NY Times Is Wrong on Dedollarization: Economist Michael Hudson Debunks Paul Krugman's Dollar Defense

From Global Economy Report

[Matthias Chang's comments: Prof Michael Hudson is the most sought after economist in the current global crisis and he made mincemeat of Nobel Laureate Paul Krugman's explanations of the continued dominance of the US dollar, thereby exposing Krugman's intellectual dishonesty. This in itself is worth reading the entire interview. But more importantly, bankers must fully understand the true nature of the dollar hegemony and why, the days of the $ hegemony are numbered. I invited Prof. Michael Hudson to Malaysia during the peak of the global financial crisis of 2008 together with Prof. Michel Chossudovsky (founder of the renowned Global Research website) and Ellen Brown, the author of the Web of Debt, to Malaysia as advisers in a Closed Door Dialogue - a No-Holds-Barred Exchange, with Malaysian policy makers etc. chaired by Tun Mahathir Mohamad. So, please give your fullest attention.]

Transcript of Interview starts below:

BEN NORTON: Hi everyone, I'm Ben Norton and this is Geopolitical Economy Report.

I'm joined by the economist Michael Hudson, a friend of the show, a brilliant economist, the author of many books, and also the co-host of the program Geopolitical Economy Hour here with Radhika Desai.

Today we're going to be talking about de-dollarization. Michael and Radhika just did a series on the decline in the US dollar system and the move by countries around the world to seek alternatives to the dominance of the US dollar.

Specifically, I wanted to bring on Michael today to respond to articles that were published in the New York Times by the economist Paul Krugman, arguing against de-dollarization, arguing in defense of the US dollar system.

We're going to look at two articles that Krugman wrote, one in April and the other in May.

Michael, I'm going to start with the article that Paul Krugman published in April, called "International Money Madness Strikes Again". He has this very dismissive tone in this, saying that it's "madness".

And essentially in this article, he creates a straw man, where he says that if you think that the dominance of the US dollar is in decline, that you think that there's going to be hyperinflation in the United States.

He refers to these people as "Weimarists", referring to Weimar Germany, where there was hyperinflation in the 1920s.

So he essentially says that if you don't believe that the US dollar will stay dominant, you believe that it's going to become toilet paper. It's a straw man argument.

He also compared the dollar to the British pound. And he said, this is a quote from his article, he says, "In sum, there's no reason to be terrified of the consequences if the dollar should lose its special international status. But that said, it's really hard to see that happening in the first place".

So his argument is that it's not going to happen, but even if it did happen, it wouldn't be important, because look what happened in Britain; the British pound was the international global reserve currency, and yet it no longer is, and Britain still is a significant economy, he argues.

So what do you make of Krugman's arguments?

MICHAEL HUDSON: It's not a straw man argument; it's deliberate ignorance. You have to really have tunnel vision and not understand the most basic economic history to make the misrepresentations that Krugman said.

And if I hadn't met him, and I didn't know how really stupid he is as a person, I would think he's deliberately lying, but I have met him and he really is that stupid.

In my [book] *Super Imperialism* and my book *Trade, Development and Foreign Debt*, I explained the Weimar inflation.

Every hyperinflation in history has come from an attempt to pay a debt in a foreign currency. When Germany was settled with reparations debts in the 1920s, it owed dollars and sterling and French francs.

The problem is that the United States and other countries immediately erected tariff barriers so that Germany could not earn the money to pay the foreign debts. The debts were way beyond Germany's ability to pay because the European governments wanted to punish Germany.

So Germany made an attempt to print Reichsmarks, throw it onto the foreign exchange markets in a desperate attempt to buy the dollars to pay the allies, England, France and other countries, who then would take these dollars and they would pay the inter-ally debts that the United States insisted on for the arms that they had sold Europe before America entered into World War I.

So the hyperinflation collapsed the exchange rate of the German mark. And, as the exchange rate went down, that meant that import prices went way up.

So first of all, the exchange rate went down, then import prices went up and import prices were an umbrella over the general price level.

And then the Reichsbank had to print more domestic currency in order to enable the economy to buy and sell food and other basic needs at the higher prices that were all being forced up as a result of trying to pay foreign currency debts.

Well, the United States doesn't owe a foreign currency debt. America's debts are in dollars and it can always print them. It doesn't have to throw them on the exchange market to buy rubles or yen or other currencies.

So Krugman doesn't understand the difference between paying a domestic debt and paying a foreign debt. And that's because he doesn't understand foreign trade.

If he understood foreign trade and debt, he never could have won a Nobel Prize. A precondition for winning the Nobel Prize is not to understand how international finance works so that you can act to preserve the kind of financial superstition that's taught in the universities like the University of Chicago.

And under the monetarist views that are taught in Chicago and parroted in the New York Times and the Wall Street Journal and the other major media, the governments print too much money, usually to pay workers or to pay social security or social purposes, and that increases wages and that results in inflation and that makes the currency decline as inflation makes exports less competitive.

This gets the whole system in reverse. The problem doesn't begin with the government just creating money to spend domestically.

It starts with foreign debt and trying to pay debt beyond the ability of a country to earn the foreign exchange, the dollars, in which its debt is denominated.

And if you don't understand that, the government should take away Krugman's PhD on the grounds that he doesn't know what any European historian would learn or anybody who's read what I've described in Super Imperialism.

I've written books about this very phenomenon. Needless to say, I'm sort of the name that must not be spoken when it comes to talking about international financial crises.

So Krugman's misrepresenting the Weimarist and hyperinflation to begin with because he doesn't want the government to spend money domestically on social security, on labor, on social spending.

He wants it spent on, as he said again and again, we need the money to spend in Ukraine. We need the money to fight Russia and China. He's become a neocon, which is why he's on the editorial page of the New York Times.

And you can just look at whatever he says as the product of an ignoramus who's become a neocon and is a useful idiot to convince people that, well, we've given him the Nobel Prize, sort of like the emperor's new clothes, to somehow legitimize his wrongheadedness when it comes to how inflation works, how economies work, and how the balance of payments work.

So then we get into what you said, the dollar's demise. Nobody's talking about the dollar's demise because the United States will use dollars and American companies own affiliates all over the world.

And of course they do their own business in dollars. They don't do it in foreign currency. So nobody's really talking about that.

What really is happening isn't simply a currency crisis. It's not just a problem of not accepting the dollar.

It's the fact that America grabbed $300 billion worth of Russian foreign exchange reserves and told [America's] satellite, the Bank of England, to grab Venezuela's gold stock and turn it over to Mr. [Juan] Guaidó, who America said should be the Venezuelan president.

And the rest of the world, what President Putin calls a global majority, is now realizing, — We cannot do our own trade with each other in dollars because if we trade in dollars, the United States can grab our dollars.

Obviously, Saudi Arabia and the Arab countries are thinking this. They've said, — We'd better get out of dollars as quick as possible if America and Israel attack Syria and Iraq, they're just gonna grab all of our money. Let's move our money into safety.

So just as in the United States, the large bank depositors are moving their money out of small banks into the big systemic banks like Chase into safety, other countries are moving their money, the governments are moving their money, out of the dollar into their own currencies, developing currency swaps and trying to develop a BRICS bank to finance their mutual trade and investment because the world economy is breaking into two halves.

Well, that's what Radhika and I have been talking about in our shows with you on the Geopolitical Economy Hour.

We're talking about how what appears to be a monetary problem, what appears to be a financial problem, is actually the fact that the world is breaking into two different economic systems, finance capitalism in the United States and industrial capitalism evolving into industrial socialism in Eurasia.

And if you don't realize the context of the balance of payments and trade and how central banks are holding their monetary reserves, [and how] in this context [governments are asking themselves]:

How are they going to develop their economies domestically?

How are they going to develop their economies to keep their economic surplus at home instead of turning it over to the United States like the NATO countries of Europe do?

[If you don’t realize this context,] then you’re really somehow imposing a tunnel vision on yourself and not seeing the political context of the economic picture.

BEN NORTON: Well said. And another point that Krugman made, in this article in April in defense of US dollar hegemony, is that Charles Kindleberger, the famous economic historian of MIT – and, in fact, Krugman studied with Charles Kindleberger – he had argued that there are three main advantages for the US dollar.

And I should point out by the way that Kindleberger, who worked at the US Treasury, was the founder of the academic discipline known as hegemonic stability theory. So he basically is a kind of imperial court economist or court historian, defending US economic hegemony around the world.

But he argued, Kindleberger, who taught Krugman, and Krugman is echoing him, they argue that the US dollar has three advantages:

One, incumbency – simply the fact that so many people are already using it.

Two, US financial markets are open – and Krugman contrasted that to China, which regulates its capital markets.

And then finally, what Krugman referred to as the so-called rule of law. And this is such crude propaganda.

Krugman wrote – I mean, it’s just laughable – but Krugman wrote, “Unless you’re a dictator planning to commit major war crimes, you needn’t fear that the U.S. government will impound your assets”.

So what do you make of Krugman’s argument, citing Kindleberger, that those three main points – incumbency, open financial markets, and rule of law – are what undergird the hegemony of the US dollar?

MICHAEL HUDSON: Well, I’ve met over the years a number of classmates of Krugman in Kindleberger’s class. And one of them told me that he had a conversation with Krugman.

And Krugman said, the one thing we’re told is, don’t discuss money. Don’t discuss the character of money. And so he never did.

Don’t question things that will somehow rattle the status quo narrative. And he’s learned that. It’s true that there’s inertia for using the dollar.

That was America’s great strength, that it’s really hard to replace one financial system and economic system and political system with another.

It takes a huge effort to sort of get over the hump of, okay, we’re actually going to design a different system.

Well, once the United States threatened to cut Russia and other Eurasian countries off from SWIFT, the bank clearing settlement system, Russia and China put money into developing their own alternative systems.

Now they've done it. They've also developed their own credit card system domestically. So they don't have to use the dollarized Visa system or Master Card system. They're now developing another system.

Krugman has adopted the language of President Biden, who says the world is dividing between democracy and autocracy.

So when a Kindleberger or Krugman say, well, China and Russia are run by autocrats, an autocrat is what used to be called a democrat. Somebody trying to develop their act on behalf of their own economy to raise living standards and to raise productivity and to raise basically the economic output.

By democracy, he means what used to be called an autocrat. Democracy is what they have in Ukraine. That used to be called Nazism. And it's still called Nazism throughout much of Eurasia and the global majority.

So we're having an Orwellian terminology here and Krugman is trying to convince people to use this Orwellian terminology where countries trying to protect their economy from American financial aggression of cutting off their banking system, cutting off their credit card system, seizing their foreign reserves, imposing sanctions against them, that somehow they're autocrats instead of trying to defend their economy against American NATO financial aggression.

The other point he makes is that, well, an open economy, people can put all their money into dollars and they can't put them into China and keep safe. Well, of course that's the case.

China has no need for the kleptocrats of the world, the drug dealers, the criminals, the warlords, to lend money to China that somehow is going to do them the favor of protecting. The United States did that.

I've described in a number of my books how I was working for Chase Manhattan in 1967.

A former State Department person came to me and gave me a document explaining that the United States wanted to become the new offshore banking center, the new flight capital center, saying that, well, what if America could become the Switzerland?

They asked me to calculate how much the United States could get if it provided safety to the world drug dealers, to the world's criminals, to the world tax avoiders, to the world dictators.

They said, — If we can have the United States set up banks offshore in the Caribbean and other countries, then we can have Chase Manhattan and other banks set up offices in these countries to take the deposits, and then they will take these deposits and they will send them to the head office.

— And that is how we're going to finance the Vietnam War and foreign military spending.

And that's exactly what the United States did.

The United States, by having an open economy, has said, — We will protect all of the savings of the criminals of the world, the kleptocrats, the client dictators that we support, the money that President Zelensky of Ukraine keeps, and that's true.

America is the protector of dictators, not China, and that indeed makes the dollar more attractive to dictators because the United States has criminalized the financial system. It's criminalized the balance of payments as a means of financing its military spending abroad.

And I quote the documents in the various books that I've written. They were handed to me in an elevator, and I gather they're not really secret, so I was able to discuss them.

And there was a book by Tom Naylor of Canada called *Hot Money*, where he describes exactly how it was the United States that sent up the offshore banking centers, making America to be the safe haven for criminals throughout the world.

And Paul Krugman says, this is what's saving the dollar. Criminals are us. If we can attract all the criminal capital to the United States, there's so much crime that we support by supporting our dictators and calling them democrats, that we can stabilize the dollar by criminalizing the entire dollarized economy.

That's Paul Krugman's defense of the dollar in a nutshell. And of course, he's right when he says that.

If America can criminalize the global economy and destroy any attempt by Russia, China, Iran, the Eurasian countries, Pakistan, India, Saudi Arabia, to be economically independent, if it can insist that there's only one currency and a unipolar economy, then America will win, and it can reduce the entire world economy to feudalism.

That's certainly the neocon ideal.

The global majority of the world reject this ideal, but what they're saying, again, is not fit to be seen in the print of the New York Times or other media. So you're not getting the context.

BEN NORTON: Now, I want to also briefly respond to Krugman's follow-up article that he published in the New York Times in May, and it was even more dismissive in tone. The headline is, "What's Driving Dollar Doomsaying?"

Here, you can see this kind of neoconservative ideology that you mentioned. He blames the increasing discussion of de-dollarization on what he calls “Putin sympathizers, who want us to believe that America will be punished for, as they see it, ‘weaponizing’ the dollar”, he wrote, in scare quotes.

So he is very dismissive of the idea, which is an objective fact, that the US government uses its currency as a geopolitical weapon.

He also ironically blames de-dollarization on the “crypto cult”. And I mean, we’ve been very critical of the crypto Ponzi scheme. The idea that anyone who is critical of US dollar hegemony is a crypto supporter is laughable.

And he blames Elon Musk.

It’s a very similar article, but he makes two other main points I want to ask you about.

The first point he makes is he says, again, US dollar hegemony is not in danger, but even if it were, he says, quote, “the importance of controlling the world’s reserve currency is greatly overrated”.

And then he says, “Why, exactly, should America care whether a contract between Chinese exporters and Brazilian importers is written in dollars as opposed to yuan or reais?”

And he asks how the fact that the US dollar is the global reserve currency benefits the US economy.

He estimated, writing, “considering all this together, dollar dominance is worth more to America than a fraction of 1 percent of GDP”.

What is your response to that argument?

MICHAEL HUDSON: Well, basically he’s criticizing the Biden administration and the entire American government’s policy to say, — Why are you fighting so hard to preserve the dollar centrality if it’s only 0.1%?

— Why did you bomb Libya and steal all of its gold when President Gaddafi said he wanted to have a gold-based currency for the African countries?

— Why did you go to war with them if it’s only 0.1%? Why is NATO going to war with Russia over Ukraine and threatening China for using their own currency if it’s only 0.1%?

— Why is America spending 4% of its GDP on militarily fighting countries that are seeking to become independent of U.S. financial domination if it’s only 0.1%?

What is Krugman missing here? Well, it used to be, when the status quo of beneficiaries met critics, they’d call them commies.

Well, you don't call them commies anymore because there isn't any communism really. You call them Putin sympathizers.

But the fact is, the CIA itself calls themselves realists. Are you going to be a realist? And if you say, a realist is a Putin sympathizer, then reality is what Putin is saying.

Then for reality, read Putin's speeches and especially read the speeches of Foreign Secretary Sergey Lavrov that spells out exactly what the logic is.

This is what the realist school is talking about, and they call themselves the realist school in the United States. They're the school that are being sidelined by Mr. Blinken and Victoria Nuland and Biden's foreign state department and CIA group.

But the fact is that the whole rest of the world seems to have a reason for wanting all of their governments to have their own currency.

Well, let's look at what difference it makes whether China and Saudi Arabia do their oil trade in yen or dollars.

If you're doing your oil trade and other foreign trade in dollars, then you have to save up dollars to have the money to pay for the oil. You have to have a U.S. bank account. You have to hold U.S. dollars.

And that means you take your domestic currency, your domestic yen or whatever the currency is, and buy dollars, buy dollars, and that supports the dollars exchange rate.

And it provides the United States central bank with the foreign exchange coming in so that it can afford to pay for the military balance of payments costs of keeping military bases all around the yen countries that use the yen or the ruble or other foreign currencies.

So it makes a very big difference. If Saudi Arabia pays for its oil in Chinese yen, then it's going to have to save in Chinese yen, and it will have to accumulate yen, which indeed it's doing in its foreign reserves.

And China will hold Saudi Arabian currency in its foreign reserves instead of holding the dollar. So there will be a mutual inflow of savings into each other's currency in order to finance their own savings investment.

And this inflow will not go into Silicon Valley Bank or Chase Manhattan or other banks to be turned over to the U.S. Treasury as part of its foreign exchange reserves. That's the difference.

And if you leave gunboats out of the picture, if you look at an economy that exists without military spending, without balance of payments deficits imposed by having 800 military bases all over the world, then you're missing the quantitative impact of what actually determines exchange rates and currency values and ultimately international economic power.

BEN NORTON: You mentioned a key point, which is balance of payments.

The other point that Krugman made in this article defending U.S. dollar hegemony is, he insisted that the U.S. constant current account deficit, the constant U.S. trade deficit with the rest of the world, is not related to U.S. dollar hegemony.

In fact, what he is essentially doing here is he is arguing against the idea of exorbitant privilege. That's a term that was created in the 1960s by France's finance minister [Valéry Giscard d'Estaing].

And [d'Estaing] argued that the fact that the dollar is the global reserve currency, and that only the United States can print dollars, gives the U.S. an exorbitant privilege.

Well, Krugman says, no, that's not true.

Krugman argues that the dollar doesn't help the U.S. maintain large balance of payments deficits, because if you look at different countries with their current account deficits as a percentage of GDP, technically Britain, Australia, and Canada have larger current account deficits as a percentage of GDP than the United States does.

How do you respond to Krugman's argument there?

MICHAEL HUDSON: The trick that Krugman uses, and he's being deliberately deceptive here, he talks about the current account deficit. The current account is not the balance of payments.

The balance of payments has capital account, and it also has transfer payments. And he leaves that out.

What is reported as the current account deficit of trade and services vastly exceeds the actual financial flows.

For instance, the Americans report the trade deficit of oil, huge trade deficit. And yet most oil is imported from U.S. firms.

And yes, it pays a lot for the oil, but very little of this payment for oil is paid in foreign currency, because the firms remit their profits to the United States.

They buy the imported capital goods that they need in the United States. They pay U.S. management in the United States.

I've written a monograph on distinguishing the financial flows of the balance of payments from the GDP approach as if all of these things were monetary.

So Krugman deliberately leaves out the fact that America makes an enormous amount of money on capital account.

For instance, the fact that most of the global majorities' foreign debts are in dollars, not their own currency.

This is why the IMF forces them to depreciate their currency and impose a chronic hyperinflation on Latin American and African debtor countries.

It's because if you look at the capital account, including the enormous inflow of the world's criminal capital through the offshore banking centers, then you're going to understand that the balance of payment is something utterly different than the fictitious picture that Mr. Krugman states.

And you can look very simply. You can look at the Treasury Bulletin, and you can look at U.S. liabilities to foreigners.

Look at U.S. liabilities to their own branches in the Caribbean countries and the other offshore banking centers, and you'll see an enormous inflow of foreign currency from these offshore banking centers into the dollar accounts of the head offices of these banks.

The statistics are all right there in the Treasury Bulletin.

And when Krugman, instead of looking at the Treasury Bulletin, looks at the Commerce Department's trade and current account figures, he's distracting attention from what really is important. Currency values are not determined by trade.

They're determined by capital investment, by debt service especially, and by capital flight and crime.

And if you don't realize that capital flight, crime, warfare is the key to the balance of payments, but only goods and services, then you're under the same illusion that Krugman is in in the American economy, that the financial sector is all about banks lending money to factories to pay workers to produce the goods and services that they buy, leaving out the stock market, the bond market, the real estate market, the commercial banking system, the private capital, and everything else that is a blank area to Mr. Krugman.

BEN NORTON: Yeah, I do have to say it is pretty incredible seeing that this is a Nobel Prize winning economist writing in the New York Times, and he conveniently leaves out any mention of the capital account.

He does not mention the capital account one time in this lengthy article.

Yet anyone who has taken a macroeconomics 101 class knows that the inverse of the current account is supposed to be the capital account. No mention of that.

No mention of all of those dollars being recycled back into the United States.

So while the US maintains this massive trade deficit, those dollars go out in the world, but they're recycled back into buying assets in the United States, which helps keep the whole bubble afloat.

MICHAEL HUDSON: That's why he was given the Nobel Prize, because he was able to create a seemingly readable fairy tale about how the economy would work if it didn't have any money, if it didn't have any debt, if there weren't any gunboats, if there were not any crime, if the financial sector did not control the government, but governments were elected to represent the interests of the people in getting better wages and living standards.

If he can somehow provide a readable mythology, like a fairy tale, that seems to make sense, and wouldn't it be nice if this were true, then you get the Nobel Prize. Then you get applauded, and you get hired by the newspapers that themselves are representative of the financial oligarchy that runs the country.

BEN NORTON: Very well said. Well, a final note to end on here, Michael, is probably the most insipid, frankly stupidest point in Krugman's article, which really reflects his main talking point, which is simply that the dollar is powerful because it's powerful.

Krugman wrote, to conclude his article, he wrote, "The bottom line in most of this analysis is that the dollar is widely used because it's widely used — that all of the various roles the dollar plays create a web of self-reinforcement, keeping the dollar pre-eminent".

This is a tautology. The dollar is powerful because it's powerful, and it's going to always be that way.

This is the ideology of people like Paul Krugman and Charles Kindleberger.

It's, of course, why they're elevated in the US media. It's why they're given awards and prizes. But it also just shows how vacuous their arguments actually are.

And I think maybe deep down, he probably knows that he doesn't have much to argue. Because if an undergraduate submitted that argument, I mean, a philosophy professor would rip it to shreds, but maybe an economist, a neoclassical, neoliberal economist would probably take it seriously. They're the only ones.

MICHAEL HUDSON: Well, what does "widely used" means?

Just ask yourself for a minute, why doesn't Venezuela use dollars? Why does Russia not use dollars and moved away from it? Or euros? Why did China say we've got our moving away from the dollar?

Why did Saudi Arabia make the arrangements with China and other BRICS countries to trade in their own currencies, not dollars?

If you don't acknowledge the fact that other people have another idea, then you're very biased.

Why is it that central banks of Russia, China, and all over the world are buying gold in the last, especially in the last few months? Why are countries deciding, we're going to sell dollars and are going to buy gold?

There must be some logic there. Why doesn't he explain at least what the logic is?

He can say that there are counter arguments, but you have to acknowledge the fact that other people must have a reason for what they're doing.

So Krugman is saying that other people have no reason at all for what they're doing. And when they move out of the dollar, there's no reason for them to do it.

And obviously, if you read the speeches of what these countries, foreign ministers and central bankers say, they explain just why they're doing what they're doing.

And you don't get a word of that in the New York Times any more than you get a word of what Seymour Hersh wrote about why the United States blew up the Russian Nord Stream gas lines to Germany.

There are certain things that you just can't discuss in polite society.

BEN NORTON: Well, that's a great note to end on. I want to thank you, Michael Hudson, a brilliant economist, the author of many books. His website is michael-hudson.com.

And Michael also hosts a regular program here with Radhika Desai, which is Geopolitical Economy Hour.

Michael, thanks so much for joining me.

MICHAEL HUDSON: It's really good to be here. I love these discussions. Somebody has to talk about them.

BEN NORTON: It's always a pleasure. Anytime.