Michael Hudson: A Roadmap to Escape the West's Stranglehold

The geoeconomic pathway away from the neoliberal order is fraught with peril, but the rewards in establishing an alternative system are as promising as they are urgent

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It is impossible to track the geoeconomic turbulence inherent to the "birth pangs" of the multipolar world without the insights of Professor Michael Hudson at the University of Missouri, and author of the already seminal The Destiny of Civilization.

In his latest essay, Professor Hudson digs deeper into Germany's suicidal economic/financial policies; their effect on the already falling euro – and hints at some possibilities for fast integrating Eurasia and the Global South as a whole to try to break the Hegemon's stranglehold.

That led to a series of email exchanges, especially about the future role of the yuan, where Hudson remarked:

> *"The Chinese whom I've talked to for years and years did not expect the dollar to weaken. They're not crying about its rise, but they are concerned about flight capital from China as I think after the Party Congress [starting on October 16] there will be a crackdown on the Shanghai free-market advocacy. Pressure for the coming changes has been long building up. The spirit of reform to rein in 'free markets' was spreading among students over a decade ago, and they have been rising in the Party hierarchy."*

On the key issue of Russia accepting payment for energy in rubles, Hudson touched upon a point rarely examined outside of Russia:

> *"They don't really want to be paid just in rubles. That's the one thing Russia doesn't need, because it can just print them. It only needs rubles to balance its international payments to stabilize the exchange rate – not to push it up."*

Which brings us to settlements in yuan:

> *"Taking payment in yuan is like taking payment in gold – an international asset that every country desires as a non-fiat currency that has a value if one sells it (unlike the dollar now, which may simply be confiscated, or ultimately left abandoned). What Russia really needs are critical industrial inputs like computer chips. It could ask China to import these with the yuan Russia provides."*

Keynes is back

Following our email exchanges, Professor Hudson gracefully agreed to answer in detail a few questions about the extremely complex geoeconomic processes in play across Eurasia. Here we go.

The Cradle: *The BRICS are studying the adoption of a common currency – including all of them and, we expect, the expanded BRICS+ as well. How could that be practically implemented? Hard to see the Brazilian Central Bank harmonizing with the Russians and the People's Bank of China. Would that involve only investment – via the BRICS development bank? Would that be based on commodities + gold? How does the yuan fit in? Is the BRICS approach based on the current Eurasia Economic Union (EAEU) discussions with the Chinese, led by [Sergey Glazyev](); Did the Samarkand summit advance, practically, the interconnection of BRICS and the SCO?*

Hudson: "Any idea of a common currency has to start with a currency-swap arrangement among existing member countries. Most trade will be in their own currencies. But to settle the inevitable imbalances (balance-of-payments surpluses and deficits), an artificial currency will be created by a new Central Bank.

This may look superficially like the Special Drawing Rights (SDRs) created by the International Monetary Fund (IMF), largely to fund the US deficit on military account and the rising debt service owed by Global South debtors to US lenders. But the arrangement will be much more like the 'bancor' proposed by John Maynard Keynes in 1944. Deficit countries could draw a specified quota of bancors, whose valuation would be set by a common selection of prices and exchange rates. The bancors (and their own currency) would be used to pay countries in surplus.

But unlike the IMF's SDR system, the aim of this new alternative Central Bank will not be simply to subsidize economic polarization and indebtedness. Keynes proposed a principle that if a country (he was thinking of the United States at the time) ran chronic surpluses, that would be a sign of its protectionism or refusal to support a mutually resilient economy, and its claims would begin to be extinguished, along with the bancor debts of countries whose economies prevented their ability to balance their international payments and support their currency.

Today's proposed arrangements would indeed support lending among the member banks, but not for the purpose of supporting capital flight (the main use of IMF loans, when "left-wing" governments seem likely to be elected), and the IMF and its associated alternative to the World Bank would not impose austerity plans and anti-labor policies on debtors. The economic doctrine would promote self-sufficiency in food and basic essentials, and would promote tangible agricultural and industrial capital formation, not financialization.

It is likely that gold also would be an element of international monetary reserves by these countries, simply because gold is a commodity that hundreds of years of world practice already have agreed on as acceptable and politically neutral. But gold would be a means of settling payments balances, not defining domestic currency. These balances would of course extend to trade and investment with western countries that are not part of this bank. Gold would be an acceptable means of settling western debt balances to the new Eurasian-centered bank. That would prove a vehicle for payments that western countries could not simply repudiate – as long as the gold was kept in the hands of the new bank members, no longer in New York or London as has been the dangerous practice since 1945.

In a meeting to create such a bank, China would be in a similar dominant position to that which the United States enjoyed in 1944 at Bretton Woods. But its operating philosophy would be quite different. The aim would be to develop the economies of bank members, with long-term planning or trade patterns that seem most appropriate for their economies to avoid the kind of dependency relationships and privatization takeovers that have characterized IMF and World Bank policy.

These development objectives would involve land reform, industrial and financial restructuring, and tax reform, as well as domestic banking and credit reforms. Discussions at the SCO meetings seem to have prepared the ground for establishing a general harmony of interests in creating reforms along these lines."

Eurasia or bust

The Cradle: *In the medium term, is it feasible to expect German industrialists, contemplating the coming wasteland, and their own demise, to revolt en masse against the NATO-imposed trade/financial sanctions against Russia, and force Berlin to open Nord Stream 2? Gazprom guarantees the pipeline is recoverable. Don't need to join the SCO to make that happen…*

Hudson: "It is unlikely that German industrialists will act to prevent their country's de-industrialization, given the US/NATO stranglehold on Eurozone politics and the past 75 years of political meddling by US officials. German company heads are more likely to try and survive with as much personal and corporate wealth intact as they can in the wake of Germany being turned into a Baltic-state-type economic wreckage.

There already has been talk of shifting production – and management – to the United States, which will block Germany from obtaining energy, metals and other essential materials from any supplier not controlled by US interests and their allies.

The great question is whether German companies would emigrate to the new Eurasian economies whose industrial growth and prosperity seem likely to far overshadow that of the United States.

Of course the Nord Stream pipelines are recoverable. That is precisely why US political pressure from Secretary of State Blinken has been so insistent that Germany, Italy and other European countries double down on isolating their economies from trade and investment with Russia, Iran, China and other countries whose growth the US is trying to disrupt."

How to escape "There Is No Alternative"

The Cradle: *Are we reaching the point when the key players of the Global South – over 100 nations – finally get their act together and decide to go for broke and stop the US from keeping the artificial neoliberal global economy in a state of perpetual coma? This means* *the only possible option, as you have outlined, is to set up a parallel global currency bypassing the US dollar – while the usual suspects float the notion of a Bretton Woods III at best. Is the FIRE (finance, insurance, real estate) financial casino omnipotent enough to smash any possible competition? Do you envisage any other practical mechanisms apart from what is being discussed by BRICS/ EAEU/ SCO?*

Hudson: "A year or two ago it seemed that the task of designing a full-fledged alternative world currency, monetary, credit and trading system was so complex that the details hardly could be thought through. But US sanctions have proved to be the needed catalyst to make such discussions pragmatically urgent.

The confiscation of Venezuela's gold reserves in London and its US investments, the confiscation of $300 billion of Russia's foreign-exchange reserves held in the United States and Europe, and its threat to do the same to China and other countries resisting US foreign policy has made de-dollarization urgent. I have explained the logic in many points, from my Valdai Club article (with Radhika Desai) to my recent book on *The Destiny of Civilization*, the lecture series that I prepared for Hong Kong and the Global University for Sustainability.

Holding securities denominated in dollars, and even holding gold or investments in the United States and Europe, is no longer a safe option. It is clear that the world is breaking into two quite different types of economies, and that US diplomats and their European satellites are willing to tear up the existing economic order in hopes that creating a disruptive crisis will enable themselves to come out on top.

It also is clear that subjugation to the IMF and its austerity plans are economic suicide, and that following World Bank and its neoliberal doctrine of international dependency is self-destructive. The result has been to create an unpayable overhead of debts denominated in US dollars. These debts cannot be paid without borrowing credit from the IMF and accepting terms of economic surrender to US privatizers and speculators.

The only alternative to imposing economic austerity on themselves is to withdraw from the dollar trap in which US-sponsored "free market" economics (markets free from government protection, and free from government ability to recover the environmental damage from US oil companies, mining companies and the associated industrial and food dependency) is to make a clean break.

The break will be difficult, and US diplomacy will do everything it can to disrupt the creation of a more resilient economic order. But US policy has created a global state of dependency in which literally there is no alternative but to break away."

Germanexit?

The Cradle: *What is your analysis on Gazprom confirming Line B of the Nord Stream 2 was not touched by Pipeline Terror? This means Nord Stream 2 is practically ready to go – with a capacity to pump 27.5 billion cubic meters of gas a year, which happens to be half of the total capacity of – damaged – Nord Stream. So Germany is not doomed. This opens a whole new chapter; a solution will depend on a serious political decision by the German government.*

Hudson: "Here's the kicker: Russia certainly won't bear the cost again, only to have the pipeline blown up. It will be up to Germany. I bet the current regime says "No." That should make for an interesting rise of the alternative parties.

The ultimate problem is that the only way Germany can restore trade with Russia is to withdraw from NATO, realizing that it is the major victim of NATO's war. This could only succeed by spreading to Italy, and also to Greece (for not protecting it against Turkey, ever since Cyprus). That looks like a long fight.

Maybe it's easier just for German industry to pack up and move to Russia to help modernize its industrial production, especially BASF for chemistry, Siemens for engineering, etc.. If German companies relocate to the US to get gas, this will be perceived as a US raid on German industry, capturing its lead for the US. Even so, this won't succeed, given America's post-industrialized economy.

So German industry can only move eastward if it creates its own political party as a nationalistic anti-NATO party. The EU constitution would require Germany to withdraw from the EU, which puts NATO interests first at the federal level. The next scenario is to discuss Germany's entry into the SCO. Let's take bets as to how long that will take."

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This article was originally published on The Cradle.

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