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US ‘Soft Power’ and the Banks

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The privilege of supplying the world’s reserve currency, the money nations use to conduct business beyond their borders, is a source of power to the nation that possesses it more valuable than the most powerful military. Since virtually all money is created ‘out of thin air’ by entries in bank ledgers, the nation supplying the world’s reserve currency has the power to create enough money to buy the world. Working in conjunction with its banks, a nation supplying the reserve currency can conquer and control vastly more of the world’s wealth than it could hope to with military force. It is this power, the ‘dollar standard’ foundation of the international monetary system, the US government in conjunction with Wall Street, US money-center (big) banks and compliant central banks around the world are working so desperately to sustain. Until this is recognized and resisted, not just in the US but around the world, there is little hope for a stable world economy or for a more just international economic order.

In his book “Super Imperialism”, written 37 years ago, Dr. Michael Hudson described the new international monetary system emerging from the collapse of the 1944 Bretton Woods International Monetary Agreement. That agreement specified the details of an international monetary system that lasted until the overhang of US dollars in the vaults of foreign central banks forced Richard Nixon to end their convertibility for US-held gold. In Hudson’s “Global Fracture” sequel to “Super Imperialism”, he describes various ultimately unsuccessful attempts by European governments to break free of the dollar trap in which they found themselves following the collapse of Bretton Woods. This dollar trap had a number of functional components in addition to the need for US military protection from the former Soviet Union (FSU) – or at least protection for a social order founded upon privately-owned economic infrastructure.

In 1973, in spite of a serious erosion of its seemingly unassailable industrial ascendency following WWII, the US still possessed substantial industrial capacity for competing in domestic and world markets. The Europeans feared devaluation of the US dollar, the traditional mechanism for correcting chronic balance of payments deficits from spend-thrift countries, would turn this potential into an unassailable advantage in world and US markets. This component of the dollar trap was reinforced by an agreement in 1974 with Saudi Arabia to recycle dollars received for Saudi oil in New York and London banks. That agreement was followed a few years later by one in which “… Treasury Secretary Blumenthal cut a secret deal with the Saudis to ensure that OPEC would continue to price oil requiring customers to pay for Saudi oil in US dollars only”1. Effectively, from that point forward, Middle Eastern oil was substituted for gold as backing for the US dollar.

This use of hegemonic domination of Middle Eastern energy reserves, whether or not its underlying motivation is buttressing the US dollar-standard-based Empire of Debt[ii] that emerged following the breakdown of Bretton Woods, deserves special consideration. The power of US oil and automobile companies has been cited as the driving force for US military involvement in the Middle East as well as the reason this country has failed to take meaningful steps towards the development of alternative energy sources and controlling global warming. However, with a little reflection, this explanation is less than convincing. The actual and anticipated geographical sources of US oil for some time to come suggest it is the rest of the world that is most dependent on Middle Eastern oil, not the US.

Then, there is the second Persian Gulf War. Many argue that conflict was precipitated not by an urgent need for oil or at the behest of US oil companies but by Saddam Hussein's decision in November 2000 to require Euros instead of US dollars in payment for Iraqi oil. The journalist Greg Palast documents repeated attempts by the US oil companies to get the Cheney / Bush administration to allow them to resort to the less provocative process of simply buying Iraqi oil rather than attempting to take physical possession of Iraq's wells.3 In Daniel Yergin's "The Prize", a history of the world oil industry, Yergin emphasizes Western oil companies have long since learned to adapt to a new world political order founded on less overt forms of imperialism and colonialism.

There is every reason to believe the US presence in the Middle East has far more to do with preserving a strangle-hold over the world's largest remaining reserves of cheap energy than any compelling need of the US economy. The new Great Game being played with Russia over control of pipelines from the oil-rich provinces of the FSU to Europe reinforces the likelihood the focus of US diplomatic strategy has been and continues to be hegemonic control over the world's energy supplies. Is this an insurance policy to guarantee the world will continue accepting US dollars? Is this rather than the naked power of US oil companies, the reason President Reagan promptly removed the solar panels from the White House when he assumed office – a wink and a nod to Saudi allies, the military-industrial complex, Wall Street and the banks and a stern reminder to our 'allies'?

Could it be the world's urgent need for developing alternative energy sources and economic restructuring to prepare for a future of dwindling natural resources has been sacrificed to the imperatives of a US geopolitical strategy founded upon the domination of the world's remaining fossil fuels? If the underlying motivation for this is retaining the oil backing for the US dollar and the world wishes to get serious about addressing climate change, fossil fuel depletion, peace in the Middle East and the world, we need a new international monetary system.

As indicated above, the essential elements of the dollar trap have been understood for a long time. In addition to Hudson, there is "deficits don't matter" Dick Cheney or former Treasury Secretary "it's our currency but your problem" John Conolly. It is this failure to do anything about the dollar trap in which the Europeans found themselves, to make the hard choices necessary to break free, that explains Donald Rumsfeld's contemptuous dismissal of "Old Europe".

Here is a more recent comment by Dr. Hudson on this theme:

The United States is running a chronic trade deficit, on top of which is a deepening outflow of military spending. In addressing this chronic living beyond the nation's international financial means, American diplomats are almost the only ones in the world who conduct international diplomacy the way that textbooks assume that all countries should do: They act purely and ruthlessly in their own national interest. This interest lies in getting the proverbial free lunch, by giving IOUs for other countries' real resources and assets, with no intention or ability to pay.4

A fundamental flaw in the post-Bretton Woods dollar-standard international monetary system has been its tolerance of the growing US debt implicit in its chronic balance of payments deficits. Certainly, it could be argued that in less arrogant, more sophisticated hands than those of the second Bush administration this dollar-standard based international monetary system could have been managed so it lasted much longer. For example, using an inflationary monetary policy, US debts could have been shrunk to a manageable size in relation to the scale of the real US economy and its tax base. Of course, sophisticated foreign political leaders would have realized what was afoot. However, as long as the process did not directly impact their constituencies, it is unlikely they would have vocally objected.

However, G.W. Bush's tax cuts and ruthless military imperial agenda were anything but subtle. The payoffs to his political "base" – and possibly to his retirement fund as an heir to a Bush family fortune soaked in the blood of the Carlyle Group investments and a century of investment in the US arms and oil industries – are obvious. But the cost of what one European commentator called "looting" preceding the collapse of the housing and debts bubbles may well have been fatal for the soft-power (money) – based post-war international economic order for which FDR and his advisors so brilliantly laid the foundations. For while the US government was looting foreign central banks to pay for the costs of projecting military power around the world, Wall Street and US banks were looting the savings of US citizens and de-industrializing what remained of a once mighty industrial giant.

In both cases, the modus operandi has been abuse of a US monetary system dependent upon on it's banks and the Wall Street 'shadow banking system' to create its money – as a direct debt to banks or investment income for the holders of financially engineered securities. For over 300 years monetary reformers have been urging national governments to reclaim the right to issue money directly, based upon their sovereign credit, i.e. their ability to tax, from the private parties to whom it was seeded with the creation of the first modern central bank in 1694, the Bank of England. But there are a number of reasons monetary reform, though certainly essential, may not be the cure-all many of its advocates believe it could be without certain preconditions.

Here is more from Dr. Hudson's on the use of debt by ruling classes as a principle technique for exploiting the populations over which they preside – a practice, incidentally that long preceded the advent of central banking and that, if unchecked, has invariably resulted in the destruction of civilizations that permitted it:

Down the cliff! This is where the revolting right-wing Roman senators drove the followers of the Gracchi brothers on the Senate hill, in an exercise of political violence that prevented Rome from granting debt relief toward the end of the second century BC. Livy, Diodorus, Plutarch and other historians of the epoch attributed the prospective fall of the Roman Empire to its harsh creditor-oriented debt laws. But today, historians publish books speculating that perhaps the problem was lead piping or lead goblets for their wine, or disease, or imperial overreaching, or superstition – anything but the cause to which the Roman historians themselves pointed.5

The use of debt as a tool for exploiting foreign and domestic populations is a more generic form of the finance capitalism that wreaked such havoc on the world in the 20th century and is already far along in destroying the foundations of US prosperity. My definition of financial capitalism is: the use of money to create profits instead of the industrial, agricultural and social infrastructure upon which those profits and the wealth and welfare of a nation ultimately depends.

(There is a fascinating editorial note accompanying the Wikipedia definition of 'finance capitalism':

"It has been suggested that this article or section be merged into *financial capital*." Here is the Wikipedia definition: "**Finance capitalism** is a term in Marxian political economics defined as the subordination of processes of production to the accumulation of money profits in a financial system." And here is their definition for *financial capital:* "**Financial capital** can refer to money used by entrepreneurs and businesses to buy what they need to make their products or provide their services…". Motherhood and apple pie stuff! Who could possibly object?)

This is what the US has been doing with a vengeance since the breakdown of Bretton Woods. To be more precise, the banks, Wall Street and wealthy investors have indeed been investing in infrastructure – but in China and other developing countries where they can take advantage of lax or non-existent environmental protection standards and subsistence wage levels (the euphemism supplied by academic economists is 'labor arbitrage').

The sine qua non for debt slavery and financial capitalism is control of the money used by subject populations. Since the end of WW II, even after the breakdown of Bretton Woods, that money has been the US dollar. There is reason to believe the current stakeholders in the current dollar-standard-based international monetary system are attempting to devise a new global form of money that would be free from the consequences of abusing a reserve currency based upon the money of any specific country.

In the interim, Bernanke, Geithner and their partners in the international banking community are frantically attempting to avoid the collapse of the current US dollar standard-based international monetary system. This is what Henry Liu means when he writes:

Through globalization and the growth of euro-dollars (the name given to all offshore dollars everywhere and has no direct relation to the euro or the European Union), the dollar economy is increasingly detached from the US economy. What is good for the dollar economy is not necessarily good for the US economy.6

In other words, the goal is not to save 'main street' and the real economy in the US and elsewhere. It is to protect the value of the world's dollar-denominated wealth.

There are some obvious conclusions we can draw from all this:

1. if we wish to save 'real economies' in the US and around the world, the essential first step is repudiating ('writing down') the mostly fraudulent debt piled upon the world by Wall Street, the international banking community, the US Congressional-military-industrial complex and, at the bottom of it all, wealthy investors constantly seeking new opportunities to extend their debt strangle-hold over subject populations.
2. Once the ground has been cleared by debt repudiation, we must insure monetary reform based upon publicly-created money – money created by

national governments from which creation the public and not private parties enjoy the benefits – and sovereign national credit. A global money, whether it takes the form of a new reserve currency from a country like China or a basket of currencies from it and other countries rich in natural or human resources, is a threat to the liberty of the entire world.

Finally, we need to base both our national monetary systems and a transformed discipline of economics upon the realization that:

"When democracy has grasped that, nowadays, the production of wealth is really an affair of scientific engineering, and not primarily one of how to make pieces of paper bring in interest, …, it will have learned something which, altogether matter-of-fact, lies about as near to the root of economic freedom as it is at present possible to get."7

The work of the Nobel prize winning CHEMIST Frederick Soddy provides an important foundation for a national monetary system based upon scientific principles, a transformed discipline of economics and the substance of a follow-on article.

[1] "Petrodollar warfare: oil, Iraq and the future of the dollar", William Clark, New Society Publishers, 2005, p. 20.

[2] The title of a book by Bonner and Wiggins

[3] "Armed Madhouse, Greg Palast, Dutton, 2006

[4] "The Financial War Against Iceland", Dr. Michael Hudson, http://www.globalresearch.ca/index.php?context=va&aid=13055.

[5] "Thinking the Unthinkable: A Debt Write Down, and Jubilee Year Clean Slate", Dr. Michael Hudson, http://www.globalresearch.ca/index.php?context=va&aid=10330

[6] "G20 Summit Missed the Real Target", Henry C.K. Liu, http://www.atimes.com/atimes/Global_Economy/KD15Dj04.html

[7] "WEALTH, VIRTUAL WEALTH AND DEBT", Frederick Soddy, E. P. DUTTON & CO., INC., 1933, p. 249.

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