# The Changing World Order

Published on March 25, 2020 By Ray Dalio

I believe that the times ahead will be radically different from the times we have experienced so far in our lifetimes, though similar to many other times in history.

I believe this because about 18 months ago I undertook a study of the rises and declines of empires, their reserve currencies, and their markets, prompted by my seeing a number of unusual developments that hadn’t happened before in my lifetime but that I knew had occurred numerous times in history. Most importantly, I was seeing the confluence of 1) high levels of indebtedness and extremely low interest rates, which limits central banks’ powers to stimulate the economy, 2) large wealth gaps and political divisions within countries, which leads to increased social and political conflicts, and 3) a rising world power (China) challenging the overextended existing world power (the US), which causes external conflict.  The most recent analogous time was the period from 1930 to 1945.  This was very concerning to me.

As I studied history, I saw that this confluence of events was typical of periods that existed as roughly 10- to 20-year transition phases between big economic and political cycles that occurred over many years (e.g., 50-100 years).  These big cycles were comprised of swings between 1) happy and prosperous periods in which wealth is pursued and created productively and those with power work harmoniously to facilitate this and 2) miserable, depressing periods in which there are fights over wealth and power that disrupt harmony and productivity and sometimes lead to revolutions/wars. These bad periods were like cleansing storms that got rid of weaknesses and excesses, such as too much debt, and returned the fundamentals to a sounder footing, albeit painfully. They eventually caused adaptations that made the whole stronger, though they typically changed who was on top and the prevailing world order.

The answers to this question can only be found by studying the mechanics behind similar cases in history—the 1930-45 period but also the rise and fall of the British and Dutch empires, the rise and fall of Chinese dynasties, and others—to unlock an understanding of what is happening and what is likely to happen [[1]](http://applewebdata/EC71FD4E-7F39-4790-92B3-9306E93CE958#_ftn1). That was the purpose of this study.  Then the pandemic came along, which was another one of those big events that never happened to me but happened many times before my lifetime that I needed to understand better.

**My Approach**

While it might seem odd that an investment manager who is required to make investment decisions on short time frames would pay so much attention to long-term history, through my experiences I have learned that I need this perspective to do my job well.  My biggest mistakes in my career came from missing big market moves that hadn’t happened in my lifetime but had happened many times before.  These mistakes taught me that I needed to understand how economies and markets have worked throughout history and in faraway places so that I could learn the timeless and universal mechanics underlying them and develop timeless and universal principles for dealing with them well.

The first of these big surprises for me came in 1971 when I was 22 years old and clerking on the floor of the New York Stock Exchange as a summer job.  On a Sunday night, August 15, 1971, President Nixon announced that the US would renege on its promise to allow paper dollars to be turned in for gold.  This led the dollar to plummet.  As I listened to Nixon speak, I realized that the US government had defaulted on a promise and that money as we knew it had ceased to exist.  That couldn’t be good, I thought.  So on Monday morning I walked onto the floor of the exchange expecting pandemonium as stocks took a dive. There was pandemonium all right, but not the sort I expected.  Instead of falling, the stock market jumped about 4 percent.  I was shocked.  That is because I hadn’t experienced a currency devaluation before.  In the days that followed, I dug into history and saw that there were many cases of currency devaluations that had similar effects on stock markets.  By studying further, I figured out why, and I learned something valuable that would help me many times in my future.  It took a few more of those painful surprises to beat into my head the realization that I needed to understand all the big economic and market moves that had happened in the last 100+ years and in all major countries.

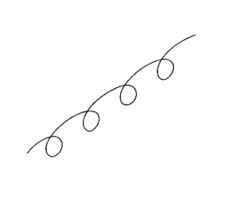
In other words, if some big and important event had happened in the past (like the Great Depression of the 1930s), I couldn’t say for sure that it wouldn’t happen to me, so I had to figure out how it worked and be prepared to deal with it well. Through my research I saw that there were many cases of the same type of thing happening (e.g., depressions) and that by studying them just like a doctor studies many cases of a particular type of disease, I could gain a deeper understanding of how they work.  The way I work is to study as many of the important cases of a particular thing I can find and then to form a picture of a typical one, which I call an archetype. The archetype helps me see the cause-effect relationships that drive how these cases typically progress. Then I compare how the specific cases transpire relative to the archetypical one to understand what causes the differences between each case and the archetype.  This process helps me refine my understanding of the cause-effect relationships to the point where I can create decision-making rules in the form of “if/then” statements—i.e., if X happens, then make Y bet. Then I watch actual events transpire relative to that template and what we are expecting.  I do these things in a very systematic way with my partners at Bridgewater Associates [[1a]](http://applewebdata/D016C6C0-BCB3-4509-A627-C76230716BB1#_ftn1). If events are on track we continue to bet on what typically comes next, and if events start to deviate we try to understand why and course correct.

My approach is not an academic one created for scholarly purposes; it is a very practical one that I follow in order to do my job well.  You see, as a global macro investor, the game I play requires me to understand what is likely to happen to economies better than the competition does.  From my years of wrestling with the markets and trying to come up with principles for doing it well, I’ve learned that 1) one’s ability to anticipate and deal well with the future depends on one’s understanding of the cause-effect relationships that make things change and 2) one’s ability to understand these cause-effect relationships comes from studying how they have played out in the past.  How practical this approach has been can be measured in Bridgewater’s performance track record over several decades.

**This Approach Affects How I See Everything**

Having done many such studies in pursuit of timeless and universal principles, I’ve learned that most things—e.g., prosperous periods, depressions, wars, revolutions, bull markets, bear markets, etc.—happen repeatedly through time.  They come about for basically the same reasons, typically in cycles, and often in cycles that are as long as or longer than our lifetimes.  This has helped me come to see most everything as “another one of those,” just like a biologist, upon encountering a creature in the wild, would identify what species (or “one of those”) the creature belongs to, think about how that species of thing works, and try to have and use timeless and universal principles for dealing with it effectively.

Seeing events in this way helped shift my perspective from being caught in the blizzard of things coming at me to stepping above them to see their patterns through time.[[2]](http://applewebdata/D016C6C0-BCB3-4509-A627-C76230716BB1#_ftn2) The more related things I could understand in this way, the more I could see how they influence each other—e.g., how the economic cycle works with the political one—and how they interact over longer periods of time.  I also learned that when I paid attention to the details I couldn’t see the big picture and when I paid attention to the big picture I couldn’t see the details.  Yet in order to understand the patterns and the cause-effect relationships behind them, I needed to see with a higher-level, bigger-picture perspective and a lower-level, detailed perspective simultaneously, looking at the interrelationships between the most important forces over long periods of time.  To me it appears that most things evolve upward (improve over time) with cycles around them, like an upward-pointing corkscrew:



For example, over time our living standards rise because we learn more, which leads to higher productivity, but we have ups and downs in the economy because we have debt cycles that drive actual economic activity up and down around that uptrend.

I believe that the reason people typically miss the big moments of evolution coming at them in life is that we each experience only tiny pieces of what’s happening.  We are like ants preoccupied with our jobs of carrying crumbs in our minuscule lifetimes instead of having a broader perspective of the big-picture patterns and cycles, the important interrelated things driving them, and where we are within the cycles and what’s likely to transpire. From gaining this perspective, I’ve come to believe that there are only a limited number of personality types going down a limited number of paths that lead them to encounter a limited number of situations to produce only a limited number of stories that repeat over time.[[3]](http://applewebdata/D016C6C0-BCB3-4509-A627-C76230716BB1#_ftn3)

The only things that change are the clothes the characters are wearing and the technologies they’re using.

**This Study & How I Came to Do It**

One study led to another that led me to do this study.  More specifically:

* Studying money and credit cycles throughout history made me aware of the long-term debt cycle (which typically lasts about 50-100 years), which led me to view what is happening now in a very different way than if I hadn’t gained that perspective.  For example, before interest rates hit 0% and central banks printed money and bought financial assets in response to the 2008-09 financial crisis I had studied that happening in the 1930s, which helped us navigate that crisis well.  From that research, I also saw how and why these central bank actions pushed financial asset prices and the economy up, which widened the wealth gap and led to an era of populism and conflict.  We are now seeing the same forces at play in the post-2009 period.
* In 2014, I wanted to forecast economic growth rates in a number of countries because they were relevant to our investment decisions.  I used the same approach of studying many cases to find the drivers of growth and come up with timeless and universal indicators for anticipating countries’ growth rates over 10-year periods.  Through this process, I developed a deeper understanding of why some countries did well and others did poorly.  I combined these indicators into gauges and equations that we use to produce 10-year growth estimates across the 20 largest economies.  Besides being helpful to us, I saw that this study could help economic policy makers because, by seeing these timeless and universal cause-effect relationships, they could know that if they changed X, it would have Y effect in the future.  I also saw how these 10-year leading economic indicators (such as the quality of education and the level of indebtedness) were worsening for the US relative to big emerging countries such as China and India.  This study is called “Productivity and Structural Reform: Why Countries Succeed and Fail, and What Should Be Done So Failing Countries Succeed.”
* Soon after the Trump election in 2016 and with increases in populism in developed countries becoming more apparent, I began a study of populism.  That highlighted for me how gaps in wealth and values led to deep social and political conflicts in the 1930s that are similar to those that exist now.  It also showed me how and why populists of the left and populists of the right were more nationalistic, militaristic, protectionist, and confrontational—and what such approaches led to.  I saw how strong the conflict between the economic/political left and right could become and the strong impact this conflict has on economies, markets, wealth, and power, which gave me a better understanding of events that were and still are transpiring.
* From doing these studies, and from observing numerous things that were happening around me, I saw that America was experiencing very large gaps in people’s economic conditions that were obscured by looking only at economic averages. So I divided the economy into quintiles—i.e., looking at the top 20% of income earners, the next 20%, and so on down to the bottom 20%—and examined the conditions of these populations individually.  This resulted in two studies.  In “Our Biggest Economic, Social, and Political Issue: The Two Economies—The Top 40% and the Bottom 60%,” I saw the dramatic differences in conditions between the “haves” and the “have-nots,” which helped me understand the greater polarity and populism I saw emerging.  Those findings, as well as the intimate contact my wife and I were having through her philanthropic work with the reality of wealth and opportunity gaps in Connecticut communities and their schools, led to the research that became my “Why and How Capitalism Needs to Be Reformed” study.
* At the same time, through my many years of international dealings in and research of other countries, I saw huge global economic and geopolitical shifts taking place, especially in China.  I have been going to China a lot over the last 35 years and am lucky enough to have become well-acquainted with its top policy makers.  This has helped me see up close how remarkable the advances in China have been and how excellent the capabilities and historical perspectives that were behind them are.  These excellent capabilities and perspectives have led China to become an effective competitor with the US in production, trade, technology, geopolitics, and world capital markets.

So, what you are now reading came about because of my need to understand important things that are now happening that hadn’t happened in my lifetime but have happened many times before that.  These things are the result of three big forces and the questions they prompt.

**1) THE LONG-TERM MONEY AND DEBT CYCLE**

At no point in our lifetimes have interest rates been so low or negative on so much debt as they are today.  At the start of 2020, more than $10 trillion of debt was at negative interest rates and an unusually large amount of additional new debt will soon need to be sold to finance deficits.  This is happening at the same time as huge pension and healthcare obligations are coming due.  These circumstances raised some interesting questions for me.  Naturally I wondered why anyone would want to hold debt yielding a negative interest rate and how much lower interest rates can be pushed.  I also wondered what will happen to economies and markets when they can’t be pushed lower and how central banks could be stimulative when the next downturn inevitably came.  Would central banks print a lot more currency, causing its value to go down? What would happen if the currency that the debt is denominated in goes down while interest rates are so low?  These questions led me to ask what central banks will do if investors flee debt denominated in the world’s reserve currencies (i.e., the dollar, the euro, and the yen), which would be expected if the money that they are being paid back in is both depreciating in value and paying interest rates that are so low.

In case you don’t know, a reserve currency is a currency that is accepted around the world for transactions and savings. The country that gets to print the world’s primary currency (now the US) is in a very privileged and powerful position, and debt that is denominated in the world’s reserve currency (i.e., US dollar-denominated debt) is the most fundamental building block for the world’s capital markets and the world’s economies.  It is also the case that all reserve currencies in the past have ceased to be reserve currencies, often coming to traumatic ends for the countries that enjoyed this special privilege.  So I also began to wonder whether, when, and why the dollar will decline as the world’s leading reserve currency—and how that would change the world as we know it.

**2) THE DOMESTIC WEALTH AND POWER CYCLE**

Wealth, values, and political gaps are now larger than at any other time during my lifetime.  By studying the 1930s and other prior eras when polarity was also high, I’ve learned that which side wins out (i.e., left or right) will have very big impacts on economies and markets.  So naturally I wondered what these gaps will lead to in our time.  My examinations of history have taught me that, as a principle, when wealth and values gaps are large and there is an economic downturn, it is likely that there will be lot of conflict about how to divide the pie. How will people and policy makers be with each other when the next economic downturn arrives? I am especially concerned because of the previously mentioned limitations on central banks’ abilities to cut interest adequately to stimulate the economy.  In addition to these traditional tools being ineffective, printing money and buying financial assets (now called “quantitative easing”) also widen the wealth gap because buying financial assets pushes up their prices, which benefits the wealthy who hold more financial assets than the poor.

**3)  THE INTERNATIONAL WEALTH AND POWER CYCLE**

For the first time in my lifetime, the United States is encountering a rival power.  China has become a competitive power to the United States in a number of ways and is growing at a faster rate than the US.  If trends continue, it will be stronger than the United States in most of the most important ways that an empire becomes dominant.  (Or at the very least, it will become a worthy competitor.)  I have seen both countries up close for most of my life, and I now see how conflict is increasing fast, especially in the areas of trade, technology, geopolitics, capital, and economic/political/social ideologies.  I can’t help but wonder how these conflicts, and the changes in the world order that will result from them, will transpire in the years ahead and what effects that will have on us all.

The confluence of these three factors piques my curiosity and most draws my attention to similar periods such as the 1930-45 period and numerous others before that. More specifically, in 2008-09 like in 1929-32, there were serious debt and economic crises.  In both cases, interest rates hit 0% which limited central banks’ ability to use interest rate cuts to stimulate the economy, so, in both cases, central banks printed a lot of money to buy financial assets which, in both cases, caused financial asset prices to rise and widened the wealth gap.  In both periods, wide wealth and income gaps led to a high level of political polarization that took the form of greater populism and battles between ardent socialist-led populists of the left and ardent capitalist-led populists of the right.  These domestic conflicts stewed while emerging powers (Germany and Japan in the 1930s) increasingly challenged the existing world power.  And finally, just like today, the confluence of these factors meant that it was impossible to understand any one of them without also understanding the overlapping influences among them.

As I studied these factors, I knew that the short-term debt cycle was getting late and I knew that a downturn would eventually come.  I did not expect the global pandemic to be what brought it about, though I did know that past pandemics and other acts of nature (like droughts and floods) have sometimes been important contributors to these seismic shifts.

To gain the perspective I needed about these factors and what their confluence might mean, I looked at the rises and declines of all the major empires and their currencies over the last 500 years, focusing most closely on the three biggest ones: the US empire and the US dollar which are most important now, the British Empire and the British pound which were most important before that, and the Dutch Empire and the Dutch guilder before that.  I also focused less closely on the other six other significant, though less dominant, empires of Germany, France, Russia, Japan, China, and India.  Of those six, I gave China the most attention and looked at its history back to the year 600 because 1) China was so important throughout history, it’s so important now, and it will likely be even more important in the future and 2) it provides many cases of dynasties rising and declining to look at to help me better understand the patterns and the forces behind them.  In these cases, a clearer picture emerged of how other influences, most importantly technology and acts of nature, played significant roles.  From examining all these cases across empires and across time, I saw that important empires typically lasted roughly 250 years, give or take 150 years, with big economic, debt, and political cycles within them lasting about 50-100 years.  By studying how these rises and declines worked individually, I could see how they worked on average in an archetypical way, and then I could examine how they worked differently and why.  Doing that taught me a lot. My challenge is in trying to convey it well.

**Remember That What I Don’t Know Is Much Greater Than What I Know**

In asking these questions, from the outset I felt like an ant trying to understand the universe.  I had many more questions than answers, and I knew that I was delving into numerous areas that others have devoted their lives to studying.  So I aggressively and humbly drew on knowledge of some remarkable scholars and practitioners, who each had in-depth perspectives on some piece of the puzzle, though none had the holistic understanding that I needed in order to adequately answer all my questions.  In order to understand all the cause-effect relationships behind these cycles, I combined my triangulation with historians (who specialized in different parts of this big, complicated history) and policy makers (who had both practical experiences and historical perspectives) with an examination of statistics drawn out of ancient and contemporary archives by my excellent research team and by reading a number of superb books on history.

While I have learned an enormous amount that I will put to good use, I recognize that what I know is still only a tiny portion of what I’d like to know in order to be confident about my outlook for the future.  Still, I also know from experience that if I waited to learn enough to be satisfied with my knowledge, I’d never be able to use or convey what I have learned.  So please understand that while this study will provide you with my very top-down, big-picture perspective on what I’ve learned and my very low-confidence outlook for the future, you should approach my conclusions as theories rather than facts.  But please keep in mind that even with all of this, I have been wrong more times than I can remember, which is why I value diversification of my bets above all else. So, whenever I provide you with what I think, as I’m doing in this study, please realize that I’m just doing the best I can to openly convey to you my thinking.

It’s up to you to assess for yourself what I’ve learned and do what you like with it.

**How This Study Is Organized**

As with all my studies, I will attempt to convey what I learned in both a very short, simple way and in a much longer, more comprehensive way.  To do so, I wrote this book in two parts.

Part 1 summarizes all that I learned in one very simplified archetype of the rises and declines of empires, drawing from all my research of specific cases.  In order to make the most important concepts easy to understand, I will write in the vernacular, favoring clarity over precision.  As a result, some of my wording will be by and large accurate but not always precisely so. (I will also highlight key sentences in bold so that you can just read these and skip the rest to quickly get the big picture.)  I will first distill my findings into an index of total power of empires, which provides an overview of the ebbs and flows of different powers that is constituted from eight indexes of different types of power.  Then I go into an explanation of these different types of power so you can understand how they work, and finally I discuss what I believe it all means for the future.

Part 2 shows all the individual cases in greater depth, sharing the same indices for all the major empires over the last 500 years.  Providing the information this way allows you to get the gist of how I believe these rises and declines work by reading Part 1 and then to choose whether or not to go into Part 2 to see these interesting cases individually, in relation to each other, and in relation to the template explained in Part 1.  I suggest that you read both parts because I expect that you will find the grand story of the evolutions of these countries over the last 500 years in Part 2 fascinating.  That story presents a sequential picture of the world’s evolution via the events that led the Dutch empire to rise and decline into the British Empire, the British Empire to rise and decline into the US Empire, and the US Empire to rise and enter its early decline into the rise of the Chinese Empire.  It also compares these three empires with those of Germany, France, Russia, Japan, China, and India.  As you will see in the examinations of each of them, they all broadly followed the script, though not exactly.  Additionally, I expect that you will find fascinating and invaluable the stories of the rises and declines of the Chinese dynasties since the year 600 just like I did.  Studying the dynasties showed me what in China has been similar to the other rises and declines (which is most everything), helped me to see what was different (which is what makes China different from the West), and gave me an understanding of the perspectives of the Chinese leaders who all study these dynasties carefully for the lessons they provide.

Frankly, I don’t know how I’d be able to navigate what is happening now and what will be coming at us without having studied all this history.  But before we get into these fascinating individual cases, let’s delve into the archetypical case.

**IMPORTANT DISCLOSURES**

Information contained herein is only current as of the printing date and is intended only to provide the observations and views of Bridgewater Associates, L.P. (“Bridgewater”) as of the date of writing unless otherwise indicated. Bridgewater has no obligation to provide recipients hereof with updates or changes to the information contained herein. Performance and markets may be higher or lower than what is shown herein and the information, assumptions and analysis that may be time sensitive in nature may have changed materially and may no longer represent the views of Bridgewater. Statements containing forward-looking views or expectations (or comparable language) are subject to a number of risks and uncertainties and are informational in nature. Actual performance could, and may have, differed materially from the information presented herein. Past performance is not indicative of future results.

Bridgewater research utilizes data and information from public, private and internal sources, including data from actual Bridgewater trades. Sources include, the Australian Bureau of Statistics, Barclays Capital Inc., Bloomberg Finance L.P., CBRE, Inc., CEIC Data Company Ltd., Consensus Economics Inc., Corelogic, Inc., CoStar Realty Information, Inc., CreditSights, Inc., Credit Market Analysis Ltd., Dealogic LLC, DTCC Data Repository (U.S.), LLC, Ecoanalitica, EPFR Global, Eurasia Group Ltd., European Money Markets Institute – EMMI, Factset Research Systems, Inc., The Financial Times Limited, GaveKal Research Ltd., Global Financial Data, Inc., Haver Analytics, Inc., The Investment Funds Institute of Canada, Intercontinental Exchange (ICE), International Energy Agency, Lombard Street Research, Markit Economics Limited, Mergent, Inc., Metals Focus Ltd, Moody’s Analytics, Inc., MSCI, Inc., National Bureau of Economic Research, Organisation for Economic Cooperation and Development, Pensions & Investments Research Center, Refinitiv, Renwood Realtytrac, LLC, RP Data Ltd, Rystad Energy, Inc., S&P Global Market Intelligence Inc., Sentix Gmbh, Spears & Associates, Inc., State Street Bank and Trust Company, Sun Hung Kai Financial (UK), Tokyo Stock Exchange, United Nations, US Department of Commerce, Wind Information (Shanghai) Co Ltd, Wood Mackenzie Limited, World Bureau of Metal Statistics, and World Economic Forum. While we consider information from external sources to be reliable, we do not assume responsibility for its accuracy.

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of Bridgewater ® Associates, LP.

©2020 Bridgewater Associates, LP. All rights reserved

[[1]](http://applewebdata/EC71FD4E-7F39-4790-92B3-9306E93CE958#_ftnref1) To be clear, while I am describing these cycles of the past, I’m not one of those people who believe that what happened in the past will necessarily continue into the future without understanding the cause-effect mechanics that drive changes.  My objective above all else is to have you join with me in looking at the cause-effect relationships and then to use that understanding to explore what might be coming at us and agree on principles to handle it in the best possible way.

[[1a]](http://applewebdata/D016C6C0-BCB3-4509-A627-C76230716BB1#_ftnref1) For example, I have followed this approach for debt cycles because I’ve had to navigate many of them over the last 50 years and they are the most important force driving big shifts in economies and markets.  If you are interested in understanding my template for understanding big debt crises and seeing all the cases that made it up, you can get Principles for Navigating Big Debt Crises in free digital form at www.economicprinciples.org or in print form for sale in bookstores or online.  It was that perspective that allowed Bridgewater to navigate the 2008 financial crisis well when others struggled.  I’ve studied many big, important things (e.g., depressions, hyperinflation, wars, balance of payments crises, etc.) by following this approach, usually because I was compelled to understand unusual things that appeared to be germinating around me.

[[2]](http://applewebdata/D016C6C0-BCB3-4509-A627-C76230716BB1#_ftnref2)I approach seeing just about everything this way.  For example, in building and running my business, I had to understand the realities of how people think and learn principles for dealing with these realities well, which I did using this same approach.  If you are interested in what I learned about such non-economic and non-market things, I conveyed it in my book Principles: Life and Work, which is free in an app called “Principles in Action” available on the Apple App Store or is for sale in the usual bookstores.

[[3]](http://applewebdata/D016C6C0-BCB3-4509-A627-C76230716BB1#_ftnref3)In my book Principles: Life and Work, I shared my thinking about these different ways of thinking.  I won’t describe them here but will direct you there should you be interested.