

The US will Continue Its Wars as Long as the Dollar Remains a Reserve Currency

By [Dr. Paul Craig Roberts](#)

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Pravda.Ru interviewed Paul Craig Roberts, an American economist, who served as an Assistant Secretary of the Treasury in the Reagan Administration and became a co-founder of Reaganomics – the economic policies promoted by the U.S. President Ronald Reagan during the 1980s. We asked Mr. Roberts to share his views about the current state of affairs inside and outside the United States.

Pravda.Ru: Mr. Roberts, you are known in Russia as the creator of Reaganomics, which helped the country overcome stagflation. What were the key aspects of that policy and how would you estimate its results today? Do you think your faith in free market has shattered?

Paul Craig Roberts: Free market means the freedom of price to adjust to supply and demand. It does not mean the absence of regulation of human behavior.

Reaganomics was a political word for supply-side economics, a new development in economic theory. In the post World War 2 western world, governments used Keynesian demand management economic policy to control inflation and to boost employment. John Maynard Keynes was the British economist who explained the Great Depression in the West as a consequence of insufficient aggregate demand to maintain full employment and stable prices.

Keynesian demand management relied on government budget deficits and easy monetary policy (money creation) to stimulate demand for goods and services. To control inflation from too much demand for goods and services, high tax rates were used to reduce disposable income.

The problem that developed is that the high tax rates on income made leisure inexpensive in terms of lost current earnings from not working, and made current consumption inexpensive in terms of lost future income from not saving and investing. In other words, high tax rates on income made leisure and current consumption cheap in terms of foregone present and future income. Thus, high tax rates on income depressed the supply of labor and capital.

Using the UK's 98% tax rate on investment income (pre-Thatcher), the Nobel economist Milton Friedman illustrated the problem with this example. You are an Englishman with \$100,000. Shall you invest it for future income, or shall you purchase a Rolls Royce and enjoy life? The true price of the Rolls Royce (or Bentley, or Ferrari or Maserati) is not the purchase price. The price of the exotic car is the foregone future income from not investing the \$100,000.

Suppose you could earn 10% on the \$100,000. That would be \$10,000 per year as the cost of purchasing the luxury car. But after tax (98%) the car would only cost \$200 per year, a very cheap price.

The same example works for labor and salary income. Because of the high marginal tax rates, many professionals such as medical doctors closed their practices on Fridays and went to the golf course.

By changing the policy mix, that is by tightening monetary policy and reducing marginal tax rates (the tax rate on increases in income), the supply-side economic policy of the Reagan administration caused aggregate supply to increase. Thus output expanded relative to demand, and inflation declined.

This supply-side policy was instrumental as Reagan's first step toward ending the cold war with the Soviet Union. As long as the US economy was afflicted with stagflation—the simultaneous rise in both inflation and unemployment, the Soviet government saw capitalism failing along with communism. But when Reagan corrected the economic problem, it made the Soviet government unsure that it could withstand an arms race.

Reagan's next step was to bring the Soviet government to the negotiating table to end the cold war. The cold war was an economic drain on both societies and always had the risk of a miscalculation that would result in nuclear war, wiping out life on earth. Gorbachev, an intelligent person aware of the risk, came to agreement with Reagan.

This was a great accomplishment for the Americans and for the Russians. Friendship and cooperation was now possible.

But it was not to last. Reagan's successors took advantage of the good will between the countries that Reagan and Gorbachev had created to achieve American hegemony over the world.

Q: During the 80s, relying on the revived economic power of the United States, Ronald Reagan managed to convince the Soviet government to end the Cold War. All those agreements, as you believe, were destroyed by Reagan's successors. Russia shares a completely different opinion about Reagan. The Russians think of him as the man, who resumed the arms race, designed the space shield and "cut out the cancer of communism" having won (or maybe bribed) Gorbachev over to his side for cooperation. Maybe one shouldn't strike him out of the list of the authors of today's American "idiotism?"

A: Reagan was not a member of the Republican Establishment. He defeated the Establishment's candidate, George H. W. Bush (father of George W. Bush) for the Republican presidential nomination. By appealing to Democratic as well as Republican voters, Reagan had a great electoral victory. Reagan had two goals: one was to end stagflation, the other was to end the cold war. He was not much interested in anything else. The "arms race" and the "anti-ballistic missile defense—star wars" were never real. They were threats used to bring Gorbachev to negotiate the end of the cold war. Unlike the present Republican Party, Reagan wanted peace, not war.

I know this because when I succeeded in establishing the new economic policy that cured stagflation, President Reagan appointed me to a super-secret presidential committee that had subpoena power over the CIA.

The CIA opposed Reagan's effort to end the cold war, as did the powerful military-security complex, about which President Dwight Eisenhower warned the American people in his last address to the American nation. The end of the cold war threatened the profits of the powerful military industries and the power of the CIA.

The CIA said that the Soviet Union would win an arms race, because the Soviet Union could control investment, unlike the US, and could allocate the entire Gross Domestic Product of the Soviet Empire to the military. Reagan's secret committee over-ruled the CIA.

I had been a member of the US-USSR student exchange program to the Soviet Union in 1961 and had observed the situation. My first book (1971) said that the Soviet economy had failed. When decades later I addressed the Soviet Academy of Sciences in Moscow in 1989 and 1990, members of the Economic Institute brought me copies of my book to be autographed. And I had thought that censorship existed in the Soviet Union.

The Soviet Union collapsed three years after Reagan left office. It came as a surprise to those of us who had helped Reagan to end the cold war and dispose of the nuclear war threat.

Myself and many other Reagan supporters opposed the extension of NATO to Russia's reduced borders. What the world seems to be unaware of is that the Soviet collapse unleashed a new, highly dangerous ideology in the US known as neoconservatism.

Q: You wrote that the insane and criminal government in Washington, no matter Democratic or Republicans, no matter the outcome of the next elections, is the biggest threat to life on Earth ever. How would you describe this threat, what is it made of and who represents it in the US?

A: The threat is the neoconservative ideology, unleashed by the Soviet collapse. It is a form of Marxism in which American "democratic capitalism" instead of the proletariat has won history's verdict—"the end of history." Americans are the "indispensable people," and the US is the "indispensable nation" with the right and responsibility to establish its hegemony over the world. Adolf Hitler called the same thing "Aryan Superiority." Now Washington asserts the superiority. The neoconservative ideology threatens the world with nuclear war.

Q: What would you say about the Russian law, according to which political parties funded from abroad should be registered as foreign agents?

A: The US has laws that require foreign interests to register as foreign agents. This law does not always apply to all Israeli lobby groups, such as AIPAC.

There are no political parties in the US that are funded by foreign interests. No such thing would be permitted. It would be regarded as high treason. What is surprising is that the Russian government permitted for 20 years its political opposition to be funded by Washington and still permits that today as long as the opposition registers as an American agent. The ability of Washington to fund the Russian government's political opposition and also protest groups, perhaps including Pussy Riot, allows Washington free access to destabilize Russia.

Q: What role do so-called non-governmental organizations play in the US? The National Endowment for Democracy, for example?

A: NGOs play no role inside the US. NGOs are Washington's means of interfering in the

internal affairs of other countries, such as funding and organizing “color revolutions” in Georgia and Ukraine. The National Endowment for Democracy is a principle funder of political opposition and protest groups in countries with governments to which Washington is opposed. Despite its original purpose, the National Endowment for Democracy has been converted into an agent for US hegemony.

Q: You wrote a lot about the fate of Pussy Riot. As you said, “they were brutally deceived and used by the Washington-financed NGOs that have infiltrated Russia.” What is the goal of such stunts?

A: It might be the case that Pussy Riot’s assaults on Russian probity are independent protests. On the other hand, the offending stunts could be provoked and funded by NGOs that are funded from Washington. Regardless, it is the result that is important. The result is that the controversy over Pussy Riot has shifted criticism from Washington’s destruction of Syria to Putin, “the suppressor of free speech.” It is folly for Russians to ally with Washington’s propaganda against their own government. If this folly continues, Russia will end up as another American puppet state.

Q: If an act like that of Pussy Riot took place in America, in a location of national significance, how would the general public and the government react? What do common people say about the Pussy Riot scandal in Russia?

A: Ordinary Americans know nothing about Pussy Riot. Despite the propaganda from Washington, most Americans have never heard of the incident. The importance of Washington’s propaganda about Pussy Riot is to send the signal to Washington’s European puppet states that Russia is to be demonized for opposing Washington’s destruction of Syria and Iran. It was the Russian and Chinese governments that blocked Washington’s UN resolution that would have allowed an opening for NATO to bomb Syria as it did Libya. Instead of being praised for its concern with life, human rights, and international law, Russia has been damned.

The consequence in the US of an act like those performed by Pussy Riot would vary depending on state and local laws. Also, depending on where the act takes place—a Jewish synagog for instance—the US Department of Justice could declare the act a hate crime or a form of discrimination against a “preferred minority” and bring a federal case.

Q: You wrote that the US government was full of determination to have the war on three fronts: Syria, Lebanon and Iran – in the Middle East, China – in the Far East and Russia – in Europe. Does the country have financial possibilities for that?

A: The US is bankrupt. However, the US dollar remains the world reserve currency. This means that the US can print money to pay its bills. As long as the world accepts the dollar as world reserve currency, the US will be able to continue its wars.

Q: Being in the insular situation, the USA experiments on other countries hoping that war will never come to the US territory. The US spends a lot more on defense of its forward-based forces in Europe and in the Middle East than it does on defense of its own borders. Maybe Russia should be more active and put the threat closer to the US borders by deploying a sea-based missile defense system near the shores of a friendly Latin American country?

A: Like President Reagan, I am in favor of peace. I believe that Americans, Russians, Chinese, Iranians, and everyone else should spend their resources in getting along with one another, not in trying to dominate one another. I believe that Washington is forcing Russia and China to spend resources on military preparedness that the countries could better use in economic development and in protecting the environment. It is my belief that Washington's drive for world hegemony is driving the world toward nuclear war. I have no way of knowing how the Russian and Chinese governments might respond to Washington's drive for hegemony.

Q: What stops Russia and China from uniting to oppose the USA?

A: This question is outside my knowledge. Perhaps suspicion of one another, like the suspicion between Sunni and Shia that allows the US to dominate the Middle East.

Q: You said that the US is a police state, which was set up in the name of mystification of the "war on terror." Can you give a clear explanation as to what the American Big Brother is doing?

A: The Bush/Cheney regime rammed through the PATRIOT Act, which assaulted the US Constitution and took away US civil liberties. The Bush regime established that the president did not have to obey either statutory US law, such as the Foreign Intelligence Surveillance Act which requires a court warrant for spying on US citizens. President Bush violated the law, a felony, and was not held accountable.

Bush asserted and established by assertion, the power to negate Constitutional protections, such as habeas corpus, and confined US citizens to indefinite detainment (life in prison) without any evidence or court proceedings. Nothing was done about this violation of constitutional order. President Obama has declared that he has the power to execute US citizens on suspicion alone without evidence or due process of law. These are the most extreme police state measures of modern times.

The Department of Homeland Security has announced that it has shifted its focus from Muslim terrorism to "domestic extremists," an undefined term. Recently the Department of Homeland Security has purchased more than one billion rounds of deadly ammunition, such as hollow point bullets, enough to shoot the entire US population several times. There are also reports that detainment camps have been constructed, allegedly for such events as hurricane evacuation. Congress and the media are not asking questions about these developments.

Q: President Barack Obama said that one of the principles to resume peace talks between Israel and Palestine was about the retrieval of 1967 borders. How could the Jewish lobby let him say that?

A: President Obama has been declared by Israeli prime minister Netanyahu and the Israel Lobby to be a lackluster friend of Israel, because Obama has not yet launched a military attack on Iran. Obama, perhaps believing himself to be the president of the world's only superpower, and not a puppet of the Israeli prime minister, has taken offense at the public bullying to which he has been subjected by the far right-wing Israeli government. Obama's statement referring to the 1967 borders was Obama's way of letting the Israeli government know that it was going too far and pushing too hard.

Q: You see the basic problems of the US economy in moving production to China. If you were invited to serve as an adviser to the president, what would be your plan for taking America out of the crisis?

A: I will never again be permitted to serve as an adviser to the president of the US. Since the Clinton presidency, the only permitted advisers are those who lie for the government. I will not do that.

I am unsure that America can be taken out of economic crisis. Much of the most productive part of the US economy has been moved offshore in order to increase corporate profits, the performance-based bonuses for executive compensation and capital gains to equity owners. The US has lost critical supply chains, industrial infrastructure, and the knowledge of skilled workers.

Theoretically, the US could bring its corporations back to America by taxing their profits according to the geographical location in which value is added to their product. If value is added abroad, in China or India, for example, the tax rate would be high. If value was added domestically in the US, the tax rate would be low.

The US could also resort to the protective tariffs that were responsible for its rise as an economic power.

These changes would be difficult to enact as the changes are contrary to the material interests of the one percent.

The US today is ruled by an oligarchy of private interests. The US government is not very independent of the powerful interest groups that fund political campaigns. The US ceased being a democracy during the Clinton administration.

Дмитрий Судаков

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About the author:

Paul Craig Roberts, former Assistant Secretary of the US Treasury and Associate Editor of the Wall Street Journal, has held numerous university appointments. He is a frequent contributor to Global Research. Dr. Roberts can be reached at <http://paulcraigroberts.org>

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