

## **Financial Parasites and Debt Bondage**

Interview with Prof Michael Hudson, 16 Feb 2015

### **Introduction**

SHARMINI PERIES, EXEC. PRODUCER, TRNN: Welcome to the Michael Hudson report on The Real News Network. I'm Sharmini Peries, coming to you from Baltimore.

A ceasefire in Eastern Ukraine has been agreed to, following a marathon all-night, 17-hour negotiation between Russian President Vladimir Putin and Ukraine President Petro Poroshenko. They were flanked by other European leaders keeping vigil. Russia and Ukraine may have many differences, but what they have in common is a looming economic crisis, with oil prices taking a dive on the Russian side and a very expensive war they were not counting on on the Ukrainian side.

Joining us now to talk about all of this is Michael Hudson. He is a distinguished research professor of economics at the University of Missouri-Kansas City. His upcoming book is titled *Killing the Host: How Financial Parasites and Debt Bondage Destroyed the Global Economy*.

Michael, thank you, as always, for joining us.

MICHAEL HUDSON, ECONOMICS PROF., UNIV. OF MISSOURI, KANSAS CITY: Good to be here.

PERIES: So, Michael, in a recent interview published in *The National Interest* magazine, you said that most media covers Russia as if it is the greatest threat to Ukraine. History suggests the IMF may be far more dangerous. What did you mean by that?

### **IMF loans require more austerity**

HUDSON: First of all, the terms on which the IMF make loans require more austerity and a withdrawal of all the public subsidies. The Ukrainian population already is economically devastated. The conditions that the IMF's program is laying down for making loans to Ukraine is that it must repay the debts. But it doesn't have the ability to pay. So there's only one way to do it, and that's the way that the IMF has told Greece and other countries to do: It has to begin selling off whatever the nation has left of its public domain; or, to have your leading oligarchs take on partnerships with American or European investors, so that they can buy out into the monopolies in the Ukraine and indulge in rent-extraction.

This is the IMF's one-two punch. Punch number one is: here's the loan – to pay your bondholders, so that you now owe us, the IMF, to whom you can't write down debts. The terms of this loan is to believe our Guiding Fiction: that you can pay foreign debt by running a domestic budgetary surplus, by cutting back public spending and causing an even deeper depression.

### **This idea was controverted by Keynes**

This idea that foreign debts can be paid by squeezing out domestic tax revenues was controverted by Keynes in the 1920s in his discussion of German reparations. (I devote a chapter to reviewing the controversy in my *Trade, Development and Foreign Debt*.) There is no excuse for making this error – except that the error is deliberate, and is intended to lead to

failure, so that the IMF can then say that to everyone's surprise and nobody's blame, their "stabilization program" destabilized rather than stabilized the economy.

The penalty for following this junk economics must be paid by the victim, not by the victimizer. This is part of the IMF's "blame the victim" strategy.

### **Forfeit whatever assets your economy may still have**

The IMF then throws its Number Two punch. It says, "Oh, you can't pay us? I'm sorry that our projections were so wrong. But you've got to find some way to pay – by forfeiting whatever assets your economy may still have in domestic hands.

The IMF has been wrong on Ukraine year after year, almost as much as it's been wrong on Ireland and on Greece. Its prescriptions are the same as those that devastated Third World economies from the 1970s onward.

So now the problem becomes one of just what Ukraine is going to have to sell off to pay the foreign debts – run up increasingly for waging the war that's devastated its economy.

One asset that foreign investors want is Ukrainian farmland. Monsanto has been buying into Ukraine – or rather, leasing its land, because Ukraine has a law against alienating its farmland and agricultural land to foreigners. And a matter of fact, its law is very much the same as what the Financial Times reports Australia is wanting to do to block Chinese and American purchase of farmland.

### **Dismantle public regulations against foreign investment**

The IMF also insists that debtor countries dismantle public regulations against foreign investment, as well as consumer protection and environmental protection regulations. This means that what is in store for Ukraine is a neoliberal policy that's guaranteed to actually make the situation even worse.

In that sense, finance is war. Finance is the new kind of warfare, using finance and forced sell-offs in a new kind of battlefield. This will not help Ukraine. It promises to lead to yet another crisis down the road very, very quickly.

PERIES: Michael, let's unpack the debt in this crisis. The war has led Ukraine into a deeper crisis. Talk about the devastation that has caused and what they have to manage in addition to what the IMF is trying to impose on it.

### **Ukraine can't even supply itself with coal**

HUDSON: When Kiev went to war against Eastern Ukraine, it fought primarily the coal mining region and the export region. Thirty-eight percent of Ukraine's exports are to Russia. Yet much of this export capacity has been bombed out of existence. Also, the electric companies that fuel the electricity to the coal mines been bombed out. So Ukraine can't even supply itself with coal.

What is so striking about all this is that just a few weeks ago, on January 28, Christine Lagarde, the head of the IMF, said that the IMF does not make loans to countries that are engaged in war. That would be funding one side or another. Yet Ukraine is involved in a civil war. The great question is thus when the IMF will even begin to release the loan it has been discussing.

Also, the IMF articles of agreement say that it cannot make loans to an insolvent country. So how on earth can it be part of a loan bailout for the Ukraine if, number one, it's at war (which has to stop totally), and number two, it's insolvent?

### **Scale back its debts to private investors**

The only solution is that Ukraine will scale back its debts to private investors. And that means a lot of contrarian hedge funds investors. The Financial Times today has an article showing that one American investor alone, Michael Hasenstab, has \$7 billion of Ukraine debts and wants to speculate in it, along with Templeton Global Bond Fund. How is Ukraine going to treat the speculators? And then, finally, how is the IMF going to treat the fact that Russia's sovereign fund lent 3 billion euros to the Ukraine on harsh terms through the London agreement terms that can't be written down? Is the IMF going to insist that Russia take the same haircut that it's imposing on the hedge funds? All of this is going to be the kind of conflict that's going to take much more effort than even the solutions that we've seen over the last few days have taken on the military battlefield.

PERIES: And so how could Ukraine imagine getting out of this crisis?

HUDSON: It probably imagines a dream world in which it'll get out of the crisis by the West giving it \$50 billion and saying, here's all the money you need, spend it as you want. That's the extent of its imagination. It is fantasy, of course. It's living in a dream world – except that a few weeks ago, George Soros came out in The New York Review of Books and urged Congress and “the West” to give Ukraine \$50 billion and look at it as a down payment on military or with Russia. Well, immediately Kiev said, yes, we will only spend them on defensive arms. We will defend Ukraine all the way up to Siberia as we wipe out the Russians.

### **Give Ukraine the \$50 billion**

But today a Financial Times editorial said, yes, give Ukraine the \$50 billion that George Soros asked for. We've got to enable it to have enough money to fight America's New Cold War against Russia. But the continental Europeans are saying, “Wait a minute. At the end of this, there'll be no more Ukrainians to fight. The war might even spread into Poland and into elsewhere, because if the money that's given to Ukraine is really for what the Obama administration and Hillary and Soros are all pressing for – to go to war with Russia – then Russia's going to say, ‘Okay, if we're being attacked by foreign troops, we're going to have to not only bomb the troops, but the airports they are coming in through, and the railway stations they're coming in through. We're going to extend our own defense towards Europe.’”

### **Putin: Two choices**

Apparently there are reports that Putin told Europe, look, you have two choices before you. Choice one: Europe, Germany and Russia can be a very prosperous area. With Russia's raw materials and European technology, we can be one of the most prosperous areas in the world. Or, Choice two: You can go to war with us and you can be wiped out. Take your choice.

PERIES: Michael, complex and interesting times in Ukraine, as well as at the IMF. Thank you so much for joining us.