Michael Hudson: U.S. Economic Warfare And Likely Foreign Defenses

Description

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Today's world is at war on many fronts. The rules of international law and order put in place toward the end of World War II are being broken by U.S. foreign policy escalating its confrontation with countries that refrain from giving its companies control of their economic surpluses. **Countries that do not give the United States control of their oil and financial sectors or privatize their key sectors are being isolated by the United States imposing trade sanctions and unilateral tariffs** giving special advantages to U.S. producers in violation of free trade agreements with European, Asian and other countries.

This global fracture has an increasingly military cast. U.S. officials justify tariffs and import quotas illegal under WTO rules on "national security" grounds, claiming that the United States can do whatever it wants as the world's "exceptional" nation. U.S. officials explain that this means that their nation is not obliged to adhere to international agreements or even to its own treaties and promises. This allegedly sovereign right to ignore on its international agreements was made explicit after Bill Clinton and his Secretary of State Madeline Albright broke the promise by President George Bush and Secretary of State James Baker that NATO would not expand eastward after 1991. ("You didn't get it in writing," was the U.S. response to the verbal agreements that were made.)

Likewise, the Trump administration repudiated the multilateral Iranian nuclear agreement signed by the Obama administration, and is escalating warfare with its proxy armies in the Near East. U.S. politicians are waging a New Cold War against Russia, China, Iran, and oil-exporting countries that the United States is seeking to isolate if cannot control their governments, central bank and foreign diplomacy.

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The international framework that originally seemed equitable was pro-U.S. from the outset. In 1945 this was seen as a natural result of the fact that the U.S. economy was the least war-damaged and held by far most of the world's monetary gold. Still, the postwar trade and financial framework was ostensibly set up on fair and equitable international principles. Other countries were expected to recover and grow, creating diplomatic, financial and trade parity with each other.

But the past decade has seen U.S. diplomacy become one-sided in turning the International Monetary Fund (IMF), World Bank, SWIFT bank-clearing system and world trade into an asymmetrically exploitative system. This unilateral U.S.-centered array of institutions is coming to be widely seen not only as unfair, but as blocking the progress of other countries whose growth and prosperity is seen by U.S. foreign policy as a threat to unilateral U.S. hegemony. What began as an ostensibly international order to promote peaceful prosperity has turned increasingly into an extension of U.S. nationalism, predatory rent-extraction and a more dangerous military confrontation.

Deterioration of international diplomacy into a more nakedly explicit pro-U.S. financial, trade and military aggression was implicit in the way in which economic diplomacy was shaped when the United Nations, IMF and World Bank were shaped mainly by U.S. economic strategists. Their economic belligerence is driving countries to withdraw from the global financial and trade order that has been turned into a New Cold War vehicle to impose unilateral U.S. hegemony. Nationalistic reactions are consolidating into new economic and political alliances from Europe to Asia.

We are still mired in the Oil War that escalated in 2003 with the invasion of Iraq, which quickly spread to Libya and Syria. American foreign policy has long been based largely on control of oil. This has led the United States to oppose the Paris accords to stem global warming. Its aim is to give U.S. officials the power to impose energy sanctions forcing other countries to "freeze in the dark" if they do not follow U.S. leadership.

To expand its oil monopoly, America is pressuring Europe to oppose the Nordstream II gas pipeline from Russia, claiming that this would make Germany and other countries dependent on Russia instead of on U.S. liquified natural gas (LNG). Likewise, American oil diplomacy has imposed unilateral sanctions against Iranian oil exports, until such time as a regime change opens up that country's oil reserves to U.S., French, British and other allied oil majors.

U.S. control of dollarized money and credit is critical to this hegemony. As Congressman Brad Sherman of Los Angeles told a House Financial Services Committee hearing on May 9, 2019: "An awful lot of our international power comes from the fact that the U.S. dollar is the standard unit of international finance and transactions. Clearing through the New York Fed is critical for major oil and other transactions. It is the announced purpose of the supporters of cryptocurrency to take that power away from us, to put us in a position where the most significant sanctions we have against Iran, for example, would become irrelevant."

The U.S. aim is to keep the dollar as the transactions currency for world trade, savings, central bank reserves and international lending. This monopoly status enables the U.S. Treasury and State Department to disrupt the financial payments system and trade for countries with which the United States is at economic or outright military war.

Russian President Vladimir Putin quickly responded by describing how “the degeneration of the universalist globalization model [is] turning into a parody, a caricature of itself, where common international rules are replaced with the laws… of one country.” That is the trajectory on which this deterioration of formerly open international trade and finance is now moving. It has been building up for a decade. On June 5, 2009, then-Russian President Dmitry Medvedev cited this same disruptive U.S. dynamic at work in the wake of the U.S. junk mortgage and bank fraud crisis.

Those whose job it was to forecast events … were not ready for the depth of the crisis and turned out to be too rigid, unwieldy and slow in their response. The international financial organisations – and I think we need to state this up front and not try to hide it – were not up to their responsibilities, as has been said quite unambiguously at a number of major international events such as the two recent G20 summits of the world’s largest economies.

Furthermore, we have had confirmation that our pre-crisis analysis of global economic trends and the global economic system were correct. **The artificially maintained uni-polar system and preservation of monopolies in key global economic sectors are root causes of the crisis.** One big centre of consumption, financed by a growing deficit, and thus growing debts, one formerly strong reserve currency, and one dominant system of assessing assets and risks – these are all factors that led to an overall drop in the quality of regulation and the economic justification of assessments made, including assessments of macroeconomic policy. As a result, there was no avoiding a global crisis.

That crisis is what is now causing today’s break in global trade and payments.

Warfare on many fronts, with Dollarization being the main arena

Dissolution of the Soviet Union 1991 did not bring the disarmament that was widely expected. U.S. leadership celebrated the Soviet demise as signaling the end of foreign opposition to U.S.-sponsored neoliberalism and even as the End of History. NATO expanded to encircle Russia and sponsored “color revolutions” from Georgia to Ukraine, while carving up former Yugoslavia into small statelets. American diplomacy created a foreign legion of Wahabi fundamentalists from Afghanistan to Iran, Iraq, Syria and Libya in support of Saudi Arabian extremism and Israeli expansionism.

The United States is waging war for control of oil against Venezuela, where a military coup failed a few years ago, as did the 2018-19 stunt to recognize an unelected pro-American puppet regime. The Honduran coup under President Obama was more successful in overthrowing an elected president advocating land reform, continuing the tradition dating back to 1954 when the CIA overthrew Guatemala’s Arbenz regime.

U.S. officials bear a special hatred for countries that they have injured, ranging from Guatemala in 1954 to Iran, whose regime it overthrew to install the Shah as military dictator. Claiming to promote “democracy,” U.S. diplomacy has redefined the word to mean pro-American, and opposing land reform, national ownership of raw materials and public subsidy of foreign agriculture or industry as an “undemocratic” attack on “free markets,” meaning markets controlled by U.S. financial interests and absentee owners of land, natural resources and banks.

A major byproduct of warfare has always been refugees, and today’s wave fleeing ISIS, Al Qaeda and other U.S.-backed Near Eastern proxies is flooding Europe. A similar wave is fleeing the dictatorial regimes backed by the United States from Honduras, Ecuador, Colombia and neighboring countries. The refugee crisis has become a major factor leading to the resurgence of nationalist parties throughout Europe and for the white nationalism of Donald Trump in the United States.

Dollarization as the vehicle for U.S. nationalism

The Dollar Standard – U.S. Treasury debt to foreigners held by the world’s central banks – has replaced the gold-exchange standard for the world’s central bank reserves to settle payments imbalances among themselves. This has enabled the United States to uniquely run balance-of-payments deficits for nearly seventy years, despite the fact that these Treasury IOUs have little visible likelihood of being repaid except under arrangements where U.S. rent-seeking and outright financial tribute from other enables it to liquidate its official foreign debt.

The United States is the only nation that can run sustained balance-of-payments deficits without having to sell off its assets or raise interest rates to borrow foreign money. No other national economy in the world can could afford foreign military expenditures on any major scale without losing its exchange value. Without the Treasury-bill standard, the United States would be in this same position along with other nations. That is why Russia, China and other powers that U.S. strategists deem to be strategic rivals and enemies are looking to restore gold’s role as the preferred asset to settle payments imbalances.

The U.S. response is to impose regime change on countries that prefer gold or other foreign currencies to dollars for their exchange reserves. A case in point is the overthrow of Libya’s Omar Kaddafi after he sought to base his nation’s international reserves on gold. His liquidation stands as a military warning to other countries.

Thanks to the fact that payments-surplus economies invest their dollar inflows in U.S. Treasury bonds, the U.S. balance-of-payments deficit finances its domestic budget deficit. This foreign central-bank recycling of U.S. overseas military spending into purchases of U.S. Treasury securities gives the United States a free ride, financing its budget – also mainly military in character – so that it can taxing its own citizens.

Trump is forcing other countries to create an alternative to the Dollar Standard

The fact that Donald Trump’s economic policies are proving ineffective in restoring American manufacturing is creating rising nationalist pressure to exploit foreigners by arbitrary tariffs without regard for international law, and to impose trade sanctions and diplomatic meddling to disrupt regimes that pursue policies that U.S. diplomats do not like.

There is a parallel here with Rome in the late 1st century BC. It stripped its provinces to pay for its military deficit, the grain doleand land redistribution at the expense of Italian cities and Asia Minor. This created foreign opposition to drive Rome out. The U.S. economy is similar to Rome’s: extractive rather than productive, based mainly on land rents and money-interest. As the domestic market is impoverished, U.S. politicians are seeking to take from abroad what no longer is being produced at home.

What is so ironic – and so self-defeating of America's free global ride – is that Trump's simplistic aim of lowering the dollar's exchange rate to make U.S. exports more price-competitive. He imagines commodity trade to be the entire balance of payments, as if there were no military spending, not to mention lending and investment. To lower the dollar's exchange rate, he is demanding that China's central bank and those of other countries stop supporting the dollar by recycling the dollars they receive for their exports into holdings of U.S. Treasury securities.

This tunnel vision leaves out of account the fact that the trade balance is not simply a matter of comparative international price levels. The United States has dissipated its supply of spare manufacturing capacity and local suppliers of parts and materials, while much of its industrial engineering and skilled manufacturing labor has retired. An immense shortfall must be filled by new capital investment, education and public infrastructure, whose charges are far above those of other economics.

Trump's infrastructure ideology is a Public-Private Partnership characterized by high-cost financialization demanding high monopoly rents to cover its interest charges, stock dividends and management fees. This neoliberal policy raises the cost of living for the U.S. labor force, making it uncompetitive. The United States is unable to produce more at any price right now, because its has spent the past half-century dismantling its infrastructure, closing down its part suppliers and outsourcing its industrial technology.

The United States has privatized and financialized infrastructure and basic needs such as public health and medical care, education and transportation that other countries have kept in their public domain to make their economies more cost-efficient by providing essential services at subsidized prices or freely. The United States also has led the practice of debt pyramiding, from housing to corporate finance. This financial engineering and wealth creation by inflating debt-financed real estate and stock market bubbles has made the United States a high-cost economy that cannot compete successfully with well-managed mixed economies.

Unable to recover dominance in manufacturing, the United States is concentrating on rent-extracting sectors that it hopes monopolize, headed by information technology and military production. On the industrial front, it threatens disrupt China and other mixed economies by imposing trade and financial sanctions.

The great gamble is whether these other countries will defend themselves by joining in alliances enabling them to bypass the U.S. economy. American strategists imagine their country to be the world's essential economy, without whose market other countries must suffer depression. The Trump Administration thinks that There Is No Alternative (TINA) for other countries except for their own financial systems to rely on U.S. dollar credit.

To protect themselves from U.S. sanctions, countries would have to avoid using the dollar, and hence U.S. banks. This would require creation of a non-dollarized financial system for use amongthemselves, including their own alternative to the SWIFT bank clearing system. Table 1 lists somepossible related defenses against U.S. nationalistic diplomacy.

As noted above, what also is ironic in President Trump's accusation of China and other countries of artificially manipulating their exchange rate against the dollar (by recycling their trade and payments surpluses into Treasury securities to hold down their currency's dollar valuation) involves dismantling the Treasury-bill standard. The main way that foreign economies have stabilized their exchange rate since 1971 has indeed been to recycle their dollar inflows into U.S. Treasury securities. Letting their currency's value rise would threaten their export competitiveness against their rivals, although not necessarily benefit the United States.

Ending this practice leaves countries with the main way to protect their currencies from rising against the dollar is to reduce dollar inflows by blocking U.S. lending to domestic borrowers. They may levy floating tariffs proportioned to the dollar's declining value. The U.S. has a long history since the 1920s of raising its tariffs against currencies that are depreciating: the American Selling Price (ASP) system. Other countries can impose their own floating tariffs against U.S. goods.

Trade dependency as an aim of the World Bank, IMF and US AID

The world today faces a problem much like what it faced on the eve of World War II. Like Germany then, the United States now poses the main threat of war, and equally destructive neoliberal economic regimes imposing austerity, economic shrinkage and depopulation. U.S. diplomats are threatening to destroy regimes and entire economies that seek to remain independent of this system, by trade and financial sanctions backed by direct military force.

Dedollarization will require creation of multilateral alternatives to U.S. "front" institutions such as the World Bank, IMF and other agencies in which the United States holds veto power to block any alternative policies deemed not to let it "win." U.S. trade policy through the World Bank and U.S. foreign aid agencies aims at promoting dependency on U.S. food exports and other key commodities, while hiring U.S. engineering firms to build up export infrastructure to subsidize U.S. and other natural-resource investors. The financing is mainly in dollars, providing risk-free bonds to U.S. and other financial institutions. The resulting commercial and financial "interdependency" has led to a situation in which a sudden interruption of supply would disrupt foreign economies by causing a breakdown in their chain of payments and production. The effect is to lock client countries into dependency on the U.S. economy and its diplomacy, euphemized as "promoting growth and development."

U.S. neoliberal policy via the IMF imposes austerity and opposes debt writedowns. Its economic model pretends that debtor countries can pay any volume of dollar debt simply by reducing wages to squeeze more income out of the labor force to pay foreign creditors. This ignores the fact that solving the domestic “budget problem” by taxing local revenue still faces the “transfer problem” of converting it into dollars or other hard currencies in which most international debt is denominated. The result is that the IMF’s “stabilization” programs actually destabilize and impoverish countries forced into following its advice.

IMF loans support pro-U.S. regimes such as Ukraine, and subsidize capital flight by supporting local currencies long enough to enable U.S. client oligarchies to flee their currencies at a pre-devaluation exchange rate for the dollar. When the local currency finally is allowed to collapse, debtor countries are advised to impose anti-labor austerity. This globalizes the class war of capital against labor while keeping debtor countries on a short U.S. financial leash.

U.S. diplomacy is capped by trade sanctions to disrupt economies that break away from U.S. aims. Sanctions are a form of economic sabotage, as lethal as outright military warfare in establishing U.S. control over foreign economies. The threat is to impoverish civilian populations, in the belief that this will lead them to replace their governments with pro-American regimes promising to restore prosperity by selling off their domestic infrastructure to U.S. and other multinational investors.

US Warfare on Many Fronts	Dedollarization defense
Military warfare (the Near East, Asia) NATO and bilateral treaty (Saudi, ISIS, Al Qaida). color revolutions and proxy wars.	Shanghai Cooperation Organization, and pressure for Europe to withdraw from NATO unless the U.S. alleviates its New Cold War threats.
Dollarization is monetary warfare. The US Treasury-bill standard finances the mainly military U.S. balance-of-payments deficit. SWIFT threatens to isolate Iran and Russia	Dedollarization will refrain from foreign central banks financing U.S. overseas military spending by keeping their savings in dollars. Creation of alternative payments clearing system.
The IMF finances US client regimes and seeks to isolate those not following US policy.	An alternative global financial organization, such as Europe's INSTEX to circumvent US anti-Iran sanctions, and Russo-China alternative to SWIFT.
Creditor policy forcing austerity on debtor economies, forcing them to privatize and sell off their public domain to pay debts.	An international court empowered to write down debts to the ability to pay, based on the original principles that were to guide the BIS in 1931.
The World Bank finances trade dependency on US food exports and opposes national food self-sufficiency.	An alternative development organization based on food self-sufficiency. Annulment of World Bank and IMF debt as "odious debt."
Unilateral US trade war based on levy of US protectionist tariffs, quotas and sanctions,	Countervailing sanctions, and creation of an alternative to the WTO or a strengthened organization free of US control.
Cyber War, spycraft via US internet platforms, and Stuxnet sabotage.	Work with Huawei and other alternatives to US internet options.
Class War: austerity program for labor	MMT, taxation of rentier income and capital gains.
Neoliberal monetarist doctrine of privatization and creditor-oriented rules	Promotion of a mixed economy with public infrastructure as a factor of production.
US patent policy seeks monopoly rents.	Non-recognition of predatory monopoly patents.
Investment control	Deprivatization and buyoutsof US assets abroad.
International law and diplomacy	The U.S. as the world's "exceptional nation," not subject to international laws or even to its own treaty agreements. Veto power in any organization it joins. The basic principle that the U.S. is not subject to any foreign say over its laws and policies.

Global Problems caused by US Policy	Response to U.S. Disruptive Policy
U.S. refuses to join international agreements to reduce carbon emissions, Global Warming and Extreme Weather. U.S. diplomacy is based on control of oil to make other countries dependent on U.S. energy dominance.	Trade and tax sanctions against U.S. exporters and banks. Taxes on U.S. tax avoidance by the oil industry's "flags of convenience" (convenient for tax avoidance). Taxation or isolation of U.S. exports based on high-carbon production.
Attempt to monopolize new G5 Internet technology, Sanctioning of Huawei, insistence on US priority in high-tech.	Rejection of patents on basic IT, medicine and other basic human needs.
Patent laws in pharmaceuticals, etc.	Taxation of monopoly rents.

There are alternatives, on many fronts

Militarily, today's leading alternative to NATO expansionism is the Shanghai Cooperation Organization (SCO), along with Europe following France's example under Charles de Gaulle and withdrawing. After all, there is no real threat of military invasion today in Europe. No nation can occupy another without an enormous military draft and such heavy personnel losses that domestic protests would unseat the government waging such a war. The U.S. anti-war movement in the 1960s signaled the end of the military draft, not only in the United States but in nearly all democratic countries. (Israel, Switzerland, Brazil and North Korea are exceptions.)

The enormous spending on armaments for a kind of war unlikely to be fought is not really military, but simply to provide profits to the military industrial complex.

The arms are not really to be used. They are simply to be bought, and ultimately scrapped. The danger, of course, is that these not-for-use arms actually might be used, if only to create a need for new profitable production.

Likewise, foreign holdings of dollars are not really to be spent on purchases of U.S. exports or investments. They are like fine-wine collectibles, for saving rather than for drinking. The alternative to such dollarized holdings is to create a mutual use of national currencies, and a domestic bank-clearing payments system as an alternative to SWIFT. Russia, China, Iran and Venezuela already are said to be developing a crypto-currency payments to circumvent U.S. sanctions and hence financial control.

In the World Trade Organization, the United States has tried to claim that any industry receiving public infrastructure or credit subsidy deserves tariff retaliation in order to force privatization. In response to WTO rulings that U.S. tariffs are illegally imposed, the United States "has blocked all new appointments to the seven-member appellate body in protest, leaving it in danger of collapse because it may not have enough judges to allow it to hear new cases."[5] In the U.S. view, only privatized trade financed by private rather than public banks is "fair" trade.

An alternative to the WTO (or removal of its veto privilege given to the U.S. bloc) is needed to cope with U.S. neoliberal ideology and, most recently, the U.S. travesty claiming "national security" exemption to free-trade treaties, impose tariffs on steel, aluminum, and on European countries that circumvent sanctions on Iran or threaten to buy oil from Russia via the Nordstream II pipeline instead of high-cost liquified "freedom gas" from the United States.

In the realm of development lending, China's bank along with its Belt and Road initiative is an incipient alternative to the World Bank, whose main role has been to promote foreign dependency on U.S. suppliers. The IMF for its part now functions as an extension of the U.S. Department of Defense to subsidize client regimes such as Ukraine while financially isolating countries not subservient to U.S. diplomacy.

To save debt-strapped economies suffering Greek-style austerity, the world needs to replace neoliberal economic theory with an analytic logic for debt writedowns based on the ability to pay. The guiding principle of the needed development-oriented logic of international law should be that no nation should be obliged to pay foreign creditors by having to sell of the public domain and rent-extraction rights to foreign creditors. The defining character of nationhood should be the fiscal right to tax natural resource rents and financial returns, and to create its own monetary system.

The United States refuses to join the International Criminal Court. To be effective, it needs enforcement power for its judgments and penalties, capped by the ability to bring charges of war crimes in the tradition of the Nuremberg tribunal. U.S. to such a court, combined with its military buildup now threatening World War III, suggests a new alignment of countries akin to the Non-Aligned Nations movement of the 1950s and 1960s. Non-aligned in this case means freedom from U.S. diplomatic control or threats.

Such institutions require a more realistic economic theory and philosophy of operations to replace the neoliberal logic for anti-government privatization, anti-labor austerity, and opposition to domestic budget deficits and debt writedowns. Today's neoliberal doctrine counts financial late fees and rising housing prices as adding to "real output" (GDP), but deems public investment as deadweight spending, not a contribution to output. The aim of such logic is to convince governments to pay their foreign creditors by selling off their public infrastructure and other assets in the public domain.

Just as the "capacity to pay" principle was the foundation stone of the Bank for International Settlements in 1931, a similar basis is needed to measure today's ability to pay debts and hence to write down bad loans that have been made without a corresponding ability of debtors to pay. Without such an institution and body of analysis, the IMF's neoliberal principle of imposing economic depression and falling living standards to pay U.S. and other foreign creditors will impose global poverty.

The above proposals provide an alternative to the U.S. "exceptionalist" refusal to join any international organization that has a say over its affairs. Other countries must be willing to turn the tables and isolate U.S. banks, U.S. exporters, and to avoid using U.S. dollars and routing payments via U.S. banks. To protect their ability to create a countervailing power requires an international court and its sponsoring organization.

Summary

The first existential objective is to avoid the current threat of war by winding down U.S. military interference in foreign countries and removing U.S. military bases as relics of neocolonialism. Their danger to world peace and prosperity threatens a reversion to the pre-World War II colonialism, ruling by client elites along lines similar to the 2014 Ukrainian coup by neo-Nazi groups sponsored by the U.S. State Department and National Endowment for Democracy. Such control recalls the dictators that U.S. diplomacy established throughout Latin America in the 1950s. Today's ethnic terrorism by U.S.-sponsored Wahabi-Saudi Islam recalls the behavior of Nazi Germany in the 1940s.

Global warming is the second major existentialist threat. Blocking attempts to reverse it is a bedrock of American foreign policy, because it is based on control of oil. So the military, refugee and global warming threats are interconnected.

The U.S. military poses the greatest immediate danger. Today's warfare is fundamentally changed from what it used to be. Prior to the 1970s, nations conquering others had to invade and occupy them with armies recruited by a military draft. But no democracy in today's world can revive such a draft without triggering widespread refusal to fight, voting the government out of power. The only way the United States – or other countries – can fight other nations is to bomb them. And as noted above, economic sanctions have as destructive an effect on civilian populations in countries deemed to be U.S. adversaries as overt warfare. The United States can sponsor political coups (as in Honduras and Pinochet's Chile), but cannot occupy. It is unwilling to rebuild, to say nothing of taking responsibility for the waves of refugees that our bombing and sanctions are causing from Latin America to the Near East.

U.S. ideologues view their nation's coercive military expansion and political subversion and neoliberal economic policy of privatization and financialization as an irreversible victory signaling the End of History. **To the rest of the world it is a threat to human survival.**

The American promise is that the victory of neoliberalism is the End of History, offering prosperity to the entire world. But beneath the rhetoric of free choice and free markets is the reality of corruption, subversion, coercion, debt peonage and neofeudalism. The reality is the creation and subsidy of polarized economies bifurcated between a privileged rentier class and its clients, eir debtors and renters. America is to be permitted to monopolize trade in oil and food grains, and high-technology rent-yielding monopolies, living off its dependent customers. Unlike medieval serfdom, people subject to this End of History scenario can choose to live wherever they want. But wherever they live, they must take on a lifetime of debt to obtain access to a home of their own, and rely on U.S.-sponsored control of their basic needs, money and credit by adhering to U.S. financial planning of their economies.

This dystopian scenario confirms Rosa Luxemburg's recognition that the ultimate choice facing nations in today's world is between socialism and barbarism.