BOOK REVIEWS

SUPER IMPERIALISM: THE ORIGIN AND FUNDAMENTALS OF U.S. WORLD DOMINANCE, BY MICHAEL HUDSON

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First published in 1972—one year after gold was demonetized—and updated thirty years later, in 2003, Michael Hudson's *Super Imperialism* is the first book to recognize the policy of monetary imperialism consciously pursued by the US government for exploiting the world. Together with Henry C. K. Liu, well known for his book *The Financial War Between China and the U.S.*, they have published a series of works on dollar hegemony in opposition to the Chicago School's monetarist ideas.

Super Imperialism forecasts the ensuing three decades of worldwide political and economic development, much as Marx and Engels' works had done more than a hundred years earlier and which are still relevant to understanding today's political and economic reality. In tracing the global economic crisis to self-serving US policy, this book is important both for developed nations other than the United States and for the less developed countries plundered by the global financial system the US has sponsored.

By awakening from the neoliberal euphoria advocated by the Washington Consensus, the author proposes that each country should create its own domestic credit to support its national agriculture and industrial capacity. In so doing, the global community could embark on a path toward more equitable international finance and trade programs—a new world order that is symmetrical and just, enabling all countries to pursue similar policies for prosperity rather than suffering the losses that result from today's double standard uniquely favoring the United States.

Author Background

The Chicago boy who opposes the "Chicago Boys"

Although brought up in Chicago and connected to the University of Chicago throughout his childhood, Michael Hudson opposes the neoliberal core of the monetarist Chicago School of Economics, the so-called free-market "Chicago Boys." Hudson's father was a Marxist labor leader of the Minneapolis general strike in the 1930s, and moved to Chicago after serving time in prison under the notorious Smith Act for his political activities. During the early 1950s, Hudson's family often had University of Chicago professors over to the house for discussions. In contrast to today, according to Hudson, the school's faculty from the 1930s through early 1960s included progressive teachers such as Maynard Krueger (a vice presidential candidate on the Socialist Party ticket with Norman Thomas), and Rexford Tugwell (a Roosevelt brain truster).

As a graduate of the University of Chicago (1959) with a BA in German Language and History, and also of the UC Laboratory School (1955–56), Hudson rejected the GIGO mentality of its business school. To Hudson's mind, the "Chicago Boys" degraded economics by substituting ideological sloganeering for real analysis.

Moving to New York City after graduation, Hudson went on to receive his PhD in economics from New York University in 1968. But his mentor was the Wall Street financial analyst and Marxist scholar Terence McCarthy, at Columbia University's School of Industrial Engineering. In 1964 Hudson was hired as balance-of-payments economist for the Chase Manhattan Bank. It was there that he developed his analysis of international finance—and observed that Wall Street employed Chicago School monetarism only as public relations lobbying rhetoric, not for actual internal bank decision-making.

Hudson's twelve years of financial balance sheet analysis and balance-of-payments accounting on Wall Street laid the empirical foundation for *Super Imperialism*. By separating government and private sector accounts, he found that the US private sector was in balance throughout the 1960s, and that the payments deficit came entirely from the government's overseas military spending. The American Treasury bonds that foreign countries bought for their international reserves were (and are)

mainly used to finance a federal deficit stemming from US military expenditures, not private sector investment. Hudson concludes that the quantitatively largest element of today's economic imperialism is foreign central bank lending to the US government. This lending is a result of the dollar glut driven by military spending at the government level, in contrast to the primarily private-sector national rivalries over financial control of foreign trade and investment that Lenin described during World War I.

Delayed publication in Japan because *Super Imperialism* tells an inconvenient truth

Super Imperialism is the result of research initiated in the late 1960s by a group of professionals composed of Hudson, Terence McCarthy and Seymour Melman (also of Columbia University). Aimed at studying the causes and likely consequences of the US balance-of-payments deficit, the group concluded that deficits brought about by America's war in Southeast Asia were spurring employment and raising wages in the United States (where real wages peaked in 1979 and have been drifting down ever since!), but disrupted balanced development for the rest of the world's economies. Keeping their international reserves in dollars meant that the global financial system was based not on productive credit, but on US military spending—a policy in which foreign populations had no voice (Hudson 1977).

Ironically, the US Government initially viewed its payments deficit and resulting debts held by foreign central banks as a weakness, not as a free lunch. And although *Super Imperialism* warned other countries of the exploitative character of holding their central bank reserves in the form of US Treasury debt (and hence, the largely military US payments deficit), the book sold mainly in Washington. Hudson was told that US agencies were the largest buyers—using the book in effect as a training manual on how to turn the payments deficit into an economically aggressive lever to exploit other countries via their central banks (Hudson 2003).

The book was translated into Spanish, Russian and Japanese almost immediately, but Hudson was informed that US diplomatic pressure led the publisher to withdraw the Japanese version (after the translation rights were already paid for) so as not to disrupt Japanese-American relations at a time when Japan's central bank was a major funder of the US Government's deficit spending (Hudson 2003).

Creation of a New American World Order since 1971

Inter-governmental debt gives birth to one dominant creditor nation—the United States

Consistent with the methodology of historical materialism, this book is organized chronologically, starting with inter-governmental debt in the wake of World War I.

Unlike private investment before the war, the enormous Inter-Ally arms debts (mainly owed by Britain) and German reparations were not secured by productive assets as collateral, and were far in excess of the ability to pay. But John Maynard Keynes was almost alone in predicting that neither Germany nor the Allied Powers would be able to pay these official debts out of their existing flows of output and income (Hudson 2003).

US financial negotiators used European government debt as an instrument of power against the nation's only real rival, the British Empire. They would do the same after World War II, once again strengthening Germany while weakening America's ostensible allies. The result was a double standard with regard to world indebtedness. The United States refused to reduce the amount of wartime debt owed by the Allies, but raised US tariffs to limit European imports, effectively blocking the Allies from being able to pay. Having become the world's leading creditor nation, US hard-line financial policy led to economic and political breakdown triggering the Great Depression (Hudson 2003).

How Lend-Lease dissolved the British Empire

In December 1940, in order to continue supplying Britain with munitions, the US Treasury devised the system of Lend-Lease. It used Britain's military dependence as an opportunity to extract a promise to pursue free-trade policy in the postwar reconstruction period, and to dismantle controls on the international flow of capital. Seeking unilateral concessions from the outset, US diplomats rejected Britain's request that Lend-Lease be made retroactive. If debtor nations could not repay in dollars, they were told to transfer some of their internationally held assets to US ownership, headed by oil reserves and metal deposits (Hudson 2003).

Lend-Lease and subsequent wartime economic negotiations thus became a means for the United States to gain control of the British Empire's most productive assets, its raw materials resources. Exhausted by debt and Lend-Lease, the British Empire broke down, ushering in the era of US hegemony (Hudson 2003).

The Bretton Woods financial system and its breakdown

In 1944 at the resort of Bretton Woods, the United States sponsored the creation of three multilateral organizations through which it controlled postwar world trade and finance: the International Monetary Fund (IMF), the World Bank, and the General Agreement on Tariffs and Trade (GATT). US diplomats insisted on having unique veto power in each, based on the US possession of 72 percent of the world's monetary gold reserves (Hudson 2003).

A major aim was to sustain the Allies' demand for US products, while using America's international creditor power—the discipline of gold-backed currencies in international relations—as a lever to dictate world trade and investment rules

favoring itself at the expense of other countries. The upshot was the gold-backed Dollar Standard, in which foreign dollar holdings (mainly in the form of US Government securities) were deemed to be "as good as gold" (Hudson 2003).

What threatened to bring this system to an end was US military spending, which had soared as a result of ongoing wars in East Asia since 1951. The dollars being thrown off by this US spending were euphemized throughout Europe and Asia by the term "surplus dollars." At first they provided liquidity for foreign countries—but soon became a dollar glut. By 1971 the United States was running out of its gold reserves, and in fact had become the world's largest debtor. The gold exchange standard, by which the United States had controlled postwar international financial and trade policy, broke down in August, 1971, when the Treasury suspended further sale of its gold to foreign central banks (Hudson 2003).

The problem facing US diplomats was how to maintain US world dominance in the face of America's own international debtor position. After all, this was the dilemma that had led to the demise of the British Empire. But as matters turned out, Europe and Asia accepted a double standard of international finance that let the United States dominate Third World debtor countries as creditor, while dominating European and Asian industrial economies in an unprecedented way, by means of its debtor position! (Hudson 1977). This is the double standard that still governs world economic relations today. Analyzing this double standard is the major contribution of *Super Imperialism*.

The shift from the gold-backed Dollar Standard to the Treasury-Bill Debt Standard

President Nixon inaugurated the US Treasury-bill standard—that is, the dollar-debt standard based on dollar inconvertibility—by ending the dollar's convertibility into gold. Since 1971, foreign governments have been able to use their surplus dollar inflows only to purchase US Treasury IOUs (Hudson 2003).

It was long an axiom of world geopolitics that falling into a debtor status would destroy imperial ambitions by sacrificing financial power. At least, this was what Britain and the rest of Europe discovered after World War I. But this check on foreign military spending has ceased to operate since America went off the gold standard. US war spending has become a virtual tax on foreigners as foreign central banks now finance the cost of America's wars, and indeed most of the US government's domestic budget deficit as well.

The Five Dimensions of US Super Imperialism

Hudson suggests that the Treasury Bill Standard is just one of the many aspects (although the most important) of US Super Imperialism that became full-blown in the 1980s. As a system, US Super Imperialism has five major dimensions:

Financialization

The past three decades have witnessed the financialization of almost every economic sector, most notably real estate. Hudson observes that with the majority of savings and loans being invested in real estate, the FIRE (Finance, Insurance and Real Estate) sector controls the economy. Its policy has been to inflate a huge economic bubble on credit.

Neoliberal (i.e. pro-financial) economists claim that it is good for central banks to be independent, but in practice this turns out to be a euphemism for making the Washington Consensus (political privilege for the financial sector) independent from control by democratically elected political representatives (Hudson 2003). Economic planning is shifted from the government to the large financial institutions, becoming even more centralized—and anti-labor—in the process.

Privatization

Over and above extracting interest on loans to foreign governments, America's financialization strategy has another aim: to acquire public enterprises, resources, infrastructure and other foreign assets such as state-owned monopolies at low prices. These assets must first be stripped of their state ownership. This is done most easily from highly indebted governments, which sell off these assets to pay their foreign debts.

Promoted by finance capital, the privatization wave has been sweeping the globe since the 1980s. Hudson describes this as an asset transfer to foreign predators on the largest scale since Europe occupied the American continent 500 years ago. What is unique is that the mode of conquest no longer is primarily military, but financial—and this financial conquest in turn is wrapped in the ideological rhetoric of neoliberalism and ostensibly "free markets."

Imperialism and US foreign aid

The US Government has used food aid as a lever to dissuade foreign governments from protecting their own agricultural development to achieve self-sufficiency in food and feed their populations. Hudson shows that the purpose of the Agricultural Trade Development Assistance Act[1] was to promote US agricultural exports, not the farm sectors of "aid recipients." Thanks to special safeguards written into the act,[2] aid sales don't displace US commercial farm exports. They block foreign countries from pursuing the kind of agricultural protectionism that the United States itself has followed. Pricing food "aid" at low prices at first, the US economy then raises its export prices as foreign countries become more dependent on American grain and other food (Hudson 2003).

The Treasury Bill Standard

The above three dimensions enable one to understand in more detail the key interrelated dynamics of a US-engineered international monetary system facilitated by the Treasury Bill (that is, US Debt) Standard (Hudson 2003):

- Surplus dollars pour into the rest of the world for financial speculation and corporate takeovers of monopolies, natural resources or public infrastructure that may be used as vehicles to generate high user fees.
- Central banks around the globe recycle these dollar inflows into US Treasury bonds, financing the federal US budget deficit.
- Freed from having to finance their own government deficit, US investors put their money into the global stock and real estate markets, creating a bubble.
- The US payments deficit and the domestic federal budget deficit are military in character, rather than being part of a price-responsive "market economy"; so "markets" are distorted to finance this spending.
- Imposing devaluation on debtor economies to prevent them from working their way out of debt or becoming self-sufficient.
- Imposing austerity on debtor countries, and promoting the independence of their central banks, blocks foreign governments from supplying credit to their own agriculture and industry.

Ideological dominance

The ideology behind US Super Imperialism is the so-called Washington Consensus: Chicago School-style monetarist policies that emphasize financialization, privatization and fiscal austerity (for foreign debtors), while hypocritically espousing traditional values of entrepreneurship, free markets and economic democracy, independence and small government. Of great help in promoting the Washington Consensus has been its infiltration of academia, effectively removing the dimension of political reality from the analysis of international trade, investment and finance at the university level and beyond.

Vested-interest opportunists have enthusiastically embraced the so-called "free-market" doctrine of the Chicago School. Their neoliberal "monetarist" ideology has been written into economics textbooks that are used worldwide to indoctrinate tens of thousands of students studying economics each year.

Milton Friedman, the intellectual head of the Chicago School of Economics, claimed that the criterion by which economic theories are judged scientific is simply whether their hypothetical and abstract assumptions are internally consistent, not whether they actually are realistic (Liu 2008). Paul Samuelson, Bill Vickery and other neoclassical economists agree with this position.

Friedman denied the "is/ought" dichotomy by arguing that answers to "ought" questions necessarily depend on a prior establishment of "what is." To him, the prior establishment of "what is" is beyond any argument. The status quo was assumed to be natural, the product of inevitable evolution—and hence a logical victory for financial values over social and political values. The resulting "market mysticism" rationalized usury and rent-extracting vulture-ism as "positive natural law" to make economic oppression through uneven market power appear intellectually acceptable (Liu 2008).

This rationalization of the existing status quo won enthusiastic support for the Chicago School from the financial sector. Its circular reasoning could be exploited to enrich financiers looking to push the ethical envelope of commerce without government "interference," that is, consumer protection and similar regulations and laws. Transnational financial institutions and conglomerates used this market fundamentalism to lure Third World lawmakers into accepting neo-imperialist policies presented as neo-liberalism.

Imperialism Revisited

John A. Hobson initiated a heated debate on imperialism between Karl Kautsky and Lenin in the early 20th century. But as European colonialism vanished, the term "imperialism" became blurred. New forms emerged, disguised as natural technocratic globalization. This requires that the term "imperialism" calls for re-examination, updating and recasting to explain today's global and domestic economic polarization. Hudson's book revisits imperialism and details the birth, evolution and consequences of the new mode of imperialism—Super Imperialism (Hudson 1972).

Hobson's statement that imperialism had become "not a choice, but a necessity" was the doctrinal difference between Lenin and Kautsky. In *Imperialism: The Highest Stage of Capitalism*, Lenin wrote that although the occupation of world territory by imperialist nations was ending, a new round of competition had began. He predicted that imperial competition would manifest itself in wars, while Kautsky argued that "it is not impossible that competition will yet go through a new phase, that of the policy of the cartels to foreign policy, the phase of ultra-imperialism."

History proves that Lenin was right—World War II soon followed World War I as a consequence of aggravated antagonisms among national aggregations of financial capital caused by World War I. Yet neither Kautsky nor Lenin anticipated the unprecedented dominance of a single nation over the rest of the world. Wars had weakened the national cartels of Europe and Japan, leaving American cartels alone as significant in the world economy by the close of World War II.

In a sense, the critiques developed by Hobson, Lenin and Kautsky appear to be the texts from which the United States learned *what to avoid* in its quest for empire. It avoided the naked colonialist form of imperialism to create a Super Imperialism with dexterity and subtlety. Most foreign countries have sovereign independence, but are entwined in a network of dependent clients in terms of financial diplomacy as the United States has turned the capitalist world into a satellite system. Lenin noted the latter form of imperialism, which he called "semi-colony," but it was not until the 1960s that this became the dominant form of imperialism.

Hudson states that at the root of this new form of imperialism is the exploitation of governments by a single government, the United States, via the central banks and multilateral institutions' control of inter-governmental capital rather than via the activities of private corporations seeking profits. Indeed, compared to the imperialism defined by Lenin, imperialism since World War II is novel in the sense that a single empire, instead of competing empires, dominates the world. It does so by having established new multilateral financial and trade institutions. As Hudson points out, America has achieved what no earlier imperial system was able to put in place: A flexible form of global exploitation able to control debtor countries by imposing the Washington Consensus via the IMF and World Bank, while the Treasury-bill standard obliges the payments-surplus nations of Europe and East Asia to extend forced loans to the US Government. Whereas the US Government prior to the 1960s dominated international organizations by virtue of its preeminent creditor status, since 1971 it has done so by virtue of its debtor position (Hudson 1977).

Hudson argues that scholars studying imperialism haven't examined the phenomenon that a leading country would subordinate the interests of its middle class to the interests of the government. Those subordinating their interests to government historically would have been called the petty bourgeoisie, but the interests of the US Government are more representative of monopolized and centralized private financial capital.

Hudson's conclusion—that Super Imperialism is driven by government finance capital in contrast to the imperialism of Lenin, driven by the private capital—is open to debate in light of the fact that governments serve mainly as a vehicle for private financial interests when it passes into their hands. High finance has become so monopolized and concentrated that it can manipulate the government apparatus toward its goal in unprecedented and sophisticated ways.

Hudson's analysis of imperialism does not touch the most fundamental contradiction of capitalism: that between labor and private ownership of the means of production. This contradiction is exacerbated as large private capital (mainly based in the US) has engulfed smaller capital (both within the US and abroad).

Nevertheless, *Super Imperialism* is a unique book that advances the theory of imperialism by reviewing in detail how the US has emerged as the only world empire,

and how this was accomplished financially. The book is filled with enlightening viewpoints and instructive proposals.

By not eliminating the fundamental contradiction of capitalism, the current imperialistic financial system is unsustainable. Hudson points out that creating a new and more just international economic order will depend largely on how thoroughly America can make the ideological base of Super Imperialism irreversible. Financial independence in the context of social justice presupposes workable checks and balances between the government and the financial sector. Toward this end, he recommends that the academic economics curriculum needs to be recast away from the Chicago School monetarist lines on which IMF austerity programs are based, and away from the Harvard University-style neoliberal economics that rationalized Russia's privatization disaster. The moral is that politics is not separate from economics. It is the political economists' responsibility to strip market fundamentalism of its pseudo-science pretense, and to expose it as a propaganda tool to rationalize the exploitation of the many by a few.

Notes

1. Also known as P.L. 480 in the Mutual Security Act.
2. "Public Law 480 requires that shipments of commodities made under its authority are not transshipped or diverted, that they are used within the recipient country, that normal US commercial marketing and world patterns of trade are not upset, that suitable deposits of local currency are made to the credit of the United States when called for in the agreement, and that proceeds of the sale of food and fiber are applied as specified in the agreements." Cited from *Food for Peace: Annual Report on Public Law 480*, for the years 1965 through 1970, p. 274.

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