arabia, which has been deteriorating.

The Saudis are furious at what they perceive to be the US not holding up its part of the petrodollar deal. They believe that as part of the US commitment to keep the region safe for the monarchy, the US should have attacked their regional rivals, Syria and Iran, by now.

This would suggest that they may feel that they are no longer obliged to uphold their part of the deal, namely selling their oil only in US dollars.

The Saudis have even gone so far as to suggest a “major shift” is underway in their relations with the US. To date, though, they have yet to match actions to their words, which suggests it may just be a temper tantrum or a bluff. In any case, it is truly unprecedented language and merits further watching.

A turning point may really be reached when you start hearing US officials expounding on the need to transform the monarchy in Saudi Arabia into a “democracy.” But don’t count on that happening as long as their oil is flowing only for US dollars.

CONCLUSION

It was evident long before Nixon closed the gold window and ended the Bretton Woods system on August 15, 1971, that a paradigm shift in the global monetary system was inevitable.

Likewise today, a paradigm shift in the global monetary system also seems inevitable. By considering Ron Paul’s words, we will know when the dollar collapse is imminent.

“We will know that day is approaching when oil-producing countries demand gold, or its equivalent, for their oil rather than dollars or euros.”

There is no question that you want to be internationalized before that day arrives, which seems to be getting closer and closer. It is very possible that one day soon, Americans will wake up to a new reality, just as they did on August 15, 1971.

Your goal should be to remove as much political risk from as many aspects of your life as possible so that you are not caught flat-footed when the next August 15, 1971 moment arrives.

HOW EMPIRES END

By Jeff Thomas

Experience hath shewn, that even under the best forms of government those entrusted with power have, in time, and by slow operations, perverted it into tyranny.

—Thomas Jefferson

Histories are generally written by academics. They, quite naturally, tend to focus on the main events: the wars and the struggles between leaders and their opponents (both external and internal). Whilst these are interesting stories to read, academics, by their very nature, often overlook the underlying causes for an empire's decline.

Today, as in any era, most people are primarily interested in the “news”—the daily information regarding the world's political leaders and their struggles with one another to obtain, retain, and expand their power. When the history is written about the era we are passing through, it will reflect, in large measure, a rehash of the news. As the media of the day tend to overlook the fact that present events are merely symptoms of an overall decline, so historians tend to focus on major events, rather than the “slow operations” that have been the underlying causes.

THE PERSIAN EMPIRE

When, as a boy, I was “educated” about the decline and fall of the Persian Empire, I learned of the final takeover by Alexander the Great but was never told that, in its decline, Persian taxes became heavier and more oppressive, leading to economic depression and revolts, which, in turn led to even heavier taxes and increased repression. Increasingly, kings hoarded gold and silver, keeping it out of circulation from the community. This hamstrung the market, as monetary circulation was insufficient to conduct business. By the time Alexander came along, Persia, weakened by warfare and internal economic strife, was a shell of an empire and was relatively easy to defeat.

THE TANG DYNASTY

Back then, I also learned that the Tang Dynasty ended as a result of the increased power amongst the eunuchs, battles with fanzhen separatists, and finally, peasants' revolts. True enough, but I was not taught that the dynasty's expansion-based warfare demanded increases in taxation, which led to the revolts. Continued warfare necessitated increasing monetary and land extortion by the eunuchs, resulting in an abrupt decrease in food output and further taxes. Finally, as economic deterioration and oppression of the citizenry worsened, citizens left the area entirely for more promise elsewhere.

Is there a pattern here? Let's have a more detailed look—at another empire.

THE SPANISH EMPIRE

In 1556, Philip II of Spain inherited what was regarded as Europe's most wealthy nation, with no apparent economic problems. Yet, by 1598, Spain was bankrupt. How was this possible?

Spain was doing well but sought to become a major power. To achieve this, Philip needed more tax dollars. Beginning in 1561, the existing *servicio* tax was regularised, and the *crusada* tax, the *excusado* tax, and the *millones* tax were all added by 1590.

Over a period of 39 years (between 1559 and 1598) taxes increased by 430%. Although the elite of the day were exempt from taxation (the elite of today are not officially exempt), the average citizen was taxed to the point that both business expansion and public purchasing diminished dramatically. Wages did not keep pace with the resultant inflation. The price of goods rose 400%, causing a price revolution and a tax revolution.

Although Spain enjoyed a flood of gold and silver from the Americas at this time, the increased wealth went straight into Philip's war efforts. However, the 100,000 troops were soon failing to return sufficient spoils to Philip to pay for their forays abroad.

In a final effort to float the doomed empire, Philip issued government bonds, which provided immediate cash but created tremendous debt that, presumably, would need to be repaid one day. (The debt grew to 8.8 times GDP.)

Spain declared bankruptcy. Trade slipped to other countries. The military, fighting on three fronts, went unpaid, and military aspirations collapsed.

It is important to note that, even as the empire was collapsing, Philip did not suspend warfare. He did not back off on taxation. Like leaders before and since, he instead stubbornly increased his autocracy as the empire slid into collapse.

PRESENT-DAY EMPIRES

Again, the events above are not taught to schoolchildren as being of key importance in the decline of empires, even though they are remarkably consistent with the decline of other empires and what we are seeing today. The very same events occur, falling like dominoes, more or less in order, in any empire, in any age:

1. The reach of government leaders habitually exceeds their grasp.
2. Dramatic expansion (generally through warfare) is undertaken *without a clear plan as to how that expansion is to be financed*.
3. The population is overtaxed as the bills for expansion become due, *without consideration as to whether the population can afford increased taxation*.

4. Heavy taxation causes investment by the private sector to diminish, and the economy begins to decline.
5. Costs of goods rise, without wages keeping pace.
6. Tax revenue declines as the economy declines (due to excessive taxation). Taxes are increased again, in order to top up government revenues.
7. In spite of all the above, government leaders personally hoard as much as they can, further limiting the circulation of wealth in the business community.
8. Governments issue bonds and otherwise borrow to continue expansion, with no plan as to repayment.
9. Dramatic authoritarian control is instituted to assure that the public continues to comply with demands, even if those demands cannot be met by the public.
10. Economic and social collapse occurs, often marked by unrest and riots, the collapse of the economy, and the exit of those who are productive.
11. In this final period, the empire turns on itself, treating its people as the enemy.

The above review suggests that if our schoolbooks stressed the underlying causes of empire collapse, rather than the names of famous generals and the dates of famous battles, we might be better educated and be less likely to repeat the same mistakes.

Unfortunately, this is unlikely. Chances are, future leaders will be just as uninterested in learning from history as past leaders. They will create empires, then destroy them.

Even the most informative histories of empire decline, such as *The Decline and Fall of the Roman Empire*, by Edward Gibbon, *will not be of interest* to the leaders of empires. They *will* believe that they are above history and that they, uniquely, *will* succeed.

If there is any value in learning from the above, it is the understanding that leaders will not be dissuaded from their aspirations. They will continue to charge ahead, both literally and figuratively, regardless of objections and revolts from the citizenry.

Once an empire has reached stage eight above, it never reverses. It is a “dead empire walking” and only awaits the painful playing-out of the final three stages. At that point, it is foolhardy in the extreme to remain and “wait it out” in the hope that the decline will somehow reverse. At that point, the wiser choice might be to follow the cue of the Chinese, the Romans, and others, who instead chose to quietly exit for greener pastures elsewhere.

THE WORST LAW MOST AMERICANS HAVE NEVER HEARD OF

By Nick Giambruno, Senior Editor

What is the worst law that most Americans have never even heard of?

There are plenty to be sure. So many mundane activities are now criminalized that the average American unknowingly commits *three felonies a day*. But in this case, I am referring to FATCA, which most Americans have never heard of.

In case you are not familiar with FATCA, it is a US law that forces every foreign financial institution in the world to provide the IRS with information on their American clients. It is hugely burdensome and costly to comply with. It has had the effect of making the vast majority of foreign banks, brokerages, and other financial institutions shun American clients, effectively making it much more difficult to move capital outside of the US. Taken together with other costly extra-territorial US regulations, FATCA amounts to a sort of de facto capital control for American citizens.

Anyway, the reason I am bringing up FATCA is that it helps to reveal something important.

History has shown that the destructive measures a government usually takes follows a certain order of progression as it becomes more desperate. The steps are detailed in the *desperate government countdown* below. FATCA helps reveal how far along the US is at the moment.

The purpose here is to simply understand the general pattern that nations follow as their fiscal situations deteriorate... and see what pragmatic steps we can take to protect ourselves.



1. Fiscal health of the country is clearly in trouble. This is where it is apparent that, even by the government's own phony official statistics, the country is in serious trouble. However the masses are still distracted with "bread and circuses" and are told that everything is fine. Remember the so-called "green shoots" of economic recovery the mainstream media was hyping a couple of years ago?

2. Increasing regulations, inflation, taxes, and police state measures. The sheer amount of current and future US government spending, coupled with the fact that there is no political will to make any meaningful cuts, means that higher inflation and taxes are pretty much a mathematical certainty.

Thanks to a veritable mountain of rules, laws, and regulations, the government can already essentially track and control every penny you earn, save, and spend. The noose continues to get tighter with several states already proposing the registering and tracking of precious metals transactions. And as the Snowden revelations have shown, it would be dangerously foolish to think there is any sort of privacy from the all-encompassing Orwellian surveillance state.

Lastly and most terrifying, are the near daily stories and YouTube videos that emerge showing the out-of-control behavior of the police.

3. Capital controls. If the sheep are to be sheared, they must first be penned in so that they cannot escape. This is exactly the point of capital controls. To lock in the wealth of a country so it cannot escape the shearing that is soon to come. Internationalizing your savings with offshore banking and storing your physical gold in a safe jurisdiction, such as Singapore, are a couple of ways to ensure that you won't get penned in with capital controls.

4. Broad wealth confiscation measures. These are wide-ranging and are usually taken after capital controls have been imposed to prevent wealth from fleeing the slaughter. No matter the method, the net effect is always the same: The government grabs as much capital as it can get away with. This can include an official currency devaluation, measures against precious metals (windfall profits tax, confiscation, nationalization), and so-called haircuts of wealth held in electronic form like bank and brokerage accounts. The best way to protect yourself here is to internationalize your savings into something that is not easily confiscated, such as physical gold held offshore and foreign real estate.

5. Nationalization of retirement savings. It's no secret that a very juicy target for a desperate government is retirement savings. Here the government converts the assets of a retirement account into so-called "safer" government bonds. As with most government measures, it is sold as something that is "for your own good." Already we are hearing whispers from the US government about helping to "manage" retirement savings. This is code for converting retirement investments into US treasuries. You can protect against this by moving your IRA investments offshore and outside the immediate reach of your home government.

6. Price and wage controls. Having a foreign source of cash inflows and setting up an offshore company are good ways to protect yourself and your business against destructive edicts on the prices of goods, services, and labor.

It doesn't take a genius to see that price controls cause shortages—usually in food, energy, and basic necessities. Having a bolt-hole in a relatively sustainable locale helps to mitigate this risk.

7. People controls. Another tool in the desperate government's toolkit is putting restrictions on the movement of its citizens. This is especially true for citizens who have accumulated wealth. Obtaining a second citizenship or legal residency in a foreign country ensures that you will always have another place to potentially call home without having to live like a refugee.

8. Wars to distract the populace. When all else fails, history has shown desperate governments have a tendency to start conflicts to bolster blind nationalism and distract the populace from their failings. All governments treat their citizens like milk cows to varying degrees, but they start treating them like beef cows when they need soldiers for their contrived wars. Again, having a second citizenship or a foreign residency and a bolt-hole far away from the front lines are useful here.

9. Game over. Failed wars usually provide fertile soil for severe civil unrest, revolution, and the potential emergence of a strongman at the helm.

The good news for Americans is that there is still time to take steps to internationalize.

I mentioned earlier that FATCA helps reveal what stage the US is currently at. While the US clearly is at stage #2, it is not quite to stage #3, capital controls. That said, FATCA and other regulations amount to a type of de facto capital controls, so in my humble view, I would rate the US somewhere between #2 and #3.

While there is still an opportunity for you to avoid getting boxed in by a desperate and out-of-control government, nobody knows exactly how much time is left. And once official capital controls are implemented (#3), your wealth is trapped and things tend to unravel pretty quickly.

Developing your internationalization game plan does not mean you have to leave your home country. It is possible to achieve a certain level of international diversification without needing to leave your living room, for example, by opening a foreign bank or brokerage account remotely.

The idea is to create your own personal insurance policy to immunize yourself from the common destructive measures of a desperate government. This is absolutely crucial given the state of the world we live in today. Doug Casey has said over and over, that spreading your political risk beyond one single jurisdiction is the single most important thing he can recommend.



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