Global Economic Crisis: Finance Is the New Mode of Warfare

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"When I was in Norway earlier this year, one of its politicians sat next to me at a dinner and said, "You know, there's one good thing that President Obama has done that we never anticipated in Europe. He's shown the Europeans that we can never depend on America again. No matter how good he sounds, no matter what he promises, we're never again going to believe the patter talk of an American President. Mr. Obama has cured us. Our problem is what to do about the American people that don't realize this nightmare that they've created, this smooth-talking American Tony Blair in the White House."

I'm Bonnie Faulkner.Today on *Guns and Butter*, Dr. Michael Hudson.Today's show, "Guns, Finance and Butter: Finance is the New Mode of Warfare."

The jobless recovery

Michael, I read the in the newspapers that the great recession, so-called, has long since ended, but unemployment remains stubbornly high with only a measly 18,000 jobs created in June. I believe the term that was coined some time ago is a jobless recovery. What is a jobless recovery?

We call that a depression – in this case, caused mainly by debt deflation. Just because the stock market is being inflated by the Federal Reserve doesn't mean that the economy itself is growing. It's shrinking – from a combination of families and businesses having to pay off debts rather than spend their income on goods and services, and the government's shift of taxes off finance, insurance and real estate (FIRE) onto labor and industry.

The economy is getting worse and worse – deeper negative equity (mortgage debts in excess of property prices), shrinking markets, stores going out of business, rising defaults and foreclosures, job layoffs – with new graduates having to pay student loans but not having a job.

That's why the stock market is down 160 points today.The financial sector realizes that the game is over. From America to Ireland,Greece and the rest of Europe, financial interests are insisting that governments take responsibility for paying off the bad bank debts to their bondholders and other bankers in cross-deals and gambles on derivatives that have gone bad. The problem is that these banks have made bad real estate loans and other gambles. In Ireland, the collateral backing these loans is only about 20 percent of the face value of the mortgages.

Somebody has to lose when loans go bad. In this case, it is taxpayers. Governments have taken these bad loans onto their own balance sheet, so that bondholders and big creditors to these banks (typically foreigners) would not lose. But it is very expensive for governments to take on obligations to pay bad debts – that is, negative equity where the debt is higher than the collateral assets are worth. So now, having spent enormous sums to make sure that bankers and bondholders don't lose a penny, governments are trying to balance their budgets by cutting off spending throughout the "real" economy. In other words, governments have sacrificed the economy so that the financial sector won't take a loss. And even worse, the governments have left the bad real estate debts, personal debts, education debts and credit card debts on the books. So the "real" economy is being shrunk by debt deflation, while tax policy is being steered to benefit the financial sector.

The policy that started in the United States after September 2008, with Sec. Paulson's Troubled Asset Relief Program (TARP) and later with the Treasury taking Fannie Mae and Freddie Mac ($5.3 trillion) onto the government's balance sheet. This policy quickly spread to Europe, starting in Ireland. Its government went broke bailing out the bankers. And now in Greece, the government is told to start selling off over $50 billion worth of public land and other public-sector assets to pay down debts so that its bondholders won't lose a single euro. Greece is slashing its public spending, unemployment is spreading, and the sell-offs are beginning – of the sort that we already have seen in Chicago, which sold its sidewalk rights to financial investors installing parking meters. Economies are being turned into rentier "tollbooth economies" to generate the funds to pay debts that the "real" economy simply can't sustain. It's a losing game in the end. So the financial sector is trying to take as much as it can right now, and run.

This is happening throughout the world. In that sense the U.S. debt deflation and government bailouts to Wall Street provided the model for Europe, and now Europe's debt deflation and the political crisis that goes with it is providing a model for the United States. In Athens, for instance, when the Greek demonstrators protested the austerity program in front of their Parliament, there were signs referring to the Wisconsin demonstrations in the United States earlier this spring.

The problem is that trying to pay debts rather than writing them down to realistic ability to pay (or writing down mortgages to the market price) and increasing taxes is pushing the U.S. and foreign economies into a depression. And the worst thing is that this is viewed as a solution – supposedly making economies more "competitive" by "squeezing out the fat." What it is doing is passing the fat to the top of the economic pyramid, like globules floating on the broth, as Werner Sombart described the *rentier* class a century ago.

In the United States, President Obama has bought into the idea that the only way to get recovery is to cut wages by about 30 percent.He's doing that in two ways.At the Federal Reserve he empowered Chairman Ben Bernanke to lower interest rates by floodingthe economy with money. QE2 injected $600 billion, which banks quickly sentout of the country. This pusheddownthe dollar against BRICS currencies, Australian dollar and currencies of other raw-materials exporters, which raised their own interest rates to prevent their domestic economies from overheating. These higher rates abroad mean that U.S. banks can borrow at only 0.25% from the Federal Reserve and buy Australian bonds at 5.75%, pocketing the arbitrage difference. In fact, they can get a free lunch simply by borrowing and leaving this money on deposit at the Federal Reserve here in the United States. These "excess reserves" have soared since the Fed began to pay interest on them back in September 2008, when Lehman Bros. collapsed – the watershed date for the post-Bubble financial order.

When the Fed and Wall Street push the dollar down, the main victims are consumers. Import prices rise, while devaluation lowers the price at which their labor exchanges for that of foreign economies. When you devaluea currency, what you're really devaluing is the price of labor, because all the other costs are globally fixed.Oil and raw materials prices, machinery prices and shipping remain fixed worldwide prices, so all exporting countries have a common cost structure for basic commodities and technology.

So Obama believes that reducing the purchasing power of American labor in terms of foreign exchange will make the economy more competitive.He also believes it will help deflate the economy to reduce the budget deficit. The economy needs government spending to revive employment and markets, but he's acting like President Coolidge in theDepression. Republican Treasury Secretary Andrew Mellon said that the solution had to be to liquidate labor, liquidate housing and liquidate the economy. That tunnel vision is being fed to Mr. Obama's by his Clinton- and Bush-era advisors, from Larry Summers to Tim Geithner. He is doing what nobody really imagined the kind of change that was possible when he was elected.He has let Michelle Bachman and the Republican Tea Party tax cutters move to the left of his position.

Rep. Bachman recently pointed out that she voted against TARP from the beginning, as did other Republicans opposing the giveaway to the Wall Street interests.The Republicans also haven't called to cut back Social Security to pay Wall Street. That's the Obama-Geithner position. It's put Democratic Congressional leadership in a bind, because they have difficulty opposing a president even though he's moved to the right of the Republican Party.

I warned about this already in 2008 before Mr. Obama took office. The last presidential debate he had with Republican candidate John McCainwas on a Friday night. McCain had just lost his "maverick" status by going back to Washington that day to say that he supported the bailout of the banks and wouldn't take time off to debate until everyone agreed on the giveaway to the banks.So in the debate that evening, both candidates avoided discussing the bailout.The public was strongly against it, and if either candidate had opposed it, they would have lost their campaign contributions from Wall Street. And in any case, Senators McCain, and Obama both believed that the economy actually needed to be led by Wall Street as central economic planner and resource allocator. Alan Greenspan voiced the ideology more nakedly, but Mr. Obama follows it to such an extent that Marshall Auerback has called him the "Tea Party President."

So what is happening today was signaled even before Mr. Obama too office, by the right-wing economic appointments he made –Larry Summers, who had pushed bank deregulation and replacing the Glass-Steagall Act as his chief economic advisor; Tim Geithner, the bank lobbyist as Secretary of the Treasury; and Rahm Emanuel representing Wall Street the interests in the way that the Democratic Leadership Committee had done since the Clinton administration. Later, after Mr. Obama appointed Bush Administration carry-overs Ben Bernanke at the Fed and Defense Secretary Gates, he said that in order for there to be a recovery, the banks had to be made whole. That meant, not take a loss – and leaving their management in place even when the government took over their stock, as in the case of Citibank.

The Obama administration raisedthe financial sector's bailout to$13 trillion.This has vastly increased the government debt. And now, Mr. Obama wants to bring it back down by cutting back Social Security, Medicare, Medicaid and other social spending – to transfer wealth and income to the top of the economic pyramid. At the start of his administration he appointed a Deficit Reduction Commission led by advocates of cutting back Social Security and Medicare: Republican Senator Alan Simpson (McCain's economic advisor!) and Clinton chief of staff Erskine Bowles, representing the right-wing Democratic Leadership Committee cite above. The aim of this commission was to give Mr. Obama an "experts' report" supporting the diametric opposite of the liberal constituency that voted for him.

This is how he is doing what politicians are supposed to do: delivering his constituency (liberals, racial minorities, urban dwellers andthe poor – in fact, the American mainstream) to his campaign contributors. In that respect Mr. Obama is America's version of Tony Blair, or Greek Prime Minister Papandreou, nominal head of the Socialist International – taking a position way to the right of Greece's Conservative party when it comes to imposing austerity and privatization sell-offs to bail out bankers to save them from taking a loss. And Sec. Geithner has been pushing Europeans to take a hard line to make sure that bondholders do not take a loss on their bad investments. He is insisting that Europe impose depression conditions as bad as those in the United States. With full support from Mr. Obama!

People would have thought before Mr. Obama was elected that the normal response to an economy falling into recession would be to increase counter-cyclical public spending. But the President is following neoliberal policy that makes the downturn much deeper, by cutting back government spending – especially on non-Wall Street programs.Instead of trying to get the budget back in balance by re-introducing progressive taxation, taxing wealth more highly than the lower income brackets,he is using tax revenues to help re-inflate the financial sector.

He did not introducethe public option in health insurance that he promised.He has not even urged the government to bargain directly with pharmaceutical companies for lower drug prices. Over the weekend he's encouraged Republicans to consider Social Security cutbacks, as well as for Medicare, cut back Medicaid, especially the payments to the poor.So looking back on the last debate he had with John McCain before the 2008election, he and McCain were bidding for campaign contributions from Wall Street and the real estate sector.These are the contributors that the Democrats and the Republicans are all vying for, and to whom Mr. Obamais now delivering his constituency.

Last weekend's*New York Times* magazine had an interview with Sheila Bair, whose five-year term heading the Federal Deposit Insurance Corp.(FDIC) expired last week.Now she can begin to tell what happened. She said that Mr. Obama promisedher that he would try to prevent the mortgage frauds that were occurring, especially in subprime mortgages, and support better bank regulation.But then she would learn, just an hour before he gave a speech, that he would have changedthe draft that she had seen, and took out what he'd promised her.The rewritesapparently were done mainly by Tim Geithner, who acts as a lobby for the big bank contributors. Instead of running the Treasury to benefit the U.S. economy, he's benefiting his Wall Street constituency. Significantly, he was a protégé of Clinton Treasury Secretary Robert Rubin, who gave the name "Rubinomics" to pro-Wall Street opposition to bank regulation and a dismantling of public control over the banking system.

Ms. Bair said that that when she opposed giveaways to banks, Obama's officials would say that there would be a meltdown if they didn't save Citibank, AIG and other financial institutions that had acted recklessly. She pointed out that the FDIC had successfully wound down Washington Mutual and other insolvent institutions.This was the FDIC's business, after all. Even Citibank had enough assets to cover insured depositors. The problem was its gambles on derivatives and junk mortgages. The government could have taken it over and made normal insured depositors whole. But there weren't enough assets in Citibank and AIG to pay the gamblers and the big players.She complained that in every case she was told the big gambling institutions – basically, the nation's wealthiest one percent – couldn't lose a penny.

Mr. Obama has bought this position. To save bondholders and speculators from taking losses on their bad bets, consumers and the rest of the "real economy" needs to pay.They have to pay via higher Social Security taxes and other regressive tax policies, instead of making the higher brackets pay as occurs under progressive taxation.Mr. Obama is willing to cut back Medicare.We can't charge the pharmaceutical companies by bargaining with them for bulk discounts as Canada's government does. We have to let them set the prices with no argument – as if this is the "free market."So Mr. Obama has made an accommodation with the Republicans to pursue what really are Bush Administration policies, and now even Tea Party policies.

The debt ceiling and default charade

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What is your assessment over the current debate in Washington concerning the raising of the debt ceiling? This debate seems to be taking place between the Obama administration and the Republicans without much input from Democrats.

It's a good cop-bad cop charade.The Republicans are playing the role of the bad cop.Their script says: "You cannot raise taxes on anybody. No progressive income tax, no closing of tax loopholes for special interests, not even prosecutions for tax fraud.And we can get a lot of money back into the economy if we give a tax holiday to the companies and individuals that have been keeping their money offshore.Let's free the wealthy from taxes to help us recover.'

Mr. Obama can turn around and pretend to be the good cop. "Hey, boys, let me at least do something.I'm willing to cut back Social Security. I'm willing to take over what was George Bush's program. I share your worries about the budget deficit. We have to balance it, and I've already appointed a Deficit Reduction Commission to prepare public opinion for my cutbacks in the most popular programs.But you have to let me get a little bit of revenue somewhere."

In the end the Republicans will make some small token concessions, but they'll get their basic program. Mr. Obama will have sold out his constituency.

The problem is, how can Mr. Obama move to the right of where George Bush stood?The only way he can do this is for the Republicans to move even further to the right.So the Republicans are accommodatinghim by pushing the crazy wing of their party forward, the Tea Party.Michelle Bachman, Eric Cantor and their colleagues arecoming with such an extremist, right-wing attitude that it gives Mr. Obama room to move way to the right as he triangulates, depicting himself a the less crazy alternative: “Look.I’m better than these guys are.”

He’s hoping that people will vote for him just because he’s not as extreme as the Tea Party.But the reality is that there is another alternative. People can “vote with their backsides” and stay home. There may not be many people showing up to vote on the Democratic side. So it’s possible for the Republicans to get in, now that there is so little real difference between their position and that of Mr. Obama.What’s the point of voting?

The silver lining for the Republicans winning in 2012 would be that the Democratic Congress would find its backbone again, once it’s in opposition.It would say “No” to the Republicans trying to push the policy that Mr. Obama is now trying to push. But it can’t say no to Mr. Obama. That’s why his presidency is turning out to be such a disaster.

The economyis seeking because investors realize that his deflationary attempt to cut public spending looks likea done deal.Trying to run a budget surplus will push the economy deeper into depression.When Clinton ran a budget surplus, the banks provided the increase in credit to keep the economy going. But now they have pulled back, as there is little surplus that has not already been pledged to pay the banks. So Mr. Obama’s advisors have convinced him to do what European political front men also are doing. A depression is deemed necessary to cut living standards and labor by about 30 percent.Mr. Obama’s aim is to lower Americanwage levels.

To do this, he needs an excuse, a cover story. The realityis that a depression will make the budget deficit even larger.Just as the plans to invade Iraq were written up before 9/11 provided a crisis atmosphere that became the opportunity to introduce them, so the response to the federal budget deficit is already outlined: Social Security and other “entitlements” will be cut back, as well as revenue sharing with the states and cities. So governments at the local level will have to sell of land, roads and whatever is in the public domain.The American government will look just like Greece and Ireland – so you may want to look at them as dress rehearsals.

Cutbacks in federal spending mean that the states can’t cover their own budgets – and their constitutions prevent many from running deficits. It looks like there will be little federal revenue to share with Minnesota or Wisconsin or the city of Chicago.They’re going to have to sell their roads and streets, sell their infrastructure and their public utilities, sell off whatever business enterprises they have that can bring in credit. These assets themselves will be sold on credit, to buyers who then will “expense” their profits as tax-deductible interest. So governments will not get the potential user fees that result from putting up parking meters on their sidewalks, tollbooths on their roads and other rent extraction facilities on their other assets. The financial sector will take all this.

The federal government may also become a seller.It has the Postal Service, and already is privatizing its army to private contractors.Newspapers have joked about Greece selling its Parthenon and other tourist sites. Imagine the U.S. Government selling its national parks and forests – to buyers who borrow the money from the banks. This would let the banks "earn their way out of debt" by creating a huge new market for them in privatizing and cutting up what used to be the public domain. It will end up in the hands of the wealthiest 10 percent of the population.

In this respectthe class war is back in business.We're going into a depression that is unnecessary – except to drive down wage levels and strip away government obligations to pay for Social Security, Medicare and other public programs. This will enable the government to get rid of what remains of progressive taxation on the higher wealth and income brackets.

The stock market may fall, of course, and the bond market too as interest rates rise. But investors expect to be able to buy back these stocks at a lower price. Meanwhile, the game is over – the idea of investing in a growing market. The new game is tograb what one can and bail out.This is the post-bubble phase of the financial "cycle."

The Democratic leaders feel boxed in.Nobody is prepared to challenge Mr. Obama in 2012.He still has his constituency in the Democrat party locked up.So they can't run against him.Under Rahm Emanuel the Congressionalleadership has promoted the worst of the Blue Dog Democrats.Fortunately, they were the major losers in the last election.But we're still living with the consequences of Mr. Emanuel's quip that a crisis is too good an opportunity to waste.He advised the President to use it to lock in the Democratic Leadership Committee's pro-Wall Street program.This is the program of Clinton, Gore and Joe Lieberman. It is the mentality that led Mr. Obama toappoint Erskine Bowles and like-thinking members to the Simpson-Bowles Commission.He is now pushing its recommendations claiming that this is bipartisan.But I would say that it's basically Republican, if I didn't think that this really is where the Democratic Party also now stands – just as in Greece, austerity plans and privatization are being promoted by ostensible socialists.

Mr. Obama wants to cut $4 trillion out of the budget, while Republican leader Boehner only wants a 2.4 trillion cut over a shorter period. I've read that it was Obama, not the Republicans, who proposed putting Social Security cuts on the table. Why would he be proposing much larger cuts than the Republicans?

The main reason is thathe is in a unique position to deliver enough Democratic votes to let the sell-out ("compromise") go through.No Republican administration could get away with cutting Social Security.This is the most basic income protection program that Americans have. But now,it's being depicted as a welfare program that is hurting the economy.Only a Democrat posing as a left-winger could really pull off what Mr. Obama is proposing.

China

China has warned the U.S., "Do not default."What would be the ramifications of a default?Would it put the global banking system into crisis?

Nothing would happen.There's not going to be a default.China will not lose a cent.Its leaders know that there's a lot of American investment in China.In principle, it could use its dollars to buy this out at its book value.But the reality is that a U.S. default would mean that the dollar would not be acceptable again until the United States paid. This would mean that

America would have no way of paying for its military bases.It would be unable to extend the wars thatMr. Obama has escalated.

Would a U.S. default send interests rates soaring?If so, what would be the economic effect?

An interest rate wouldn't matter if you default.If you tell me that I can write you an IOU but you're not going to collect, I'll give you 20 percent.But seriously, the bond market has not given any hint that interest rates will rise at all.As I said above, this is a just-pretend pseudo-crisis to give Mr. Obama the opportunity to do what politicians do – to sell out his constituency to his campaign contributors on Wall Street.

It looks like he will godown in history as a Herbert Hoover, being blamed for the depression that was not necessary and that the Republicans could not have gotten away with intensifying.Only a Democrat posing as a left-winger could support the anti-labor, anti-wage, pro-Wall Street policies that his advisors have been putting into his hands.This is what came out in the *New York Times* interview with Sheila Bair.

So this kerfuffle about a possible debt default is a charade for public consumption.

The idea is to create an illusion of crisis,to create a pretense for introducing a solution that makes fortunes for financial predators – or at least gives them enough room to take their money and run, by swapping their bad loans for Treasury securities.The tragedy is that the way in which Mr. Obama is resolving today's non-crisis of the budget limit is impoverish the population for the next decade, bringing on a depression rather than avoiding it.

This is a tragedy because it's not really necessary. It's a policy choice.

Are there elements in the U.S. establishment that actually want a default?

Nobody wants it.The safest investment is in Treasury bills.America would lose its international position. The basis of American diplomacy and military power is its unique ability to write IOUs that it never intends to pay.So in that sense you could say America defaulted back in August of 1971, when President Nixon closed the gold window.What can China do with its Treasury bonds even under today's conditions?The Americans will be glad to give them new Treasury IOUs for old ones. But they won't let China buy oil companies or filling stations or anything else deemed of potential economic importance.It won't let them buy industrial or technology companies. So in this sense the global monetary system based on the dollar has been in default for the last 30 years.

Is the U.S. in an economic war with China?

No, butthere's always a jockeying for position in international diplomacy.I haven't heard anti-American sentiments in China.But I hear China-bashing here on MSNBC and from liberals such as Paul Krugman.Blaming foreigners diverts attention away from the bad Democratic and Republican economic programs. The Democrats are especially guilty. Take for instance a recent *Financial Times* report:

Erskine Bowles, co-chair of Mr. Obama's debt commission, said a small, short-term solution [to the budget deficit] would not be enough. "That is not going to fool our creditors, many of whom do not love America as we do," he said. China is the biggest foreign holder of US debt.[1]

The message is that is that it's China that is making the U.S. Government impose austerity on the economy, not that Mr. Obama wants to do this as a policy choice.

Greece: Banks, not countries, receive the bailouts

Let's talk a bit now about Europe, starting with Greece.You have written that the Greek economy will not end up with the proceeds of any European central bank bailout. The banks will get the money.Can you explain that?

The condition attached to the loans the EU and the IMF are making to Greece is that all the money must be paid to the bondholders of these banks, mainly in France and in Germany.Even Angela Merkel protested,saying that this isn't how a free market is supposed to work.Banks and bondholders thatmake bad loans and investments should take a loss, even if they're German.Depositors should be protected, but not necessarily bondholders. But her comments caused an angry response from Europe's central bankers.The problem in Europe is thus the same that Sheila Bair described in her *New York Times* interview. Butthe European Central Bank (ECB) insists thatbondholders must be first in line for bailout money, the domestic economy later.And the ostensibly socialist government of Greece agrees.

This brings up what we were talking about at the beginning of this show.You have in Greece a nominally socialist government whose premiere, Papandreou, is head of the Socialist International.He's pushing for an austerity program and bank bailouts that will push Greece into depression Greece and force it to sell off much of its economy to pay debts that all observers except the ECB see will go bad.The conservatives are opposing this, just as Michelle Bachman points out that she opposed the TARP and the bank bailouts.The same thing happens in Britain,where the Labour Party privatized the railroads and other infrastructure that even Margaret Thatcher and the conservatives didn't go for.In Iceland the Social Democrats pushed for bailing out British and Dutch bank authorities, against the referendum of the population at large.All across Europe the Socialists have moved to the right of the conservative parties as far as financial policy is concerned.

The terminology and political concepts that existed a century ago when the Social Democratic and the Labour parties were being formed were concerned with wages, labor unionization and otheremployer/employee workplace relations much more than with bank policy. "Capital" meant mainly heavy industry.That's not the case today.You have a war of finance not only against consumers and employees, but against industry – and most of all, against government, which is the only power able to restrain finance and tax it.Financialization has turned into asset stripping. It focuses on the public domain because this is still where most of the assets are. Also,national treasuries are able to create public debt – and make future taxpayers pay tribute to the financial oligarchy, which is un-taxed.

They actually teach short-term financial engineeringin business schools.Bob Locke and J. C. Spender are coming out this fall with a good book, *Confronting Managerialism*, about how this management philosophy is disabling economies.Financialization also has disabled socialist and left wing politics.In a turnaround from their origins, you don't hear much about financial issuesfrom the Democratsin America or from the Socialist parties in Europe.They focus on cultural issues, minorities, sexual equality, but not banking and finance, or even privatization except when it threatens labor unions.

The result isan absence of a political alternative. Meanwhile, economic democracy is being turned into a financial oligarchy.This is going to be the main problem for the next century: how to cope with the financial oligarchy that the bubble's bailout terms have empowered.When the Bush and Obama Treasuries gave $13 trillion to Wall Street's managers, theyvested a new century's power elite, much as the 19th-century railroad barons were empowered by giving them the western lands and all the money for the railroads. Similar public giveaways and insider deals vested land barons and power elites in most of the world.

The re-assertion of today's *rentier*oligarchies is the opposite of what was expected from the early 19thcentury into the 1930s.In the middle of the Great Depression, in 1936, Keynes wrote his *General Theory*. His last chapter called for "euthanasia of the*rentier*."What we have now instead is euthanasia of employees, euthanasia of industry and of entire economies to siphon off rent extraction, interest and financial fees to the top of the economy.

Nothing like this has occurred in Western civilization since the conquest of Europe a thousand years ago.It occurred in the Roman Empire when the creditors took over.We all know what happened then.We had a Dark Age.You asked about recession.Well, we're not only moving into a depression but the question is now whether it is going to keep on going?What kind of a society are we going to have if we persist in today's tax shift off wealth onto employees, onto consumers and industry, onto the cities and states, while privatizingand selling off basic infrastructure. Governments are now conducting a kind of pre-bankruptcy sale.But nobody's either end of the political spectrum istalking about the emerging oligarchy.

Will the IMF and EU bailout for Greece lead to another default?

Yes.There's no conceivable way in which Greece can pay the revenue that is being demanded.The *Financial Times* has been clear on this for the last month or so.The columns on its editorial and op-ed pages show that almost everybody realizes that these debts can't be paid.The premium for default insurance for Greek bonds shows that "the market" sees this.So if Greece can't pay, why is the world going through this charade?

The main reason is to give commercial banks and bondholders enough time to sell their bonds to European governments, leavingthe European Central Bank and perhaps IMF holding the bag. It's harder for Greece to default on an inter-governmental debt. So this would end up pitting the governments of Europe against Greece,while the commercial banks will be free.

The Greeks can turn around and say, "Weknow the game you're playing.You lent us the money to pay the bank.We didn't get a penny of it.You paid your own banks, so the debt is now your problem.We're not going to pay you.If you don't like it,kick us out of the Eurozone."

How is the European Central Bank different from central banks of other countries?

This is an important question.From the Bank of England in 1694 to the Federal Reserve in 1913,central banks were founded to finance government spending – that means deficits.The idea was for governmentsto create money on their printing press, or now in their computer keyboard.This is how credit is created whether commercial banks or central banks do it.But the European Central Bank is not allowed to fund government deficits.And EU governments are not allowed to fund each other. Furthermore, the Lisbon Treaty restricts government debt and deficits to specified low shares of GDP, blocking them from pursuing counter-cyclical “Keynesian” spending to pull the continent out of depression.

These rules put Europe in a financial strait jacket. The idea behind the European Central Bank is to make governments pay commercial banks for what they could really do for themselves for nothing.They let commercial banks use *their* computer keyboard to create hundreds of billions of dollars worth of IOUs that bear interest.But the European Central Bank has its own keyboard. It could create this credit just as well.So from the outset, its crippled condition is a result of bank lobbyists. They want to extract interest and financial fees as a result of their public privilege – their monopoly – of being able to create credit.

This privilege should be viewed as a public utility. You can think of money and credit as a public utility just like electricity or water.In America, electric companies and other public utilities are regulated to keep their charges in line with the cost of producing the electricity and gas that they sell the customers.Money and credit can be created simply on a computer keyboard if you’re a bank and can find a customer.In Europe, governments have agreed to be the customers and pay interest to the commercial banks. The cover story is the ideological claim that banks will be more “responsible” and non-inflationary than governments. But today, in the wake of the bubble economy and asset-price inflation we’ve all gone through, this obviously is just a pack of nonsense spouted for public consumption by bank lobbyists and their useful idiots in academia.

So you’re saying that only private banks create creditin Europe, not the Central Bank.

That’s right.The central bank is specifically prevented from doing what central banks are supposed to do –funding government deficits.And European governments are not allowed to bail out other governments.That’s in the Lisbon Treaty.It’s as if saying that Washington cannot have revenue sharing with the states and cities.But for the last few decades, that’s what has kept them afloat.

I don’t see how Europe can survive under the deflationary financial rules of the Lisbon Treaty. It tied the hands of government financially.This is one of the reasons why the Euro has gone down against the dollar.In spite all of the dollar’s problems that you’ve mentioned, it’s the Euro that’s going down more. The way it was created is unworkable.

So do you think that the European Union must either change the rules break apart?

Yes.

European banks hold debt from faltering EU countries such as Greece, Ireland and Portugal. But American banks have sold European banks credit default swaps. That means that they have insured European debts. How will this play out if European governments default?

It complicates matters.In Ireland’s case a month or so ago, Europe apparently was prepared to realize that the Irish government made a terrible mistake in taking the bad bank debt onto the government balance sheet, making the taxpayers liable for the banks’ bad loans. European governmentswere discussing a write-down or “haircut” forbank bondholders. The basic principle is that a debt that can’t be paid won’t be.

But then it was rumored that Treasury Secretary Geithner told the Europeans not to make the banks or their bondholders take a loss, because Wall Street had taken a huge gamble that the governmentwould pay. So he intervened to opposea debt write-down.This puts Irish taxpayers on the hook. And now the same thing is being rumored for Greece.It's said that Geithner again has told the Europeans that American banks have made a big gamble that the Greek people will be defeated. The U.S. banks think that the oligarchy will win, and that the oligarchy will succeed in pushing them into depression in order to help U.S. banks win on the gamble they've taken. The message is:"Destroy yourselves, because otherwise our banks will lose their bets, and we're not willing to lose a dollar."

This explainswhat Secretary of State Hillary Clinton did on her recent visit to Greece, praising its austerity plan as a model for the United States to follow! "'We stand by the people and government of Greece as you put your country back on a path to economic stability and prosperity,' Ms. Clinton said, noting that this progress was essential for the United States, too." But not too much austerity when it came to supporting Obama's war against Libya. She "emphasized Washington's 'strong support' for Greece's commitment to right its debt-ridden economy through tough austerity measures, and she thanked the Greek government for its contribution to NATO-led operations in Libya …"[2]

This blather about "standing by the people" is Orwellian in view of the popular demonstrations in front of the Parliament in Athens: "She praised the determination of the Greek government to impose a new raft of austerity measures, which were voted through Greece's Parliament last month amid violent street protests, describing the initiative as 'vital first steps and acts of leadership.'" The government acted against the democracy to obey the European Central Bank.

Europe's response is to ask just who put Mr. Geithner and Ms. Clinton in power over European governments. Who put the American Treasury and State Department in a position to demand that Ireland, Greece, Portugal, Spain and other countries impose economic depression in order to pay their debts and help American casino capitalists win on their bets that the oligarchy will defeat democracy and lead the world down to a race to the bottom?

When I was in Norway earlier this year, one of its politicians sat next to me at a dinner and said: "You know, there's one good thing that President Obama has done that we never anticipated in Europe. He's shown the Europeans that we can never depend on America again. No matter how good he sounds, no matter what he promises, we're never again going to believe the patter talk of an American President. Mr. Obama has cured us. Our problem is what to do about the American people that don't realize this nightmare that they've created, this smooth-talking American Tony Blair in the White House."

What is your assessment of the new head of the IMF, Christine Lagarde?

She made her reputation as a corporate lawyer lobbying against labor unions and how companies could opposeattempts to improve workplace conditions.So she's in the right position, because austerity iswhat the IMF is selling.Its product is austerity.She's an appropriate person to impose poverty.She supports the banks and the neoliberal IMF philosophy.

You describe a class war of banks against all the rest of society, cutting across the notion of left or right in political terms. Could you elaborate on that?

This is hard to get across, because finance really isn't a class.Classical economics ended up defining classes in terms of "factors of production." Money and credit are not factors of production; they are external to the technological production process. An important discussion of this occurred in the 1970s and ’80s in Russia.Stalin had asked leading ancient historians to look at class conflict in antiquity to see whether there was any basis for the theory of Oriental despotism.Muhammad Dandamaev wrote a good book published by the University of Illinois Press on slavery in ancient Babylonia.He said finance isn’t really a class, because everybody is a creditor and a debtor simultaneously.He said creditors were a legal “estate.”

In America, employees save money and have Social Security savings as well as owing debts.Nearly everyone is a creditor to somebody, as well as being a debtor.If you look at the 19th-century discussions about class warfare, it was about owners of industrial capital.There also was a land-owning class, but bankers were not treated as a class.They were seen as intermediaries, providing credit for commerce.But most people thought of wealth as being land or stock ownership.So I use the terminologyof finance as a classvery loosely, not in the classical sense of the term.

What is key here is the “miracle” of compound interest. It enablesthe financial oligarchy to get the rest of society into debt.Now that interest-bearing credit can be created on bank computer keyboards without limit, banks can appropriate wealth by pushing the rest of society into debt – up to the point where the entire surplus is used to pay interest and financial fees,not to raise living standards, invest in tangible industrial capital formation, or pay taxes.

So today’s analysis of class economic warfare should focus on what national income economists call the FIRE sector – finance, insurance and real estate.It is a symbiotic sector that’s emerged to become the core where most economy planning now occurs.A hundred years ago people thought heavy industry, the steel companies, railroads and public utilities would do the planning – with finance playing a coordinating role in production. Debt was expected to be productive, created to finance new means of production.

Increasingly, early 20th-century writers expected governmentsto coordinate the planning – not onlythe socialists but observers in general.But what has emerged is not governments doing the planning, or industry, but Wall Street and the financial sector.Nobody a hundred years ago expected anything like this.You have essentially a new class, indeed a new bureaucracy – but not the bureaucracy that Hayek warned about in *The Road to Serfdom.*Wall Street in America, the city of London in England, the Bourse in France and Frankfurt in Germanyare much more centralized planning bureaucracies.And they have gained control of government. Central banks are supposed to be “independent,” meaning controlled by financial interests rather than by elected political representatives. So financial interests have managed to centralize planning power and the economic surplus in their own hands.

The tragedy of all this is that they are doing this in a way that’s impoverishing the rest of society.This is something entirely new.The political system has not come to terms with it.The financial planning time frame is short-term, and focuses on hit-and-run extractive activities.

A paradigmatic example is the wave of leveraged buyouts and corporate raids since the 1980s. This is the kind of thing that is taught in business schools – how to carve up an economy, extracting the surplus in outright predatory ways. Take the recent case of Sam Zell’s takeover of the Chicago Tribune. Here’s what a JPMorgan Chase financial analyst, Jieun (Jayna) Choi, wrote in an e-mail on how her bank could collect commissions in a parasitic way:

There is wide speculation that [Tribune] might have [taken on so much debt that all of its assets aren't gonna cover the debt in case of (knock-knock) you know what. Well that's what we [the bank's Tribune team] are saying, too. But we're doing this 'cause it's enough to cover our bank debt. So, lesson learned from this deal: our (here I mean JPM's) business strategy for TRB, but probably not only limited to TRB is 'hit and run' – we'll s_uck the sponsor's a$$ as long as we can s_uck $$$s out of the (dying or dead?) client's pocket, and we really don't care as long as our a$$ is well-covered. Fxxk 2nd/private guys – they'll be swallowed by big a$$ banks like us, anyways.[3]

Here you have the guiding spirit of today's financial planning in a nutshell. What is not immediately clear is that the ECB and U.S. Federal Reserve support precisely this kind of asset stripping. This is what I mean when I said that finance has gained control of governments.

You said that when you devaluea currency,what you're really devaluing is the price of labor.

All countries have a common global price schedule for fuels, raw materials, machinery and hard currency credit. So this global price list for these basic inputsremains unchanged by devaluation.What are affected when the currency goes up and down are domestic prices and incomes.These are mainly payments for labor and real estate.

In the 1980s,for instance, when the United States was pushing Japan to raise the value of the yen,it did indeed rise in price against the dollar.But the Japanese paid the same global rate for their oil, iron and steel, copper and other raw materials as did U.S. producers.The only cost that went up were Japanese labor costs.And inasmuch as their trade was "price inelastic," American consumers paid more. Where this was not the case, Japanese producers accepted lower profit rates.

By the same token, if the U.S. dollar's exchange rate is driven down, America's still must pay the same price as other countries for its fuels and raw materials and equipment. Whatwill become less expensive is the price of labor.It will be worth less in terms of euros or other currencies.Likewise in Greece. If it leaves the eurozone, adopts the drachma and devalues, its foreign debts will be in hard currency. So it will have to pay more in drachma for its euro debts, dollar debts and other foreign currency debts.This will offset much of what it "saves" in lower labor costs. Meanwhile, Greece must continue to pay world prices for its basic inputs.So the idea is to lower the cost of labor, but export prices will not fall anywhere near in proportion to the degree that the currency is devalued.

One way the Greek government could help would be to devalue the drachma, and then pass a law denominating all debts in its own local currency. This is analogous to what President Roosevelt did when he negated the "gold clause" in U.S. debts when he devalued the dollar in 1932. As a sovereign country,Greece has the right to do this under international law.

Of course, it is harder to devalue debts owed to international organizations such as the IMF or European Central Bank than it is to screw commercial bankers and bondholders. That is why the current bailout is so dangerous for the Greek people, and why its Socialist government is acting so seriously against national interests.

So you're saying that with a dollar devaluating, American labor actually earns less, and has less buying power.

The price of what Americans importfrom Chinawill go up, for instance. Walmart will have to charge people higher prices.The cost of its oil and metal also will rise.This will squeeze the budgets of employees and raise the economy's domestic cost structure faster than wages rise.This lag is what leads employers to support the idea of devaluing the dollar. It will raise the cost of living faster than wages rise.This willincrease the rate of exploitation of labor.

That makes sense, in view of the fact that most things that people buy these days are imported.

That's right.As America has deindustrialized, it has shifted production abroad, so it now is importing more consumer goods.Its exports are primarily food and arms. It's now trying to raise the price of world grain by using corn and other crops for gasohol. This creates a shortage of world grain, driving up its price – and hence, U.S. export earnings – while driving down the price of oil.This changes the terms of trade in America's favor, against food-exporting countries. Now that America is using its grain to make alcohol and gasoline, there's much less available to feed people.The result is African starvation as official American policy.

This aim is similar to the Carter administration's plan to create a food crisis to make Third World countries more dependent on the United States. The idea was that the U.S. Government couldagree to give them more food, in exchange for their sellingtheir raw materials to American firms. Their governments wouldhave to replace democracy with government that we appoint. This would put the U.S. Secretary of State in charge of their policy, not itsown people.

This ishow the Americans have impoverished Third World countries, by insisting – for instance through the World Bank and IMF – that they will only be given loans if they agree not to feed themselves but depend on American grain.

So you're saying that the United States uses the World Bank and the IMF to force other countries to import our farm products.

I've described this aim that in *Super Imperialism*.For the last fifty years the mainstay of the U.S. balance of payments has been agriculture, not industry (except for arms sales, mainly to the oil-exporting dictatorships).The oil exporting countries are permitted to charge as much as they want for their oil, as long as they agree to spend it on American tanks and warplanes, and keep their savings in U.S. banks and securities.Saudi Arabia is now using U.S. tanks against local populations, especially in Bahrain.So the United States balances its payments with these countries by arming them to prevent their populations from bringing about a democratic government that would be less "dependable."

The Arab Spring is a reaction against this policy of wasting their economic surplus on buying American arms and agreeing to buy American food.That's the role of the World Bank and IMF – to make other countries dependent on the United States.

And the way they effect that is to get other countries in debt.

That's right.Not only in debt, but also in food dependency on the United States so that at the stroke the Secretary of State can say: "You're not on our approved list.We are going to starve your population until you agree to follow American policy and sell off your public domain to American companies."

This is why I said that finance is the new mode of warfare.Finance and food dependency achieve today what military invasion did in times past.

Now Dr. Hudson, just to clarify, how can the United States force other countries not to be self-sufficient in their agriculture? How are they forced to not grow their own crops?

There were proposals in the 1950s for the United Nations and the United States to promote land reform.I'm told that David Rockefeller at Chase Manhattan gave John Deaver, the economic research director (and my former boss) a copy of the Forgash Plan (named for Morris Forgash of U.S. Freight. The plan was drafted by my own mentor, Terence McCarthy, and put before Congress by Sen. Smathers of Florida). The plan was for a World Bank for Economic Acceleration, and a central aim was to promote land reform and finance domestic-currency investment in agriculture.

Unfortunately, Mr. Deaver is reported to have said that in every country that has undertaken land reform to grow their own crops, there's been an anti-American feeling.Well, ever since, this anti-Americanism reflects the fact that American foreign policy is dictated largely by U.S. agribusiness interests, especially the large grain dealers.The mainstay of the U.S. balance of payments is food. This promotion of foreign food dependency is the most constant element of U.S. foreign policy since World War II.

The financial counterpart is that when other countries need foreign exchange to develop, the United States seeks to have its banks create this credit. It threatens to create a foreign exchange crisis if countries do not follow U.S. dictates. So these countries are faced with a choice:either to withdraw from the world trade and financial system and go their own way, or remain in it, on terms that surrender their financial and food sovereignty.The price of remaining a member in good standing with the World Bank, IMF and WTO is to agree not to protect their own agriculture but to build in a special favoritism to U.S. agriculture; and not to promote their own domestic credit creation, especially by the public sector, but let commercial banks (especially U.S. bank affiliates) do this.My book, *Super Imperialism*, explains how this system was put in placeto distort international trade and finance.

I've always been mystified as to why countries join the IMF and the World Bank.Why don't they go it alone?

The question is, who are the"they" that you mean?Who is Argentina?Who is Brazil?It's not as if the whole country makes the decision.These countries are very largely their own oligarchies.For instance, when I started the Third World Bond Fund for Scudder Stevens in 1990, Brazilian and Argentine bonds were yielding 45% interest.Nobody would buy these bonds in America.Scudder was unable to sell shares in this fund to American or European buyers.The investors were wealthy families in Brazil and Argentina, because they knew that they were going to pay the debt.So the "Yankee dollar" imperialists being blamed for Latin America's balance-of-payments problem were actually Argentinean and Brazilian oligarchs, operating through offshore funds with the dollars they'd siphoned out of their own country.

If you have a country run like Saudi Arabia or other dictatorships, a client a client oligarchy is kept in place by U.S. diplomacy.That's why America backed dictators in Latin America for fifty years after World War II.President Johnson said: "They may be bastards, but they're our bastards."The oligarchy'sinterest is to weaken their currencies, because the oligarchs have their money outside these countries.There's massive capital flight, and the more their currency sinks, the more dollars they have to borrow.They borrow many of these dollars from their own domestic oligarchy. Its hard-currency offshore assets rise in value against their domestic labor, whose wages are being depreciated.

The *rentier*oligarchy floats on top, as Werner Sombart said, like globules of fat on the soup of the economy.They benefit from this while the economy suffers as a whole.This is the problem with neoliberal reform.It has created oligarchies throughout the former Soviet Union,from the Baltics to Central Asia.We can see the same in Latin America, and inwhat the U.S. and Europe have been promoting in the Near East.The interest of Saudi Arabia and Bahrain is not that of their citizens; it's that of the rulers on top of these economies.

You have written that the bailout of Greek sovereign debt amounts to financial warfare seeking the Greek Islands, ports, water and sewer systems as booty. How is this asset stripping accomplished?

The European Central Bank and the IMF told Greecethat it had to run a budget surplus or at least minimize its budget deficit to meet the eurozone criteria.But it was not to balance the budget by taxing the rich. That's the ECB's constituency, after all.Greece was told to sell off its ports and public domain, and counting this as budget revenue.So it would balance the budget not by progressive taxation, which is how America and Western Europe got rich, but by selling off the public domain – mainly to foreigners.

The idea that the Greek economy could become more efficient and lower-cost by selling off these public assets is without foundation. The new buyers are not going to lower the prices charged for water and ports services.This is mythology based on junk economies.When you privatize a basic infrastructure, it's done on credit.So the new owners factor their interest and financial charges into the cost of doing business.They also pay themselves enormous salaries, much higher than the public sector would pay.And they use their monopoly position to put tollbooths on the roads, on water and sewer usage – tollbooths everywhere.

If governments don't have a price-regulating system in place to treat these infrastructure investments like public utilities – to keep their prices in line with the necessary costs of production – then the economy will be drained by what economists call rent extraction. "Economic rent"consists of predatory monopoly charges,much like rent racking by landlords (charging as much as the market will bear), but instead of being charged for land it is charged for access to water, sewer services, use of broadcasting spectrum, telephones and so forth. You end up with an economy that looks like Mexico, where they privatized the telephones to Carlos Slim.He became the wealthiest person in the world by making Mexicans pay the highest prices in the world to make phone calls and use the communications spectrum.

This is the neoliberal mode. It pretends thatGreece can get rich by letting the Carlos Slims of the world come in and take over its economy.What is unique today is that this is not being done with an army.No paratroopers are going toland.European and other foreign banks and governments will give political contributions to Socialist lawmakers members to vote in favor of giving the country away.All this is being done financially without bloodshed – except for firing on demonstrators in the streets.

And now Ms. Clinton call this democracy, not oligarchy.

Michael Hudson, thank you very much.

Thank you, Bonnie.

***Dr. Hudson** is a financial economist and historian.He is president of the Institute for the Study of Long Term Economic Trends, a Wall Street financial analyst and Distinguished Research Professor of Economics at the University of Missouri-Kansas City.His 1972 book, Super Imperialism: The Economic Strategy of American Empire, is a critique of how the United States exploited foreign economies through the IMF and World Bank.He is also author of Trade, Development and Foreign Debt and Global Fracture: The New International Economic Order, among many others.Dr. Hudson has been a consultant to foreign governments including Canada, Mexico and Russia.Visit his website at www.michael-hudson.com.That's Michael dash H-U-D-S-O-N dot com.*

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Notes

1 Richard McGregor, "Obama says time to get 'serious,'" *Financial Times*, July 16, 2001.

2 Niki Kitsantonis, "Clinton Praises Greece for Economic-Policy Leadership," *The New York Times*, July 18, 2011.

3 Quoted in James O'Shea, *The Deal from Hell: How Moguls and Wall Street Plundered Great American Newspapers* (New York: Public Affairs, 2011), p. 265.