The Fall of the West

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In his bestselling book of 1987, The Rise and Fall of Great Powers, historian Paul Kennedy chronicles the rise of western power and its world dominance from 1500 to the present. He reports that the rise was not due to any particular event, nor even an unusual series of events. It was, in fact, neither foreseen nor even recognized until it was already well under way, although it may be accurately ascribed to multiple factors, which Kennedy discusses. The same may be said of the ongoing fall of western power.

Although the decline of the West is rapidly becoming more evident to informed observers of current events, the start of that decline is less easy to pinpoint, in part because it seemed less inevitable and more reversible until quite recently.

Was the high point the Austro-Hungarian Empire? Victorian England? The U.S. Eisenhower administration? Some might date it from the dissolution of the USSR in 1991, marking the beginning of the truncated "New American Century."

That "century" appears to be ending in the manner of so many other powers that fill the pages of Kennedy's book – **through imperial overreach, excessive military spending, lagging economic productivity and competitiveness, and failure to invest in the physical, technical and human resources necessary to remain a dominant power. In short, the West is flagging.**

The signs for this are too evident to ignore.

The industrial base of the West is withering. Post-WWII, the U.S. dominated because it was the only major industrial power to survive unscathed, and its investment in western Europe and Japan increased the wealth of all three.

Over the last half of the 20th century, however, these economies began to shift much of their industry to countries with cheaper labor and more efficient production, such that by the 21st century much of their manufacturing capability had vanished, and they became mainly consumer societies.

2023 has become a watershed year for the power shift, due to dramatic western weaknesses exposed by the Ukraine war. The war revealed that a relatively modest economy (Russia) had the capability to outproduce the U.S. and all the NATO countries combined in war materiel.

The U.S. "arsenal of democracy" and its European partners proved unable to provide more than a fraction of the weapons and ammunition that Russia's factories produced.

Ukrainian soldiers supplied by NATO countries found themselves vastly outnumbered in tanks, artillery, missiles, unmanned and manned aircraft, and even the latest hypersonic and electronic weapons that were arrayed against them in seemingly limitless supply. The U.S. and European NATO partners could only cobble together small numbers of incompatible weapons from their diminishing inventories, and make promises of future deliveries after months or years.

But the U.S. and its allies were not counting on physical weapons alone.

They weaponized the U.S. dollar, through seizures of Russian accounts in U.S., European and other banks totaling more than $300 billion, and through application of economic sanctions, including expulsion of Russian banks from the SWIFT dollar trading system. This also backfired.

First, Russia retaliated by seizing U.S. and European assets within Russia, in equal or greater amounts.

Second, they "pivoted east," negotiating new trading partnerships with China, India and other countries.

Third, they and their new partners, including other targets of U.S. sanctions, began to develop financial agreements to displace or reduce the use of SWIFT. Even countries that had heretofore not been threatened with asset seizure or economic sanctions, like Brazil, South Africa, and Saudi Arabia, joined these agreements, in order to expand their trading base, and as insurance against use of the USD for financial pressure or threats.

The result was that the Russian economy proved astonishingly resilient – moreso even than many of the NATO countries. The Russian GDP fell by less than 2% in 2022 and is expected to rise by up to 2% in 2023, despite the war and sanctions. Russia has opted for a sustainable but inexorable war with less than 1/6 the casualties of Ukraine. Visitors report that it hardly feels like a country at war. The annual St. Petersburg Economic Forum attracted 17,000 participants from 130 countries and concluded 900 deals and contracts worth 3.9 trillion rubles ($46 billion).

The decline of Europe was further illustrated by the consequences of the US bombing of the Nordstream gas pipelines in September, 2022, and the sanctions on Russian natural gas and petroleum products imposed by NATO. Together, these ended the competitiveness of the European economies, which had hitherto thrived on accessibility to cheap Russian fuel. As predicted by Radek Sikorsky, MEP, this meant

> … double-digit inflation, skyrocketing energy prices, and electricity shortage, … Germany will be deindustrialized, … German industries, scientists and engineers will move to the US, who will generously accept them.

And Europe will be set back a couple of decades. Already, most European countries — France, Italy, Spain etc. — have had zero growth in GDP-per-capita for more than a decade. Add in inflation, the standard of living will soon be down 30-40%.

In effect, the U.S. had defeated its NATO "partners" (mainly Germany) and cannibalized their industries for the sake of its own benefit, potentially short-lived.

But the United States believed that its mighty dollar could offset its faded industry and increasingly toothless military – that it could be printed in unlimited amounts without losing value, and could become its most powerful weapon.

The history of this dollar began in 1971, when President Richard Nixon announced that, in effect, the U.S. dollar would no longer be backed by gold, but rather by whatever the dollar could purchase in the U.S., i.e. by the U.S. economy itself. This became widely accepted because a) the U.S. was the world's largest economy, b) the two great international regulatory financial institutions, the World Bank and the International Monetary Fund, were also based on the dollar, and c) nearly all the world's countries outside of the Soviet Union and other socialist societies used the dollar as the reserve currency for their own money. In addition, the world shed fixed exchange rates, with their troublesome periodic revaluations, for floating rates, which generally made the changes more gradual and more stable for the major currencies, and especially the dollar.

The effect of so many dollars circulating so widely was to invest most of the world in protecting its value.

The more a country's non-dollar currency became based on the dollar as its reserve currency, the more the incentive for that country to defend the dollar. Later, as the U.S. began to lose its industry, it came to depend on this value to maintain its economy. It marketed its debt to other countries and "persuaded" other countries to fund U.S. bases on their territories for the purpose of "mutual defense." This is part of the reason the U.S. now has more than 800 military bases worldwide. Although the U.S. national debt is, at time of writing, more than $33 trillion, the U.S. Treasury and the Federal Reserve Board seem to think that they can continue to unload it without limit onto other countries.

Decision makers in the U.S. seem to think that they have found the goose that lays the golden egg: when they need more money, they have only to borrow indefinitely and market their IOUs to buyers, many of whom don't really have the option of saying no. Thus, for example, it used unlimited borrowing to fund without hesitation a very costly Ukraine war by more than $100 billion in 2022 alone, while denying basic services to its own citizens.

But borrowing is not the only way that the U.S. raises funds. Given the stability of the dollar, many countries store or invest them in the U.S. But when a country has a disagreement with the U.S., or chooses a leadership or policies not approved by the U.S., the U.S. is not above confiscating those funds. In 2011, this is what it did with $32 billion of Libyan funds, the largest but by no means the only such confiscation of another nation's funds at that time. Since then, similar confiscations have occurred with Iran, Venezuela, Syria, Afghanistan and other nations. Eclipsing Libya, however, was the confiscation of Russia's $300 billion by the

U.S and its mostly NATO allies, an estimated $100 billion of it by the U.S. alone.

Recently, however, other countries are becoming wary of the U.S. and choosing other options that reduce their participation in what they view as a Mafia-style protection racket as well as their placement of assets in places where they could be confiscated in case of disagreement. As noted earlier, a growing number of countries are opting to either bypass the dollar-based SWIFT system, or to complement it with new agreements where goods are paid in another currency or with multiple currencies. Even Saudi Arabia has begun accepting payment in Chinese Yuan and paying Russia in rubles. In addition, China and other countries have decided to limit or reduce their USD exposure. So far, this has had no appreciable effect on the value of the USD. But if the dollar starts to become less desirable, it may become a questionable investment, in which case the U.S. risks losing its status as a world power – even a modest one. At that point, having demolished German and other European access to cheap fuel, the U.S. will join the rest of the west in its decline, leaving the rising economies of China, India, Brazil, Russia and other countries in Asia, Latin America and possibly Africa to displace them.

Is the Dollar overvalued? By the laws of supply and demand, one could argue that it is not. But it is a fair question when the supply is enormous and growing, and the demand is artificial and coerced. What will happen when the dollar's near monopoly as an exchange medium ends? The dollar has not always been the preeminent tool for pricing international transactions. At the turn of the 20th century, the British pound sterling was literally the gold standard. But the British economy was fading, and the pound continued to fall against both gold and the USD. Now, although it is still a major currency, it is a mere shadow of its former self. If or when the many dollars worldwide come home to claim their true value, we may discover that they buy little more than castles of sand.

When world power has shifted elsewhere, the U.S., Great Britain, Germany, France and the entire West may come to depend for glory upon their historical and cultural treasures, like the ones of other bygone civilizations that western tourists once visited so widely.

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