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The New Global Financial Cold War

The Guns and Butter Interview

By Prof Michael Hudson and Bonnie Faulkner

Global Research, February 28, 2016
Guns and Butter (KPFA) 19 February 2016

Region: USA
Theme: Global Economy

Dr. Hudson discusses his paper, The IMF Changes Its Rules To Isolate China and Russia; implications of the four policy changes at the International Monetary Fund in its role as enforcer of inter-government debts; the Shanghai Cooperation Organization as an alternative military alliance to NATO; the Asian Infrastructure Investment Bank (AIIB) threatens to replace the IMF and World Bank; the Trans Pacific Partnership Treaty; the China International Payments System (CIPS); WTO investment treaties; Ukraine and Greece; different philosophies of development between east and west; break up of the post WWII dollarized global financial system; the world dividing into two camps.

Dr. Michael 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 is a critique of how the United States exploited foreign economies through the IMF and World Bank. His latest book is Killing the Host: How Financial Parasites and Debt Destroy the Global Economy. Today we discuss his article, "The IMF Changes Its Rules to Isolate China and Russia."*

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This is Guns and Butter.

TRANSCRIPT

Suppose a country owes money to another nation's government or official agency. How can creditors collect, unless there's an international court and an enforcement system? The IMF and the World Bank were part of that enforcement system and now they're saying: 'We're not going to be part of that anymore. We're only working for the U.S. State Department and Pentagon. If the Pentagon tells the IMF it's okay that a country doesn't have to pay Russia or China, then now they don't have to pay, as far as the IMF is concerned.' That breaks up the global order that was created after World War II. The world is being split into two halves: the U.S. dollar orbit, and countries that the U.S. cannot control and whose officials are not on the U.S. payroll, so to speak.

I'm Bonnie Faulkner. Today on Guns and Butter, Dr. Michael Hudson. Today's show: The New Global Financial Cold War. 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. His latest book is Killing the Host: How Financial Parasites and Debt Destroy the Global Economy. Today we discuss his article, *The IMF Changes Its Rules to Isolate China and Russia*.

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Bonnie Faulkner: Michael Hudson, welcome. It's been far too long since we've last spoken.

Michael Hudson: Well, it's good to be back. Last time we were together was in Italy.

Bonnie Faulkner: That's right, Rimini, Italy. What year was that?

Michael Hudson: It must have been four years ago because we were there with Stephanie Kelton from UMKC, whom Bernie Sanders has appointed chief economist for the Democrats on the Senate Budget Committee. Bill Black of UMKC was also there. I used some of my lectures there in my book Finance Capitalism and Its Discontents, published in 2012.

Bonnie Faulkner: Michael, I produced actually seven shows from the presentations in Rimini on Modern Money Theory with you, with Marshall Auerback, William K. Black, Stephanie Kelton, and they were blockbuster shows, I must say.

Michael Hudson: That's great. That was a wonderful presentation. When we walked in, it was in this big soccer stadium and we felt like we were the Beatles, walking down the middle aisle. People were cheering us and calling out our names and it was as if we were pop heroes.

Bonnie Faulkner: The Italians turned out to be so warm and so enthusiastic for an alternative economic theory. I was amazed, too.

Michael Hudson: Yep. And people came there from Spain and from all over. That was one of the best presentations any of us had ever been at.

Bonnie Faulkner: I'm so happy I was able to be there. That is a conference to remember, for sure. Well, I've been reading your article, "The IMF Changes Its Rules to Isolate China and Russia." It rings an alarming bell about the implications of rule changes at the International Monetary Fund, the IMF, which makes loans to governments. Before we discuss these IMF rule changes specifically, what precipitated these drastic policy shifts at the IMF?

Michael Hudson: There are a number of policy shifts. The first shift was that – In the past the IMF has not made loans to countries that are in default to governments. That's because in the past, the government in question was the U.S. Government. Since World War II almost all international financial bailout or stabilization loans by the IMF and World Bank have involved the U.S. Government, in conjunction with consortia of U.S. banks.

For the first time, now that China and the BRICs are growing, countries are borrowing not only from the United States subject to U.S. lobbying forces, but can now borrow from China and other countries as well.

The United States has responded by changing the IMF rules. It said, 'Wait a minute. It's okay for the IMF to make loans to countries that don't pay China and Russia or the BRICs, because we're in a new Cold War. The IMF really is working for us.' As long as the U.S. has veto power in the IMF, its delegate can veto any loan to a country that owes money to the United States that the United States doesn't wish to support. But it has no objection for the IMF making loans to U.S. satellites such as Ukraine, that official debts to Russia.

Ukraine last December owed $3 billion to Russia on a loan that is coming due from the Russian state investment fund. The United States is doing everything it can to hurt Russia economically, thinking that if it hurts it enough, Russia will capitulate to the U.S. strategy. The New Cold War strategy is basically an attempt to force other countries to privatize their economies to follow neoliberal policy. The aim is to open their economies to U.S. corporations and U.S. banks.

The IMF rules change was to mobilize the IMF basically as an agent of the U.S. Defense Department, with a side office on Wall Street. All of a sudden it's become clear that the IMF is not an international institution for global economic performance. It's an arm of U.S. Cold War diplomacy, one that's moving far to the right very quickly under the Obama Administration.

Bonnie Faulkner: We now have the Shanghai Cooperation Organization, the SCO as an alternative military alliance to NATO and the Asian Infrastructure Investment Bank, the AIIB, which threatens to replace the IMF and World Bank. How successful do you think these new alternatives to the Western banking system will be?

Michael Hudson: The big point is that the Western banking system, the World Bank and the IMF are unsuccessful. The IMF follows a junk economics that says if you owe money to foreign bondholders or banks, you have to impose austerity on the country to pay whatever is owed. The junk economics at work claims that austerity will enable debtors to squeeze enough tax money out of their economy to pay foreign bankers and bondholders. This is the same disastrous theory that the British and the Americans and the French used in the 1920s to insist that Germany could pay any amount of reparations if it only would tax the economy enough.

This theory was shown to be false by John Maynard Keynes and also by the American, Harold Moulton, at the Brookings Institution. But the lessons of the 1920s were rejected by the IMF, because they know very well – and the staff has made it very clear – that austerity doesn't enable a country to pay its foreign debts. Austerity makes countries less able to pay. That means they will need to borrow even more.

Then the IMF comes in with its number-two punch: The number one punch is austerity. The number two punch is to say: 'Well, I guess our program didn't work. What a disappointment. [But it shouldn't really be a surprise, happening again and again.] You now have to begin privatizing your industry and natural resources. Sell off your land.' They tell other debtor countries essentially what they told Greece over the last year.

When the austerity plan demanded by the IMF since 2010 didn't help Greece, they joined with the rest of the Troika (the European Central Bank and European Union) in 2015 to demand that Greece agree to sell off its islands, sell off its ports, sell its water systems, sell everything in the public domain. After that demand had been made on Greece in the summer of 2015, it was Ukraine's turn.

The number one punch against the Ukraine by the IMF was to impose austerity on the pretense (its junk economics) that Ukraine could pay its foreign bondholders with income taxed out of its domestic economy. When this made things worse, the World Bank and USAID came in. The U.S.-appointed finance minister fingered the agricultural land, gas rights and other natural resources that Ukraine could sell off to American and European investors – but not to Russians.

The idea is that if American investors can buy the key infrastructure and commanding heights of the Ukrainian economy, it can pry Ukraine apart from Russia. Ukraine played a key role in the Russian economy. Much Russian military and space industrial output was produced in the Donbas region in eastern Ukraine.

So the idea was that separating Ukraine from Russia is the first step in trying to carve up Russia, and then to carve up China, breaking them into little pieces. The aim is to treat China and Russia like the Mideast, like Libya, Iraq, Afghanistan and Syria – as smash-and-grab exercises to take their natural resources and enterprises.

Bonnie Faulkner: What is the aim of the Trans-Pacific Partnership Treaty and how is it at odds with the Asian Infrastructure Bank, the AIIB?

Michael Hudson: I could give a glib answer and say the aim is to reduce the population by 50%, to starve people, abolish pensions and spread poverty. That actually is the effect.

The cover story pretends to be about trade, but the real agenda is to force privatization and disable government regulation. This reverses what was central to the whole Progressive Era. For the last 300 years, the assumption of Europe and North America was that you were going to have a mixed economy, with governments investing in infrastructure, roads and other transportation, communications, water and sewer systems, gas and electricity. The role of government infrastructure was to provide these basic needs at minimum cost in order to promote a low-cost, competitive economy. That's how America got rich. That's how Germany industrialized and how the rest of Europe did. Bit the aim of the Trans-Pacific Partnership is to reverse and privatize public investment. Its ideology is that the economy should be owned and operated by private owners, private enterprise, whose aim is short-term profit.

There are a number of related aims: to nullify environmental protection regulations that cost money, to nullify protection of labor, and to nullify attempts to tax natural resources or economic rent. The idea is to turn roads and the transport system into toll roads, which will be owned by foreigners and run at a high charge. The Internet and the water system will be sold off and made into toll systems, to charge for their services and for other basic needs. This will impose a neo-feudal rentier economy throughout the world as the finance, industrial and real estate (FIRE) sector takes over the government sector.

I think you could say that at the broadest level, the idea is to roll back the Enlightenment and restore feudalism. That may sound like an extreme statement, but people don't realize how radical the TPP's investment agreements are. For instance, when Australia raised the charges on cigarettes and included health warnings on the packs, Philip Morris sued, insisting that Australia pay it what Philip Morris would have made if people would have continued to smoke and get cancer at the existing rate.

When Ecuador tried to sue oil companies for pollution, the oil companies sued, and now the country has to pay the oil company the amount of profit it would make if it continued to produce oil by polluting the land – to an infinite degree. No government anywhere in the world that signs this will be free to regulate the environment or even to enact new taxes on rent-seeking or other private enterprise.

Essentially, the new buyers of the roads the water systems, the sewer systems, can use these as rent extraction opportunities without anti-monopoly regulations. That means they can charge whatever the market will bear, and treat foreign countries sort of like New York City cable customers are treated. I live in Forest Hills in Queens. We have one supplier, Time Warner. If I want cable, I have to pay what they charge, and it has nothing to do at all with their cost of production. I have to rent their cable box, not buy one of my own.

That's what economic rent is. It's a revenue above the cost of production. For hundreds of years the economics of Adam Smith, David Ricardo, John Stuart Mill and Thorstein Veblen wrote about how to create an economy that would produce everything at its actual, technologically and socially necessary cost, without any free lunch, that is, without any kind of unearned income ("economic rent").

The aim of the Trans-Pacific Partnership and its European version is to promote unearned rent extraction. Rentier interests have backed a kind of junk economics to replace classical economics, against the Progressive Era and social democracy, to create a right-wing ideology that they call free trade. The term is Orwellian doublethink.

Bonnie Faulkner: Have these rulings by the World Trade Organization been enforced against these countries you mentioned, such as Australia?

Michael Hudson: I think Philip Morris failed, but it forced the government to spend tens of millions of dollars in legal fees. It's almost impossible for a poor government like Ecuador or even Australia, to spend the legal fees that it costs to defend themselves against a battery of corporate lawyers. Under the TPP, the referees would be drawn from the corporate sector and its law firms.

The judgments and rules are made outside of government and outside of laws that voters enact. So corporate oligarchy replaces democracy. Decisions as to how much governments will have to pay corporations in compensatory damages are made by a small group of referees in a revolving door with the corporate sector. In effect, they will work as lobbyists for these corporations.

Bonnie Faulkner: China accelerated its creation of the alternative China International Payments System, CIPS, and its own credit card system. What is the SWIFT Interbank Clearing System, and is the new Chinese payment system a threat to it?

Michael Hudson: All banks have a clearing system when you write checks on a bank account. The SWIFT system is a huge computer software program that enables people to write checks to send money to others who use other banks.

About a year ago U.S. strategists thought about going to a new Cold War with Russia. It might quickly become military. But the U.S. saw that it could hurt the Russian economy without having to send troops in. We don't have to invade. That's old-style warfare. No country can invade another with troops these days. But the U.S. can hold Russia or any other economy hostage by suddenly excluding it from the SWIFT payments clearing system. Their banks, individuals and corporations can't clear any money. So they're paralyzed. The U.S. will have smashed their economic linkages and communications.

As soon as the Americans talked about this, China and Russia responded. They naturally don't want a nation that says it may want to go to war with them to have such disruptive power. Obama and Hillary Clinton have already made such threats. So Russian leaders have said that they would like to be part of a global unit, but as long as the United States is running SWIFT for its own interests and is acting in a hostile way, they need to protect their own bank clearing systems.

So China took the lead in creating its own bank clearing system. People and companies and government organizations in China and the other BRICS countries won't have to be hostage to the United States doing with a computer malware program what it did to Iranian centrifuges. Just like we blew up the Iranian centrifuges by installing a virus to speed them up. It could do that with SWIFT. Now, China and the BRICs are moving to defend themselves against this prospect.

Bonnie Faulkner: Well, now, has China's international Payment System been implemented yet or is it still being planned?

Michael Hudson: I think they're still in the process of developing it, because it's hard to develop a system as complex as this. There's an inertia for these things, making it easier to build on the existing clearing systems. It takes a lot of time to develop a replacement. The situation is like Microsoft's Office program. That's why Mac computers use Word and Excel. It takes billions of dollars to write a program that doesn't have glitches in it. I think the Chinese are still trying to work out the glitches because they don't expect overt warfare quite yet.

Bonnie Faulkner: Russian Prime Minister Putin proposed a partnership, or at least cooperation, between the West and the emerging military and economic partnerships in the East. Putin's overture to the West seems to have fallen on deaf ears. Why do you think?

Michael Hudson: This is the same hope that has existed since the 1990s, even before Putin came into power. The idea was that Russia is willing to join NATO, seeing that atomic war between the industrial nations of the world is now out of the question.

They do face a common threat from Wahhabi Islam, funded by Saudi Arabia – Wahhabi Sharia Law terrorism. Russia is concerned about Saudi-backed terrorists on its southern front, from Georgia, Azerbaijan, all the way through central Asia. The Chinese also are concerned about Wahhabi terrorism through the Uyghurs. ISIS and Al Nusra are acting as America's Foreign Legion. When Hillary Clinton overthrew the Libyan government, the arms and military stockpiles were turned over to ISIS. Libya's central bank resources were robbed and also turned over to ISIS. When America marched into Iraq, it turned the Sunni army and all those billions of dollars of shrink-wrapped hundred-dollar bills over ultimately to ISIS. So although America opposes ISIS when they kill Americans, ISIS is basically America's way of breaking up countries that may threaten not to be part of the global dollar standard.

Russia hoped that the United States would see that this is a crazy system. America, Russia and Europe can get rich in mutual trade. If Europe pursues its economic interests, it would see itself as a natural trading partner of Russia. Europeans and probably Americans could go to Russia and try to build up the economy, because it needs entrepreneurs.

But instead of pursuing a mutual prosperity sphere between Europe, Russia and the United States, the United States has pressed Europe into a dead zone of neoliberal austerity. That is shrinking Europe's economy and carving it off from Russia. This prevents prosperity for Europe, on the ground that it would also benefit Russia or China.

The idea from the Americans' side is to treat Russia like it treated Cuba, Iran and Libya – to isolate it, expecting Russia to knuckle under. But instead, Russia's much bigger than Cuba or North Korea, and China is even bigger. So instead of just surrendering to the American neoliberal economic plan, they've decided that America has driven them together in a mutually defensive alignment. U.S. diplomacy has brought about precisely the Eurasian unity that it set out to try to prevent.

Bonnie Faulkner: Yes. I believe in your paper at one point you described some of the IMF members as wearing suicide vests to blow up that institution. I thought that was a pretty good description.

Michael Hudson: It's indeed as if the United States walked into the IMF meeting with a suicide vest and said, 'We want the IMF to only serve U.S. interests, not international interests.' So that's broken the illusion that the IMF as an honest broker to help countries stabilize.

U.S. pressure has radically changed a series of rules. One rule I mentioned above is not to lend to a country that refuses to pay another government. That wasn't formally in the IMF Articles of Agreement. But what is in the IMF articles is that you're not supposed to lend to a country that has no visible means of paying back the loan. That is called the "No More Argentinas" rule, passed after the IMF lent Argentina money in 2001 to pay its bondholders. Argentina had no prospect of repaying these bad loans.

The IMF broke this rule when it lent to Greece after 2010. Some of the staff left the IMF, seeing their analysis ignored. The IMF's Board asked how could it lend this money to Greece to pay German, French and English banks and bail out bondholders without seeing how Greece could pay.

The IMF leader, Dominique Strauss-Kahn, overruled the staff and these Board members by creating a new "systemic risk" rule. This rule allowed the IMF to violate its Articles of Agreement and lend to any country if failure to repay a loan would threaten to pose a systemic risk to many countries. In practice, the IMF defined systemic risk simply to be the thought that a bondholder might lose more than $1. That might crash "confidence. So in order to save bondholders and banks from losing, the economy would be wrecked by debt deflation. By the way, just a few days ago, on January 29th the IMF reversed that rule, saying that it's not going to use that excuse any more.

Another element of the IMF Articles of Agreement stipulates that it is not supposed to lend to a borrower at war. One obvious reason is that if a country is at war, especially a civil war that's bombing its export sector as Ukraine is doing, how can it obtain the foreign exchange to pay its foreign debt? Most Ukrainian exports were to Russia. The attack on Donbas and Eastern Ukraine has destroyed this export industry.

The United States strong-armed the IMF to make the loan to Ukraine. Its managing director Christine Lagarde said that she hoped Ukraine wouldn't spend the money on war. But one and a half-billion dollars were given to the kleptocrat bankers Kolomoiski, who immediately moved it offshore but used his domestic money to finance an anti-Donbas army. The very next day, President Poroshenko said that now Ukraine could afford to wage more war.

The fourth IMF rule that is broken is that it isn't supposed to lend to a country that has little likelihood of carrying out an austerity program. This is called a conditionality. It involves over-riding democratic opposition. Ukraine is cutting back pensions and imposing austerity, so there's little chance of the country surviving as a democracy. The United States basically has come in and acknowledged that it's dropping the pretense of backing democracies. In the 1960 and '70s it backed dictatorships in Latin America, including the overthrow of Allende in Chile. And now the IMF will lend to countries at war, even when they cannot pay, as long as they do what U.S. strategists want. But it won't get loans to pay Russian banks or BRICs banks.

Bonnie Faulkner: Now, Michael, you've already begun to answer this question but maybe we can get a little clarification on it. Russia's National Wealth Fund made a loan to the Ukraine. You've brought this up. This Russian loan was protected by IMF lending practice, and the bonds were registered under London's creditor oriented rules and courts. Describe how IMF and World Bank rules protected the original structure of post-World War II sovereign lending practice.

Michael Hudson: The IMF said it would not make a loan to a country that owed money or was in default of a loan to any government that did not negotiate in good faith to pay foreign governments. Ukraine owed $3 billion to Russia's Sovereign Wealth Fund – obviously a government organization. The Russian loan was made on concessionary terms, but it also had protections. Because it was a Sovereign Wealth Fund, it protected itself by registering the loan in England. There's been a debate in Russia over whether Ukraine can avoid repaying Russia.

Last year the U.S. Treasury had a long discussion with bank lawyers about how Ukraine might default and still be able to qualify for loans from the IMF. Well, we've seen the answer. The IMF rules were changed. Remember, the European Union and international banks usually will not join in a loan consortium to a country if the IMF doesn't also join. The debtor country must be in good standing with the IMF.

But now, instead of protecting the system of loans among governments, the IMF will only protect loans to governments in the U.S. orbit, not to governments that the United States doesn't like. In practice, that means anybody that doesn't follow neoliberal policies.

Basically the United States sought to remove Russia's legal ability to collect the $3 billion Ukraine owed. There was a discussion about whether Ukraine could call it an odious debt, because anything owed to Russia is deemed odious since Obama called Putin a kleptocrat and corrupt. For 50 years America has been lending to blatantly corrupt dictators in Latin America, Africa and Asia, but they're not corrupt, from Pinochet down through Tony Blair. The U.S. is smashing up the framework of international law.

Ukraine knows that it will lose any legal attempt to avoid paying Russia in the British courts where the bonds are registered. That court is very creditor oriented. But at least Ukraine can tie up its ultimate settlement.

Ukraine and its U.S. backers may think that with oil now below $30 a barrel and Russia needing money, maybe they can starve Russia into submitting to the U.S. dictates. This is crazy, because Russia obviously is not going to surrender. A few days ago Foreign Minister Sergei Lavrov announced that Russia is rethinking its relationship with the West. It's obvious the United States opposes economic linkages between Germany, other European countries and Russia. So Russia is rethinking its relationship with Europe. If Europe acts like it wants to be the 51st state of America instead of pushing its own economic interests, the Russians will turn eastward toward China and toward the BRICs. Too bad! It could have been a nice mutual prosperity relationship.

Bonnie Faulkner: You've titled your article "The IMF Changes Its Rules to Isolate China and Russia," because that's what they're doing. The purpose behind these rule changes is to isolate China and Russia. Now, China and Russia were cooperating with the IMF and the World Bank, weren't they?

Michael Hudson: Yes they were. The main objective of U.S. strategy from the beginning was China. For three years the United States has been discussing openly how to isolate China. It doesn't want to see a potentially independent great power. It's okay if Chinese labor works at low wages to supply Wal-Mart with low-priced exports, but not for China to be an independent powerhouse.

China has given American investors and importers enough of a common interest to lobby to prevent the U.S. Government from intensifying its Cold War against China. But Russia doesn't have that much leverage offering the West ways to get rich, especially since they threw Khodakovsky in jail after he tried to sell Yukos's oil to Exxon. That would have essentially taken control of Russian oil out of the national patrimony, and probably left it with little sales and export revenue after Exxon's accountants had done the usual creative tax strategies using flags of convenience and offshore banking centers to leave no reported taxable earnings.

China wants to make its currency part of the global currency basket of the IMF. It wants to establish the yuan on the same status as the dollar so that it can avoid having to rely on American banks for its export trade, and especially for its domestic credit creation. It wants to avoid what U.S. neoliberals did to Russia in 1992 and 1993. They convinced Russia that its central bank needed to hold U.S. dollars as backing for its domestic ruble currency. Since Russia didn't have many U.S. dollars, the result was a drastic deflation ("shock therapy" with no therapy), which ended up de-industrializing Russia.

There was no need for Russia to borrow in a foreign currency to meet domestic expenses for its own labor and industry. The ruble was turned into a satellite currency of the dollar, and left to crash in 1997 as capital flight to sterling and dollars amounted to about $25 billion each year.

That is what China wants to avoid. They want to be free of reliance on the dollar, except for what they need to import from the United States or to defend the currency against raids. George Soros said that he expects the yuan to go down. That's a sign to currency raiders to try to profiteer by driving the Chinese currency down. The Chinese are trying to free themselves from interconnections to the dollar orbit, except to get dollars that they need to import things from the United States – which I guess are not much, except for movies.

Bonnie Faulkner: You mentioned four of its own rules that the IMF broke in making loans to Ukraine. I'm wondering if you wouldn't mind just very briefly stating what these four broken rules are, so that people can get their heads around why this is such a sea-change.

Michael Hudson: One rule is not to lend to a country that has no visible means of paying back the loan. That's the "No More Argentinas" rule. It already was broken with the Greek loan, with Strauss-Kahn introduced the "systemic risk" loophole to protect banks.

The second rule is not to lend to a country that repudiates its debt to official creditors, meaning a country won't pay what it owes to another government. That rule made the IMF an enforcer for the creditor cartel. But it is now only an enforcer on behalf of U.S.-favored creditors.

The third rule is not to lend to a country at war. Ukraine's at war, in a civil war with the East. But Donbas is backed by Russia, so that's OK now.

The fourth rule is not to lend to a country that is not going to impose the IMF austerity conditionalities, which make countries so poor that they end up bankrupt and have to sell off their natural resources and other assets. Ukraine's post-coup government hardly can follow IMF conditionalities without being voted out of office, but in the meantime they can sell land and gas rights to Soros and Monsanto, so that's OK.

These four rules are now broken. Ukraine has not yet begun to sell off its natural resources, and there's some argument going on because the kleptocrats want to hold onto them and make the same deal that their Russian counterparts made in the early '90s: They'll sell maybe 25% of their monopoly to U.S. buyers, list their companies on the U.S. or British stock exchanges, let buyers bid up prices, and then sell their 75% and take payment in London, New York or wherever. The important thing is that they will take the sales proceeds out of Ukraine, leaving the country with no money in the bank, while owing an enormous amount every year to transmit profits on agricultural land and economic rents extracted from the roads, gas and other infrastructure being sold off.

Bonnie Faulkner: You say that at issue between the East and West is a philosophy of development. How does development differ in the two systems?

Michael Hudson: The neoliberal American philosophy of development is an Orwellian term for the absence of development. It reverses development. The neoliberal plan is to create a post-industrial society. By "post-industrial" I mean a neo-rentier economy returning to feudalism. Instead of governments taking the lead and providing basic services at a low price to become a competitive economy, neoliberalized governments sell roads and energy, electricity, water and sewers to buyers that are going to charge whatever the market will bear. This is going to impoverish the country. It's the opposite of what development economics taught through most of the 20th century.

Bonnie Faulkner: What kind of scenario have U.S. State department and Treasury officials been discussing for more than a year as a way to oppose Chinese and Russian infrastructure loans to other countries? I think you started to talk a bit about this already.

Michael Hudson: The United States did not join the AIIB, and it tried to discourage other countries from joining. There was a lot of hand wringing when England joined the AIIB and other countries tried to do it. The United States essentially is trying to create an iron curtain separating the BRICS from the U.S. dollar orbit. It's a financial curtain – not an iron curtain, but an electronic one.

Bonnie Faulkner: Did you write in your article that the IMF would go ahead and loan to countries, and tell them that they wouldn't have to repay their loans to China or Russia but could still borrow from the IMF?

Michael Hudson: The IMF didn't come right out and tell countries that they don't have to repay. The problem is, there has to be an international court. There has to be an enforcement vehicle. For instance, you have a lot of the vulture funds claiming that Argentina owes them money on its bonds, but so far they haven't been able to collect. They were able to get Ghana to grab one of the Argentine training boats, but because it was government property the country was directed to release it.

Suppose a country owes money to another nation's government or official agency. How can creditors collect, unless there's an international court and an enforcement system? The IMF and the World Bank were part of that enforcement system and now they're saying: 'We're not going to be part of that anymore. We're only working for the U.S. State Department and Pentagon. If the Pentagon tells the IMF it's okay that a country doesn't have to pay Russia or China, then now they don't have to pay, as far as the IMF is concerned.'

That breaks up the global order that was created after World War II. The world is being split into two halves: the U.S. dollar orbit, and countries that the U.S. cannot control and whose officials are not on the U.S. payroll, so to speak.

Bonnie Faulkner: You describe this as a "tectonic, geopolitical shift that will be fought with all the power of an American Century inquisition." What do you mean by inquisition?

Michael Hudson: Dirty tricks. President Obama has said that we're not going to invade another country, because no country's really able to mobilize enough troops without creating a domestic economic and political crisis. His alternative is targeted assassination. That's what the United States has long done, in Chile under Nixon/Kissinger and Guatemala and Nicaragua under Reagan.

Or most simply, you bribe other governments to get them to promote people in foreign countries who work for the United States. You want to make sure, in England, for instance, that someone like Tony Blair becomes prime minister, who will do whatever he's told by the U.S. You want to make sure that if a country tries to be independent, like Chile did, you come in and kill the president. If you have countries that want land reform, you start Operation Condor and kill 10,000 professors, land reformers and union leaders. Essentially, it's a terrorist policy.

Finally, you use ISIS and al-Nusra as an American Foreign Legion and send them into whatever country you want to smash and grab.

Bonnie Faulkner: You write: "We have America Pentagon capitalism with financial bubbles deteriorating into a polarized rentier economy and a resurgence of old-fashioned imperialism. If and when a break comes, it will not be marginal, but a seismic geopolitical shift." What are your thoughts on the coming breakup of the post-World War II dollarized global financial system? What will it look like?

Michael Hudson: Other countries will try to get rich in the same way that the United States tried to get rich: by promoting prosperity, a domestic market, by subsidizing research and development just like the United States has subsidized high technology. And, they will try to prevent rent seeking – to prevent special privileges, whether they're patent privileges or ownership of cable TV systems. The aim is to prevent super-profits or economic rent – unearned income.

You want people to be able to earn in a way that reflects their actual contribution to production, and you want to uplift the status of labor. You want to educate your labor force, to make it a modern technological labor force.

All this takes government subsidy, and hence a mixed economy of public and private sectors in which governments pay for most of the infrastructure costs in order to help the private sector compete better.

So other countries may do what the United States did since its Civil War. They will be protectionist, they will try to upgrade the quality of their labor, and also will upgrade the quality of their agriculture. They will promote high-technology industry, public health care and basic needs at a low public expense. This would achieve what social democracy set out to achieve a century ago in the Progressive Era. That is the path that the United States and Europe have now rejected.

Bonnie Faulkner: In your article you wrote that the result is "to split the world into pro-U.S. economies going neoliberal, and economies maintaining public investment in infrastructure and what used to be viewed as progressive capitalism."

Michael Hudson: I think when the Soviet Union fell apart and Russia and other countries invited in U.S. advisors, they were under the impression that these neoliberals were going to help them develop in the same way that the United States had developed and become as prosperous and productive an industrial economy as the United States.

What Russians didn't realize was that the United States had no intention of helping them get rich the way the United States did. U.S. advisors came in to smash and grab. They de-industrialized Russia, as well as the Baltics, and pulled up the connecting links from the old Soviet Union. The effect was to turn Russia back into a raw materials supplier.

The result was not only poverty but mass emigration. Latvia, for instance, is applauded as a "Baltic miracle," as if it is a success story. The miracle is that wages have been going down steadily for the last decade, driving 10 to 20% of the population to leave – mainly working-age population. The same thing occurred in Russia. Much of its technically trained engineers and others left for the United States and helped U.S. industrialization. Neoliberalizing Russia didn't help it become more prosperous. But it made American investors very rich for a while.

Bonnie Faulkner: What about the post-2010 IMF loan packages to Greece? Are they an instance of the IMF breaking its rules?

Michael Hudson: That was when the debate within the IMF occurred over the "No More Argentinas" rule. The IMF wasn't supposed to lend to a country that had no visible ability to repay. That is what my book Killing the Host is about. I have three chapters on Greece as an example of how, in the past, the IMF would only smash up Third World countries, mainly on behalf of U.S. mineral companies and other exporters. Greece was the first European country that the IMF came in explicitly to smash up in order to privatize it. I have a chapter on Latvia also, so this gets into the topic that Killing the Host is about.

Bonnie Faulkner: You write that Dominique Strauss-Kahn backed the hard-line U.S./European central bank position regarding Greece. So did Christine Lagarde in 2015, overriding staff protests.

Michael Hudson: The IMF staff had opposed lending to Greece, because it couldn't pay. But then Strauss-Kahn met with French President Sarkozy and said that he wanted to run for the French presidency. Sarkozy told him that he couldn't possibly be a successful politician in France if, as head of the IMF, he let Greece default on its bonds. French banks would have suffered if the IMF didn't bail them out.

Then, President Obama went to the Group of Twenty meeting, after Tim Geithner, the Treasury Secretary, had been on the phone with Europe, and said that if Greece didn't pay the French and German bondholders, the American banks had made huge bets and would go under – and so would big European banks who were counterparties. So even though Strauss-Kahn knew that Greece couldn't pay, the whole system would go down' – meaning the American banks would lose. Obama and Geithner said that the IMF couldn't let American gamblers lose on the bets they had made on this financial horse race. It was deemed preferable to break up Greece, even if this meant breaking up Europe. That was the tradeoff: the banks vs. the Greek economy.

That's the enormous asymmetry of the egotistic U.S. stance. It's naked greed. They're willing to smash the IMF, Greece and European integration just so Goldman Sachs and the Wall Street banks that had made bets that Greece would pay wouldn't take a loss.

That led the head of the European section of the IMF to resign. She went to Canada, I think, and the Canadians published her whistle-blowing there. It destroyed the IMF's credibility even before the Ukrainian crisis.

Bonnie Faulkner: You've written that the reason for smashing Greece's economy was to deter Podemos in Spain and similar movements in Italy and Portugal from pursuing national prosperity instead of eurozone austerity. Do you think that was an important component?

Michael Hudson: That's certainly what the European Central Bank said was critical. They said, 'We cannot let Syriza win,' and the finance minister of Greece, Yanis Varoufakis, said that he was told while meeting with the IMF and the Europeans that democracy doesn't matter. It doesn't matter what the people voted for. Greece was told to pay the debts that its previous corrupt governments had agreed to.

The Financial Times and almost all the international press noted that if Greece's debt was written down to save it from being wrecked, the IMF and the rest of the EU Troika would have to write down the debts of Italy, Spain and Portugal. The whole debt collection system would go. So either the troika would save the banks or save the economy. They said, 'Save the banks, not the economy.'

That's also what President Obama did in the United States when he bailed out the banks in 2008. He did not write down the debts or break up the banks. That's why Bernie Sanders is running today.

So essentially the U.S. orbit says, 'Save the banks, not the economy.' The problem is that the volume of interest-bearing debt grows exponentially. Any rate of interest has a doubling time. So the debt is going to grow and grow exponentially. That obliges debtor countries to impose deeper and deeper austerity. And every economy that you impose this austerity on is going to react like Russia or Latvia or Greece. There's going to be emigration, a decline in the birth rate, a rise in the death rate and a spread of disease. There's going to be a shrinking market as the debtor economy is torn apart.

The struggle of our time is over whether to save the banks or the economy. In the end, the banks can't be saved because most debts are unpayable. The United States position is, in effect, 'They may be unpayable out of current earnings and current exports, but there's still room to pay if you sell off the public domain to the creditors.'

So what you're having now is a vast global foreclosure process. Creditors and bondholders are, in effect, taking payment in the form of domestic roads, transport system, communications, water and sewer systems, and similar infrastructure. I call this neo-feudalism. It's rolling back industrial capitalism. It's rolling back the growth in markets, imposing economic shrinkage and neo-feudalism. That's what a rentier economy is. It's a rent extraction economy, not an economy earning profits by producing more and hiring labor to produce and expand the economy. It's the reverse of the dynamic of industrial capitalism as everyone thought of it a century ago.

Bonnie Faulkner: Michael Hudson, thank you very much.

Michael Hudson: Well, it's always great to be on your show and I'm glad you're back, Bonnie.

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I've been speaking with Dr. Michael Hudson. Today's show has been: The New Global Financial Cold War. 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 Untied States exploited foreign economies through the IMF and World Bank. He is also author of Trade, Development and Foreign Debt and The Myth of Aid, among many others. His latest book is, Killing the Host: How Financial Parasites and Debt Destroy the Global Economy. Dr. Hudson acts as an economic advisor to governments worldwide, including Iceland, Latvia and China on finance and tax law. Visit his website at Michael-Hudson.com.

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