America’s Real Adversaries Are Its European and Other Allies

The U.S. aim is to keep them from trading with China and Russia

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The Iron Curtain of the 1940s and ‘50s was ostensibly designed to isolate Russia from Western Europe – to keep out Communist ideology and military penetration. Today’s sanctions regime is aimed inward, to prevent America’s NATO and other Western allies from opening up more trade and investment with Russia and China. The aim is not so much to isolate Russia and China as to hold these allies firmly within America’s own economic orbit. Allies are to forego the benefits of importing Russian gas and Chinese products, buying much higher-priced U.S. LNG and other exports, capped by more U.S. arms.

The sanctions that U.S. diplomats are insisting that their allies impose against trade with Russia and China are aimed ostensibly at deterring a military buildup. But that cannot really be the main Russian and Chinese concern. They have much more to gain by offering mutual economic benefits to the West. So the underlying question is whether Europe will find its advantage in replacing U.S. exports with Russian and Chinese supplies and the associated mutual economic linkages.

What worries American diplomats is that Germany, other NATO nations and countries along the Belt and Road route understand the gains that can be made by opening up peaceful trade and investment. If there is no Russian or Chinese plan to invade or bomb them , what is the need for NATO? What is the need for such heavy purchases of U.S. military hardware by America’s affluent allies? And if there is no inherently adversarial relationship, why do foreign countries need to sacrifice their own trade and financial interests by relying exclusively on U.S. exporters and investors?

These are the concerns that have prompted French Prime Minister Macron to call forth the ghost of Charles de Gaulle and urge Europe to turn away from what he calls NATO’s “brain-dead” Cold War and beak with the pro-U.S. trade arrangements that are imposing rising costs on Europe while denying it potential gains from trade with Eurasia. Even Germany is balking at demands that it freeze this coming winter by going without Russian gas.

Instead of a real military threat from Russia and China, the problem for American strategists is the absence of such a threat. All countries have come to realize that the world has reached a point at which no industrial economy has the manpower and political ability to mobilize a standing army of the size that would be needed to invade or even wage a major battle with a significant adversary. That is why Russia has carefully refrained from retaliating against NATO adventurism prodding at its western border trying to incite a military response.

America's rising pressure on its allies threatens to drive them out of the U.S. orbit. For over 75 years they had little practical alternative to U.S. hegemony. But that is now changing. America no longer has the monetary power and seemingly chronic trade and balance-of-payments surplus that enabled it to draw up the world's trade and investment rules in 1944-45. The threat to U.S. dominance is that China, Russia and Mackinder's Eurasian World Island heartland are offering better trade and investment opportunities than are available from the United States with its increasingly desperate demand for sacrifices from its NATO and other allies.

The most glaring example is the U.S. drive to block Germany from authorizing the Nord Stream 2 pipeline to obtain Russian gas for the coming cold winter. Angela Merkle agreed with Donald Trump to spend $1 billion building a new LNG port to become more dependent on highly priced U.S. LNG. (The plan was cancelled after the U.S. and German elections changed both leaders.) But Germany has no other way of heating many of its houses and office buildings (or supplying its fertilizer companies) than with Russian gas.

The only way left for U.S. diplomats to block European purchases is to goad Russia into a military response and then claim that avenging this response outweighs any purely national economic interest. As hawkish Under-Secretary of State for Political Affairs, Victoria Nuland, explained in a State Department press briefing on January 27: "If Russia invades Ukraine one way or another Nord Stream 2 will not move forward." The problem is to create a suitably offensive incident and depict Russia as the aggressor.

Nuland expressed who was dictating the policies of NATO members succinctly in 2014: "Fuck the EU." That was said as she told the U.S. ambassador to Ukraine that the State Department was backing the puppet Arseniy Yatsenyuk as Ukrainian prime minister (removed after two years in a corruption scandal), and U.S. political agencies backed the bloody Maidan massacre that ushered in what are now eight years of civil war. The result devastated Ukraine much as U.S. violence had done in Syria, Iraq and Afghanistan. This is not a policy of world peace or democracy that European voters endorse.

U.S. trade sanctions imposed on its NATO allies extends across the trade spectrum. Austerity-ridden Lithuania gave up its cheese and agricultural market in Russia, and is blocking its state-owned railroad from carrying Belarus potash to the Baltic port of Klaipeda. The port's majority owner complained that "Lithuania will lose hundreds of millions of dollars from halting Belarus exports through Klaipeda," and "could face legal claims of $15 billion over broken contracts." Lithuania has even agreed to U.S. prompting to recognize Taiwan, resulting in China refusing to import German or other products that include Lithuanian-made components.

Europe is to impose sanctions at the cost of rising energy and agricultural prices by giving priority to imports from the United States and foregoing Russian, Belarusian and other linkages outside of the Dollar Area. As Sergey Lavrov put matters: "When the United States thinks that something suits its interests, it can betray those with whom it was friendly, with whom it cooperated and who catered to its positions around the world."

America's sanctions on its allies hurt their economies, not those of Russia and China

What seems ironic is that such sanctions against Russia and China have ended up helping rather than hurting them. But the primary aim was not to hurt nor to help the Russian and Chinese economies. After all, it is axiomatic that sanctions force the targeted countries to become more self-reliant. Deprived of Lithuanian cheese, Russian producers have produced their own, and no longer need to import it from the Baltic states. America's underlying economic rivalry is aimed at keeping European and its allied Asian countries in its own increasingly protected economic orbit. Germany, Lithuania and other allies are told to impose sanctions directed against their own economic welfare by not trading with countries outside the U.S. dollar-area orbit.
Quite apart from the threat of actual war resulting from U.S. bellicosity, the cost to America's allies of surrendering to U.S. trade and investment demands is becoming so high as to be politically unaffordable. For nearly a century there has been little alternative but to agree to trade and investment rules favoring the U.S. economy as the price of receiving U.S. financial and trade support and even military security. But an alternative is now threatening to emerge – one offering benefits from China's Belt and Road initiative, and from Russia's desire for foreign investment to help modernize its industrial organization, as seemed to be promised thirty years ago in 1991.

Ever since the closing years of World War II, U.S. diplomacy has aimed at locking Britain, France, and especially defeated Germany and Japan, into becoming U.S. economic and military dependencies. As I documented in Super Imperialism, American diplomats broke up the British Empire and absorbed its Sterling Area by the onerous terms imposed first by Lend-Lease and then the Anglo-American Loan Agreement of 1946. The latter's terms obliged Britain to give up its Imperial Preference policy and unblock the sterling balances that India and other colonies had accumulated for their raw-materials exports during the war, thus opening the British Commonwealth to U.S. exports.

Britain committed itself not to recover its prewar markets by devaluing sterling. U.S. diplomats then created the IMF and World Bank on terms that promoted U.S. export markets and deterred competition from Britain and other former rivals. Debates in the House of Lords and the House of Commons showed that British politicians recognized that they were being consigned to a subservient economic position, but felt that they had no alternative. And once they gave up, U.S. diplomats had a free hand in confronting the rest of Europe.

Financial power has enabled America to continue dominating Western diplomacy despite being forced off gold in 1971 as a result of the balance-of-payments costs of its overseas military spending. For the past half-century, foreign countries have kept their international monetary reserves in U.S. dollars – mainly in U.S. Treasury securities, U.S. bank accounts and other financial investments in the U.S. economy. The Treasury-bill standard obliges foreign central banks to finance America's military-based balance-of-payments deficit – and in the process, the domestic government budget deficit.

The United States does not need this recycling to create money. The government can simply print money, as MMT has demonstrated. But the United States does need this foreign central bank dollar recycling to balance its international payments and support the dollar's exchange rate. If the dollar were to decline, foreign countries would find it much easier to pay international dollar-debts in their own currencies. U.S. import prices would rise, and it would be more costly for U.S. investors to buy foreign assets. And foreigners would lose money on U.S. stocks and bonds as denominated in their own currencies, and would drop them. Central banks in particular would take a loss on the Treasury's dollar bonds that they hold in their monetary reserves – and would find their interest to lie in moving out of the dollar. So the U.S. balance of payments and exchange rate are both threatened by U.S. belligerency and military spending throughout the world – yet its diplomats are trying to stabilize matters by ramping up the military threat to crisis levels.

U.S. drives to keep its European and East Asian protectorates locked into its own sphere of influence is threatened by the emergence of China and Russia independently of the United States while the U.S. economy is de-industrializing as a result of its own deliberate policy choices. The industrial dynamic that made the United States so dominant from the late 19th century up to the 1970s has given way to an evangelistic neoliberal financialization. That is why U.S. diplomats need to arm-twist their allies to block their economic relations with post-Soviet Russia and socialist China, whose growth is outstripping that of the United States and whose trade arrangements offer more opportunities for mutual gain.

At issue is how long the United States can block its allies from taking advantage of China's economic growth. Will Germany, France and other NATO countries seek prosperity for themselves instead of letting the U.S. dollar standard and trade preferences siphon off their economic surplus?

Oil diplomacy and America's dream for post-Soviet Russia

The expectation of Gorbachev and other Russian officials in 1991 was that their economy would turn to the West for reorganization along the lines that had made the U.S., German and other economies so prosperous. The mutual expectation in Russia and Western Europe was for German, French and other investors to restructure the post-Soviet economy along more efficient lines.

That was not the U.S. plan. When Senator John McCain called Russia "a gas station with atom bombs," that was America's dream for what they wanted Russia to be – with Russia's gas companies passing into control by U.S. stockholders, starting with the planned buyout of Yukos as arranged with Mikhail Khordokovsky. The last thing that U.S. strategists wanted to see was a thriving revived Russia. U.S. advisors sought to privatize Russia's natural resources and other non-industrial assets, by turning them over to kleptocrats who could "cash out" on the value of what they had privatized only by selling to U.S. and other foreign investors for hard currency. The result was a neoliberal economic and demographic collapse throughout the post-Soviet states.

In some ways, America has been turning itself into its own version of a gas station with atom bombs (and arms exports). U.S. oil diplomacy aims to control the world's oil trade so that its enormous profits will accrue to the major U.S. oil companies. It was to keep Iranian oil in the hands of British Petroleum that the CIA's Kermit Roosevelt worked with British Petroleum's Anglo-Persian Oil Company to overthrow Iran's elected leader Mohammed Mossadegh in 1954 when he sought to nationalize the company after it refused decade after decade to perform its promised contributions to the economy. After installing the Shah whose democracy was based on a vicious police state, Iran threatened once again to act as the master of its own oil resources. So it was once again confronted with U.S.-sponsored sanctions, which remain in effect today. The aim of such sanctions is to keep the world oil trade firmly under U.S. control, because oil is energy and energy is the key to productivity and real GDP.

In cases where foreign governments such as Saudi Arabia and neighboring Arab petrostates have taken control, the export earnings of their oil are to be deposited in U.S. financial markets to support the dollar's exchange rate and U.S. financial domination. When they quadrupled their oil prices in 1973-74 (in response to the U.S. quadrupling of its grain-export prices), the U.S. State Department laid down the law and told Saudi Arabia that it could charge as much as it wanted for its oil (thereby raising the price umbrella for U.S. oil producers), but it had to recycle its oil-export earnings to the United States in dollar-denominated securities – mainly in U.S. Treasury securities and U.S. bank accounts, along with some minority holdings of U.S. stocks and bonds (but only as passive investors, not using this financial power to control corporate policy).

The second mode of recycling oil-export earnings was to buy U.S. arms exports, with Saudi Arabia becoming one of the military-industrial complex's largest customers. U.S. arms production actually is not primarily military in character. As the world is now seeing in the kerfuffle over Ukraine, America does not have a fighting army. What it has is what used to be called an "eating army." U.S. arms production employs labor and produces weaponry as a kind of prestige good for governments to show off, not for actual fighting. Like most luxury goods, the markup is very high. That is the essence of high fashion and style, after all. The MIC uses its profits to subsidize U.S. civilian production in a way that does not violate the letter of international trade laws against government subsidy.

Sometimes, of course, military force is indeed used. In Iraq, first George W. Bush and then Barack Obama used the military to seize the country' oil reserves, along with those of Syria and Libya. Control of world oil has been the buttress of America's balance of payments. Despite the global drive to slow the planet's warming, U.S. officials continue to view oil as the key to America's economic supremacy. That is why the U.S. military is still refusing to obey Iraq's orders to leave their country, keeping its troops in control of Iraqi oil, and why it agreed with the French to destroy Libya. Closer to home, President Biden has approved offshore drilling and supports Canada's expansion of its Athabasca tar sands, environmentally the dirtiest oil in the world.

Along with oil and food exports, arms exports support the Treasury-bill standard's financing of America's overseas military spending on its 750 bases abroad. But without a standing enemy constantly threatening at the gates, NATO's existence falls apart. What would be the need for countries to buy submarines, aircraft carriers, airplanes, tanks, missiles and other arms?

As the United States has de-industrialized, its trade and balance-of-payments deficit is becoming more problematic. It needs arms export sales to help reduce its widening trade deficit and also to subsidize its commercial aircraft and related civilian sectors. The challenge is how to maintain its prosperity and world dominance as it de-industrializes while economic growth is surging ahead in China and now even Russia.
America has lost its industrial cost advantage by the sharp rise in its cost of living and doing business in its financialized post-industrial rentier economy, but additionally, as Seymour Melman explained in the 1970s, Pentagon capitalism is based on cost-plus contracts: The higher military hardware costs, the more profit its manufacturers receive. So U.S. arms are over-engineered – hence, the $500 toilet seats instead of a $50 model. The main attractiveness of luxury goods after all, including military hardware, is their high price.

This is the background for U.S. fury at its failure to seize Russia's oil resources – and at seeing Russia also break free militarily to create its own arms exports. Today Russia is in the position of Iran in 1954 and again in 1979. Not only do its sales rival those of U.S. LNG, but Russia keeps its oil-export earnings at home to finance its re-industrialization, so as to rebuild the economy that was destroyed by the U.S.-sponsored shock "therapy" of the 1990s.

The line of least resistance for U.S. strategy seeking to maintain control of the world's oil supply while maintaining its luxury-arms export market via NATO is to Cry Wolf and insist that Russia is on the verge of invading Ukraine – as if Russia had anything to gain by quagmire warfare over Europe's poorest and least productive economy. The winter of 2021-22 has seen a long attempt at U.S. prodding of NATO and Russia to fight – without success.

U.S. dreams of a neoliberalized China as a U.S. corporate affiliate

America has de-industrialized as a deliberate policy of slashing production costs as its manufacturing companies have sought low-wage labor abroad, most notably in China. This shift was not a rivalry with China, but was viewed as mutual gain that would see American banks and investors secure control and profits o Chinese industry as it was marketized. The rivalry was between U.S. employers and U.S. labor, and the class-war weapon was offshoring and, in the process, cutting back government social spending.

Similar to the Russian pursuit of oil, arms and agricultural trade independent of U.S. control, China's offense is keeping the profits of its industrialization at home, retaining state ownership of significant corporations and, most of all, keeping money creation and the Bank of China as a public utility to fund its own capital formation instead of letting U.S. banks and brokerage houses provide its financing and siphon off its surplus in the form of interest, dividends and management fees. The one saving grace to U.S. corporate planners has been China's role in deterring U.S. wages from rising by providing a source of low-priced labor to enable American manufacturers to offshore and outsource their production.

The Democratic Party's class war against unionized labor started in the Carter Administration and greatly accelerated when Bill Clinton opened the southern border with NAFTA. A string of maquiladoras were established along the border to supply low-priced handicraft labor. This became so successful a corporate profit center that Clinton pressed to admit China into the World Trade Organization in December 2001, in the closing month of his administration. The dream was for it to become a profit center for U.S. investors, producing for U.S. companies and financing its capital investment (and housing and government spending too, it was hoped) by borrowing U.S. dollars and organizing its industry in a stock market that, like that of Russia in 1994-96, would become a leading provider of finance-capital gains for U.S. nd other foreign investors.

Walmart, Apple and many other U.S. companies organized production facilities in China, which necessarily involved technology transfers and creation of an efficient infrastructure for export trade. Goldman Sachs led the financial incursion, and helped China's stock market soar. All this was what America had been urging.
Where did America's neoliberal Cold War dream go wrong? For starters, China did not follow the World Bank's policy of steering governments to borrow in dollars to hire U.S. engineering firms to provide export infrastructure. It industrialized in much the same way that the United States and Germany did in the late 19th century: By heavy public investment in

infrastructure to provide basic needs at subsidized prices or freely, from health care and education to transportation and communications, in order to minimize the cost of living that employers and exporters had to pay. Most important, China avoided foreign debt service by creating its own money and keeping production facilities in its own hands.

U.S. demands are driving its allies out of the dollar-NATO trade and monetary orbit

As in a classical Greek tragedy, U.S. foreign policy is bringing about precisely the outcome that it most fears. Overplaying their hand with their own NATO allies, U.S. diplomats are bringing about Kissinger's nightmare scenario, driving Russia and China together. While America's allies told to bear the costs of U.S. sanctions, Russia and China are benefiting by being obliged to diversify and make their own economies independent of reliance on U.S. suppliers of food and other basic needs. Above all, these two countries are creating their own de-dollarized credit and bank-clearing systems, and holding their international monetary reserves in the form of gold, euros and each other's currencies to conduct their mutual trade and investment.

This de-dollarization provides an alternative to the unipolar U.S. ability to gain free foreign credit by the U.S. Treasury-bill standard for world monetary reserves. As foreign countries and their central banks de-dollarize, what will support the dollar? Without the free line of credit provided by central banks automatically recycling America's foreign military spending back to the U.S. economy (with only a minimal return), how can the United States balance its international payments in the face of its de-industrialization?
The United States cannot simply reverse its dependence on Chinese and other Asian labor by bringing production back home. It has built too high a rentier overhead into its economy for its labor to be able to compete internationally, given the U.S. wage-earner's budgetary demands to pay high and rising housing and education costs, debt service and health insurance, and for privatized infrastructure services.

The only way for the United States to sustain its international financial balance is by monopoly pricing of its arms, patented pharmaceutical and information-technology exports, and by buying control of the most lucrative production and potentially rent-extracting sectors abroad– in other words, by spreading neoliberal economic policy throughout the world in a way that obliges other countries to depend on U.S. loans and investment.

That is not a way for national economies to grow. The alternative to neoliberal doctrine is China's growth policies that follow the same basic industrial logic by which the United States, Germany and France rose to industrial power during their own industrial takeoff with strong government support and social spending programs.

The United States has abandoned this traditional industrial policy since the 1980s. It is imposing on its own economy the neoliberal policies that de-industrialized Pinochetista Chile, Thatcherite Britain and the post-industrial former Soviet republics, the Baltics and Ukraine since 1991. Its highly polarized and debt-leveraged prosperity is based on inflating real estate and securities prices and privatizing infrastructure.

This neoliberalism has been a path to becoming a failed economy and indeed, a failed state, obliged to cope with its debt deflation, rising housing prices and rents as owner-occupancy rates decline, as well as its exorbitant medical and other costs resulting from privatizing what other countries provide freely or at subsidized prices as human rights – health care, education, medical insurance and pensions.

The success of China's industrial policy with a mixed economy and state control of the monetary and credit system has led U.S. strategists to fear that Western European and Asian countries – even Taiwan, not just Japan and South Korea – may find their economic advantage to lie in integrating more closely with China and Russia. The U.S. response to such a global rapprochement with China and Russia seems to have no other leverage except economic sanctions and military belligerence. That New Cold War stance is expensive, and other countries are balking at bearing the cost of a conflict that has no benefit for themselves and indeed, threatens to destabilize their own economic growth and political independence.

Without subsidy from these countries, especially as other countries de-dollarize their economies, how can the United States maintain the balance-of-payments costs of its overseas military spending? Cutting back that spending, and indeed recovering industrial self-reliance and competitive economic power, would require a transformation of American politics. Such a change seems unlikely, but without it, how long can America's post-industrial rentier economy manage to force other countries to provide it with the economic affluence (literally a flowing-in) that it is no longer producing at home?

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