

Obama's New World Order

Michael Hudson's analysis of the financial crisis

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This article addresses Washington's financial coup d'état in the context of discussing Michael Hudson's important, very lengthy and detailed April 5 Global Research.ca one titled: "The Financial War Against Iceland – Being defeated by debt is as deadly as outright military warfare." It reviews its key information in advance of Hudson's April 14 scheduled appearance on The Global Research News Hour to discuss.

What's true for Iceland holds everywhere, including the developed world, the idea being to enrich finance capitalism through state-sponsored debt bondage and neo-feudal impoverishment. The global economic crisis was no accident. It was long ago hatched, and has been brewing for years, gestating, percolating, then bubbling into the 2000 tech crash, a mere prelude for today's greater one spreading everywhere like a cancer but hitting the developing world and most indebted nations hardest.

Hudson: "Iceland is under attack – not militarily but financially."

Like many others, "It owes more than it can pay" and is bankrupt. It was planned that way, and the idea is to strip-mine the nation and its people of their resources, enterprises, assets, land, homes, jobs and futures through perpetual debt bondage. Bankers get enriched. Nations and people, however, are discarded like trash, with the IMF as enforcer, to be reinvigorated with an additional (G 20-pledged) \$750 billion, quadrupling its resources to \$1 trillion if fulfilled.

Wall Street and Western European bankers planned it and now ordered the government "to sell off the nation's public domain, its natural resources and public enterprises to pay (its) financial gambling debts." Also, raise permanent taxes at the worst possible time, then suck the maximum wealth from the country leaving behind an empty hulk and impoverished, desparate population. It's called dystopia Merriam-Webster defines as: "an imaginary place where people lead dehumanized and often fearful lives," the opposite of utopia under conditions of deprivation, poverty, disease, violence, oppression, and terror, much like in Orwell's Nineteen Eighty-Four.

Permanent debt bondage "is as deadly as outright military" defeat. Loss of livelihoods and assets leave people vulnerable to sickness, despair, and early deaths, much like what happened to post-Soviet Russia under Washington-imposed "shock therapy:"

- 80% of farmers went bankrupt;
- around 70,000 state factories closed;

- unemployment became epidemic;
- a permanent underclass was created;
- poverty rose from two million in 1989 to 74 million by the mid-1990s, and in half the cases it was desperate;
- alcoholism and drug abuse soared;
- so did HIV/AIDS 20-fold;
- suicides also and violent crime four-fold; and
- the population declined by 700,000 a year; by 2007 it was 10% lower than in 1989 because of sharply reduced life expectancies.

Iceland, the developing world, and the West take note. This cancer is heading everywhere, courtesy of banker-imposed diktats, mainly from America and the UK. They insist Iceland “impoverish its citizens by paying debts in ways (they’d) never follow” even though the government has no way to do it.

No matter. “They are quite willing to take payment in the form of foreclosure on the nation’s natural resources, land and housing, and a mortgage on the next few centuries of its future” – perpetual debt bondage no different than the spoils of war under permanent occupation.

However, in this case, debtors are convinced to pay voluntarily “to put creditor interests above the economy’s prosperity (and) national interest.” Their indebtedness comes at a huge cost – “chronic currency depreciation (and) domestic price inflation for many decades to come.”

Contrast this to how developed countries, like America, handle debt – by inflating (not deflating) their way out to pay it off with cheap (reduced purchasing power) money because inflation erodes its value. It’s simple – by printing money and running budget deficits the way Washington did after Nixon closed the gold window in August 1971, ended the 1944 Bretton Woods Agreement, and no longer let dollars be backed by gold or converted into it in international markets. A new monetary system creates money like confetti, and lets us spend and live beyond our means, then have developing and indebted nations pay the price.

In recent years, dollar weakness and price inflation “wiped out much of the US international debt.” The Iceland model turns “this inflationary solution inside out....in violation of traditional credit practice.” Instead of currency inflation, Iceland “inflate(d) its way into debt, not out of it, (by) indexing (it) to the rate of inflation,” thus guaranteeing “a unique windfall for banks at the expense of wage earners and industrial profits.” The result: destruction of its traditional way of life.

Iceland must “repudiate this debt bomb” to escape. It’s indexed to inflation and “will never lose value.” It’s caught in a destructive whirlpool creating economic shrinkage, falling assets and wages in the face of perpetually burgeoning debt, the same global model needing to be exposed and renounced “now.” Otherwise, economies will be hollowed out, “capital formation will plunge,” people will be impoverished, and many won’t survive.

Hudson's Background

His expertise comes from “having been an insider to imperial-style plundering....for forty years” – as an economist for Chase Manhattan Bank, Arthur Andersen, and the UN Institute for Training and Development (UNITAR). He's also taught economics since 1969, heads a Harvard-based economic and financial history group, is a Research Professor at the University of Missouri, and organized the first sovereign-debt fund in 1990 at Scudder, Stevens and Clark.

“All these jobs (except his current professorship) involved analyzing the limited ability of debtor countries to pay – how much could be extracted from them through foreign-currency loans and how much public infrastructure (could) be sold off (through) voluntary virtual foreclosure (under) creditor-dictated rules.”

He advises countries not to borrow in foreign currencies, instead “monetize their own credit for domestic spending and investment.” Iceland broke “the cardinal rule of international finance: Never borrow in a foreign currency for credit” that can freely be created at home. “Governments can inflate their way out of domestic debt,” not the foreign kind.

Post-Soviet economies did it the wrong way, now suffer, and recent riots highlight their problems. “Instead of helping them industrialize and become more efficient,” Western bankers loaded them with debt and exploited them – not for manufacturing and infrastructure development, as loans against existing real estate and infrastructure, to suck as much wealth out quickly.

It produced “bubble economies built on debt-financed real estate and stock market inflation,” illusory wealth “bubbles (that) always burst.” The only sustainable financing of imports is through enough exports for a favorable balance of trade.

De-industrialization destroys economies by shrinking them, the result of plunging property valuations, rental income, and exchange rates. Foreign currency mortgage costs exceed property values producing defaults and losses for lenders.

It's hitting Sweden, Austria and leading creditor states like America and the UK. Real estate, stock market and employment are declining “in a straight line unprecedented even in the Great Depression.” It's turned neoliberalism into a nightmare.

“Just as individuals can't live off a credit card forever, neither can nations. As any classical economist knows, societies that only manufacture debt are unsustainable.” Eventually they collapse into bankruptcy just like a business or household. The old saying applies. Things that can't go on forever, won't.

No matter. Predator banks want to prolong the game as long as possible, grab all the wealth they can, force debtor nations to sell state enterprises at distress prices, then get new business by lending to investors who buy them on the cheap. Will it work? Only if targeted countries go along. In the case of Iceland, its very future is at stake.

Sound v. Imprudent Banking

For centuries, banks created credit responsibly – loaning money for sound investments to debtors able to repay with interest. No one imagined a world like today's with massive defaults occurring globally. In America, one-third of home mortgages are in “Negative

Equity;" that is, "the mortgage exceeds the (property's) market price pledged as collateral."

US national debt tripled in one year, from \$5 - \$15 trillion, and according to some economists like John Williams, it's much higher under GAAP accounting - including unfunded liabilities around \$65.5 trillion, an amount exceeding world GDP through FY 2008, meaning America is bankrupt. Williams also puts unemployment at 19.8% by reengineering it to include discouraged and involuntary part-time workers and excluding fictitious birth-death rate ratio inclusions.

Blunt Truths about the "Dismantling of Industrial Capitalism"

Instead of extending credit to construct and grow them, financial oligarchs turned indebted nations into "casinos (through) debt-leveraged gambles," redistributing wealth upward and creating "debt peonage for most citizens." Even in America, nearly half the population has no net worth, and the gulf between richest and the rest is unprecedented.

"This is the unfair system that the world's top creditors would export to Iceland - if they can convince its voters (and leaders) to accept neoliberal debt pyramiding as a way to get rich." It's not working throughout post-Soviet states that see it as the road to hell, if public riots are a gauge.

"Better alternatives (are) the only defense" as it's impossible for "astronomically indebted economies to 'work their way out of debt.'" Trying will "collapse the currency's exchange rate," divert huge amounts of revenue and property to creditors, and produce "a new kind of post-capitalist (unjust, unsustainable) non-production/consumption economy" too gruesome to imagine or tolerate.

Iceland's financial crisis is the result of lawless predation, an "international (austerity demanding) Ponzi scheme" under rigged market rules imposing public and private "asset stripping" to pay debt. A simple scheme transfers wealth.

Economies and populations are trapped on a "debt treadmill from which there is no escape. (Lenders) pile on credit and let debts grow (through) the 'magic of compound interest,' knowing that loans cannot be repaid - except by asset sell-offs." They're strip-mined through unending debt service so the parasite keeps feeding on its food source. The idea is to get it all, leaving empty hulks behind, then on to the new victims. It's "euphemistically dubbed post-industrial wealth creation," the kind that's collapsing economies globally and destroying people. Obama is commander-in-chief of the process.

America as Lead Predator

It's a viciously ugly scheme that's "trapped other countries into a nightmarish system in which (they're practically forced) to recycle their excess balance-of-payment dollar inflows back to the US," mainly as loans to the Treasury.

"When foreign central banks receive dollars for their exports (or asset sales)," their choices are limited. "Congress won't let them buy important domestic companies or resources," or get paid with US gold reserves. The alternative is buy Treasuries and mortgage-backed securities like Fannie and Freddie debt.

Icelanders and other nations must remember that America is the world's largest debtor, and

as Adam Smith explained in *The Wealth of Nations* – “no nation ever repaid its debt,” and he never envisioned one large as America’s. We grow it by issuing paper for real assets and services. Until other countries demand more than confetti, this “Madoff-Ponzi scheme” will persist – for tiny states like Iceland (population 319,000 as of January 2009) until nothing is left to hand over.

Today’s road to riches isn’t through capital investment. It’s by “foreclos(ing) at pennies on the dollar and mak(ing) ‘capital gains’ by flipping property onto (central bank-inflated) world financial markets.” In a word, socializing risks, privatizing profits, preying on the weak, and getting “a free lunch” at public expense.

It’s a zero-sum game. One side’s gain is another’s loss, and when it matches America against Iceland, it’s easy exerting pressure, but no certainty it’ll prevail. As a sovereign state, Iceland can choose. More on that below.

Throughout the process, “financialized wealth is extractive, not productive....because loans, stocks and bonds are claims on wealth,” not the kind produced by making things.

This is Iceland’s dilemma. “Homeowners are paying tribute, not in taxes to (an occupier), in interest to (debt pyramid, international creditor) sponsors of “over-financialization,” aiming to strip-mine the country of everything, the way it’s worked in many developing states. “Yet many Icelanders are heading into this future voluntarily” with little understanding of the trap, propelling them toward debt peonage destitution under the guise of an IMF rescuer – like a spider to a fly.

It shouldn’t happen and won’t if countries refuse to be trapped and extricate themselves in time. Iceland is at a crossroads, still able to avoid what ruined Russia, other post-Soviet states, South Africa, and many other nations misjudging America and the IMF are saviors, not world class predators.

“Back to the Future” – A New Age of Neo-feudal Debt Bondage

Conventional banking works by extending credit in the form of interest-bearing loans and seizing collateral only in cases of default. Central banks were created to finance governments and commercial ones to “expand trade, related infrastructure, mining and shipping,” and develop other forms of business and industry.

More recently, “financial managers persuaded many countries to sell off public enterprises, like their water or energy supplies, mainly to pay debts or cut taxes” for the rich. It’s turned debtor nations into “tollbooth economies in which basic services become a vehicle to extract greater and greater portions of national income and wealth for the benefit of the few.”

It’s the opposite of how classical economists define “free markets.” Today, financial interests control them to extract labor and capital investment-produced surpluses – for themselves under the guise of “economic democracy.” The result “pushed much of the Third World into poverty since the 1960s,” and now the same cancer is heading everywhere.

Financial Warfare As Deadly As by Armies

Today’s financial strategy is “multilateral (with) the IMF (and World Bank) act(ing) as enforcer(s) for global creditors to appropriate the income of real estate, national infrastructure and industry” by masquerading as a helping hand and seducing borrowers to

believe it.

Here's how neo-feudal banking works. It doesn't create credit for manufacturing. Retained earnings and equity do it. It "create(s) credit primarily against (existing) collateral, and by so doing, "extract(s) money from the economy (and) undercuts industrial growth for "short-term speculative gains." This hegemony "took thousands of years to achieve," and it wasn't easy inducing nations into poverty through "debt pyramiding as good economic strategy." It's like prescribing gorging as a way to lose weight or a junk food diet to stay healthy.

Iceland made it worse by "protecting the claims of creditors against debtors," including most wage-earners. As post-bubble home prices plunged, creditors held their own and even "strengthen(ed) their hand by increasing their take," thus making a bad situation worse. Its people own a shrinking equity in their homes vis-a-vis bankers having the lion's share. Its law shifts homeowners to "Negative Equity," and it works by keeping people in the dark.

But it's much the same in the US to hide the root cause of today's crisis - Wall Street/Washington's engineered housing and debt bubble fraud amounting to financial piracy of the greatest magnitude. In America, Iceland, and elsewhere it's turned "ownership" societies into "loanship" debt trap ones. Until recently, it was unthinkable to let economies be crippled by interest payments. Now it's de rigueur through clever manipulation to convince people and nations to go along with their own demise.

For Iceland, its debt burden threatens its national identity and "loss of its future" the way Adam Smith explained - through bankruptcy when it's too great to repay. "Today, creditors and bondholders care about foreign economies only to the extent that they can charge (enough) interest (to) absorb their entire economic surplus." Getting it all is today's credo, and nothing too outlandish is irresponsible. Get in trouble. Socialism comes to the rescue, for bankers, not people or easy targets like Iceland.

Its "ethic is mutual aid and prosperity for all....a highly socialized attitude (yet how tragic that it's) lead the nation to (buy into) the snake oil (of) debt peonage." Economic growth never keeps pace with accruing debts that get recycled into greater ones, but end games are the same. "Debts that can't be paid, won't be," while bankers too big to fail get bailed out at the expense of public interests and sound economics. Yet Hudson explains: "Creditor mismanagement is the most important problem that any country should strive to avert."

Most important is to foster a free and open market of ideas, to extract the best and discard the others. But that's not how Western societies work, especially banker-run ones. A "free market" for them is "free" of ideas laying bare their snake oil.

"Most societies throughout history provide(d) credit.... without oligarchy." Today it's the opposite. Predatory finance erased centuries of reform and did it at warp speed. As a result, our freedom is threatened and very close to being lost.

What's needed is a return to "basics, and a call for transparent statistics," socially progressive ideas "of a just society free of economic privilege, free of prices in excess of socially necessary costs of production and of rentier income and wealth without effort," earned "in their sleep," not through their labor.

It means wealth should be based on "what one creates - not land and natural resources, or monopoly privileges to extract income via control of roads, the right to create money and

other natural monopolies.” Reform depends on purging this privilege. “The way to do it is to treat banking like transportation and broadcasting, as a public utility,” not something privatized for “rentiers (to) tax society” for what rightfully belongs to everyone.

In the hands of predators, progressive reforms are impossible as financial giants “preserve their special privileges by law, minimizing taxes on themselves by shifting the burden onto labor and industry.” Financialization:

- “raise(s) the cost of living (and) doing business;”
- frees bankers’ “major customers – mortgage borrowers – from taxation to leave (maximum) surplus (for) interest;”
- collects public sector revenue “by capitalizing it into interest charges” and inflating housing, other real estate, and other business prices;
- “shift(s) taxes onto labor and industry, thereby raising prices and undermining the competitive power of financialized economies.”

This is predation, the very opposite of “classical free market policy.” Keynes concluded his General Theory by calling for “euthanasia of the rentier.” His followers advocate banking as a public utility “to steer debt creation to fund growth in the means of production, not economic overhead by inflating property bubbles.” None of that’s in sight. Maybe someday after the inevitable demise of the current system that will eventually crumble under its own weight.

Lessons for Iceland and Other Nations

Iceland “is under financial attack from outside as well as within – by foreigners supported by a domestic banking class. To succeed (they need) to convince the population that all debt is productive, and that the economy benefits to the extent that its net worth rises (that is, make its asset values appear greater than its debt).”

The fact is that prices don’t fall, “and if they do, debts should (remain), even (at the expense of) negative equity.” Icelanders are being manipulated to believe they have “no alternative but to pay debts that a few insiders (accumulated, ones) that accrue interest when (they’re) unpaid.” In fact, demanded debt amounts exceed what the country can pay, but the strategy is to conceal this as long as possible “to proceed with the foreclosure and voluntary pre-bankruptcy sell-off of national assets to pay” predators.

What’s true for Iceland, holds everywhere Wall Street and the IMF target, and here’s the scheme:

- shrink economies;
- shift wealth and property upwards to a financial oligarchy; and
- price “labor and industry out of world markets as a result of the heavy financial charges built into (the) pricing system.”

Iceland is a “model test case for economic justice.” Hopefully it will “confront reality sooner than later” and not get trapped into perpetual debt bondage by succumbing to global

creditor pressure or seduction. What benefits them harms people, and everyone needs to know it. Bankers “aim (for) a return to ‘normalcy,’ defined as new exponential (debt volume) growth” producing more destructive bubbles like the last ones.

Iceland must reject Wall Street’s medicine or perish, and the same holds elsewhere, including in America. Bankers, not nations or people, should take the pain. Hudson asks: “How can Iceland (or Hungary, Latvia, Ukraine, or many other nations) pay its debts without bankrupting itself, (in Iceland’s case) abandoning its social democracy and polarizing its (people) between a tiny creditor oligarchy and” everyone else? They’re threatened by “a new ruling class that will control (their) destiny for the next century” or beyond. It’s their choice to reject it and stay free.

Their “foreign currency loans should be denominated in domestic currency at written-down (and de-indexed) interest rates, or repudiated outright.” The guiding principle should be to annul debts taken out under (destructive and extractive) terms benefitting creditors at the expense of their prey.

They aim to dominate societies – “above all....to maximize the power of debt over labor. The worse the economy does, the stronger” they get. It’s a vicious cycle “recipe for economic suicide (from perpetual) debt peonage.” Iceland can be a test case model against it. It comes down to whether it will back its people or, like America, surrender to financial predators. It’s much the same globally, the result of the greatest ever economic crisis opportunity for plunder. The perpetrators love it. It’s high time they got their comeuppance.

Imagine tiny Iceland taking the lead and fighting back against what another former high-level Wall Street and government insider warns – Catherine Austin Fitts, Assistant Secretary of Housing and Federal Housing Commissioner under GHW Bush and Dillon Read & Co. Managing Director and board member.

In her latest quarterly review, she predicts that “Obama will do more to help bankers achieve centralized control and one world government than any (previous) US politician.” In less than three months in office, he’s shown bankers they can count on him – to the tune of trillions of dollars, further open-ended checkbook amounts on request, and global “diplomatic” pressure on targeted nations to surrender. It’s for public rage, tiny Iceland, and other over-indebted nations to demand “no more.” Hopefully enough of them have backbone to do it.

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