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Prof. Heiner Flassbeck: Updates on Ukraine & a discussion on Globalization

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Zain Raza (ZR): Thank you guys for turning in today and welcome back to another episode of The Source. I'm Zain Raza and today I'll be talking to economist and author Heiner Flassbeck. In the late 90s, Heiner Flassbeck served as the state secretary in the German Federal Ministry of Finance, where he also advised former finance minister Oskar Lafontaine. From 2003 to 2012 he also served as chief of Macroeconomics and Development at the United Nations Conference of Trade and Development. Heiner Flassbeck, thank you so much for your time today.

Heiner Flassbeck (HF): Hi. Good to see you.

ZR: Let us begin with some economic developments surrounding Ukraine. EU Commission President Ursula von der Leyen and 15 other commissioners visited Ukraine recently, where she announced the 10th package of Russian sanctions, plans to impose a price gap on refined petroleum products made in Russia, as well as finding a way to confiscate Russia's state owned assets that have been frozen in the previous rounds of sanctions. In your assessments, have previous sanctions been able to achieve their goals? And if not, do you think the latest installer will do so?

HF: No, they definitely have not achieved what they should, what they were aiming at. I mean, take German politicians that said that would ruin the Russian economy. We learned that the abandonment of SWIFT will be a disaster. Well, it's always not true. Then Russia is delivering its oil and gas elsewhere, and these are homogeneous products. So if it goes to Asia, it comes back as Russian gas, but it can no longer be identified as Russian gas or oil. So it was from the beginning extremely naive to believe that you could put some sanctions and then this is over and this would destroy Russia and you would solve the conflict. No, the conflict has to be solved, but by definitely other means than just new sanctions. And as we have shown, I have shown with a colleague a long time ago- one year ago, exactly- Ukraine was for a long time close to a membership to the EU. And they were given all the rights and openness that countries can expect. And what happened? It was not good for Ukraine. It was a disaster for Ukraine, the last ten years before, even before the war, were a disaster, an economic disaster for Ukraine. And we still fail to understand why it was like that. And this is a bigger lesson that has to be learned about openness, about offering the country open markets and promising them paradise. It's not like that. It's not at all. Open markets can be a threat to countries, emerging countries, and transforming countries. Ukraine, as many others in Eastern Europe, is still a transforming country. And look around the world, you see it in Africa, you see it in Latin America. Now, our chancellor was just in Latin America trying to find new friends. But obviously it's not so simple. And first you have to be a good friend, a real good friend, before you can get the people to stand by your side on whatever occasion and whatever position. So we are not best friends. We are enemies for many countries because we have had a lot of misdoings in the past.

ZR: You already mentioned Ukraine becoming a little part of Europe; what was also discussed when Ursula von der Leyen was there was the possible accession of Ukraine into the European Union. As someone like you who has been following and analyzing the economic policies of the European Union towards the southern countries such as Greece, Italy, what can we expect if Ukraine ever becomes part of the European Union?

HF: Ever is too long; but it would become a party in five years time, it would be a plane disaster for the country. That is absolutely clear. We see it in Eastern European countries that are members of the EU and that are very closely tied to the European Monetary Union, take Bulgaria. Bulgaria is very close to being a failed state inside the EU and nobody takes care. They have had their fourth or so election in the last two years, and democracy is not working at all. Democracy always brings about the same guys, the same corrupt and unable guys and girls- guys and girls, we have to be fair. And the result is a disaster. The result is an economic disaster and nobody cares. The EU is not going there, Ursula von der Leyen is not going there, asking what is going wrong? Why are you in such a difficult situation? Take Hungary, take Poland, take the Baltics. They have now 20 something inflation rates; much, much too high, much higher than we in the West. And they are not coming down in the same place as they come down in the West. But nobody cares. The European Commission has a very selective view on all these things. You know, von der Leyen in particular, she is not caring when there is a problem. She is just on her political agenda and fighting against Russia, which is a stupid way to do it. And she's not up to the job, definitely.

ZR: Zelensky also recently announced he's inviting corporate America to invest in Ukraine, which includes giants like J.P. Morgan, Goldman Sachs, and BlackRock has agreed to assist in coordinating investment in Ukraine in various sectors. The chief of BlackRock recently said, and I'm quoting him here: "I do believe emotionally those who truly believe in a capitalistic system will be flooding Ukraine with a lot of capital." Do you think if the European Union will not help change the tide in Ukraine, that corporate America will have flourished into a successful economy?

HF: Oh, what a poor country. I'm regretting them already now. If they are flooded by billions from the US, the disaster will be bigger than just the opening to Europe. Because what does it mean? It's really a super stupid approach. The first thing that Ukraine needs is stable macroeconomic conditions. And they were not able to produce them by themselves in the last ten years. And the West was not helping them. So flooding money into Ukraine means speculation. We know these guys. They are footloose. They go in and out in a minute. And so they would destroy the country then finally. If Russia is not able to do it, they would do it for sure. So, I mean, this is the most incredible approach that I ever heard about. And to invite investors, so-called investors, these guys that are speculating around with billions of money in all the markets, they are destroying many economies. They have destroyed economies in Asia, in Africa, in Latin America, and they are invited to build the country, well, this is beyond my imagination I must say.

ZR: The inflation rate in the eurozone fell more sharply than expected and in January, consumer prices climbed by 8.5%. In contrast, in December, the inflation rate was 9.2%, and last October, we witnessed a record value of 10.6%. With the decline in January, inflation has weakened for the third month in a row, and the ECB has announced it will increase its interest rates again to continue fighting inflation. Do you think raising interest rates will continue to curb inflation? And secondly, what impact will it have on the general population?

HF: Well, first of all, the ECB had quite a smart approach up to January or February last year, 2022. Until that point, the ECB was on the track of saying: This is temporary, these are temporary price increases and we cannot do much about them. And this is still true, but the ECB has changed totally, Madame Lagarde has turned it around 180 degrees and has never explained why. And now they're fighting something that doesn't exist. I tell you, just today I published an article with a colleague of mine, Friederike Spieker - it's on my page in German, Relevante Ökonomik. Tomorrow I will put it on Flassbeck Economics in English. And there we have calculated, we have made a very simple calculation. You know, the producer prices are falling and the consumer prices are falling. So we have assumed for three months now, the rates you mentioned were the rates compared to the previous year, but more relevant for the most recent developments is the rate compared to the month before. So compared to the month before, the rates are falling in absolute terms, they are falling for three months now. We have made a very simple exercise. Namely we said: What if from February on, from now on, the prices were not to fall further down but will stay where they are? What would that mean for the monthly inflation rate compared to the previous year and for the average inflation rate for the whole year of '23 compared to '22? The answer is quite surprising, namely in July already, if the prices remain exactly where they are now, not falling further, which is very improbable, they must probably probe further, but if they stay where they are, the inflation target of the ECB will be hit in July of this year; then the rate will be below 2%. And if we continue for the whole year with these constant prices, absolutely constant prices, then the average increase for the year '23 in comparison to '22 will be 2.4%. So it's absolutely ridiculous to talk about running inflation. There's nothing running. We see a normalization everywhere. And as I said, the normalization doesn't have to continue, if it just stops now, the normalization, we will see absolutely flat rates. And if it continues to fall another two or three months, then we will see negative rates in the middle of the year. And then I'm really curious what the ECB is going to do then. Then she has to cut from one day to the other back to zero or something like that. And I hope a lot of people will then quickly resign; all those people that are responsible for this stupid policy. The policy is really stupid. There is no acceleration of inflation in Europe, now. It's coming down. There's no acceleration of wage increases. That would be really a threat. But the labor costs index that we have from Eurostat, the last one is the third quarter of '22, there the increase of nominal wages - what is labor costs called- and Europe was at 2.9%. This is really not inflationary at all. Not at all. And we have seen in Germany there are some very reasonable contracts between employers and employees. The unions have been reasonable. We have one off payments, but the permanent increase is absolutely non-inflationary. And at this moment, to increase interest rates is stupid. But it's even more stupid to announce that you will increase interest rates in the next months. Well, I am curious what happens if in the next month the rate goes further down? Then it's absolutely clear that for the year as a whole you will have a result below the target of the ECB.

ZR: Then why do they keep increasing interest rates? Who is benefiting and losing from this?

HF: I can tell you who is benefitting, benefitting are the banks. The banks are benefiting. They have reserves with the ECB. And on these reserves they get now something like 3%. They do nothing and get 3% of billions of euros. Imagine, that's a wonderful business. And these silly guys, we have been talking about the hedge funds, and so they are very happy. They can buy government bonds again and they get 3 to 4%. It's wonderful that they buy them for 30 years and then they do not have to care about a return at all anymore. So there are a lot of winners. But the losers, you see in Germany, for example, the construction sector is coming down like hell. It's like an implosion where everybody in Germany says we need a lot of new apartments, new housing for 400 to 600.000 people a year and the incoming orders for the residential construction is coming down by 60% since last year, from the top, which was exactly one year ago to today to December or so, it's 60%. Imagine that implosion, as I said, that vanishes to exist. So nobody cares; this is the collateral damage, we cannot do anything about it. I can only repeat myself, we have people on top of many of our institutions that are not up to the job. They are not fit for the job. They cannot explain anything. I do not have to mention Madame Lagarde or other people, but it's everywhere the same. We have no one who is able to stand up and to say why I am doing this now. What is the alternative? What could be considered. But we have nothing like that. They just sit there and say, We have decided to do and to do and to... And nobody cares. And the whole media is silent. They never criticize anything. The danger is a danger for democracy. If it goes on like this, we are losing democracy. That is the big point behind it, because democracy can only exist if you have open, free discussion. But nobody's interested in open and free discussion of the things. And so it goes as it goes. And nobody's ever responsible for anything. Never, never, ever anyone is responsible.

ZR: Let's switch gears here and move to global issues. You recently published a piece on globalization on your website, Flassbeck Economics. Can you first introduce this concept to our viewers and then talk about how it evolved over time?

HF: What we see now is beyond what we have discussed nationally. Internationally, a very dangerous movement, namely this hype that is produced by the US- it's all coming from the US - namely that we have to go into a rivalry position to China and Russia obviously also, is extremely dangerous, extremely dangerous for Europe. Because as I said in this article, there can be no globalization à la carte. The Western countries have anyway dominated the whole process of globalization, except for China. China was smart enough to be successful, but many others fell back and are lagging behind, as I mentioned before. And now globalization à la carte would mean we do not open markets. We do not even open our markets. Not even open the market, but we do it in a selective way. We have selective globalization. We tell the developing countries what we want from them, but all the rest is in our free decision. That's the way the German chancellor went to Latin America and he negotiated about commodities. Sure, we want commodities, but he didn't promise anything else. He didn't promise to help Brazil with the speculation on its currency, which was the biggest problem in the former Lula government. Then they're not doing anything like that. We generally refuse to talk about our intervention into these countries in the last 20 to 40 years through the International Monetary Fund and the World Bank. That was the worst thing we have done to these countries. But we refuse to talk about it. And we try to pick only the best cherries. And then when we have picked the best cherries, then we don't care about these countries anymore; whatever happens to them, whatever happens to them.

ZR: So what is the solution? What does the world actually need in order to have growth for both the Global South and the Global North that also ensures an equitable outcome?

HF: Well, the main ingredient for such a solution is what we had in the first 20 years after the Second World War, namely the Bretton Woods system. Namely, we need a system of rather fixed exchange rates. Fixed but flexible or adjustable, let's call it adjustable exchange rates, not flexible, because that sounds like market again. Markets have failed dramatically. I mentioned the speculators already, they have destroyed the second Lula government in Brazil, and on many other occasions, they have really destroyed industry and structures in developing countries, emerging countries, even the highly developed emerging countries like

Brazil. So what we need is that countries need a regime that helps them to stabilize internally their inflation rate and externally their exchange rate. That is exactly what the world needs. To talk about open trade without that ingredient is anyway useless. It's absolutely useless. You need both. You need a stable and good trading system, plus a stable and good monetary system. These are twins. You cannot separate it. And you cannot say that we want an open trading system, but, on financial things like my friend Larry Summers from the US always said: "On the financial side, there is Wall Street." Wall Street decides and the guys from BlackRock, and so the good guys, they know what to do. No, that doesn't work. And that is the main problem, that we are refusing to talk about. And what we definitely need is a different kind of approach from the International Monetary Fund. If we have something like the International Monetary Fund. Now the Latin American countries are talking again about alternatives. I very much hope that they are able and bold enough to do it because in the past there were sometimes not. We had the BRICS, but the BRICS was a very weak attempt to really decouple from the western northern institutions. I very much hope that Lula and others are able to go in that direction and that they're able to find a solution for Latin America. It's absolutely urgent to have it, but we also need it for Africa. In Africa, many countries have stupid, really stupid currency systems, some affixed to the euro, the Western countries, to the former French colonies. They are fixed to the euro, but with no help at all. And others are floating around, and others are fixed to the South African rand. But the South African rand itself is permanently under speculative threat. So what we need for the whole world really is a truly global system. But we have to get rid of the old institutions. The IMF has to be reformed. Either it has to be reformed dramatically away from neoliberalism- which has failed- to a totally new approach. Or we need different views. And if the emerging countries would ask me, my recommendation is very clear. I say, you have to do it alone. Forget about the Americans. They don't care. They are happy with the IMF. The IMF does neoliberalism, something that the US would never accept in the US. You know, the famous saying of the US is: Do as we say, but don't do as we do. And so they would never accept any of the recommendations of the IMF. But for the other countries it is fine because they keep the other countries small and nothing happens to the US hegemony.

ZR: You mentioned that Germany was visiting Brazil and there was a lot of talk about extracting resources from there, but little talk on the front of speculation. You also just mentioned that speculation is a threat. Could you, for our viewers, tell us why speculation is such a threat? And who is it dominated by? Is it these global big financial institutions that invest a lot and speculate on countries? Can you elaborate on this concept?

HF: It is very simple, so-called carry trade to know. The speculation is, quote, "carry trade". Carry trade because you carry money to certain countries. And this is done by the hedge funds of the world, the big hedge funds, and it's done by big banks and all over the place, all countries. And it's a very simple thing. Namely, you look around in the world where countries have rather high interest rates. So you see Brazil, for example. Brazil always has much higher interest rates than the rest of the world, the developed world. So what are you doing? You go to Japan or you go to the country with the lowest interest rate and you borrow money. You are a big hedge fund, you can borrow as much money as you want. You borrow 5 million and you carry them to Brazil. You exchange them into the Brazilian real, the Brazilian currency, and then you get a 10% interest rate. You pay nothing for the borrowing because the interest rate in Japan is very low and you get something like 10% in Brazil, which is a wonderful bargain. And this is really a simple thing. And the risk is rather small because these interest rates are fixed by the central banks and they do not change overnight, the whole line and the policy of the interest rate. So the simple side effect of this is and this happened during the Lula governments, both Lula governments, but mainly the second one before the big global crisis, namely that the Brazilian real is appreciating. And then we have a perverse result, namely the currency of a country that has high inflation, is appreciating. That is just the opposite of what it should be. It should depreciate to stabilize their competitiveness. It should depreciate because their prices are higher than the prices in the rest of the world. So they have to depreciate, but in reality, they appreciate it. They appreciate it, and that destabilizes the country dramatically. So you can use the central bank against this and you can drive with interest rates. But in the end, many countries are getting into a very difficult situation. And they were under political pressure from the Americans not to intervene permanently in the markets because this wonderful business should go on. And we have seen this all over the place in many, many countries of the world, and it has done so much damage. But nobody talks about it, you know, my colleagues, economists, they always have equilibrium in mind. They talk about efficient financial markets, which is really something that doesn't exist. But they don't care. And so the IMF is ignoring it. You know, when I was deputy finance minister in Germany, my first thing to do was, I went to the IMF and talked about these things. And they had no clue. They said they had no clue about it, but they had known. But they ignored it. They just ignored it. Let me give you that anecdote that is very interesting. At that time finance minister of Brazil, I forgot the name, the finance minister of Lula and he went around in the world and said: "We have a currency war." Imagine the Brazilian finance minister said, We're suffering from a currency war against these speculators. And nobody would listen to him. Nobody, never ever would listen to him. Then he went here to Geneva, he went to the WTO here in Geneva. And they organized a meeting, a conference, a seminar about this problem. And the Brazilians wanted to have an open discussion of their overvaluation with the speculation. And you know what happened? Four institutions were invited: the OCD, the IMF, the World Bank and my organization, UNCTAD. So then the first, the deputy chief economist of the IMF came and said, Oh, ladies and gentlemen, you know, it's very complex. It's very complex. We are working on it. But I cannot give you the answer to what should be done. Then came the World Bank and said, Oh, ladies and gentlemen, unfortunately I have to join my colleague from the IMF. It's very complex. It's so complex. And then came the OCD guy and said exactly the same. You know, all three said, It's complex. Then I came. I was the only guy, the only idiot in town to say, Oh, ladies and gentlemen, it's not complex at all. You just have to take into account that there's speculation. Speculation, nothing else. It's not complex. It can be removed from one day to the other world. Wow, what a shock. The

American delegation left the room immediately because they didn't want to hear it, you know, And I was again, the best friend of the world.

ZR: You talked about that this currency system also needs a monetary system. We used to have the Bretton Woods system, which had capital controls much more strict than today. Which was done away with, I believe, in 1972 when the Nixon shock came. Could you talk about how a monetary system would look like today if we were to implement it and who would manage it, given that the West's relations with China and Russia are on the low?

HF: Yeah. Do you need an international organization- let me start with that first, you need an international organization to run, that is what the IMF was founded for. That was the idea of a famous economist. You know, it was Mr. Keynes. It was just Mr. Keynes and nobody else who created that system. Although it was not exactly the system Keynes wanted, it was in principle, it was the system that Keynes had in mind after the war. And the IMF should run it, but the IMF should run it as a fair advocate of all sides and not as a slave of the United States Treasury. That's the problem. Or the Europeans are exactly the same, I do not want to blame the Americans for everything. The Europeans are doing the same stupid things that the Americans. So that is the first thing. The second thing is you may need capital controls. We don't know, but you have to be pragmatic about it. There is no dogma that says you shouldn't adjust capital controls. Even the IMF now understands that sometimes you need capital controls. But the first thing and the most important thing is what I said, you have to get rid of the speculation. The hedge funds have to be out. And they're out in a minute if the international organizations say we do not want this kind of speculation, the real has to depreciate when the inflation rate in Brazil is higher than elsewhere, then it will happen. It will just happen. Everybody will believe it, you know, And so this is a very simple thing. And we have to get rid of the speculation and commodities also. That is also very simple. It can be forbidden from one day to the other, if the big powers say, speculation in commodities is no longer allowed; then it will not exist and it will be out of this hedge funds and BlackRock and they would be all out of this business because they don't want to be illegal. So that's very simple. They're very simple things, but nobody wants to hear it, because the big money is behind all this. And surely Wall Street is, as we know. Well, I do not say paying that people, man and woman, but they're paying high fees for- famous was my colleague Larry Summers, he had to open his files when he became secretary treasury in the United States. And you could see that for one day at Goldman Sachs he got, if I'm right, $125,000 for one day at Goldman Sachs. So that's not a bad fee. And you see, you're nice to the people who pay you that is obvious.

ZR: So you also mentioned climate change in your article, basically how the Global North is demanding the Global South to achieve its reduction targets without providing technology and know-how. Can you elaborate on that and how it fits into this globalization discussion that we just had?

HF: The point is rather similar. There was an interview these days by Ursula von der Leyen, our wonderful commission President. She said, We want to be the world market leader in green technology. Then it's over. You know, that's exactly the wrong approach. If Europe wants to be the world market leader in green technology, then forget about the rest and the rest will not cooperate. Why should they cooperate? They must be stupid because they have to pay for everything that they need there. And you see, it's extremely difficult to explain to the people in a developing country, in a poor developing country, that you change now, the whole infrastructure, you go to wind and solar power with all the vagaries that are in it- we see it in Germany. But nevertheless, if you go to renewable energy, it will cost billions. And you just tell people, Unfortunately, we have to do that. We have to do that. We will get rid of oil because we are good guys in this world. And so we pay for that, although we don't have the money. Well, this is absolutely impossible. It will not happen. It will never happen. And that is why if we want the developing countries to engage, then we should turn it around and say we make them world market leader in green technology, then that would be a good approach, but not us. We become again the world market leader. Now we are the world market leader in everything, in cars and machine tools and I don't know what. And now we want to become the world market leader in green technology also, obviously because we're the only ones who are able with their brains to do it. So yeah, this is a colonial approach and I can understand every developing country that says, No, no, not with these people. That doesn't make sense. They will cheat you wherever they can.

ZR: Heiner Flassbeck, economist, author and founder of the website Flassbeck Economics, thank you so much for your time today.

HF: Thank you for having me. Bye bye.

ZR: And thank you guys for tuning in today. Don't forget to join our alternative channels on Rumble and Telegram. YouTube is not recommending our videos to our own viewers like it used to a few years ago. And to donate, if you're getting value from our interviews and analysis, then make sure to return that value by donating just a few dollars or euros a month via Patreon and PayPal or bank account. I'm your host Zain Raza, see you guys next time.

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