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How to Resist the Empire's Neoliberal Debt Trap



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Michael Hudson has become famous in recent years. The *Financial Times* credited him with forecasting the 2008 financial crash and its aftermath. His “magnum opus,” *Super Imperialism*, now in its third edition, was the first explanation of how going off the gold standard in 1972 allowed the US to force other nations to pay for its wars, while becoming indebted to US banks and financial institutions.

Now, in [*The Destiny of Civilization: Finance Capitalism, Industrial Capitalism or Socialism*](#), Hudson provides a series of lectures on neoliberalism to Chinese economic planners, meant as a contribution to ongoing Chinese debates about the direction of the super-successful Chinese economy. (This level of trust is shared by few other US

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economists, notably Jeffrey Sachs and Joseph Stiglitz.) Hudson explains how Washington's aggressive neoliberalism, bolstered by military force, is backfiring. In one of his many articles in recent months, Hudson says:

The US/NATO confrontation with Russia in Ukraine is achieving just the opposite of America's aim of preventing China, Russia and their allies from acting independently of U.S. control over their trade and investment policy. Naming China as America's main long-term adversary, the Biden Administration's plan was to split Russia away from China and then cripple China's own military and economic viability. But the effect of American diplomacy has been to drive Russia and China together, joining with Iran, India and other allies. For the first time since the Bandung Conference of Non-Aligned Nations in 1955, a critical mass is able to be mutually self-sufficient to start the process of achieving independence from Dollar Diplomacy.

Neoliberalism itself is fairly simple: "the government that governs least governs best," as Ronald Reagan said. The Reagan Revolution slashed taxes for the rich, deregulated basic industry and the banks, gutted environmental, consumer and workplace safety rules, cut back social welfare programs, privatized or contracted out public functions, and emphasized globalization. Free trade agreements led to factory jobs disappearing overseas. In its wake, the Reagan Revolution left a rust belt of abandoned factories, millions of "discouraged workers" no longer counted in unemployment figures, skyrocketing household debt, and an explosion of homelessness.

Chile was the Latin American laboratory for neoliberalism, after General Augusto Pinochet's 1973 coup, orchestrated by Nixon and Kissinger, which overthrew the socialist government of President Salvador Allende. Pinochet crushed Allende's popular economic policies, privatized most public services, slashed the work force, and brought in the "Chicago Boys," led by economist Milton Friedman, to implement an economic strategy in tune with US mining corporations and banks.

Hudson identifies Friedrich Hayek's *The Road to Serfdom* as Friedman's inspiration. Hayek warned of "the danger of tyranny that inevitably results from government control of economic decision-making through central planning." He scorned progressive taxation and pushed for "a race to the bottom" for wages and public spending. He got an echo from Margaret Thatcher, the UK Prime Minister during Reagan's time, who famously quipped "there is no such thing as society, there is only the market." Hudson shows how this philosophy and the scorched earth policies it inspired have been the true road to serfdom

in the west and everywhere else – at least everywhere Washington can impose the debt regime that strangles prosperity, with military force to back it up.

The FIRE sector – finance, insurance and real estate – has displaced industrialism as driver of the US economy in recent decades, Hudson explains. That sector’s business plan is to “roll back the 20th century’s democratic reforms and lead economies down the road to serfdom and debt peonage... Neoliberal policy sees democratic laws as intruding on liberty if they oblige business to take the common weal into account, *e.g.*, by holding corporations liable for damages that they cause.”

US-style ‘democracy’

The concept of democracy has been twisted: “Democracy as managed by the Donor Class is a set of patronage relationships governed by wealth at the top.” So “what is euphemized as US-style ‘democracy’ is a financial oligarchy privatizing basic infrastructure, health and education. The alternative is what President Biden calls ‘autocracy,’ a hostile label for governments strong enough to block a global rent-seeking oligarchy from taking control. China is deemed autocratic for providing basic needs at subsidized prices instead of charging whatever the market can bear... US and other Western officials define military coups as democratic if they are sponsored by the United States in the hope of promoting neoliberal policies.”

In the case of Venezuela, Hudson comments on Trump’s pirate-like 2018 confiscation of Venezuela’s gold reserves held in London, and placing them at the disposal of the puppet Juan Guaidó. “This was defined as being democratic,” Hudson says, “because the regime change promised to introduce the neoliberal ‘free market’ that is deemed to be the essence of America’s definition of democracy for today’s world.”

The Carter administration staged a similar theft in November 1979, when it “paralyzed Iran’s bank deposits in New York after the Shah was overthrown.... That was viewed as an exceptional one-time action as far as all other financial markets were concerned.



The Destiny of Civilization

Finance Capitalism
Industrial Capitalism
or Socialism

But now that the United States is the self-proclaimed ‘exceptional nation,’ such confiscations are becoming a new norm in US diplomacy. Nobody yet knows what happened to Libya’s gold reserves that Muammar Gaddafi had intended to be used to back an African alternative to the dollar. And Afghanistan’s gold and other reserves were simply taken by Washington as payment for the cost of ‘freeing’ that country...

“But when the Biden Administration and its NATO allies made a much larger asset grab of some \$300 billion of Russia’s foreign bank reserves and currency holdings in March 2022, it made official a radical new epoch in Dollar Diplomacy.” Now “the US confiscations have accelerated the end of the US Treasury-bill standard that has governed world finance since the United States went off gold in 1971.”

In the case of western Europe, Hudson explains how the US used its post-WW2 dominant financial position to impose dependency on its former allies. After the 1944 Bretton Woods Conference, the US lent enormous sums to the UK and France, as well as Italy and West Germany. “Neither the World Bank’s reconstruction loans nor the IMF’s balance-of-payments stabilization loans were sufficient to meet the financial needs of European recovery. France lost 60 percent of its gold and foreign exchange reserves during 1946-47... The effect was to concentrate in US Government hands most of the major decisions as to how much, to which countries and on what conditions international loans would be extended.”

The price of ‘friendship’

“Chronic austerity is now also being imposed on Eurozone members, making the euro a satellite currency of the dollar.” Hudson says “this year’s proxy war in Ukraine and

imposition of anti-Russian sanctions is a perfect illustration of Henry Kissinger's quip: 'It may be dangerous to be America's enemy, but to be America's friend is fatal'."

In the current conflict, "Now that NATO and the Eurozone have expanded eastward to include the Baltic states and Poland, the result has been to block the EU politicians in Brussels from following policies at odds with US plans, particularly in relation to Russia, China and other countries the United States treats as adversaries or potential rivals... Countries that do not approve of the combination of US military policies and US takeover of their economic assets face a dilemma: If they do not recycle their dollar inflows in US capital markets, their currencies will rise, threatening to price their exports out of world markets."

This intense pressure to conform to "Dollar Diplomacy" has a new and special blowback: "the path of least resistance taken by Russia, China and some other payments-surplus nations is to *de-dollarize*." Enter gold, of which China, Russia, and their BRICS allies are among the world's largest producers. Hudson says "gold's use to settle payments deficits is likely to be the smoothest route in any transition to an alternative currency bloc." Such a transition is considered an "existential threat" in Washington. So far, however, its efforts to break up Russia, or to roll back China's revolution, have shown bleak prospects.

A depression is coming

Hudson warns a "long depression" is coming, as inflation in western Europe and the US accelerates. "To Wall Street and its backers," Hudson says, "the solution to any price inflation is to reduce wages and public social spending," that is, "to push the economy into recession in order to reduce hiring. Rising unemployment will oblige labor to compete for jobs that pay less and less as the economy slows." He adds that "public discussion of today's inflation is framed in a way that avoids blaming [it] on the Biden Administration's New Cold War sanctions on Russian oil, gas and agriculture, or on oil companies and other sectors using these sanctions as an excuse to charge monopoly prices..."

"The entire blame for inflation is placed on wage earners," Hudson says, "and the response is to make them the victims of the coming austerity, as if their wages are responsible for bidding up oil prices, food prices and other prices resulting from the crisis. The reality is that they are too debt-strapped to be spendthrifts."

The global effects of the crisis are even more serious. Hudson notes that JP Morgan Chase head Jamie Dimon recently warned Wall Street investors that the sanctions will cause a global "economic hurricane." And the IMF's Managing Director Kristalina Georgieva warned that, "To put it simply, we are facing a crisis on top of a crisis." The Covid

pandemic has been capped by inflation, with the war in Ukraine making matters “much worse, and threatening to increase inequality,” adding that “the economic consequences from the war” are “hitting the world’s most vulnerable people...”

Hudson raises a shocking question: “when it comes to global famine, was a more covert and even larger strategy at work? It is now looking like the major aim of the U.S. war in Ukraine all along was merely to serve as a catalyst, an excuse to impose sanctions that would disrupt the world’s food and energy trade, and to manage this crisis in a way that would afford US diplomats an opportunity to not only lock in Western Europe but to confront Global South countries with the choice ‘Your loyalty and neoliberal dependency or your life’ – and, in the process, to ‘thin out’ the world’s non-white populations...” Basic survival hangs in the balance for more than half the world’s people.

An implicit Russian and Chinese counterplan

“What is needed for the world’s non-US/NATO population to survive is a new world trade and financial system,” Hudson says. “More people will die of the Western sanctions than will have died on the Ukrainian battlefield. Financial and trade sanctions are as destructive as military attack.” So Global South countries “need to reject the sanctions and reorient trade to Russia, China, India, Iran and their fellow members of the Shanghai Cooperation Organization.” A debt moratorium – really a debt *repudiation* – must be declared. And the World Bank and IMF must be replaced with “a genuine Bank for Economic Acceleration” and “a replacement for the IMF that is free of austerity junk economics and does not subsidize US client oligarchies or currency raids of countries resisting US privatization and financialization takeovers.” Hudson adds that Global South countries should join “a military alliance as an alternative to NATO, to avoid being turned into another Afghanistan, another Libya, another Iraq or Syria or Ukraine.”

Hudson’s book derived from lectures to people involved in China’s economic strategy circles, who invited him largely to hear his opinions about neoliberalism and its risks, and how to avoid them. His basic thesis was that “The tensions between the wealthy and the rest of society have always been mediated by governments... All economies are mixed economies, and the key to understanding any economy, and to designing any national income accounting format, needs to begin with the government’s relation to the private sector... Public policy invariably backs either the wealthy layer at the top or the economy at large. Any pretense by a government to be steering a ‘middle course’ is rarely anything other than a cover for public policies perpetuating a status quo favoring the wealthy, who always have used their wealth to influence and control governments and public policy.”

In a clear comment on Western capitalist countries, Hudson says “political democracies have not shown themselves to be very effective in resisting the tendency to turn into financialized oligarchies. Avoiding that fate requires a strong central power not captured by the propertied financial classes. Throughout history, that was achieved only by palace rulers (in the Bronze Age Near East) or today in socialist economies.”

As if to eliminate any doubt about his central message, Hudson stipulates that “keeping the money and credit system in government hands is China’s great advantage over Western financialized economies.” He adds a four-point set of keys China has used to “avoid the American financial disease”:

- + Instead of privatizing natural monopolies and key infrastructure, China has kept its “commanding heights” in the public domain, headed by banking as the most important public utility.

- + China has pursued an “Economy of High Wages policy by providing high-quality education and health standards to make its labor more productive.”

- + As a socialist economy, China uses government regulation strong enough to prevent an independent financial oligarchy from emerging. (Still to be achieved is a progressive tax policy falling mainly on *rentier* income, headed by land rent.)

- + China and Russia are creating an alternative international payments system to avoid using the US dollar and SWIFT bank-payments system. The policy of de-dollarizing their monetary systems, foreign trade and investment includes securing their own self-sufficiency in food production, technology and other basic needs.

“US diplomats and politicians accuse nations that put in place public restrictions against monopoly and related rent-seeking of being autocratic and authoritarian if they defend their economies against privatization and the associated American attempt at financial takeover,” Hudson observes. He cites US Secretary of State Blinken saying “The Chinese and Russian governments, among others, are making the argument in public and in private that the United States is in decline so it’s better to cast your lot with their authoritarian visions of the world than our democratic one.”

Chinese President Xi Jinping expressed his view on this issue: “At present, income inequality is a prominent issue around the globe. The rich and the poor in some countries are polarized with the collapse of the middle class. This has led to social disintegration, political polarization, and rampant populism... Our country must resolutely guard against polarization, drive common prosperity, and maintain social harmony and stability.”

Hudson also quotes Russian President Vladimir Putin, who said “this is basically a crisis of approaches and principles that determine the very existence of humans on Earth,” and despite claims in recent decades “that the role of the state was outdated and outgoing,” only strong nation-states can resist the economic carve-up and immiseration of the planet.” Hudson concludes by saying “America’s response to its declining industrial and economic power at home has been to tighten its control over Europe and other client economies by military force and political sanctions. The result is a new Iron Curtain aiming to block these allies from expanding their trade and investment with the Russian and Chinese economies in the rising Eurasian core. Forcing nations to choose which geopolitical block they will belong to is driving many out of the dollarized trade and investment orbit with remarkable speed.”

It is likely that an end to Dollar Dominance in the world foreshadows a general disintegration of capitalism’s last great empire. The question of how to avoid a turn to fascism at home is not addressed, except to observe that the efforts of Bernie Sanders *et al* have been blocked, suggesting that stronger medicine is needed.

Dee Knight is a member of the DSA International Committee, and author of My Whirlwind Lives: Navigating Decades of Storms, available from Guernica World Editions.

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