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Adelaide Institute special on world economic concerns
>>Banks using Quantitative Easing - QE - will not build a US economy, but with the QEs the US speculators will buy up overseas assets. What a scam!- AI<<

US Fed turns taps back on with $600bn package of QE

Central bank to pump $75bn a month into the markets to stimulate economy

By Stephen Foley in New York, 4 November 2010

The Federal Reserve cranked its printing presses back into action, promising it would spend $600bn (£373bn) of newly minted money buying US government debt in an attempt to bring down interest rates and speed up the economic recovery. The US central bank's Federal Open Market Committee said yesterday that "progress towards its objectives has been disappointingly slow", because unemployment remains high and inflation uncomfortably low in the world's largest economy.

In its long-awaited announcement on the resumption of quantitative easing last night, the Fed said that it will pump the new money into credit markets over the next eight months, at a rate of $75bn per month. The recovery is simply not coming through fast enough, it said. "Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year. Employers remain reluctant to add to payrolls."

Quantitative easing (QE) is the central bank practice of printing new money and using it to buy bonds on the open market. It is designed to push market interest rates lower when traditional tools, such as official interest rates, have been exhausted. The Fed yesterday kept official rates in the rock-bottom range of zero to 0.25 per cent, where they have been since December 2008. It repeated that they would stay "exceptionally low ... for an extended period".

With Republicans having captured the House of Representatives in the midterm elections, on the back of public concern about government debt and spending, there is likely to be little scope for additional economic stimulus via fiscal policy. That puts the strain on monetary policy and on the Fed.

Ben Bernanke, the Fed's chairman, laid the groundwork for a new round of QE in speeches over recent months, citing persistently high unemployment and a weak housing market as a threat to the sustainability of the economic recovery. Under the first QE programme, launched at the apex of the credit crisis, the Fed bought $1.7 trillion of US government debt and mortgage-related securities, designed to bring down the cost of borrowing for homebuyers and businesses. It promised yesterday that interest on those investments, and income it gets when the bonds are repaid, will be used to augment the new QE programme. Adding the new and continuing programmes together, the Fed expects to buy $850bn-$900bn of Treasuries between now and the end of June 2011.

http://www.independent.co.uk/news/business/news/us-fed-turns-taps-back-on-with-600bn--package-of-qe-2124669.html

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U.S. "Quantitative Easing" is Fracturing the Global Economy

By Prof Michael Hudson, Global Research, November 1, 2010

Moreover, it may well be asked whether we can take it for granted that a return to freedom of exchanges is really a question of time. Even if the reply were in the affirmative, it is safe to assume that after a period of freedom the regime of control will be restored as a result of the next economic crisis. (Paul Einzig, Exchange Control (1934)). [1]

Great structural changes in world trade and finance occur quickly – by quantum leaps, not by slow marginal accretions. The 1945-2010 era of relatively open trade, capital movements and foreign exchange markets is being destroyed by a predatory financial opportunism that is breaking the world economy into two spheres: a dollar sphere in which central banks in Europe, Japan and many OPEC and Third World countries hold their reserves the form of U.S. Treasury debt of declining foreign-exchange value; and a BRIC-centered sphere, led by China, India, Brazil and Russia, reaching out to include Turkey and Iran, most of Asia, and major raw materials exporters that are running trade surpluses.

What is reversing trends that seemed irreversible for the past 65 years is the manner in which the United States has dealt with its bad-debt crisis. The Federal Reserve and Treasury are seeking to inflate the economy out of debt with an explosion of bank liquidity and credit – which means yet more debt. This is occurring largely at other countries' expense, in a way that is flooding the global economy with electronic "keyboard" bank credit while the U.S. balance-of-payments deficit widens and U.S. official debt soars beyond any foreseeable means to pay. The dollar's exchange rate is plunging, and U.S. money managers themselves are leading a capital flight out of the domestic economy to buy up foreign currencies and bonds, gold and other raw materials, stocks and entire companies with cheap dollar credit.

This outflow from the dollar is not the kind of capital that takes the form of tangible investment in plant and equipment, buildings, research and development. It is not a creation of assets as much as the creation of debt, and its multiplication by mirroring, credit insurance, default swaps and an array of computerized forward trades. The global financial system has decoupled from trade and investment, taking on a life of its own. In fact, financial conquest is seeking today what military conquest did in times past: control of land and basic infrastructure, industry and mining, banking systems and even government finances to extract the economic surplus as interest and tollbooth-type economic rent charges. U.S. officials euphemize this policy as "quantitative easing." The Federal Reserve is flooding the banking system with so much liquidity that Treasury bills now yield less than 1%, and banks can draw freely on Fed credit. Japanese banks have seen yen borrowing rates fall to 0.25%.

This policy is based on a the wrong-headed idea that if the Fed provides liquidity, banks will take the opportunity to lend out credit at a markup, "earning their way out of debt" – inflating the economy in the process. And when the Fed talks about "the economy," it means asset markets – above all for real estate, as some 80% of bank loans in the United States are mortgage loans.

One-third of U.S. real estate is now reported to be in negative equity, as market prices have fallen behind mortgage debts. This is bad news not only for homeowners but also for their bankers, as the collateral for their mortgage loans does not cover the principal. Homeowners are walking away from their homes, and the real estate market is so thoroughly plagued with a decade of deception and outright criminal fraud that property titles themselves are losing security. And despite FBI findings that financial fraud is found in over three-quarters of the packaged mortgages they have examined, the Obama Justice Department has not sent a single bankster to jail.

Instead, the financial crooks have been placed in charge – and they are using their power over government to promote their own predatory gains, having disabled U.S. public regulatory agencies and the criminal justice system to create a new kind of centrally planned economy in the hands of banks. As Joseph Stiglitz recently observed:

>>In the years prior to the breaking of the bubble, the financial industry was engaged in predatory lending practices, deceptive practices. They were optimizing not in producing mortgages that were good for the American families but in maximizing fees and exploiting and predatory lending. Going and targeting the least educated, the Americans that were most easy to prey on. We've had this well documented. And there was the tip of the iceberg that even in those years the FBI was identifying fraud. When they see fraud, it's really fraud. But beneath that surface, there were practices that really should have been outlawed if they weren't illegal.

… the banks used their political power to make sure they could get away with this [and] … that they could continue engaging in these kinds of predatory behaviors. … there's no principle. It's money. It's campaign contributions, lobbying, revolving door, all of those kinds of things. … it's like theft … A good example of that might be [former Countrywide CEO] Angelo Mozillo, who recently paid tens of millions of dollars in fines, a small fraction of what he actually earned, because he earned hundreds of millions.

The system is designed to actually encourage that kind of thing, even with the fines. … we fine them, and what is the big lesson? Behave badly, and the government might take 5% or 10% of what you got in your ill-gotten gains, but you're still sitting home pretty with your several hundred million dollars that you have left over after paying fines that look very large by ordinary standards but look small compared to the amount that you've been able to cash in.

The fine is just a cost of doing business. It's like a parking fine. Sometimes you make a decision to park knowing that you might get a fine because going around the corner to the parking lot takes you too much time.

I think we ought to go do what we did in the S&L [crisis] and actually put many of these guys in prison. Absolutely. These are not just white-collar crimes or little accidents. There were victims. That's the point. There were victims all over the world. … the financial sector really brought down the global economy and if you include all of that collateral damage, it's really already in the trillions of dollars<<. [2]

This victimization of the international financial system is a consequence of the U.S. Government's attempt to bail out the banks by re-inflating U.S. real estate, stock and bond markets at least to their former Bubble Economy levels. This is what U.S. economic policy and even its foreign policy is now all about, including de-criminalizing financial fraud. As Treasury Secretary Tim Geithner tried to defend this policy: "Americans were rightfully angry that the same firms that helped create the economic crisis got taxpayer support to keep their doors open. But the program was essential to averting a second Great Depression, stabilizing a collapsing financial system, protecting the savings of Americans [or more to the point, he means, their indebtedness] and restoring the flow of credit that is the oxygen of the economy." [3]

Other economists might find a more fitting analogy to be carbon dioxide and debt pollution. "Restoring the flow of credit" is simply a euphemism for keeping the existing, historically high debt levels in place rather than writing them down – and indeed, adding yet more debt ("credit") to enable home buyers, stock market investors and others to use yet more debt leverage to bid asset prices back up to rescue the banking system from the negative equity into which it has fallen. That is what Mr. Geithner means by "stabilizing a collapsing financial system" – bailing banks out of their bad loans and making all the counterparties of AIG's fatal financial gambles whole at 100 cents on the dollar.

The Fed theorizes that if it provides nearly free liquidity in unlimited amounts, banks will lend it out at a markup to "reflate" the economy. The "recovery" that is envisioned is one of new debt creation. This would rescue the biggest and most risk-taking banks from their negative equity, by pulling homeowners out of theirs. Housing prices could begin to soar again.

But the hoped-for new borrowing is not occurring. Instead of lending more – at least, lending at home – banks have been tightening their loan standards rather than lending more to U.S. homeowners, consumers and businesses since 2007. This has obliged debtors to start paying off the debts they earlier ran up. The U.S. saving rate has risen from zero three years ago to 3% today – mainly in the form of amortization to pay down credit-card debt, mortgage debt and other bank loans.

Instead of lending domestically, banks are sending the Fed's tsunami of credit abroad, flooding world currency markets with cheap U.S. "keyboard credit." The Fed's plan is like that of the Bank of Japan after its bubble burst in 1990: The hope is that lending to speculators will enable banks to earn their way out of debt. So U.S. banks are engaging in interest-rate arbitrage (the carry trade), currency speculation, commodity speculation (driving up food and mineral prices sharply this year), and buying into companies in Asia and raw materials exporters.

By forcing up targeted currencies against the dollar, this U.S. outflow into foreign exchange speculation and asset buy-outs is financial aggression. And to add insult to injury, Mr. Geithner is accusing China of "competitive non-appreciation."

This is a euphemistic term of invective for economies seeking to maintain currency stability. It makes about as much sense as to say "aggressive self-defense." China's interest, of course, is to avoid taking a loss on its dollar holdings and export contracts denominated in dollars (as valued in its own domestic renminbi).

Countries on the receiving end of this U.S. financial conquest ("restoring stability" is how U.S. officials characterize it) understandably are seeking to protect themselves. Ultimately, the only serious way to do this is to erect a wall of capital controls to block foreign speculators from deranging currency and financial markets. Changing the international financial system is by no means easy. How much of alternative do countries have, Martin Wolf recently asked. "To put it crudely," he wrote:

>>the US wants to inflate the rest of the world, while the latter is trying to deflate the US. The US must win, since it has infinite ammunition: there is no limit to the dollars the Federal Reserve can create. What needs to be discussed is the terms of the world's surrender: the needed changes in nominal exchange rates and domestic policies around the world.<< [4]

Mr. Wolf cites New York Federal Reserve chairman William C. Dudley to the effect that Quantitative Easing is primarily an attempt to deal with the mortgage crisis that capped a decade of bad loans and financial gambles. Economic recovery, the banker explained on October 1, 2010,"has been delayed because households have been paying down their debt – a process known as deleveraging." In his view, the U.S. economy cannot recover without a renewed debt leveraging to re-inflate the housing market.

By the "U.S. economy" and "recovery," to be sure, Mr. Dudley means his own constituency the banking system, and specifically the largest banks that gambled the most on the real estate bubble of 2003-08. He acknowledges that the bubble "was fueled by products and practices in the financial sector that led to a rapid and unsustainable buildup of leverage and an underpricing of risk during this period," and that household debt has risen "faster than income growth … since the 1950s." But this debt explosion was justified by the "surge in home prices [that] pushed up the ratio of household net worth to disposable personal income to nearly 640 percent." Instead of saving, most Americans borrowed as much as they could to buy property they expected to rise in price. For really the first time in history an entire population sought to get rich by running to debt (to buy real estate, stocks and bonds), not by staying out of it.

But now that asset prices have plunged, people are left in debt. The problem is, what to do about it. Disagreeing with critics who "argue that the decline in the household debt-to-income ratio must go much further before the deleveraging process can be complete," or who even urge "that household debt-to-income ratios must fall back to the level of the 1980s," Mr. Dudley retorts that the economy must inflate its way out of the debt corner into which it has painted itself. "First, low and declining inflation makes it harder to accomplish needed balance sheet adjustments." In other words, credit (debt) is needed to bid real estate prices back up. A lower rather than higher inflation rate would mean "slower nominal income growth. Slower nominal income growth, in turn, means that less of the needed adjustment in household debt-to-income ratios will come from rising incomes. This puts more of the adjustment burden on paying down debt." And it is debt deflation that is plaguing the economy, so the problem is how to re-inflate (asset) prices.

(1) How much would the Fed have to purchase to have a given impact on the level of long-term interest rates and economic activity, and, (2) what constraints exist in terms of limits to balance-sheet expansion, and what are the costs involved that could impede efforts to meet the dual mandate now or in the future? [5]

On October 15, 2010, Fed Chairman Ben Bernanke explained that he wanted the Fed to encourage inflation – his of program of Quantitative Easing – and acknowledged that this would drive down the dollar against foreign currencies. Flooding the U.S. banking system with liquidity will lower interest rates, increasing the capitalization rate of real estate rents and corporate income. This will re-inflate asset prices – by creating yet more debt in the process of rescue banks from negative equity by pulling homeowners out of their negative equity. But internationally, this policy means that foreign central banks receive less than 1% on the international reserves they hold in Treasury securities – while U.S. investors are making much higher returns by borrowing "cheap dollars" to buy Australian, Asian and European government bonds, corporate securities, and speculating in foreign exchange and commodity markets.

Mr. Bernanke proposes to solve this problem by injecting another $1 trillion of liquidity over the coming year, on top of the $2 trillion in new Federal Reserve credit already created during 2009-10. The pretense is that bailing Wall Street banks out of their losses is a precondition for reviving employment and consumer spending – as if the giveaway to the financial sector will get the economy moving again.

The working assumption is that if the Fed provides liquidity, banks will lend it out at a markup. At least this is the dream of bank loan officers. The Fed will help them keep the debt overhead in place, not write it down. But as noted above, the U.S. market is "loaned up." Borrowing by homeowners, businesses and individuals is shrinking. Unemployment is rising, stores are closing and the economy is succumbing to debt deflation. But most serious of all, the QE II program has a number of consequences that Federal Reserve policy makers have not acknowledged. For one thing, the banks have used the Federal Reserve and Treasury bailouts and liquidity to increase their profits and to continue paying high salaries and bonuses. What their lending is inflating are asset prices, not commodity prices (or output and employment). And asset-price inflation is increasing the power of property over living labor and production, elevating the FIRE sector further over the "real" economy.

These problems are topped by the international repercussions that Mr. Dudley referred to as the "limits to balance-of-payments expansion." Cheap electronic U.S. "keyboard credit" is going abroad as banks try to earn their way out of debt by financing arbitrage gambles, glutting currency markets while depreciating the U.S. dollar. So the upshot of the Fed trying save the banks from negative equity is to flood the global economy with a glut of U.S. dollar credit, destabilizing the global financial system.

Can foreign economies rescue the U.S. banking system?

The international economy's role is envisioned as a deus ex machina to rescue the economy. Foreign countries are to serve as markets for a resurgence of U.S. industrial exports (and at least arms sales are taking off to India and Saudi Arabia), and most of all as financial markets for U.S. banks and speculators to make money at the expense of foreign central banks trying to stabilize their currencies.

The Fed believes that debt levels can rise and become more solvent if U.S. employment increases by producing more exports. The way to achieve this is presumably to depreciate the dollar – the kind of "beggar-my-neighbor" policy that marked the 1930s. Devaluation will be achieved by flooding currency markets with dollars, providing the kind of zigzagging opportunities that are heaven-sent for computerized currency trading, short selling and kindred financial options. Such speculation is a zero-sum game. Someone must lose. If Quantitative Easing is to help U.S. banks earn their way out of negative equity, by definition their gains must be at the expense of foreigners. This is what makes QE II is a form of financial aggression.

This is destructive of the global currency stability that is a precondition for stable long-term trade relationships. Its underlying assumptions also happen to be based on Junk Economics. For starters, it assumes that international prices are based on relative price levels for goods and services. But only about a third of U.S. wages are spent on commodities. Most is spent on payments to the finance, insurance and real estate (FIRE) sector and on taxes. Housing and debt service typically absorb 40% and 15% of wage income respectively. FICA Wage withholding for Social Security and Medicare taxes absorb 11%, and income and sales taxes another 15 to 20%. So before take-home pay is available for consumer spending on goods and services, these FIRE-sector charges make the cost of living so high as to render American industrial labor uncompetitive in world markets.No wonder the U.S. economy faces a chronic trade deficit!

The FIRE sector overhead has become structural, not merely a marginal problem. To restore its competitive industrial position, the United States would have to devalue by much more than the 40% that it did back in 1933. Trying to "inflate its way out of debt" may help bank balance sheets recover, but as long as the economy remains locked in debt deflation it will be unable to produce the traditional form of economic surplus needed for genuine recovery. A debt write-down would be preferable to the policy of keeping the debts on the books and distorting the U.S. economy with inflation – and engaging in financial aggression against foreign economies. The political problem, of course, is that the financial sector has taken control of U.S. economic planning – in its own self-interest, not that of the economy at large. A debt write-down would threaten the financial sector's creditor power over the economy.

So it is up to foreign economies to enable U.S. banks to earn their way out of negative equity. For starters, there is the carry trade based on interest-rate arbitrage – to borrow at 1%, lend at a higher interest rate, and pocket the margin (after hedging the currency shift). Most of this financial outflow is going to China and other Asian countries, and to raw materials exporters. Australia, for example, has been raising its interest rates in order to slow its own real estate bubble. Rather than slowing speculation in its large cities by fiscal policy – a land tax – its central bank is operating on the principle that a property is worth whatever a bank will lend against it. Raising interest rates to the present 4.5% reduces the capitalization rate for property rents – and hence shrinks the supply of mortgage credit that has been bidding up Australian property prices.

This interest-rate policy has two unfortunate side effects for Australia – but a free lunch for foreign speculators. First of all, high interest rates raise the cost of borrowing across the board for doing business and for consumer finances. Second – even more important for the present discussion – high rates attract foreign "hot money" as speculators borrow at low interest in the United States (or Japan, for that matter) and buy high-yielding Australian government bonds.

The effect is to increase the Australian dollar's exchange rate, which recently has achieved parity with the U.S. dollar. This upward valuation makes its industrial sector less competitive, and also squeezes profits in its mining sector. So on top of Australia's rising raw-materials exports, its policy to counter its real estate bubble is attracting foreign financial inflows, providing a free ride for international arbitrageurs. Over and above their interest-rate arbitrage gains is the foreign currency play – rising exchange rates in Australia and many Asian countries as the U.S. dollar glut swamps the ability of central banks to keep their exchange rates stable.

This foreign-currency play is where most of the speculative action is today as speculators watching these purchases have turned the currencies and bonds of other raw-materials exporters into speculative vehicles. This currency speculation is the most aggressive, predatory and destructive aspect of U.S. financial behavior. Its focus is now shifting to the major nation that has resisted U.S. attempts to force its currency up: China. The potentially largest prize for U.S. and foreign speculators would be an upward revaluation of its renminbi.

The House Ways and Means Committee recently insisted that China raise its exchange rate by the 20 percent that the Treasury and Federal Reserve have suggested. Suppose that China would obey this demand. This would mean a bonanza for U.S. speculators. A revaluation of this magnitude would enable them to put down 1% equity – say, $1 million to borrow $99 million – and buy Chinese renminbi forward. The revaluation being demanded would produce a 2000% profit of $20 million by turning the $100 million bet (and just $1 million "serious money") into $120 million. Banks can trade on much larger, nearly infinitely leveraged margins.

Can U.S. banks create enough electronic "keyboard credit" to buy up the whole world? The Fed's QE II policy poses a logical question: Why can't U.S. credit buy out the entire world economy – all the real estate, companies and mineral rights yielding over 1%, with banks and their major customers pocketing the difference? Under current arrangements the dollars being pumped into the global economy are recycled back into U.S. Treasury IOUs. When foreign sellers turn over their dollar receipts to their banks for domestic currency, these banks turn the payment over to the central bank – which then faces a Hobson's Choice: either to sell the dollars on the foreign exchange market (pushing up their currency against the dollar), or avoid doing this by buying more U.S. Treasury securities and thus keeping the dollar payment within the U.S. economy. Why can't this go on ad infinitum?

What makes these speculative capital inflows so unwelcome abroad is that they do not contribute to tangible capital formation or employment. Their effect is simply to push up foreign currencies against the dollar, threatening to price exporters out of global markets, disrupting domestic employment as well as trade patterns. These financial gambles are setting today's exchange rates, not basic production costs. In terms of relative rates of return, foreign central banks earn 1% on their U.S. Treasury bonds, while U.S. investors buy up the world's assets. In effect, U.S. diplomats are demanding that other nations relinquish their trade surpluses, private savings and general economic surplus to U.S. investors, creditors, bankers, speculators, arbitrageurs and vulture funds in exchange for this 1% return on U.S. dollar reserves of depreciating value – and indeed, in amounts already far beyond the foreseeable ability of the U.S. economy to generate a balance-of-payments surplus to pay this debt to foreign governments.

The global economy is being turned into a tributary system, achieving what military conquest sought in times past. This turns out to be implicit in QE II. Arbitrageurs and speculators are swamping Asian and Third World currency markets with low-priced U.S. dollar credit to make predatory trading profits at the expense of foreign central banks trying to stabilize their exchange rates by selling their currency for dollar-denominated securities – under conditions where the United States and Canada are blocking reciprocal direct investment (e.g., Potash Corp. of Saskatchewan in Canada and Unocal in the United States.).

The road to capital controls

Hardly by surprise, other countries are taking defensive measures against this speculation, and against "free credit" takeovers using inexpensive U.S. electronic "keyboard bank credit." For the past few decades they have stabilized their exchange rates by recycling dollar inflows and other foreign currency buildups into U.S. Treasury securities. The Bank of Japan, for instance, recently lowered its interest rate to just 0.1% in an attempt to induce its banks to lend back abroad the foreign exchange that is now coming in as its banks are being repaid on their own carry-trade loans. It also offset the repayment of past carry-trade loans extended by its own banks in yen by selling $60 billion of yen and buying U.S. Treasury securities, of which it now owns over $1 trillion.

Foreign economies are now taking more active steps to shape "the market" in which international speculation occurs. The most modest move is to impose a withholding tax on interest payments to foreign investors. Just before the IMF meetings on October 9-10, 2010, Brazil doubled the tax on foreign investment in its government bond to 4%. Thailand acted along similar lines a week later. It stopped exempting foreign investors from having to pay the 15% interest-withholding tax on their purchases of its government bonds. Finance Minister Korn Chatikavinij warned that more serious measures are likely if "excessive" speculative inflows keep pushing up the baht. "We need to consider the rationality of capital inflows, whether they are for speculative purposes and how much they generate volatility in the baht," he explained But the currency continues to rise.

Such tax withholding discourages interest-rate arbitrage via the bond market, but leaves the foreign-currency play intact – and that is where the serious action is today. In the 1997 Asian Crisis, Malaysia blocked foreign purchases of its currency to prevent short-sellers from covering their bets by buying the ringgit at a lower price later, after having emptied out its central bank reserves. The blocks worked, and other countries are now reviewing how to impose such controls. Longer-term institutional changes to more radically restructure the global financial system may include dual exchange rates such as were prevalent from the 1930 through the early 1960s, one (low and stable) for trade and at least one other (usually higher and more fluctuating) for capital movements. But the most decisive counter-strategy to U.S. QE II policy is to create a full-fledged BRIC-centered currency bloc that would minimize use of the dollar.

China has negotiated currency-swap agreements with Russia, India, Turkey and Nigeria. These swap agreements may require exchange-rate guarantees to make central-bank holders "whole" if a counterpart currency depreciates. But at least initially, these agreements are being used for bilateral trade. This saves exporters from having to hedge their payments through forward purchases on global exchange markets.

A BRIC-centered system would reverse the policy of open and unprotected capital markets put in place after World War II. This trend has been in the making since the BRIC countries met last year in Yekaterinburg, Russia, to discuss such an international payments system based on their own currencies rather than the dollar, sterling or euro. In September, China supported a Russian proposal to start direct trading using the yuan and the ruble rather than pricing their trade or taking payment in U.S. dollars or other foreign currencies. China then negotiated a similar deal with Brazil. And on the eve of the IMF meetings in Washington on Friday, Premier Wen stopped off in Istanbul to reach agreement with Turkish Prime Minister Erdogan to use their own currencies in a planned tripling Turkish-Chinese trade to $50 billion over the next five years, effectively excluding the dollar.

China cannot make its currency a world reserve currency, because it is not running a deficit and therefore cannot supply large sums of renminbi to other countries via trade. So it is negotiating currency-swap agreements with other countries, while using its enormous dollar reserves to buy up natural resources in Australia, Africa and South America. This has reversed the dynamics that led speculators to gang up and cause the 1997 Asia crisis. At that time the great speculative play was against the "Asian Tigers." Speculators swamped their markets with sell orders, emptying out the central bank reserves of countries that tried (in vain) to keep their exchange rates stable in the face of enormous U.S. bank credit extended to George Soros and other hedge fund managers and the vulture funds that followed in their wake. The IMF and U.S. banks then stepped in and offered to "rescue" these economies if they agreed to sell off their best companies and resources to U.S. and European buyers.

This was a major reason why so many countries have tried to free themselves from the IMF and its neoliberal austerity programs, euphemized as "stabilization" plans rather than the economic poison of chronic dependency and instability programs. Left with only Turkey as a customer by 2008, the IMF was a seemingly anachronistic institution whose only hope for survival lay in future crises. So that of 2009-10 proved to be a godsend. At least the IMF found neoliberal Latvia and Greece willing to subject themselves to its precepts. Today its destructive financial austerity doctrine is applied mainly by Europe's "failed economies."

This has changed the equation between industrial-nation creditors and Third World debtors. Many dollar-strapped countries have been subject to repeated raids on their central banks – followed by IMF austerity programs that have shrunk their domestic markets and made them yet more dependent on imports and foreign investments, reduced to selling off their public infrastructure to raise the money to pay their debts. This has raised their cost of living and doing business, shrinking the economy all the more and creating new budget squeezes driving them even further into debt. But China's long-term trade and investment deals – to be paid in raw materials, denominated in renminbi rather than dollars – is alleviating their debt pressures to the point where currency traders are jumping on the bandwagon, pushing up their exchange rates. The major international economic question today is how such national economies can achieve greater stability by insulating themselves from these predatory financial movements.

Notes

1. Paper presented at the Boeckler Foundation meetings in Berlin, October 30, 2010. I am indebted to Eric Janszen of i-tulip for bringing the Einzig quote to my attention.

2. "Stiglitz Calls for Jail Time for Corporate Crooks," DailyFinance: http://srph.it/aRwI4I, October 21, 2010.
3. Tim Geithner, "Five Myths about Tarp," Washington Post, October 10, 2010.
4. Martin Wolf, "Why America is going to win the global currency battle," Financial Times, October 13, 2010.
5. William C. Dudley, "The Outlook, Policy Choices and Our Mandate," Remarks at the Society of American Business Editors and Writers Fall Conference, City University of New York, Graduate School of Journalism, New York City, October 1, 2010. http://www.zerohedge.com/article/why-imf-meetings-failed-and-coming-capital-controls .
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http://www.globalresearch.ca/index.php?context=va&aid=21716

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Fed's QE doing nothing for US economy, but causing chaos in rest of the world

By Walter Brandimarte, Oct 5, 2010

NEW YORK, (Reuters) - Ultra-loose monetary policies by the Federal Reserve and the European Central Bank are throwing the world into "chaos" rather than helping the global economic recovery, Nobel Prize-winning economist Joseph Stiglitz said on Tuesday. A "flood of liquidity" from the Fed and the ECB is bringing instability to foreign-exchange markets, forcing countries such as Japan and Brazil to defend its exporters, Stiglitz told reporters in a conference at Columbia University.
"The irony is that the Fed is creating all this liquidity with the hope that it will revive the American economy," Stiglitz said. "It's doing nothing for the American economy, but it's causing chaos over the rest of the world. It's a very strange policy that they are pursuing." The U.S. dollar has weakened about 6.5 percent against a basket of major currencies since the beginning of September as prospects for further monetary easing by the Fed have led investors to seek higher returns elsewhere.
That flow of dollars caused currencies to appreciate in many emerging market countries such as Brazil, which offers strong growth prospects. The Japanese yen has also hit record highs against the dollar on expectation of additional greenback weakness.
Recent actions by those countries to curb the strength of their currency were "necessary," Stiglitz added. "It's natural in that context for them to say -- we can't just let our exchange rates appreciate and destroy our exports," he said.
On Monday, Brazil doubled a tax on foreign investment into local government bonds, while Japan lowered the target for its benchmark interest rate to a range between zero and 0.1 percent. The Bank of Japan also pledged to buy 5 trillion yen ($60 billion) worth of assets, in a strategy similar to the one adopted by the Fed to pump funds into the economy.
But additional monetary stimulus will "clearly" not solve the problems caused by lack of global aggregate demand, Stiglitz said. "Lowering the interest rates may help a little bit, but that's much too weak to address the problems facing the United States and Europe," Stiglitz said. "We need fiscal stimulus."
(Reporting by Walter Brandimarte; Editing by Jan Paschal)
http://www.reuters.com/article/idUSTRE6944M920101005

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G-20 meeting ends with U.S. failing to secure key support for trade plan

By Don Lee and Christi Parsons, *Los Angeles Times*, October 24, 2010

A proposal to set a cap for each country's deficit or surplus is opposed by some American allies and trading partners. Reporting from Washington — Officials of the world's major economic powers agreed Saturday to take steps to head off what one nation has warned could become a currency war, but the Obama administration fell short of securing an agreement to correct large trade imbalances threatening the global economy.
Concluding two days of talks in South Korea, Treasury Secretary Timothy F. Geithner and other finance ministers of the Group of 20 leading economies also moved to give emerging nations such as China and India a bigger voice in the International Monetary Fund. Geithner's top priority at the talks, before a summit of G-20 leaders next month in Seoul, was to persuade his counterparts to accept a new set of policies and mechanisms aimed at reducing the large U.S. trade and investment deficits while curbing surpluses of China and other countries that have long relied on Americans as the consumers of last resort. In the wake of the global financial crisis and devastating recession, U.S. officials have pressed harder for export-dependent countries to import more and expand their economies by boosting domestic demand. At the same time, the United States and other nations that have been running deficits would need to consume less while boosting savings and investments. ... At the meeting in South Korea's southern city of Gyeongju, U.S. officials sought to set a cap for each country's deficit or surplus at 4% of its economic output by 2015.
The idea drew support from Britain, Australia, Canada and France, all of which are running trade deficits, as well as South Korea, which is hosting the G-20 meetings and hoping for a compromise among the parties.
But the proposal got a cool reception from export powerhouses such as China, which has a current account surplus of 4.7% of its gross domestic product; Germany, with a surplus of 6.1%; and Russia, with a surplus of 4.7%, according to IMF statistics.... On Friday, the Chinese Embassy in Washington issued a statement saying, "China never pursues trade surplus, nor has it manipulated its currency to gain trade benefits."
http://www.latimes.com/news/politics/la-fi-g20-summit-20101024,0,2761637.story

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Dollar set for sharp decline, Goldman forecasts. By Richard Blackden, 07 Oct 2010

The dollar will embark on a sharp decline over the next 12 months, Goldman Sachs forecast on Wednesday, as policy makers in Washington look poised to press the trigger on another round of printing money. While the US economy is growing again, the recovery has failed to "catch fire" in the words of one Federal Reserve official.
The investment bank expects the dollar to drop to $1.79 against the pound in six months and $1.85 in 12 months. Sterling closed at $1.5891 in London yesterday. The euro won't be spared either, with the dollar's slump forcing it to $1.50 six months from now and $1.55 in a year's time. Powered by President Obama's stimulus package and a

rebound in inventories, the US recovery peaked in the final three months of last year and has been slowing ever since.
As the summer delivered a diet of weak economic data, the conviction has strengthened among a growing number of officials at the Federal Reserve that it should risk another bout of quantitative easing - printing money to inject into the economy. "More QE is seen as a co-ordinated effort to get the dollar lower," said Thomas Stolper of Goldman Sachs. "It makes sense for the US." Separately, Goldman's chief economist, Jan Hatzius, warned that the world's biggest economy faces a "fairly bad" or a "very bad" scenario over the next six to nine months.
http://www.telegraph.co.uk/finance/currency/8047468/Dollar-set-for-sharp-decline-Goldman-forecasts.html

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Capital controls will follow the weak dollar. By Michael Hudson – Financial Times, 10/19/2010

Two weeks ago Brazil moved to deter speculators from pushing up its currency,doubling the tax on foreign investment in its government bonds. Last week Thailand acted on similar lines by no longer exempting foreign investors from paying a tax on its bonds, with the Thai finance minister warning of more to come. As the dollar falls and developing nations see speculators push up their exchange rates, other countries are also discussing more stringent restrictions. A damaging age of capital controls seems likely.
Indeed, moves by speculators purchasing assets and taking currency positions in China, Brazil and much of Asia now threaten to make this new era a self-fulfilling prophecy. Such speculative inflows contribute little to capital formation or employment. But they do price exporters out of foreign markets, and can be suddenly reversed if speculators pull out, disrupting trade patterns.
With the likelihood of further falls in the dollar, central banks in developing countries face a capital loss if they try to stabilise exchange rates by buying dollar-denominated assets – as the Bank of Japan did when it recently bought $60bn of dollar securities to hold down the yen's rise. These modest acts set rates through the open market, but their cost is now threatening to drive these economies towards more formal capital controls.
http://www.ft.com/cms/s/0/fe549632-db04-11df-a870-00144feabdc0.html

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China & other Asia Model countries are waging their own Currency War - John Craig john.cpds@gmail.com 11.10.2010

Ambrose Evan-Prichard, Telegraph:
ambrose.evans-pritchard@telegraph.co.uk
Re: 'Currency wars are necessary if all else fails', Telegraph.co.uk, 10 Oct 2010
Your article implies that a currency war would be something new, yet such a 'war' has probably been under way for decades. It is just that most observers have been oblivious to what has been happening because a 'war' was not officially declared (see An Invisible Clash of Financial Systems? in Competing Civilizations, from 2001).
http://cpds.apana.org.au/Teams/Articles/competing_civilizations.htm#financial_systems
Japan was the first to demonstrate that economic strength could be developed through cultural traditions which were derived from those of ancient China and are profoundly different to those of Western societies (eg in terms of the nature of: knowledge; power; governance; strategy; and economic goals). ...
An Invisible Clash of Financial Systems? Financial systems have thus been the most obvious focus for a potential 'clash of civilizations' - though this has received essentially no attention from Western analysts.

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IMF admits that the West is stuck in near depression. By Ambrose Evans-Pritchard, 03 Oct 2010

If you strip away the political correctness, Chapter Three of the IMF's World Economic Outlook more or less condemns Southern Europe to death by slow suffocation and leaves little doubt that fiscal tightening will trap North Europe, Britain and America in slump for a long time.
The IMF report – "Will It Hurt? Macroeconomic Effects of Fiscal Consolidation" – implicitly argues that austerity will do more damage than so far admitted.
Normally, tightening of 1pc of GDP in one country leads to a 0.5pc loss of growth after two years. It is another story when half the globe is in trouble and tightening in lockstep. Lost growth would be double if interest rates are already zero, and if everybody cuts spending at once. "Not all countries can reduce the value of their currency and increase net exports at the same time," it said. Nobel economist Joe Stiglitz goes further, warning that damn may break altogether in parts of Europe, setting off a "death spiral".
The Fund said damage also doubles for states that cannot cut rates or devalue – think Spain, Portugal, Ireland, Greece, and Italy, all trapped in EMU at overvalued exchange rates. "A fall in the value of the currency plays a key role in softening the impact. The result is consistent with standard Mundell-Fleming theory that fiscal multipliers are larger in economies with fixed exchange rate regimes." Exactly.
Let us avoid the crude claim that spending cuts in a slump are wicked or self-defeating. Britain did exactly that after leaving the Gold Standard in 1931, and the ERM in 1992, both times with success. A liberated Bank of England was able to cut interest rates. Sterling fell. The key point is whether you can offset the budget cuts.
But by the same token, it is fallacious to cite the austerity cures of Canada, and Scandinavia in the 1990s – as the European Central Bank does – as evidence that budget cuts pave the way for recovery. These countries were able export to a booming world. They could lower interest rates, and were small enough to carry out `beggar-thy-neighbour' devaluations without attracting much notice. We were not then in our New World Order of "currency wars".
Be that as it may, it is clear that Southern Europe will not recover for a long time. Portuguese premier Jose Socrates has just unveiled his latest austerity package. He has capitulated on wage cuts. There will be a rise in VAT from 21pc to 23pc, and a freeze in pensions and projects. The trade unions have called a general strike for next month.
Mr Socrates has already lost his socialist majority, leaking part of his base to the hard-Left Bloco. He must rely on conservative acquiescence – not yet forthcoming. Citigroup said the fiscal squeeze will be 3pc of GDP next year. So under the IMF's schema, this implies a 3pc loss in growth. Since there wasn't any growth to speak off, this means contraction.
Spain had a general strike last week. Elena Salgado, the defiant finance minister, refused to blink. "Economic policy will

be maintained," she said. There will be another bitter budget in 2011, cutting ministry spending by 16pc. Mrs Salgado has ruled out any risk of a double-dip. But the Bank of Spain fears the economy may contract in the third quarter.

The lesson of the 1930s is that politics can turn ugly as slumps drag into a third year, and voters lose faith in the promised recovery. Unemployment is already 20pc in Spain. If Mrs Salgado is wrong, Spanish society will face a stress test.

We are seeing a pattern – first in Ireland, now in Greece and Portugal – where cuts are failing to close the deficit as fast as hoped. Austerity itself is eroding tax revenues. Countries are chasing their own tail.

The rest of EMU is not going to help. France and Italy are cutting 1.6pc GDP next year. The German squeeze starts in earnest in 2011. Given the risks, you would expect the ECB to stand by with monetary stimulus. But no, while the central banks of the US, the UK, and Japan are worried enough to mull a fresh blast of money, Frankfurt is talking up its exit strategy. It risks repeating the error of July 2008 when it raised rates in the teeth of the crisis. The ECB is winding down its lending facilities for eurozone banks, regardless of the danger for Spanish, Portuguese, Irish, and Greek banks that have borrowed ?362bn, or the danger for their governments. These banks have used the money to buy state bonds, playing the internal "carry trade" for extra yield. In other words, the ECB is chipping at the prop that holds up Southern Europe. One has to conclude that the ECB is washing its hands of the PIGS, dumping the problem onto the fiscal authorities through the EU's? 440bn rescue fund. That is courting fate.

Who believes that the EMU Alpinistas roped together on the North Face of the Eiger are strong enough to hold the rope if one after another loses its freezing grip on the ice?

http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/8039789/IMF-admits-that-the-West-is-stuck-in-near-depression.html

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The backlash begins against the world landgrab

The neo-colonial rush for global farmland has gone exponential since the food scare of 2007-2008.

By Ambrose Evans-Pritchard, 12 September 2010

Last week's long-delayed report by the World Bank suggests that purchases in developing countries rose to 45m hectares in 2009, a ten-fold jump from levels of the last decade. Two thirds have been in Africa, where institutions offer weak defence. As is by now well-known, sovereign wealth funds from the Mid-East, as well as state-entities from China, the Pacific Rim, and even India are trying to lock up chunks of the world's future food supply. Western agribusiness is trying to beat them to it. Western funds - many listed on London's AIM exchange - are in turn trying to beat them. The NGO GRAIN, and farmlandgrab.com, have both documented the stampede in detail.

Hedge funds that struck rich 'shorting' US sub-prime have rotated into the next great play of our era: 'long' soil. "Productive agricultural land with water on site, will be very valuable in the future. And I've put a good amount of money into that," said Michael Burry, star of 'The Big Short'. Needless to say, this has set off a fierce backlash. Brazil has passed a decree limiting acreage held by foreign-owned companies, the latest evidence that our half-century era of globalisation may be drawing to a close.

Authorities are probing whether firms are using local fronts to disguise investment in Mato Grosso and Amazonia. "Brazilian land must stay in the hands of Brazilians," said the farm development minister, Guilherme Cassel. It is starting to feel like the early 1970s when the military regime more or less froze out foreign buyers. Where will this leave the plans of SinoLatin Capital, Goldman Sachs, Harvest Capital, or Berkshire Hathaway? Warren Buffett, wisely, is exploring his $400m venture in soya and sugar with a Brazilian partner.

Argentina is drawing up its own law, pressed by the country's bishops. More than 7pc of national territory is owned by foreigners. The Benetton brothers have 900,000 hectares of Patagonia, some on disputed Mapuche tribal land. George Soros has holdings, so does CNN's Ted Turner, and currency trader Joe Lewis, who made himself a public enemy by blocking public access to the majestic Hidden Lake.

"There are many foreigners who don't buy to produce, but rather to position themselves in places with water, mineral resources and hydrocarbons," said Pablo Orsolini, a sponsor of the legislation.

In Madasgascar, a deal with Korea's Daiwoo Logistics to plant corn on territory half the size of Belgium led to the downfall of the government in 2008. The lease was revoked. "Madagascar's land is neither for sale nor for rent," said the new president. Even Australia's senate has called for an audit of foreign-owned land and water projects. The allure of global land is obvious. The World Bank says industrial and "transition" countries are losing 2.9m hectares of cultivated farmland each year. China is paving over its fertile belt on the Eastern seabord, and depleting the water basin of the North China Plain for crop irrigation.

Cheng Siwei, head of China's green energy drive, told me last week that eco-damage of 13.5pc of GDP each year outstrips China's growth rate of 10pc. National wealth is contracting. "We have an intangible environmental debt that we are leaving to our children," he said. So does India. Much of the globe is stealing food from the future. The World Bank said we must lift production 70pc by 2050 to meet a triad of converging demands: extra mouths; rising use of animal feed from grains as Asia moves up the affluence ladder to meat-based diets; and the biofuel drive. This will not be easy. The great leap forward in crop yields is fading. The Bank said rises in wheat and soya yields have declined from 2pc a year to zero since the 1970s in the West. Yield growth for rice and soya in emerging economies has fallen from 3pc to 1pc. "With few break-through technologies on the horizon, the scope for yield gains seems lower than in the past. Irrigation has contributed to past growth in crop yields, but water scarcity in many regions is now a major constraint," it said. The Green Revolution is "exhausted".

There is plenty of land in the former Soviet Union, where crop planting has fallen by 30m hectares since the sovkhoz collectives of the Khruschev era. Yields are still barely half Western levels on many Russian farms. Untapped hinterlands lie in Africa (Congo and Sudan) and Latin America. Developing countries are freeing up 5.5m hectares a year. There is a theoretical reservoir of 445m hectares of unforested cropland in the world, on top of the 1.5bn hectares in production.

Rich countries do not face a Malthusian crisis. They face a shift in the terms of trade between country and city, a reversal of urban dominance since the industrial revolution. We are on a thinner margin of food security, just as we are on a thinner margin of oil security. But those who live in poor countries that rely on food imports most certainly did have a Malthusian

moment in 2008 when bread riots swept Egypt, Indonesia, and a string of states in Africa.
Last week, 10 people died in riots in Mozambique, set off by Russia's grain export ban. Wheat prices have doubled since June. The World Bank said the number of people who go to bed hungry each night has risen from 830m to more than 1bn over the past three years. The morality of the global land rush is finely balanced. Good projects are exactly what we need to solve the food crisis. They bring investment, know-how, and transport links. They create jobs. Peru's auction scheme on the Pacific Coast has been a success.
Yet the World Bank appears deeply torn. While the report endorses the Bank's open-door globalisation agenda, the sub-text dissents on every page. "Large land acquisitions come at a high cost. The veil of secrecy that often surrounds these deals must be lifted," it said. It warns of a "resource curse" that may enrich a small elite, leaving wreckage behind. Proposals are not properly screened. Peasants are forcibly displaced. Communal grazing lands are closed off. Some investors manipulate opinion with a media blitz of false promises. Nothing has been produced so far on almost 80pc of the land purchased. Benefits are often minimal, "even non-existent". In Africa, the land rush is diverting effort from the core task of helping small farmers raise yields.
The Bank implicitly questions whether it is wise to divert half of the world's increased output of maize and wheat over the next decade into biofuels to meet government "mandates". It will be another decade before the stalks and other inedible parts of plants can be used in bulk.
Personally, I am coming to the conclusion that the biofuel drive is misguided, given that mass solar power and throrium-based nuclear reactors – coupled with electric cars - could step into the energy breach with less destructive effects. All it takes is global leadership. As Friends of the Earth reproaches us, every time we make a frivolous journey in an over-powered car we are hurting somebody. Land is not a commodity. It has an atavistic pull in most cultures, and is semi-sacred everywhere. Absentee landlords who amass chunks of the earth – however well-intentioned - will be expropriated. Politics always prevails.
http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/7997910/The-backlash-begins-against-the-world-landgrab.html

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EU markets chief Barnier warns the City casino days are over

By Ambrose Evans-Pritchard in Como, 9 September 2010

The deceptively quiet Phoney War between Brussels and Anglo-Saxon finance is coming to an end. Life is about to change for hedge funds, commodity traders, and the 'prop desks' of global banks in the City of London. "We want to know who is doing what with short-selling," said Michel Barnier, the European single market commissioner and the Frenchman in charge of the EU's new machinery of regulation.
"We need markets, and we need financial institutions that create value-added, but everyone has to be able to answer for what they are doing. People taking crazy risks linked to crazy rewards have to be brought back to their senses," he said, in a wide-ranging interview with The Daily Telegraph at the annual Ambrosetti conference on the shores of Lake Como.
Mr Barnier said the new European Securities and Markets Authority (ESMA) endorsed in principle last week - along with EU banking and insurance watchdogs - will have sweeping powers to control derivatives. "The EU authorities are going to look at every product. ESMA can restrict leverage, or in exceptional circumstances even ban a product altogether," he said. The Commission is introducing a text on derivatives next week as part of a new oversight machinery covering the gamut of finance and investment, including controls on private equity, hedge funds, as well as oil and currency trading.
Mr Barnier said there was no plan for a blanket ban on the short-selling of stocks or on the use of derivatives such as credit default swaps (CDS), famously exploited by funds to short Greek, Irish, Portuguese, Spanish bonds during Europe's debt crisis this year.
"It is not a question of prohibiting. Short-selling is useful, if used well, but we want to avoid abusive naked short-selling, and be able to take action in emergencies," he said.
Naked short selling is where funds bet against assets they do not own without first borrowing the underlying security, sometimes in an attempt to destroy a company. The distinction is often blurred in real life. Investors use a range of derivative short instruments as a way to hedge other assets that are illiquid
Mr Barnier laughs off talk of a Brussels plot to shut down the City of London, the putative ambition of Louis XIV, Napoleon and the French elites for three centuries. "The City is the foremost financial centre of Europe, and a pillar of our force, and I want it to continue to be so. As French citizen I voted for the UK to be admitted to Europe. But it is in City's own interest that it should be well regulated, by that I mean 'smart regulation'," he said, adding charitably that London was a victim of a US-made crisis than a major contributor to the global banking debacle.
http://www.telegraph.co.uk/finance/financetopics/financialcrisis/7992715/EU-markets-chief-Barnier-warns-the-City-casino-days-are-over.html

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Germany warns China's currency manipulation will turn into trade war. 13 October 2010

Germany has thrown its weight behind the US and Japan in warning China that if does not stop manipulating the yuan, the repercussion will trigger a full scale global trade war and everybody would end up being losers. Germany, the world's third-largest economy and Europe's largest exporter warned that it is up to China to ensure that its currency manipulation does not lead to a trade war. The warning came a day after Germany's central bank Bundesbank president Axel Weber stated categorically yesterday that China manipulates its currency, becoming the first top banker from a western nation to say so. With China remaining adamant and refusing to change its monetary policy, German economy minister Rainer Bruederle yesterday told leading German business newspaper Handelsblatt daily that it was China's responsibility to prevent a destructive trade dispute with the US. "We have to be careful that the currency war does not turn into a trade war. China bears the responsibility for ensuring that it does not come to an escalation,'' he said. US Treasury Secretary Timothy Geithner yesterday said in an interview on PBS Television and later on Bloomberg Television that China was buying dollars in order to hold down the yuan, which was distorting the global currency system as it forces emerging nations to intervene in their own currency.
http://www.domainb.com/economy/worldeconomy/20101013_manipulation.html

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Jeffrey Blankfort is an American journalist and recognized expert on the Israel- Palestine conflict.

Kathleen Wells: Hi. I'm Kathleen Wells, political correspondent for Race-Talk, and today I'm speaking with Jeffrey Blankfort.

Jeffrey Blankfort has been engaged in political work on behalf of the Palestinians since spending four and a half months in Lebanon and Jordan in 1970, photographing the Palestinian refugee camps. Blankfort is a Middle East analyst who has written extensively on the Israel- Palestine conflict. He is a former editor of the Middle East Labor Bulletin, a photo journalist and currently hosts a program on international affairs called "Takes on the World" for KZYX, the public radio station of Mendocino County in California. Last July, Blankfort participated in a conference on Israel's nuclear weapons held at the Spy Museum in Washington DC and sponsored by the Institute for Research: Middle East Policy. Thank you, Jeffrey for taking the time to speak with me this morning.

Jeff Blankfort: I'm very happy to be with you, Kathleen.

Kathleen Wells: I know that you've been a consistent critic of Professor Chomsky regarding many, if not most, of his public positions on Israel. But instead of conducting an interview that sort of rehashes some of that criticism, I thought readers would be more interested in an interview that highlighted your position and knowledge of Israel and her policies and her relationship with the United States and its impact on Palestinians.

Jeff Blankfort: Well, first I should say, I actually agree with many positions of Professor Chomsky. What I disagree with are three critical positions of his. The first is regarding Israel as a strategic asset of the United States in the Middle East or he believes that Washington views Israel as a strategic asset. The second is his dismissal of the pro-Israel lobby or the American Jewish establishment as having any significant influence on U.S.-Middle East policy. And the third is his opposition to boycott, divestments and sanctions targeting Israel.

Kathleen Wells: Okay. So before I get to highlighting your analysis, let's look at that specific issue that you've just raised. Let's just look at it briefly. So I know that a central theme that ran through my interview with Professor Chomsky was that essentially Israel represents a strategic ally, or rather a "cop on the beat" or client state for the United States. Can you sort of elaborate on why you think that this position is erroneous?

Jeff Blankfort: Well, it's interesting. The only source that I have ever seen, that Professor Chomsky uses to justify that statement was the late Senator [Henry] Scoop Jackson from Washington, who was a major recipient of pro-Israel funding and was co-author of the Jackson Vanik amendment which prevented the U.S. and Soviet Union from having a detente, unless the Soviet Union allowed its Jews to leave the Soviet Union. So Scoop Jackson, he's considered to be the oil expert, and Jackson is the only source that Chomsky ever quotes as Israel serving as the U.S.'s "cop on the beat."

In fact, if you look at the history of Israel in the Middle East, in 1958, when President Eisenhower was concerned that there was going to be a revolutionary change in Lebanon, he sent in the U.S. Marines. And we see, of course, in 1991, when Saddam Hussein invaded Kuwait, President Bush -- senior Bush -- at the time, had to persuade Israel from not intervening itself even after Saddam Hussein sent scuds into Israel. It was important for the coalition that the first President Bush had with Arab countries to keep Israel out of it. So at that time, Israel was a liability, and then we saw again in 2003 that Israel had to stay out of the war.

Now Chomsky alludes to two particular situations. One, in 1967, when the United States was not the prime supporter of Israel but France was, in which Israel preemptively attacked Egypt in '67 and took the Egyptian Sinai, the West Bank and Gaza and the Golan Heights from Syria. But that took place in 1967, quite a few years ago, and the only other instance he cites is in 1970 when King Hussein launched an attack on the Palestinian refugee camps in Jordan in September (I had actually been there just before that happened). And the Syrian President sent some tanks across the border to assist the Palestinians, and the United States, according to Chomsky, called on Israel to flex its muscle to keep Syria from intervening.

But, in fact, at that time, which Professor Chomsky doesn't mention, the head of the Syrian Air Force, who later became President Hafez Al-Assad, was very critical of Yasser Arafat and the PLO and refused to be a part of any attempt to rescue the Palestinians at that time. And several months after Black September, Hafez Al-Assad staged a coup in Syria, put the pro-Palestinian president in prison, and put in prison also hundreds of pro-Palestinian Syrian activists. This has been kind of written out of history, and Israel has been given the credit without lifting a finger as serving as the cop on the beat.

And, of course, one might say, if it had not been for Israel's foundation and the ethnic cleansing of the Palestinians, there would have been no problem of Palestinians in Jordan because they would still have been in Palestine. So there is no other source of Israel being a "cop on the beat" that Chomsky can allude to, where there's no expert in U.S. foreign policy or any other scholar that he can quote that says the same thing, other than those obviously in the Israel lobby camp.

Kathleen Wells: So essentially, your position is that Israel is not a "cop on the beat," is not a strategic asset or interest for the United States. Is that the position you're taking?

Jeffrey Blankfort: It is not only that. It has been more of a liability. And that every President since President Nixon has made an effort, some more than others, to actually get Israel to withdraw from the occupied territories -- first, Egypt, Syria and as well as the West Bank and Gaza -- not for the benefit of the Palestinians, but because it was in U.S. interest, and there are a number of scholars who have said that over the years who Chomsky has ignored.

Kathleen Wells: And, in fact ...

Jeffrey Blankfort: Actually, each one of these efforts has been thwarted because of the Israeli [lobby]. A critic, in Israel, Uri Avnery, has pointed out, [that] Israel summons [the] Israel lobby to do its thing, and each President has [had] to back down because of domestic political considerations. As a matter of fact, there's an article in the New York Times just the other day in which it says the pro-Israel lobby is very concerned because Senator George Mitchell or Hillary Clinton said that peace between Israel and Palestine is in the U.S. national interest. And that is of concern to the Israel lobby, because they have been very instrumental in making sure that Israel's occupation continues and the settlements continue to expand.

Kathleen Wells: Well, I kind of want to address that later, but one thing I wanted to touch on is the fact that last July, Assistant Secretary [of State] Shapiro indicated that the characterization of the relationship between the United States and Israel is irrelevant, because no matter what the characterization is, the commitment, the bond, between Israel and the United States is unshakable.

Jeffrey Blankfort: You're speaking of the Assistant Secretary of State for Military and Political Affairs Andrew Shapiro, who spoke at the Brookings Institution in the middle of July, who gave a speech in which he sounded like he was speaking at an AIPAC conference or to a Jewish audience and which even caused Medea Benjamin of Global Exchange and Code Pink, who was in the audience, during the question period to say he sounded like an agent of Israel, which in fact he serves as.

What was interesting, he said he had been doing the same job when he was assistant to Secretary of State Clinton when she was a senator. What he is talking is about is something called "shared values." You hear this term, "shared values," repeated by all the apologists for the Israel-U.S. relationship, whether they're in Congress, whether [its] the President of the United States or a member of the Zionist community. But they never outline what these shared values are. Perhaps the ethnic cleansing which took place here in the United Sates with the Native Americans, the occupation of Native American land or preemptive wars, but I'm not quite sure that most Americans, if they would have listened to the speech of Andrew Shapiro at the Brookings Institution, would not have been outraged to hear someone to whom they're paying his salary speak as if he was working for Israel and not for the United States.

Kathleen Wells: Okay, now let me go back to the issue that you touched on before about the Israeli lobby -- AIPAC. Talk to me about its role. Talk to me about its significance.

Jeffrey Blankfort: Well, AIPAC is the officially registered pro-Israel lobby. But it is only one, and an extremely important one of a number of organizations – Jewish organizations, not exclusively Jewish organizations but predominantly Jewish organizations -- that are lobbying U.S. Congress, and actually foreign governments in certain instances, to push Israel's agenda. For example, which is, since the invasion of Iraq, has been to confront Iran militarily, if necessary.

And so, AIPAC was born out of an organization called the American Zionist Council, which formed shortly after Israel became a country and embarked upon a plan, which was spelled out in congressional hearings in 1963 held by Senator Fulbright, in which they would penetrate -- they would lobby every sector of American society that might be critical to Israel's future, particularly the media, the churches, the black community and labor unions, etc., in order to get an atmosphere that would be so pro-Israel that no member of Congress or President would be able to go against it. And all of this is documented in these hearings, and actually new documents have recently been released, in which Grant Smith of the Institute Research: Middle East Policy in Washington, D.C., has put on his Israel Lobby Archives, which I strongly recommend.

When you read these documents, you see how successful they were in getting newspaper editors, magazine editors, etc., to run pro-Israel articles. And then, for example, one article in the Atlantic magazine, the Atlantic Monthly, which took an Israeli position on Palestinian refugees, they sent to every single one of 53,000 [people] of those who are listed in Who's Who in America. This was going on even when the majority of the Jewish community was not that interested in Israel, which is interesting.

They were, nevertheless, dedicated to getting the Israeli position deep into American society, American culture; whereas, until 1967 -- the Six-Day War -- most American Jews weren't really paying much attention to Israel. And, in fact, before that war, more Jews were leaving Israel than were immigrating to Israel, and their economy was totally stagnant. So the Zionist lobby, the Zionist section of the American Jewish community, which is a minority section, was very dedicated, and it's been doing this since Israel became a state.

Kathleen Wells: And so ...

Jeffrey Blankfort: [AIPAC's staff] are the ones who directly approach members of Congress, but they don't really lobby them anymore. They instruct them in what they should do. They write their speeches, they sit in on every kind of committee meeting that discusses issues relating to Israel or the Middle East, and they simply dictate to members of Congress what they're going to do and say about Israel. And when you go into Congress -- you're running for Congress -- AIPAC comes to every candidate, every viable candidate and asks them to sign a statement about their dedication to the U.S.-Israel relationship. Cynthia McKinney, one of our most wonderful members of Congress (who no longer is a member of Congress) refused to do that. And so she was targeted from the very beginning. But most members of Congress go along to get along, and not only with the Israel lobby but with the insurance companies, with the arms industry, with the banking industry, and so on. They are a bunch of lawyers who essentially work for large corporations, and Israel happens to be a large corporation, in this sense.

Kathleen Wells: So, I mean, if what you're saying is true, the organized Jewish establishment or this lobby has essentially bought Congress, at least with regards to issues regarding Israel. So, I mean, this is very disturbing to hear, and it says that something is wrong with our entire system of government.

Jeffrey Blankfort: Well, 101 years ago, Mark Twain wrote in one of his books that it could be argued that there is only one native criminal class in America -- Congress. And a few years later, the cowboy philosopher, Will Rogers said, "America has the best Congress money can buy." And the only thing that's changed has been the price and the names of those people who have been bought. They have been bought by every major sector/special interest of American society that represents American capitalism: the arms industry, and so on, and, in this sense, Israel and the Jewish establishment that supports it have ben a major player. They had been responsible for, at least since World War II, at least 60 or more percent of the money that goes to the Democratic Party, making the Democratic Party, literally, a subsidiary of the Zionist establishment.

In 2000, Mother Jones Magazine ran what they called "Mother Jones [400]," which listed the top 400 contributors to the American political campaigns in that year. And of the top 400, of the top ten, seven were Jewish; of the top 20, 12 were Jewish; and of the top 250, where I stopped counting, at least 125 were Jewish. And 75 percent of their money went to the Democratic Party.

In 2002, one Israeli-Egyptian born American named Haim Saban, who brags about his loyalty to Israel being his primary interest, he contributed $12.3 million to the Democratic Party, seven of which bought their office building in Washington, D.C., and that was only about a million and a half dollars less than the political action committee of the arms industry gave to both political parties. So this is the kind of clout that they have in Washington.

And there was once an institution, one independent think-tank in Washington that wasn't in the pro-Israel lobby camp, and that was Brookings [Institution.] And in the same year, he [Saban] gave $12.3 million, the same number, to Brookings [Institution] to found Saban Center for Middle East Policy, thereby taking over Brookings' role in the Middle East. And it was at Brookings where Andrew Shapiro gave his talk. And the head of Brookings is a man named Kenneth Pollack, whose book, "The Gathering Storm," was one of the most instrumental pieces of propaganda that got us into the current Gulf war. I covered a lot of ground there but all ...

Kathleen Wells: Yes. Yeah, and you know, the American people are not aware of this, the depth and breadth of this influence, and it's a bit overwhelming to hear this. You were once a member of AIPAC, is that correct?

Jeffrey Blankfort: Well, I actually joined AIPAC in 1988. I had just begun editing the Middle East Labor Bulletin and co-founded a committee called the Labor Committee on the Middle East, which focused on the situation of Palestinian workers in Israel and in the occupied territories and in other Middle Eastern countries, which tried to show Palestinians as activists, as not just victims. But I began to see the role of AIPAC and so I joined AIPAC, and I went to a luncheon that they gave in San Francisco.

Now, every year in Washington, the biggest event of the year in Washington is the AIPAC Conference, in which at least half the members of Congress attend and have their names put on a roll so their constituents back home – Jewish constituents -- know that they attended, and usually a major speaker from Israel or the U.S. Government, [the] Secretary of State, Vice President, and so on, speak there.

But they also have local conferences in cities around the country. In San Francisco, they have usually three events -- two luncheons and one dinner in different parts of the Bay area, so I went to a luncheon in San Francisco. And I was astounded to see that all the local public officials had been invited to attend and were there at the Fairmount Hotel, which is one of the most flashiest, gaudiest hotels in San Francisco, where they were addressed by a major speaker -- a U.S. Senator. These U.S. Senators or governors, they go around the country, and they speak at AIPAC events. The news media are not involved, are not invited. And back home, they don't know about it either, wherever these senators come from.

But what was astounding to me was to see that all the important people in San Francisco were attending this luncheon. And when you come, you're given a card that tells you how much you've contributed to AIPAC, and, of course, they collect money there. What happens after these meetings, and they take place all over the country, is that local Jewish community organizations -- the Jewish Community Relations Council or Jewish foundations or federations -- then spend the money and send these public officials -- police chiefs, fire chiefs, mayors, city council people, supervisors -- to Israel on all-expense-paid trips where they meet the prime minister, the defense minister, very important people.

They go to Yad Vashem, the Holocaust Memorial Museum; they go visit the West Bank settlement; they come back to the United States, and they know they have very powerful friends in the Jewish community who accompanied them on the trip. And from this group of people, we get our members of Congress, since they are already indoctrinated into being pro-Israel even before they file for running for Congress.

So most Americans and actually most people -- even pro-Palestinian supporters -- are not aware of this. They don't follow this because they've been told by Professor Chomsky and others that the problem is not the Israel lobby but U.S. imperialism -- which is a pretty remote target for most people. If they thought it was their members of Congress who were involved in voting for money for Israel/supporting Israel policies, they might be sitting in at their offices. For example, Nancy Pelosi, the Speaker of the House, has spoken at a number of AIPAC conferences in which she repeatedly pledges her loyalty to Israel, but there has never been any major protest against Pelosi for her support of Israel. As a matter of fact, she is the favorite of the liberals in San Francisco because she's criticized China and she's very good on the issue of gay rights, which is an important issue in the Bay Area.

Kathleen Wells: So you're basically hitting on or touching on issues that the activist -- pro-Palestinian activists -- steps they should take to be more effective.

Jeffrey Blankfort: Well, yes, to this point the solidarity movement for Palestinians in this country is an utter failure. They have succeeded in doing absolutely nothing, and you see around the world the Boycott, Divestment, and Sanctions movement [BDS] targeting Israel has been gaining ground in Europe, among labor unions in England and Ireland and Scotland, and so on. And here, there is a movement that is developing, but it's only targeting companies that do business in Israel, which is very positive, but there is no reason that it shouldn't be like South Africa, in which you target the economy of the country that's responsible, and that's mainly Israel.

I mean during the anti-apartheid movement, which I was involved in, they had sit-ins at South Africa Airways and forced South African Airways to close its offices. But there's never been a sit-in, as far as I know, at any offices of the Israeli Airline El Al, and they're all over the place, and the question is Why not? There has never been a major campaign to call Congress to stop aid to Israel; whereas, for example, in the 80s when Congress was giving $15 million a year to the Contras to overthrow the Nicaraguan government, there was a national campaign to stop aid to the Contras -- calling members of Congress -- and it was successful. As a result, we had the Iran-Contra scandal. Why has there never been a similar campaign waged by the very same people who are also involved themselves in pro-Palestinian activities to do the same regarding Israel?

Kathleen Wells: Well I mean, let me ask you -- Why? Why hasn't that happened?

Jeffrey Blankfort: Well, because the left for many years has been predominantly Jewish, and this is because there's a history of Jewish radicalism going back to the beginning of the trade unions in this country. Jewish radicals - - Jews --were very heavily involved in all progressive organizations -- the civil rights movement, and so on, against the war in Vietnam. But, suddenly, when it came to Israel, it's closer to home.

And there was a reticence to put the blame on Jews. Israel calls itself a Jewish State, though 20 percent of the population is not Jewish, it's Palestinian Arab. But there was this reticence to do that. It was a lot easier to blame U.S. foreign policy, U.S. imperialism. For example, when Israel was heavily involved in supporting the Contras in Nicaragua, supporting and arming the Salvadoran government, arming the government in Guatemala, the solidarity groups in those particular arenas were predominantly Jewish, but they refused to take critical positions on Israel arming Salvador, Israel arming [the] Nicaragua [Contras], and Israel arming Guatemala.

And when I organized a demonstration in 1985, opposing Israel's roles as a U.S. surrogate in South Africa and Central America, those organizations would not endorse the demonstration. As a matter of fact, the Nicaraguan Solidarity Committee gave an excuse that they weren't giving any more endorsements. Guatemala Solidarity Committee [Guatemalan News & Information Bureau] did finallyendorse, but I had to call and threaten them with exposure, and it split the organization. And the same thing with CISPES around El Salvador.

– cont. in Newsletter No 545.