

## Washington Neocons are Subverting U.S. Dollar Hegemony

by Michael Hudson via gayle - Counterpunch Saturday, Feb 2 2019, 9:14pm

international / prose / post

*The extreme right and extreme left of politics shake hands together in totalitarian autocracy. This (ideological impositionist) outcome led to the economic collapse of the USSR and is now leading to the collapse of the USA via the only factor holding up America's capability -- the petro-dollar as reserve world currency. It is not without ample irony that extreme right wing factions in Washington (neocons) have not only taken over Trump's foreign policy but are, in their Blind, desperate attempts to preserve America's former status, actually shooting themselves in the head. Leading macro economist Prof. Michael Hudson spells out this rapid (internal) decline and the forces driving it below:*

*[For any individual, nation/state or otherwise, to allow itself to depend on only one survival factor becomes the ultimate in stupidity and folly, but this is the situation for tattered and fragile US power. And so, targeting the dollar, intentionally or unintentionally, from within or without, brings down the entire house of cards. The paper dollar is therefore the Achilles heel of American imperialism, and we all know what happened to Achilles!]*



The end of America's unchallenged global economic dominance has arrived sooner than expected, thanks to the very same Neocons who gave the world the Iraq, Syria and the dirty wars in Latin America. Just as the Vietnam War drove the United States off gold by 1971, its violent regime change warfare against Venezuela and Syria - and threatening other countries with sanctions if they do not join this crusade - is driving European and other nations to create their alternative financial institutions.

This break has been building for quite some time, and was bound to occur. But who would have thought that Donald Trump would become the catalytic agent? No left-wing party, no socialist, anarchist or foreign nationalist leader anywhere in the world could have achieved what he is doing to break up the American Empire.

The Deep State is reacting with shock at how this right-wing real estate grifter has been able to drive other countries to defend themselves by dismantling the U.S.-centered world order. To rub it in, he is using Bush and Reagan-era Neocon arsonists, John Bolton and now Elliott Abrams, to fan the flames in Venezuela. It is almost like a black political comedy. The world of international diplomacy is being turned inside-out. A world where there is no longer even a pretense that we

might adhere to international norms, let alone laws or treaties.

The Neocons who Trump has appointed are accomplishing what seemed unthinkable not long ago: Driving China and Russia together – the great nightmare of Henry Kissinger and Zbigniew Brzezinski. They also are driving Germany and other European countries into the Eurasian orbit, the “Heartland” nightmare of Halford Mackinder a century ago.

The root cause is clear: After the crescendo of pretenses and deceptions over Iraq, Libya and Syria, along with our absolution of the lawless regime of Saudi Arabia, foreign political leaders are coming to recognize what world-wide public opinion polls reported even before the Iraq/Iran-Contra boys turned their attention to the world’s largest oil reserves in Venezuela: The United States is now the greatest threat to peace on the planet.

Calling the U.S. coup being sponsored in Venezuela a defense of democracy reveals the Doublethink underlying U.S. foreign policy. It defines “democracy” to mean supporting U.S. foreign policy, pursuing neoliberal privatization of public infrastructure, dismantling government regulation and following the direction of U.S.-dominated global institutions, from the IMF and World Bank to NATO. For decades, the resulting foreign wars, domestic austerity programs and military interventions have brought more violence, not democracy.

In the Devil’s Dictionary that U.S. diplomats are taught to use as their “Elements of Style” guidelines for Doublethink, a “democratic” country is one that follows U.S. leadership and opens its economy to U.S. investment, and IMF- and World Bank-sponsored privatization. The Ukraine is deemed democratic, along with Saudi Arabia, Israel and other countries that act as U.S. financial and military protectorates and are willing to treat America’s enemies as theirs too.

A point had to come where this policy collided with the self-interest of other nations, finally breaking through the public relations rhetoric of empire. Other countries are proceeding to de-dollarize and replace what U.S. diplomacy calls “internationalism” (meaning U.S. nationalism imposed on the rest of the world) with their own national self-interest.

This trajectory could be seen 50 years ago (I described it in *Super Imperialism* [1972] and *Global Fracture* [1978].) It had to happen. But nobody thought that the end would come in quite the way that is happening. History has turned into comedy, or at least irony as its dialectical path unfolds.

For the past half-century, U.S. strategists, the State Department and National Endowment for Democracy (NED) worried that opposition to U.S. financial imperialism would come from left-wing parties. It therefore spent enormous resources manipulating parties that called themselves socialist (Tony Blair’s British Labour Party, France’s Socialist Party, Germany’s Social Democrats, etc.) to adopt neoliberal policies that were the diametric opposite to what social democracy meant a century ago. But U.S. political planners and Great Wurlitzer organists neglected the right wing, imagining that it would instinctively support U.S. thuggishness.

The reality is that right-wing parties want to get elected, and a populist nationalism is today’s road to election victory in Europe and other countries just as it was for Donald Trump in 2016.

Trump’s agenda may really be to break up the American Empire, using the old Uncle Sucker isolationist rhetoric of half a century ago. He certainly is going for the Empire’s most vital organs. But is he a witting anti-American agent? He might as well be – but it would be a false mental leap to use “quo bono” to assume that he is a witting agent.

After all, if no U.S. contractor, supplier, labor union or bank will deal with him, would Vladimir Putin, China or Iran be any more naïve? Perhaps the problem had to erupt as a result of the inner dynamics of U.S.-sponsored globalism becoming impossible to impose when the result is financial austerity, waves of population flight from U.S.-sponsored wars, and most of all, U.S. refusal to adhere to the rules and international laws that it itself sponsored seventy years ago in the wake of World War II.

### Dismantling international law and its courts

Any international system of control requires the rule of law. It may be a morally lawless exercise of ruthless power imposing predatory exploitation, but it is still The Law. And it needs courts to apply it (backed by police power to enforce it and punish violators).

Here's the first legal contradiction in U.S. global diplomacy: The United States always has resisted letting any other country have any voice in U.S. domestic policies, law-making or diplomacy. That is what makes America "the exceptional nation." But for seventy years its diplomats have pretended that its superior judgment promoted a peaceful world (as the Roman Empire claimed to be), which let other countries share in prosperity and rising living standards.

At the United Nations, U.S. diplomats insisted on veto power. At the World Bank and IMF they also made sure that their equity share was large enough to give them veto power over any loan or other policy. Without such power, the United States would not join any international organization. Yet at the same time, it depicted its nationalism as protecting globalization and internationalism. It was all a euphemism for what really was unilateral U.S. decision-making.

Inevitably, U.S. nationalism had to break up the mirage of One World internationalism, and with it any thought of an international court. Without veto power over the judges, the U.S. never accepted the authority of any court, in particular the United Nations' International Court in The Hague. Recently that court undertook an investigation into U.S. war crimes in Afghanistan, from its torture policies to bombing of civilian targets such as hospitals, weddings and infrastructure. "That investigation ultimately found 'a reasonable basis to believe that war crimes and crimes against humanity.'"1

Donald Trump's National Security Adviser John Bolton erupted in fury, warning in September that: "The United States will use any means necessary to protect our citizens and those of our allies from unjust prosecution by this illegitimate court," adding that the UN International Court must not be so bold as to investigate "Israel or other U.S. allies."

That prompted a senior judge, Christoph Flügge from Germany, to resign in protest. Indeed, Bolton told the court to keep out of any affairs involving the United States, promising to ban the Court's "judges and prosecutors from entering the United States." As Bolton spelled out the U.S. threat: "We will sanction their funds in the U.S. financial system, and we will prosecute them in the U.S. criminal system. We will not cooperate with the ICC. We will provide no assistance to the ICC. We will not join the ICC. We will let the ICC die on its own. After all, for all intents and purposes, the ICC is already dead to us."

What this meant, the German judge spelled out was that: "If these judges ever interfere in the domestic concerns of the U.S. or investigate an American citizen, [Bolton] said the American government would do all it could to ensure that these judges would no longer be allowed to travel to the United States - and that they would perhaps even be criminally prosecuted."

The original inspiration of the Court - to use the Nuremberg laws that were applied against German Nazis to bring similar prosecution against any country or officials found guilty of committing war crimes - had already fallen into disuse with the failure to indict the authors of the Chilean coup, Iran-Contra or the U.S. invasion of Iraq for war crimes.

#### Dismantling Dollar Hegemony from the IMF to SWIFT

Of all areas of global power politics today, international finance and foreign investment have become the key flashpoint. International monetary reserves were supposed to be the most sacrosanct, and international debt enforcement closely associated.

Central banks have long held their gold and other monetary reserves in the United States and London. Back in 1945 this seemed reasonable, because the New York Federal Reserve Bank (in whose basement foreign central bank gold was kept) was militarily safe, and because the London Gold Pool was the vehicle by which the U.S. Treasury kept the dollar "as good as gold" at \$35 an ounce. Foreign reserves over and above gold were kept in the form of U.S. Treasury securities, to be bought and sold on the New York and London foreign-exchange markets to stabilize exchange rates. Most foreign loans to governments were denominated in U.S. dollars, so Wall Street banks were normally name as paying agents.

That was the case with Iran under the Shah, whom the United States had installed after sponsoring the 1953 coup against Mohammed Mosaddegh when he sought to nationalize Anglo-Iranian Oil (now British Petroleum) or at least tax it. After the Shah was overthrown, the Khomeini regime asked its paying agent, the Chase Manhattan bank, to use its deposits to pay its bondholders. At the direction of the U.S. Government Chase refused to do so. U.S. courts then declared Iran to be in default, and froze all its assets in the United States and anywhere else they were able.

This showed that international finance was an arm of the U.S. State Department and Pentagon. But that was a generation ago, and only recently did foreign countries begin to feel queasy about leaving their gold holdings in the United States, where they might be grabbed at will to punish any country that might act in ways that U.S. diplomacy found offensive. So last year, Germany finally got up the courage to ask that some of its gold be flown back to Germany. U.S. officials pretended to feel shocked at the insult that it might do to a civilized Christian country what it had done to Iran, and Germany agreed to slow down the transfer.

But then came Venezuela. Desperate to spend its gold reserves to provide imports for its economy devastated by U.S. sanctions - a crisis that U.S. diplomats blame on "socialism," not on U.S. political attempts to "make the economy scream" (as Nixon officials said of Chile under Salvador Allende) - Venezuela directed the Bank of England to transfer some of its \$11 billion in gold held in its vaults and those of other central banks in December 2018. This was just like a bank depositor would expect a bank to pay a check that the depositor had written.

England refused to honor the official request, following the direction of Bolton and U.S. Secretary of State Michael Pompeo. As Bloomberg reported: "The U.S. officials are trying to steer Venezuela's overseas assets to [Chicago Boy Juan] Guaido to help bolster his chances of effectively taking control of the government. The \$1.2 billion of gold is a big chunk of the \$8 billion in foreign reserves held by the Venezuelan central bank."<sup>2</sup>

Turkey seemed to be a likely destination, prompting Bolton and Pompeo to warn it to desist from helping Venezuela, threatening sanctions against it or any other country helping Venezuela cope with its economic crisis. As for the Bank of England and other European countries, the Bloomberg

report concluded: “Central bank officials in Caracas have been ordered to no longer try contacting the Bank of England. These central bankers have been told that Bank of England staffers will not respond to them.”

This led to rumors that Venezuela was selling 20 tons of gold via a Russian Boeing 777 – some \$840 million. The money probably would have ended up paying Russian and Chinese bondholders as well as buying food to relieve the local famine.<sup>3</sup> Russia denied this report, but Reuters has confirmed is that Venezuela has sold 3 tons of a planned 29 tones of gold to the United Arab Emirates, with another 15 tones are to be shipped on Friday, February 1.<sup>4</sup> The U.S. Senate’s Batista-Cuban hardliner Rubio accused this of being “theft,” as if feeding the people to alleviate the U.S.-sponsored crisis was a crime against U.S. diplomatic leverage.

If there is any country that U.S. diplomats hate more than a recalcitrant Latin American country, it is Iran. President Trump’s breaking of the 2015 nuclear agreements negotiated by European and Obama Administration diplomats has escalated to the point of threatening Germany and other European countries with punitive sanctions if they do not also break the agreements they have signed. Coming on top of U.S. opposition to German and other European importing of Russian gas, the U.S. threat finally prompted Europe to find a way to defend itself.

Imperial threats are no longer military. No country (including Russia or China) can mount a military invasion of another major country. Since the Vietnam Era, the only kind of war a democratically elected country can wage is atomic, or at least heavy bombing such as the United States has inflicted on Iraq, Libya and Syria. But now, cyber warfare has become a way of pulling out the connections of any economy. And the major cyber connections are financial money-transfer ones, headed by SWIFT, the acronym for the Society for Worldwide Interbank Financial Telecommunication, which is centered in Belgium.

Russia and China have already moved to create a shadow bank-transfer system in case the United States unplugs them from SWIFT. But now, European countries have come to realize that threats by Bolton and Pompeo may lead to heavy fines and asset grabs if they seek to continue trading with Iran as called for in the treaties they have negotiated.

On January 31 the dam broke with the announcement that Europe had created its own bypass payments system for use with Iran and other countries targeted by U.S. diplomats. Germany, France and even the U.S. poodle Britain joined to create INSTEX — Instrument in Support of Trade Exchanges. The promise is that this will be used only for “humanitarian” aid to save Iran from a U.S.-sponsored Venezuela-type devastation. But in view of increasingly passionate U.S. opposition to the Nord Stream pipeline to carry Russian gas, this alternative bank clearing system will be ready and able to become operative if the United States tries to direct a sanctions attack on Europe.

I have just returned from Germany and seen a remarkable split between that nation’s industrialists and their political leadership. For years, major companies have seen Russia as a natural market, a complementary economy needing to modernize its manufacturing and able to supply Europe with natural gas and other raw materials. America’s New Cold War stance is trying to block this commercial complementarity. Warning Europe against “dependence” on low-price Russian gas, it has offered to sell high-priced LNG from the United States (via port facilities that do not yet exist in anywhere near the volume required). President Trump also is insisting that NATO members spend a full 2 percent of their GDP on arms – preferably bought from the United States, not from German or French merchants of death.

U.S. overplaying its position is leading to the Mackinder-Kissinger-Brzezinski Eurasian nightmare

that I mentioned above. In addition to driving Russia and China together, U.S. diplomacy is adding Europe to the heartland, independent of U.S. ability to bully into the state of dependency toward which American diplomacy has aimed to achieve since 1945.

The World Bank, for instance, traditionally has been headed by a U.S. Secretary of Defense. Its steady policy since its inception is to provide loans for countries to devote their land to export crops instead of giving priority to feeding themselves. That is why its loans are only in foreign currency, not in the domestic currency needed to provide price supports and agricultural extension services such as have made U.S. agriculture so productive. By following U.S. advice, countries have left themselves open to food blackmail – sanctions against providing them with grain and other food, in case they step out of line with U.S. diplomatic demands.

It is worthwhile to note that our global imposition of the mythical “efficiencies” of forcing Latin American countries to become plantations for export crops like coffee and bananas rather than growing their own wheat and corn has failed catastrophically to deliver better lives, especially for those living in Central America. The “spread” between the export crops and cheaper food imports from the U.S. that was supposed to materialize for countries following our playbook failed miserably – witness the caravans and refugees across Mexico. Of course, our backing of the most brutal military dictators and crime lords has not helped either.

Likewise, the IMF has been forced to admit that its basic guidelines were fictitious from the beginning. A central core has been to enforce payment of official inter-government debt by withholding IMF credit from countries under default. This rule was instituted at a time when most official inter-government debt was owed to the United States. But a few years ago Ukraine defaulted on \$3 billion owed to Russia. The IMF said, in effect, that Ukraine and other countries did not have to pay Russia or any other country deemed to be acting too independently of the United States. The IMF has been extending credit to the bottomless pit of Ukrainian corruption to encourage its anti-Russian policy rather than standing up for the principle that inter-government debts must be paid.

It is as if the IMF now operates out of a small room in the basement of the Pentagon in Washington. Europe has taken notice that its own international monetary trade and financial linkages are in danger of attracting U.S. anger. This became clear last autumn at the funeral for George H. W. Bush, when the EU’s diplomat found himself downgraded to the end of the list to be called to his seat. He was told that the U.S. no longer considers the EU an entity in good standing. In December, “Mike Pompeo gave a speech on Europe in Brussels — his first, and eagerly awaited — in which he extolled the virtues of nationalism, criticised multilateralism and the EU, and said that “international bodies” which constrain national sovereignty “must be reformed or eliminated.”<sup>5</sup>

Most of the above events have made the news in just one day, January 31, 2019. The conjunction of U.S. moves on so many fronts, against Venezuela, Iran and Europe (not to mention China and the trade threats and moves against Huawei also erupting today) looks like this will be a year of global fracture.

It is not all President Trump’s doing, of course. We see the Democratic Party showing the same colors. Instead of applauding democracy when foreign countries do not elect a leader approved by U.S. diplomats (whether it is Allende or Maduro), they’ve let the mask fall and shown themselves to be the leading New Cold War imperialists. It’s now out in the open. They would make Venezuela the new Pinochet-era Chile. Trump is not alone in supporting Saudi Arabia and its Wahabi terrorists acting, as Lyndon Johnson put it, “Bastards, but they’re our bastards.”

Where is the left in all this? That is the question with which I opened this article. How remarkable it

is that it is only right-wing parties, Alternative for Deutschland (AFD), or Marine le Pen's French nationalists and those of other countries that are opposing NATO militarization and seeking to revive trade and economic links with the rest of Eurasia.

The end of our monetary imperialism, about which I first wrote in 1972 in *Super Imperialism*, stuns even an informed observer like me. It took a colossal level of arrogance, short-sightedness and lawlessness to hasten its decline — something that only crazed Neocons like John Bolton, Elliott Abrams and Mike Pompeo could deliver for Donald Trump.

## Notes

[1] Alexander Rubenstein, "It Can't be Fixed: Senior ICC Judge Quits in Protest of US, Turkish Meddling," January 31, 2019.

<https://www.mintpressnews.com/icc-judge-quits-turkish-meddling/254443/>

[2] Patricia Laya, Ethan Bronner and Tim Ross, "Maduro Stymied in Bid to Pull \$1.2 Billion of Gold From U.K.," Bloomberg, January 25, 2019.

<https://www.bloomberg.com/news/articles/2019-01-25/u-k-said-to-deny-maduro-s-bid-to-pull-1-2-billion-of-gold>. Anticipating just such a double-cross, President Chavez acted already in 2011 to repatriate 160 tons of gold to Caracas from the United States and Europe.

[3] Patricia Laya, Ethan Bronner and Tim Ross, "Maduro Stymied in Bid to Pull \$1.2 Billion of Gold From U.K.," Bloomberg, January 25, 2019,.

<https://www.bloomberg.com/news/articles/2019-01-25/u-k-said-to-deny-maduro-s-bid-to-pull-1-2-billion-of-gold>

[4] Corina Pons, Mayela Armas, "Exclusive: Venezuela plans to fly central bank gold reserves to UAE - source," Reuters, January 31, 2019.

<https://www.reuters.com/article/us-venezuela-politics-gold-exclusive/exclusive-venezuela-prepares-to-fly-tonnes-of-central-bank-gold-to-uae-source-idUSKCN1PP2QR>

[5] Constanze Stelzenmüller, "America's policy on Europe takes a nationalist turn," Financial Times, January 31, 2019.

Copyright applies.

<https://www.counterpunch.org/2019/02/01/trumps-brilliant-strategy-to-dismember-u-s-dollar-hegemony/>

---

Inverse Times Open Publishing. <http://inversetimes.lingama.net/news/story-457.html>