MacroVoices Episode 547

Feature Interview with Daniel LaCalle

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Daniel: Governments have surpassed all of the limits that give them credibility to maintain their debt as a reserve of value. And those limits are the economic limit, the fiscal limit, and the inflationary limit.

Erik: That was Tress' chief economist, Daniel Lacalle. I'm Eric Townsend, and this is Macro Voices, the free weekly podcast targeting professional finance and sophisticated private investors.

Episode 547 was pre-recorded earlier in August of 2026. The US dollar has been the world's reserve currency since the end of World War II, but nothing lasts forever. So what would it take for the US dollar to be displaced from its role as global reserve currency? And if that ever happens, what will it mean for markets?

Daniel and I will tackle that question in this week's feature interview. Our team is on summer holiday break, so there won't be any post-game segment this week or next. We'll be back to our regular format on September 10th. Joining me now is Daniel Lacalle, chief economist and fund manager for Tressis.

Daniel, it's great to get you back on the show. I think we need to take a step back and talk about a topic that has been discussed, frankly, for 10 or 20 years, but it was only discussed by crazy people in the beginning, and that's the question of US dollar reserve currency status. Nothing lasts forever.

Reserve currencies only last about 100 years. We're overdue for a change. Let's talk about that. What are the trends in reserve currency? What are the factors that are causing people to question whether or not the US dollar should stay the reserve currency? And how real is the risk of a change to where the US dollar doesn't stay the real reserve currency?

Daniel: Thank you so much for the opportunity to talk about this because a lot of people don't understand what money is. The concept of money, the way that we understand it, i.e., state-issued money, is predominantly state-owned debt. It's government debt. So what happens is that when governments issue debt, central banks all over the world use that debt as a reserve asset.

That idea that the sovereign debt is the asset of lowest risk and the first recourse in the financial system has been a relatively new, but because we have lived in that environment, we tend to believe that is what has happened always, and that is not the case. So the reason why there was this entrenched view among many citizens and investors about the fact that governments can issue as much debt as they want and nothing happens, and that the 2008 crisis, 2011 crisis, and 2020 crisis showed that it's governments that actually can bring stability to the economy, is actually the opposite.

So no, governments cannot issue all of the debt that they want, and certainly cannot issue all the currency that they want. Why? Because currency, at the end of the day, is an IOU in which the government basically is demonstrating its credit credibility. It's the capacity of the state to issue a currency that is widely perceived by citizens as a reserve of value, unit of measure, and generalized mean of payment However, post the 2016, 2016, '17 idea of a, of an allegedly eternal growth in debt that would have no significant repercussions because inflation was not a risk, we found ourselves in the 2020, 2021 period in which all limits were exceeded.

And the limits that governments have in terms of issuing currency, i.e. issuing debt, are three. The first is the economic limit, which shows that despite increasing indebtedness and, i.e., stimulating the economy does not grow, productivity growth stagnates, and debt continues to rise faster than GDP.

The second one is the fiscal limit, the one in which governments all over the world f- have found themselves, particularly since 2011, which is that more taxes and higher stimulus packages generate a much worse fiscal situation. Deficits continue to rise, those deficits become unsustainable, and the burden of interest expense in the budget of governments rises to levels that become incredibly dangerous, even with central banks supporting and keeping rates at a low level and obviously with central banks making purchases of sovereign assets.

And the third one is the inflationary limit, which was clearly exceeded in 2020, 2021, when that monetary excess led to an abrupt increase in inflation all over the world, but particularly In those economies that were bragging about the idea that they could increase money supply and debt without any inflationary impact.

So just to summarize, governments have surpassed all of the limits that give them credibility to maintain their debt as a reserve of value, and those limits are the economic limit, the fiscal limit, and the inflationary limit.

Erik: Daniel, the whole idea of reserve currency is that major nations around the world have to have essentially a piggy bank, a, a savings account for a rainy day in case their currency is attacked.

They call those reserve assets, hence the name reserve currency is the currency in which those reserve assets are normally denominated, and there's no real rule about that. Sometimes there's been periods in history where everybody's using the same reserve asset denominated in the same currency. There's other times in history when it's been a shift, and there's been a collection.

What are the factors that cause changes in what the reserve currency is, and why does this seem to be changing now?

Daniel: The factors that make a reserve currency are usually the perception that the economy, that the issuer of that currency are going to be very stable, strong, and providing a real economic return throughout time, i.e.,

for example, in treasuries, when it's widely perceived that holding treasuries will help you navigate the volatility of financial markets as well as volatile macroeconomic environments with a return that exceeds that of inflation over time A reserve asset is one in which central banks all over the world perceive that it provides stability and it provides strength to their own domestic currency.

So the issuer of a domestic currency in, for example, an emerging market, holds more dollars, more euros in order to prop up the strength of the domestic currency and maintain its stability and reduce the level of inflation. Ultimately, it is what historically was the role of gold in global economies was changed to the role of global developed economies' debt, that, that kind of debt that provides stability, strength, and at least small real returns over time.

What makes a change is what many people understand is loss of confidence. But when we hear loss of confidence in the US dollar or in the euro or in whatever currencies, very few people can pin what that loss of confidence means. And ultimately, what it means is that holding the long-term debt of these countries is generating losses in real terms, and sometimes in nominal terms.

That's why you lose confidence in that instrument, and with it, lose confidence in the currency

Erik: Daniel, let's talk about how the world is changing, 'cause the whole idea here behind reserve currencies and having them is that if we've got a system where a whole bunch of different countries each have their own currency, and they need to be able to defend that currency if it gets attacked by buying their own currency with US dollars they gotta have US dollars.

The whole idea is based on the assumption that this system is all a bunch of different fiat currencies. As we're seeing cryptocurrency gain traction, sovereign digital currency being discussed more and more, CBDCs and so forth, it seems to me like we've gotta question the fundamental premise of a reserve currency.

Is having a reserve of paper cash or of paper currency, a fiat currency to go buy some other currency with, is that really what you're going to need to defend a currency system in a 21st century attack? Or maybe it's not about what it used to be about.

Daniel: Certainly. I think that the reason why people find it difficult to understand how can we move to a system in which there can be multiple currencies that are not issued by states is because in, in a very short period of time, in the past 60 s- 60 years in particular, we're...

What we have grown accustomed to is a centralized financial system. We are used to the idea of state-owned currencies that are controlled by central banks, and those central banks basically perpetuate this idea that the lowest risk asset in the balance sheet of commercial banks is the local sovereign currency.

Why is this changing? This is changing because we are starting to get used to the view that The financial system and that the monetary system does not need to be centralized. That is purely a political construct. More importantly, what we have seen is that developed economies, governments have exceeded those three limits that I mentioned prior, the economic, the fiscal, and the inflationary limit.

What many citizens, investors, and central banks globally are starting to question is the fundamental idea of centralized financial systems with one or two maximum, maybe three reserve currencies. And the reason for it is because what many of those central banks are starting to understand is that it is better to look at options of strengthening their own currency through decentralization than through higher centralization, which is basically the dollar dominance that we have seen in the past 60 years.

Why the increase in this idea of the central bank digital currency? It obviously shows that many central banks are panicking. Many central banks, like the European Central Bank, are panicking about the risk of losing the role as reserve currency, are panicking about the risk of seeing that their currency may not be a preferred one in the future and therefore want to impose it.

And the central bank digital currency is exactly the opposite of a cryptocurrency. A cryptocurrency is a fully decentralized asset that cannot be confiscated and that is completely detached from this monetary system of state issuing money and central banks centralizing that process throughout the financial world.

The... So on the one hand, you have some central banks that are exceedingly concerned about the increase of competition, albeit be it a, a very limited competition, obviously, as the market cap of Bitcoin and the cryptocurrencies is exceedingly small compared to the market cap of fiat currencies. But also, they have looked at that risk or at that challenge from different perspectives.

In the case of the European Union, the European Central Bank seems to be exceedingly concerned about the risk of losing positions as a, a world reserve currency. In fact, what we have seen in the past years is that the euro has lost the second place as a reserve asset in central banks' balance sheets in favor of gold.

Imposing a central bank digital currency is basically trying to impose the utilization of the currency at any cost using digital means. In the case of the United States, it seems that the US administration under President Trump has a different perspective. It seems that they are looking at the opportunity created by stablecoins and by cryptocurrencies in order to cement the position of the United States dollar as the world reserve currency.

They believe that bringing the investment and the use of cryptocurrencies to the United States and creating within the United States the global capital of crypto assets, that will actually lead to a higher utilization of the US dollar, because obviously in monetary terms we always need to think of two sides.

One side would be all of those cryptocurrencies, but the other side would be the US dollar. So it's interesting that we see the European Central Bank looking at the challenge of crypto assets from a, from an imposition perspective, while we see the United States government banning central bank digital currencies And forcing a sort of new paradigm in which the US dollar would be the sort of godfather of the revolution in crypto assets.

Erik: Let's talk more about how this is evolving on the political stage, because I think that's the key to it. It seems to me like before the current presidential administration, things were pretty much on track the way I expected them to go, which is that governments would eventually realize that cryptocurrency presents an existential threat to governments', monopoly over the, the monetary system and their ability to issue money.

I assumed, and as did most smart people, that governments would resist that. Then, at least the way I perceive this, you know, President Trump took office, somebody probably said, "Mr. President, we've got this cryptocurrency thing. It threatens the US government's monopoly over the global financial system.

We can't allow this to continue." To which he responded yeah, but look my, my son Don Junior's got a Bitcoin business, so it's fine. All we're gonna do i- is totally embrace it and dive into it, and we'll just outlaw central bank digital currency and solve the problem that way." And I do think that there may be more nuance to this issue than the president fully understands, but he's the president.

I'm not, you're not. Seems like he's in charge, and he's basically saying, "We're going to have a government-sponsored embrace crypto, embrace Bitcoin, and specifically intentionally have a government..." What I think is a, a form of self-inflicted wound on the government may be a good one to say, "The government shouldn't be in the central bank digital currency business.

We're going to stay out of it." I don't think anybody else in terms of political leadership besides President Trump feels that way. So how does this play out?

Daniel: It's very interesting. I think it's going to play out by example, who will actually succeed. No? The, the experiment of central bank digital currency so far all over the world has been an absolute disaster.

It is true that it's happened mostly in countries that one would imagine would find the experiment unsuccessful. But we must understand what a central bank digital currency is, and fundamentally it means that the privacy that citizens enjoy with their money is... may be at risk completely because one would hold the account in the central bank.

So the central bank Would have access to all of our information about what we consume, what we invest, what we spend, what we owe, etc. All those factors are exceedingly concerning because it happens at the same time as we globally are seeing a very logical loss of confidence in the independence of central banks because they historically have sided with the increased imbalances from governments.

They have historically been more relaxed about inflationary pressures than about maintaining the excessive government spending and excessive debt. So with lack of confidence in the independence of central banks, and at the same time, the risks to independence and to privacy that central bank digital currency entails, we must understand that there's a logic in the position of the Trump administration.

The Trump administration sees central bank digital currencies as a threat to freedom of speech, freedom in general for people, because obviously if the central bank was to find that somebody was making negative comments ab- about something that they don't like in social media, they could use, huh, money to repress people.

The Trump administration sees central bank digital currencies as surveillance disguised as money and as a tool of state repression, while others see those central bank digital currencies as the solution to the challenges created by the last three, four episodes of monetary expansion. So what they are basically trying to do is to accelerate the pace of the transmission mechanism of monetary policy, which ultimately means that the banking channel as we know it, and the level of, let's say, privacy of the banking channel as we know it, would be completely abandoned, allegedly in favor of a more let's say, robust impact of expansionary monetary policies in periods of crisis, which is obviously very dangerous when governments have exceeded the inflationary limit that we mentioned before.

Because that means that the risk of creating a lot more inflation and quicker is not small. But the risk of trying to combat that inflationary burst with the destruction of the savings of the people that have those digital currencies in the central bank is also significant. The use of money from a negative standpoint for savings and for those that want to be prudent in periods of uncertainty

Erik: Daniel, let's go deeper on stablecoins, 'cause I think they're gonna play a really important role in how this story unfolds.

What everybody has assumed, or at least th- the widest held view that I've encountered on the question of why is the US dollar still the global reserve currency, the answer I get most consistently from the smartest people I know is because there is no viable alternative. There simply is no market in the world that's as deep and liquid as the US Treasury market for absorbing central bank-sized cash flows.

That's the reason that we're basically stuck with the US dollar. There is no way to change the global reserve currency because there is no market that has the depth and liquidity of the US Treasury market. Hang on a second, Daniel. If we're going to have a trend, which I think is already underway, where people stop transacting primarily in US Treasuries and they start using stablecoins instead, the stablecoins are backed by US Treasuries.

Okay, guess what? You've just changed the system to where you're exactly one computer programmer epiphany away from having a viable replacement for the US dollar as the global financial system. And the way you do that is if everybody's transacting stablecoins, if that's where the flow is and what they're backed by is US dollars, you just announce that you're going to change what they're backed by one day from US dollars to something else.

Everybody's still transacting the stablecoins. That's where you provide the viable replacement for the US dollar as global reserve currency and change it. So I think potentially stablecoins provide the not the new currency system, but the easy way of transition from the old to the new that people couldn't see previously.

Daniel: I think it's a great point, and it's also something that forces the US government and the US Federal Reserve to be prudent and to defend the US dollar as a reserve asset, as a world reserve currency, and as a mean of payment, generalized mean of payment as a unit of measure and a reserve of value. So I think that is very good.

I think that is absolutely correct that stablecoins are the, the bridge that takes us from the old to the new. And if the United States government wants to maintain the US dollar as a world reserve currency in the new system, it needs to embrace the view of maintaining the US dollar through the example of its value as a reserve asset by being prudent with monetary and fiscal policy, and instead of trying to disguise the imbalances generated by government, place the purchasing power of the currency as the most important factor in order to keep that stability.

If not, as you very well say, stablecoins may very well be the bridge that takes us from a fully centralized system in which it makes it, in which many citizens find it very difficult to understand how can this change to something different, to that new world of fully decentralized reserve assets.

Erik: That implies that the US government has a very strong incentive to somehow manage or influence this process to make sure that as stablecoins get introduced, it's the US dollar that as opposed to any other current that stablecoin is stabilized against or is tied to. What do you see on the horizon in terms of...

It seems like that's a big fight that hasn't been had yet, i- is should we regulate and somehow require that if you're gonna have stablecoins they have to be US dollar stablecoins, not some other currency stablecoins.

Daniel: Yeah, but that is a ship that has long gone. It's impossible to regulate a system in which the key, the central part that makes it valuable for people is that it is decentralized.

Regulation by itself is trying to recentralize things, no? In the monetary world. So I think that you cannot do anything about that except being by example, leading by example as a reserve asset globally. My opinion is that cryptocurrencies, that Bitcoin, that decentralized currencies and fiat currencies are going to coexist, and that if the US government really reigns on its massive imbalances, the US dollar will continue to be the world fiat reserve currency because there is no alternative in the fiat world, i.e.,

the dollar is not the world reserve currency in the fiat world because it's better, but because the alternatives are worse. So once we understand that What crypto assets and stablecoins are likely to be are those tools that actually undertake the job that central banks had in their mandate, which is to control the excess of governments.

Because central banks have become less independent, and they have abandoned their role as the ones that limit the constant increase in government imbalances, it is likely to be the competition with independent currencies what forces governments to present their currency as a viable alternative.

Erik: Daniel, let's compare what we've just discussed with the trends that we actually see in play in central banking, because we're talking about stablecoins, you and I agree as being very important and so forth. You'd think that this would mean central banks would be starting to dip their toes into buying digital assets.

To whatever extent that they're buying anything, they seem to be buying more gold. I understand the arguments in favor of gold as a reserve asset, but it's certainly not in the direction of digital assets. So is that because they don't believe in the direction of digital assets, or they think it's more important to have a plan B?

Why the sudden influence in gold on the part of central banks if the trend seems to be more digital?

Daniel: This is a very interesting question because the reason why these central banks are abandoning fiat currencies, i.e., US dollar-denominated debt or euro-denominated debt as a reserve asset, is because those don't provide the stability, strength, and real returns that they expected in the balance sheet of their central bank.

Gold doesn't signify a threat for those central banks and their own domestic currency. But many of those governments do see a threat of including more cryptocurrencies as reserve assets and as units of measure that can be used in national transactions, et cetera. So it's basically because these central banks think that by owning gold They are actually strengthening their balance sheet and separating themselves from a US-centric monetary system, but not abandoning a centralized monetary system.

It's interesting because many of these central banks and many of these governments that are encouraging their central banks to hold more gold and less US dollars or euros, they're at the same time desperately trying to cling to the fiat currency system. They're not trying to embrace new decentralized currencies.

They want to continue to hold the power of money, and that is obviously very difficult because you cannot bake the cake and eat it. Many of these countries don't understand that the reason why the US dollar is a world reserve currency is because it has independent institutions, open capital markets, no capital controls, and no currency controls.

There is a trend with the BRICS in which it seems that they want to cling onto the idea that they can go not to the future that we're talking about, which is a decentralized monetary system, but to the past, to one in which the capital controls, the dependent institutions, controlled institutions, and financial controls exist, but they can issue a currency that is going to be viable.

So it's interesting that the idea of a BRICS crypto, or sorry, of a BRICS currency is not an idea of embracing the future, but is an idea of going to the past, of a pre-centric monetary system in which capital controls and independence of institutions were things that existed. On the first case, capital controls and currency controls, and independence of institutions was inexistent.

Erik: Daniel, let's talk about where all of this is headed. Are we headed into a completely digital tokenized world where this is all about maybe they're not central bank digital currencies, maybe they're stable coins, but they're all digital assets? Or are we headed back into more of a, re-adopt gold and move away from fiat currencies?

Seems like there's a trend that's about to happen in central banking, and maybe the central bankers haven't decided what it is yet.

Daniel: I think that central bankers want to keep the control of money, and I think that those central bankers are going to desperately cling to any system that allows them to continue to be the ones that decide on money supply, on regulation, and on interest rates.

Central bankers are obviously part of the institutional system generated around sovereign debt and issued currencies, state-issued currencies. So it's very difficult to believe that central bankers are going to be the leaders in this process. I think that it's going to be led by individual investors and by citizens.

All monetary revolutions have happened because Citizens have embraced them first, and governments, empires, central banks, however you wanna call it, 'cause all, they're all the same, basically just were th- the last to understand it. And I think that this trend right now is not going to be different. We are likely to see an environment in which there will be a coexistence of fiat currencies with independent currencies.

We are likely to see an environment in which most central banks and most governments will do as much as they can to ban or to limit the development of independent currencies, that they will try to hold on to the old monetary system. And it's proven by the fact that, as I said before, the BRICS, instead of looking ahead and trying to create a system that will be embracing technology and embracing decentralization, what they're actually aiming for is some kind of, of nostalgia of a past in which government involvement in independent institution and regulatory institutions and in money and in fiscal matters was much larger than the one that exists today.

So it's very difficult to see how it will happen, but I think that it's inevitable that we will see complete disruption, thanks to technology, of the centralized monetary system, and that complete disruption is going to be positive for citizens because we may find ourselves in a situation in which government-created inflation via the constant increase in money supply and the velocity of money through government spending will not be a possibility.

So I think that the great thing about this process, this unstoppable technological process of decentralization, is that citizens that continue to use the currency of the state will also benefit because the state doesn't have the allegedly eternal, limitless possibility of c- of increasing its imbalances against the destruction of the purchasing power of the currency.

So the competition between currencies is going to be beneficial for citizens because it's going to be the best way to combat the risk of inflation when we understand that inflation is created by governments to dilute their commitments in the future issued in a currency that they obviously issue themselves.

So if we look at, for example, what Friedrich von Hayek wrote in a very small book, Choice in Currency That was written before the internet existed and obviously before Bitcoin existed. He was talking about the competition between currencies to end the perverse incentives that governments have relative to inflation.

The how governments benefit from an inflationary pressure that is constantly diluting the purchasing power of the currency that they issue, and how that competition is positive for those citizens that continue to accept the currency of a government because the government will be limited in its desire to constantly increase its imbalances by the competition, by needing to present itself as a better option instead of what we have right now, which is an environment in which the fiat world has this perverse situation in which you're basically choosing between lesser evils, no?

When we look at the enormous imbalances created by the Japanese state, by the Eurozone states, by the United States government, the reason why we talk about one currency stronger than the other is not because they're implementing good policies or because they're defending the purchasing power of the currency.

It's simply because the, the one that is improving is a little bit better than the others, but all of them are worsening relative to gold. So I think that the future is likely to be an interesting one in which governments and central banks hold on desperately to the old system of centralization while the world slowly and gradually sees the benefits of decentralization.

And once those two elements collide, the existence of alternatives to fiat currencies is going to force governments to be more prudent with their fiscal imbalances and with their policies, both on a monetary and on a fiscal level.

Erik: Daniel, I agree with you that the central bankers around the world are very likely to heavily resist any digitization of the financial system.

But at the same time, it seems clear that for the balance of President Trump's presidency, he's gonna do what he's best at, which is being bull in a ti- China shop and upsetting the apple cart, and he's, I think, probably going to pave the way for a lot of progress to be made in destabilizing the system that the other governments like so much.

Where's that going to leave US foreign relations with Europe and with the rest of the world over the next few years?

Daniel: I think that the latest trade agreements between the United States, the European Union, and its, and the United States' partners, all of them have basically shown that It is impossible to impose a system in which one is the winner at any cost, and it's impossible for the others to separate themselves from trading and a financial partner as the United States.

So it's an uncomfortable but inevitable position in which everybody has to cooperate with each other. And The evidence that we have talked about in this program of the fact that governments, both in the Euro area, in Japan, in the United Kingdom, in China, in the United States, all of them have surpassed the economic, the fiscal, and the inflationary limit in different perspectives.

All of those show that they need to cooperate with each other in order to maintain the monetary system as stable as possible. So I think that I don't think that President Trump is going to completely annihilate the system as we know it. I think that he is a negotiator and and he's going to shake the foundations, but he's not looking to, to destroy them.

Erik: Daniel, as always, I can't thank you enough for a terrific interview. But before I let you go, please tell us a little bit more about what you do at Tressis. The books that you've written have been bestsellers in some cases. Tell us more about what you do, how we can follow your work, and for our institutional and accredited investors who are able to invest in hedge funds, who do they contact to get a tear sheet for your fund?

Daniel: Thank you very much. At Tressis, I am the chief economist. I'm also the president and CEO of Alpha Strategy Consulting, and I'm a professor of global economics at IE Business School, as well as an author of a number of books, four of them published in English: Freedom or Equality, Escape from the Central Bank Trap, Life in the Financial Markets, and The Energy World is Flat.

I have just finished one that's called The New Global Economic Order, which is likely to be published in English in the near future. And to find me, I think it's not difficult because I always say that it's easier to find me than to avoid me. So you can key in Daniel Lacalle in Google, and you will find that I have a Twitter account in English and in Spanish.

I have a YouTube channel in English and in Spanish, and I also have a website with English and Spanish content. So you can find my contact in the website, www.dlacalle.com.

Erik: Thanks, Daniel. Patrick and Massil are off for the holiday break this week, so there won't be any post-game segment. But we will be back next week with Dr.

Carly Anderson, special interview, and then we'll be back to our regular show format on September tenth. And a reminder, as a Macro Voices listener, you're entitled to a two-week free trial of Big Picture Trading, where you can watch Patrick analyze and trade the markets live every single day at bigpicturetrading.com.

No credit card is required to sign up and there's nothing to cancel. I'm Eric Townsend and this is Macro Voices. We'll see you next week.

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