THE WEB OF DEBT BLOG

The Coming Global Financial Revolution: Russia is following the American Playbook

By Ellen Brown / 5 April, 2022

No country has successfully challenged the U.S. dollar's global hegemony—until now. How did this happen and what will it mean?

Foreign critics have long chafed at the "exorbitant privilege" of the U.S. dollar as global reserve currency. The U.S. can issue this currency backed by nothing but the "full faith and credit of the United States." Foreign governments, needing dollars, not only accept them in trade but buy U.S. securities with them, effectively funding the U.S. government and its foreign wars. But no government has been powerful enough to break that arrangement – until now. How did that happen and what will it mean for the U.S. and global economies?

The Rise and Fall of the PetroDollar

First, some history: The U.S. dollar was adopted as the global reserve currency at the Bretton Woods Conference in 1944, when the dollar was still backed by gold on global markets. The agreement was that gold and the dollar would be accepted interchangeably as global reserves, the dollars to be redeemable in gold on demand at $35 an ounce. Exchange rates of other currencies were fixed against the dollar.

But that deal was broken after President Lyndon Johnson's "guns and butter" policy exhausted the U.S. kitty by funding war in Vietnam along with his "Great Society" social programs at home. French President Charles de Gaulle, suspecting the U.S. was running out of money, cashed in a major portion of France's dollars for gold and threatened to cash in the rest; and other countries followed suit or threatened to.

In 1971, President Richard Nixon ended the convertibility of the dollar to gold internationally (known as "closing the gold window"), in order to avoid draining U.S. gold reserves. The value of the dollar then plummeted relative to other currencies on global exchanges. To prop it up, Nixon and Secretary of State Henry Kissinger made a deal with Saudi Arabia and the OPEC countries that OPEC would sell oil only in dollars, and that the dollars would be deposited in Wall Street and City of London banks. In return, the U.S. would defend the OPEC countries militarily. Economic researcher William Engdahl also presents evidence of a promise that the price of oil would be quadrupled. An oil crisis triggered by a brief Middle Eastern war did cause the price of oil to quadruple, and the OPEC agreement was finalized in 1974.

The deal held firm until 2000, when Saddam Hussein broke it by selling Iraqi oil in euros. Libyan president Omar Qaddafi followed suit. Both presidents wound up assassinated, and their countries were decimated in war with the United States. Canadian researcher Matthew Ehret observes:

> We should not forget that the Sudan-Libya-Egypt alliance under the combined leadership of Mubarak, Qadhafi and Bashir, had moved to establish a new gold-backed financial system outside of the IMF/World Bank to fund large scale development in Africa. Had this program not been undermined by a NATO-led destruction of Libya, the carving up of Sudan and regime change in Egypt, then the world would have seen the emergence of a major regional block of African states shaping their own destinies outside of the rigged game of Anglo-American controlled finance for the first time in history.

The Rise of the PetroRuble

The first challenge by a major power to what became known as the petrodollar has come in 2022. In the month after the Ukraine conflict began, the U.S. and its European allies imposed heavy financial sanctions on Russia in response to the illegal military invasion. The Western measures included freezing nearly half of the Russian central bank's 640 billion U.S. dollars in financial reserves, expelling several of Russia's largest banks from the SWIFT global payment system, imposing export controls aimed at limiting Russia's access to advanced technologies, closing down their airspace and ports to Russian planes and ships, and instituting personal sanctions against senior Russian officials and high-profile tycoons. Worried Russians rushed to withdraw rubles from their banks, and the value of the ruble plunged on global markets just as the U.S. dollar had in the early 1970s.

The trust placed in the U.S. dollar as global reserve currency, backed by "the full faith and credit of the United States," had finally been fully broken. Russian President Vladimir Putin said in a speech on March 16 that the U.S. and EU had defaulted on their obligations, and that freezing Russia's reserves marks the end of the reliability of so-called first class assets. On March 23, Putin announced that Russia's natural gas would be sold to "unfriendly countries" only in Russian rubles,

rather than the euros or dollars currently used. Forty-eight nations are counted by Russia as "unfriendly," including the United States, Britain, Ukraine, Switzerland, South Korea, Singapore, Norway, Canada and Japan.

Putin noted that more than half the global population remains "friendly" to Russia. Countries not voting to support the sanctions include two major powers – China and India – along with major oil producer Venezuela, Turkey, and other countries in the "Global South." "Friendly" countries, said Putin, could now buy from Russia in various currencies.

On March 24, Russian lawmaker Pavel Zavalny said at a news conference that gas could be sold to the West for rubles or gold, and to "friendly" countries for either national currency or bitcoin. Energy ministers from the G7 nations rejected Putin's demand, claiming it violated gas contract terms requiring sale in euros or dollars. But on March 28, Kremlin spokesman Dmitry Peskov said Russia was "not engaged in charity" and won't supply gas to Europe for free (which it would be doing if sales were in euros or dollars it cannot currently use in trade). Sanctions themselves are a breach of the agreement to honor the currencies on global markets.

Bloomberg reports that on March 30, Vyacheslav Volodin, speaker of the lower Russian house of parliament, suggested in a Telegram post that Russia may expand the list of commodities for which it demands payment from the West in rubles (or gold) to include grain, oil, metals and more. Russia's economy is much smaller than that of the U.S. and the European Union, but Russia is a major global supplier of key commodities – including not just oil, natural gas and grains, but timber, fertilizers, nickel, titanium, palladium, coal, nitrogen, and rare earth metals used in the production of computer chips, electric vehicles and airplanes.

On April 2, Russian gas giant Gazprom officially halted all deliveries to Europe via the Yamal-Europe pipeline, a critical artery for European energy supplies.

U.K. professor of economics Richard Werner calls the Russian move a clever one – a replay of what the U.S. did in the 1970s. To get Russian commodities, "unfriendly" countries will have to buy rubles, driving up the value of the ruble on global exchanges just as the need for petrodollars propped up the U.S. dollar after 1974. Indeed, by March 30, the ruble had already risen to where it was a month earlier.

A Page Out of the "American System" Playbook

Russia is following the U.S. not just in hitching its national currency to sales of a critical commodity but in an earlier protocol – what 19th century American leaders called the "American System" of sovereign money and credit. Its three pillars were (a) federal subsidies for internal improvements and to nurture the nation's fledgling industries, (b) tariffs to protect those industries, and (c) easy credit issued by a national bank.

Michael Hudson, a research professor of economics and author of "Super-Imperialism: The Economic Strategy of American Empire" among many other books, notes that the sanctions are forcing Russia to do what it has been reluctant to do itself – cut reliance on imports and develop its own industries and infrastructure. The effect, he says, is equivalent to that of protective tariffs. In an article titled "The American Empire Self-destructs," Hudson writes of the Russian sanctions (which actually date back to 2014):

> Russia had remained too enthralled by free-market ideology to take steps to protect its own agriculture or industry. The United States provided the help that was needed by imposing domestic self-reliance on Russia (via sanctions). When the Baltic states lost the Russian market for cheese and other farm products, Russia quickly created its own cheese and dairy sector – while becoming the world's leading grain exporter.
>
> Russia is discovering (or is on the verge of discovering) that it does not need U.S. dollars as backing for the ruble's exchange rate. Its central bank can create the rubles needed to pay domestic wages and finance capital formation. The U.S. confiscations thus may finally lead Russia to end neoliberal monetary philosophy, as Sergei Glaziev has long been advocating in favor of MMT [Modern Monetary Theory]. …
>
> What foreign countries have not done for themselves – replacing the IMF, World Bank and other arms of U.S. diplomacy – American politicians are forcing them to do. Instead of European, Near Eastern and Global South countries breaking away out of their own calculation of their long-term economic interests, America is driving them away, as it has done with Russia and China.

Glazyev and the Eurasian Reset

Sergei Glazyev, mentioned by Hudson above, is a former adviser to President Vladimir Putin and the Minister for Integration and Macroeconomics of the Eurasia Economic Commission, the regulatory body of the Eurasian Economic Union (EAEU). He has proposed using tools similar to those of the "American System," including converting the Central Bank of Russia to a "national bank" issuing Russia's own currency and credit for internal development. On February 25, Glazyev published an analysis of U.S. sanctions titled "Sanctions and Sovereignty," in which he stated:

> [T]he damage caused by US financial sanctions is inextricably linked to the monetary policy of the Bank of Russia …. Its essence boils down to a tight binding of the ruble issue to export earnings, and the ruble exchange rate to the dollar. In fact, an artificial shortage of money is being created in the economy, and the strict policy of the Central Bank leads to an increase in the cost of lending, which kills business activity and hinders the development of infrastructure in the country.

Glazyev said that if the central bank replaced the loans withdrawn by its Western partners with its own loans, Russian credit capacity would greatly increase, preventing a decline in economic activity without creating inflation.

Russia has agreed to sell oil to India in India's own sovereign currency, the rupee; to China in yuan; and to Turkey in lira. These national currencies can then be spent on the goods and services sold by those countries. Arguably, every country should be able to trade in global markets in its own sovereign currency; that is what a fiat currency is – a medium of exchange backed by the agreement of the people to accept it at value for their goods and services, backed by the "full faith and credit" of the nation.

But that sort of global barter system would break down just as local barter systems do, if one party to the trade did not want the goods or services of the other party. In that case, some intermediate reserve currency would be necessary to serve as a medium of exchange.

Glazyev and his counterparts are working on that. In a translated interview posted on The Saker, Glazyev stated:

> We are currently working on a draft international agreement on the introduction of a new world settlement currency, pegged to the national currencies of the participating countries and to exchange-traded goods that determine real values. We won't need American and European banks. A new payment system based on modern digital technologies with a blockchain is developing in the world, where banks are losing their importance.

Russia and China have both developed alternatives to the SWIFT messaging system from which certain Russian banks have been blocked. London-based commentator Alexander Mercouris makes the interesting observation that going outside SWIFT means Western banks cannot track Russian and Chinese trades.

Geopolitical analyst Pepe Escobar sums up the plans for a Eurasian/China financial reset in an article titled "Say Hello to Russian Gold and Chinese Petroyuan." He writes:

> It was a long time coming, but finally some key lineaments of the multipolar world's new foundations are being revealed.
>
> On Friday [March 11], after a videoconference meeting, the Eurasian Economic Union (EAEU) and China agreed to design the mechanism for an independent international monetary and financial system. The EAEU consists of Russia, Kazakhstan, Kyrgyzstan, Belarus and Armenia, is establishing free trade deals with other Eurasian nations, and is progressively interconnecting with the Chinese Belt and Road Initiative (BRI).
>
> For all practical purposes, the idea comes from Sergei Glazyev, Russia's foremost independent economist ….
>
> Quite diplomatically, Glazyev attributed the fruition of the idea to "the common challenges and risks associated with the global economic slowdown and restrictive measures against the EAEU states and China."
>
> Translation: as China is as much a Eurasian power as Russia, they need to coordinate their strategies to bypass the US unipolar system.
> The Eurasian system will be based on "a new international currency," most probably with the yuan as reference, calculated as an index of the national currencies of the participating countries, as well as commodity prices. …

> The Eurasian system is bound to become a serious alternative to the US dollar, as the EAEU may attract not only nations that have joined BRI … but also the leading players in the Shanghai Cooperation Organization (SCO) as well as ASEAN. West Asian actors – Iran, Iraq, Syria, Lebanon – will be inevitably interested.

Exorbitant Privilege or Exorbitant Burden?

If that system succeeds, what will the effect be on the U.S. economy? Investment strategist Lynn Alden writes in a detailed analysis titled "The Fraying of the US Global Currency Reserve System" that there will be short-term pain, but, in the long run, it will benefit the U.S. economy. The subject is complicated, but the bottom line is that reserve currency dominance has resulted in the destruction of our manufacturing base and the buildup of a massive federal debt. Sharing the reserve currency load would have the effect that sanctions are having on the Russian economy – nurturing domestic industries as a tariff would, allowing the American manufacturing base to be rebuilt.

Other commentators also say that being the sole global reserve currency is less an exorbitant privilege than an exorbitant burden. Losing that status would not end the importance of the U.S. dollar, which is too heavily embedded in global finance to be dislodged. But it could well mean the end of the petrodollar as sole global reserve currency, and the end of the devastating petroleum wars it has funded to maintain its dominance.

____

This article was first posted on ScheerPost. Ellen Brown is an attorney, chair of the Public Banking Institute, and author of thirteen books including Web of Debt, The Public Bank Solution, and Banking on the People: Democratizing Money in the Digital Age. She also co-hosts a radio program on PRN.FM called "It's Our Money." Her 300+ blog articles are posted at EllenBrown.com.