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ByMichael Hudson

Short article from Bahrain weekly ’The Gulf’ in which the author of ’Super Imperialism’ and ’Global Fracture’ makes what is hardly the ’modest proposal’ he pretends it is, and perhaps also gives a clue as to what he thought he was doing as ’economic adviser’ to Denis Kucinich’s presidential run. Hudson proposes that an unspecified bloc of ’Middle Eastern’ state-capital should try to settle the dollar-standard blackmail once and for all by offering to buy the US out of the military infrastructure (i.e. Iraq bases) built to enforce said blackmail. A prompt and ’fair’ offer, he seems to believe, might be accepted as someone’s presidential campaign plank. There’s no suggestion at all of why Hudson imagines that any such ’offer’ would not be taken as an Act of War by US diplomacy, which long since declared that ANY hesitation in recycling petrodollars through its financial system would be treated that way.

America’s Free Lunch is Over
How Should the Middle East Invest Its Oil Profits?

By MICHAEL HUDSON

Every week Mid-Eastern countries acquire more dollars in payment for their oil and other exports, and also for rising U.S. investment in their stock markets and other property. This confronts them with a problem: What can they do with these dollars?

Traditionally, exporters have saved their export earnings by building up their assets. But is it still realistic for them to acquire more dollarized assets?

Central banks throughout the world presently hold some $2.5 trillion of U.S. Treasury bonds, and another trillion dollars in private-sector U.S. dollar debt. As the dollarâs exchange rate falls, these banks suffer losses when their holdings are denominated in their own currencies. Even more serious, the principal itself is now in question. There is no foreseeable way in which the United States can redeem its foreign debt. Its trade surplus continues to deteriorate, while its foreign military spending adds to the overall balance-of-payments deficit.

This means that the United States is pumping more and more dollars into the rest of the world without any means of repaying them â or any intention to do so. That is why foreign countries are beginning to treat these dollars as âhot potatoes,â trying to get rid of them as fast as they can.

But how can they all do this? China is using its new dollar inflows to try and buy up foreign raw materials assets, land and other assets needed for its long-term growth. And some Middle Eastern countries are buying long-term supply agreements for food and raw materials produced abroad. But fewer countries are eager to accept these dollars. And the U.S. Government is blocking foreign investment in the most desirable and remunerative domestic U.S. sectors as its politicians become more nationalistic. This threatens to limit foreign investment in the United States to the junk-mortgage market, to real estate that is falling in price, and loans to bail out U.S. banks and financial institutions as they fight off insolvency and their stock-market prices plunge. Middle East purchases of Citibank shares last year are the most notorious example.

This means that Middle Eastern oil exporters â and indeed, European industrial exporters â are in effect giving their oil and other products away to U.S. consumers in exchange for paper IOUs that are in danger of becoming unspendable and hence worthless.

Fortunately there is a better alternative. That is for Middle Eastern governments to invest their export earnings in building up their own economies rather than that of the United States and those of other dollar-area countries. Two thousand years ago, even during the high tide of Greece and the Roman Empire, the Middle East had long been the worldâs most entrepreneurial and prosperous region. What is stopping it from reclaiming this historic position?

A major problem is its arid desertification. This problem can be largely overcome by a combination of domestic infrastructure spending and long term international barter deals. Such deals are the indicated way to go when major currency markets become unstable â and it looks like exchange rates are going to keep on zigzagging and spiking over the coming decade or so.

There is a striking parallel with the last time the Middle East began to receive sharply higher export earnings, after 1973. Back then, it arranged oil-for-infrastructure deals with Korean, Japanese and other Asian firms to build roads, hospitals and other construction needed to raise productivity and living standards. Today, China has entered the mix. And there is still a long way to go for investment in the array of public and private services that are needed to make the region one of the worldâs most prosperous.

The emergence of India, China and Pakistan as economic and even military powers (at least for defensive purposes), as well as Russia and Central Asia, already has led to creation of the Shanghai Cooperation Organization, which Iran already has joined. The world is becoming multi-polar, if only as a defensive response to U.S. attempts to give NATO a post-Cold-War role by extending it into the Middle East, Indian and Pacific regions.

Inasmuch as Asia and India promise to emerge as the worldâs major industrial centers â perhaps joined by South Americaâs leading nations â this economic realignment is inherently political in character. To speak bluntly, the United States opposes it as threatening its desire for unilateral hegemony. And bluntly is just how British Brigadier-General James Ellery CBE spoke on April 22 at the School of Oriental & African Studies (SOAS) in London. He described the U.S.-British Iraq War as having been fought to stop âthe tide of Easternisationâ â a shift in global political and economic power toward China and India, which together import some âtwo thirds of the Middle Eastâs oil.â

General Ellery is in a position to know. He was the Foreign Office’s Senior Adviser to the Coalition Provisional Authority in Baghdad after 2003. In his talk he explained that U.S. global strategists were concerned that in response to the U.S. economic sanctions against Iraq, it â like Iran â might turn its economic focus eastward.

This is the U.S. nightmare, because it has used the Middle East as a piggy bank to bail out the weakening American financial economy. After the first grain-and-oil shock in 1972-73 â when the United States quadrupled grain export prices, and OPEC responded by quadrupling oil prices â U.S. Treasury officials told Middle Eastern rulers that they could charge as much as they wanted for oil (thus providing domestic U.S. oil majors with a price umbrella that enriched their coffers), but that if they did not recycle their export earnings to the United States, this would be viewed as an act of war.

This means that for the Middle East to use its export earnings to develop its own economies may require breaking with the U.S. diplomatic sphere. At the very least it gives the region an interest in getting the United States to end its occupation of Iraq â including the military bases it is now in the process of constructing.

So I have a modest proposal for how to negotiate this quantum change in Middle Eastern-U.S. geopolitics: Offer to buy out the U.S. bases under construction, perhaps including the Green Zone buildup, at fair market value (certainly not at the exorbitant prices that Republican campaign contributors have been paid, with contracts that both the United Nations and the U.S. Congressional Budget office have found to have been corrupt and handled with improper oversight). This can best be done by making clear to the United States that the free lunch it obtained after going off gold in 1971 is over.

This may sound like giving the United States its way in what looks like a protection racket. But protection may be well worth buying under todayâs conditions.

Two centuries ago the United States announced the Monroe Doctrine: Europe should leave the Western Hemisphere to U.S. as a sphere of influence. Is it not time for the world to act symmetrically and ask that the United States for its part leave the Eastern Hemisphere to that regionâs nations, to develop as they wish in peace?

The more publicly the Middle Eastern countries can make this kind of trade-off, the more chance it has of being adopted as a policy plank in this yearâ U.S. presidential campaign.

This article is reprinted from The Gulf (a Bahrain news-weekly).

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