



## Varoufakis & Wolff: The End of the U.S. Dollar?

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**Mike Tedesco (MT):** Welcome, everybody, to this event about the petrodollar and fossil fuel capitalism with professors Richard Wolff and Yanis Varoufakis. We are so happy to have them joining us here today. My name is Mike Tedesco, I'm a member of the political education collective that's hosting this talk, but I'm also a doctoral candidate in economics, researching imperialism and unequal exchange, so this is a very exciting event for me. I'll be moderating today's discussion along with co-moderator Shahram Azhar, and I'll hand it off to him to introduce himself.

**Shahram Azhar (SA):** Hello, everyone. My name is Shahram Azhar. I'm an associate professor of economics at Bucknell University, where I teach courses in political economy and world systems theory. I'm also the host of the show, *The Dialectic at Work*, alongside Professor Wolff, where we explore the world of Marxian political economy. I'm really looking forward to this exciting conversation. Mike, what do you think?

**MT:** All right. Thank you very much. So to start, I'll introduce our speakers and then provide some overview of today's topics before we begin posing some questions to get the discussion going. All right, so first off, I will start with Richard Wolff. He's a professor emeritus at the University of Massachusetts Amherst and a visiting professor at the New School's graduate program in international affairs. He is well-known as one of America's foremost Marxist economists and founder of the non-profit Democracy at Work. Yanis Varoufakis is professor of economics at the University of Athens. He's the author of several books on capitalism and political economy, and was famously Greece's finance minister in 2015 during its sovereign debt crisis.

So next, we'll do some check-ins, which is something this group does for every meeting. We don't have time to go around all the participants and ask for a check-in, so if you're in the audience, you can just put your check-in in the chat. Your messages can include your name, pronouns, where you're calling in from, and just generally how you're feeling today. And a quick reminder about recording. We will begin to record this event now, and the video will be widely shared on Richard and Yanis' YouTube channels. Participants will not be recorded or shown on screen unless they specifically request to do so by clicking on the prompt in the

bottom right corner of the main stage window. And for audience member questions, we'll save those to the end. They should be submitted using the Q&A chat feature found in the right-hand column of the main stage window of the viewing pane. We'll get to those at the end if we have time.

All right, I'll just introduce a couple of opening remarks for launching into some questions. So through a series of agreements leading up to 1973, the Nixon administration secured a commitment from Gulf oil producers to denominate oil transactions in US dollars, resulting in what's come to be called the petrodollar system. This provided two main benefits to the US. One, insofar as there would be demand for Gulf oil, there would also be demand for US dollars to strengthen the greenback as the world's reserve currency and ensure low borrowing costs on US dollar denominated assets. And secondly, surpluses earned by Gulf powers through their sales of petroleum products would be recycled back to the US as those powers use those dollars to purchase US debt instruments. We are now 12 weeks into a war with Iran, which threatens to destabilize this petrodollar system. And despite the ceasefire, we have few signs that progress is being made in the ongoing negotiations. Meanwhile, the Strait of Hormuz remains effectively closed with global consequences. Oil prices have skyrocketed, inventories of gas, diesel and jet fuel are dwindling, hard-hit nations in Asia have begun rationing, factories are closing and borrowing costs for governments and consumers are ticking up. Not to mention the direct suffering inflicted on the people of Iran and Lebanon from indiscriminate US and Israeli bombing campaigns.

We on the left recognize the dearth of material class analysis in the mainstream reporting on this issue, which too often focuses on the particular decisions of policymakers. We hear that Trump folded to pressure from Tel Aviv or was tricked into believing Iran would go the way of Venezuela, or even that this is simply a distraction from the Epstein Files. However, as good historical materialists, we know that we do not get below these superficial takes unless we identify the deeper structural conditions which make possible the current conjuncture and what that implies about where we're headed. And so we're very fortunate to have our guests here to help us do that today. So I'll just pose my first question. I'll start with you, Professor Wolff. Before we get into some of the specific issues of US hegemony and the petrodollar, I want to start by asking our speakers whether you have general comments on the current moment and crucially, how you think we got here. What were the material conditions and antecedents which explain why now that the US has started this conflict and for what purpose? So take it away, Richard.

**Richard Wolff (RW):** Okay, I'll make my introduction brief. I want to hear what Yanis has to say. I always learn a great deal from him, and I think everyone will. And I also want to leave time for the questions and the back and forth so that we respond to what's in your minds in the way of questions. So my brief overtake is the following: We are at what I think now is a historic transition moment. There are usually several of these, and I don't want to over-make the point. But I do think, as many of you know if you follow my work, that the extraordinarily exceptional situation in which at World War II the colonial capitalist experiment reached its peak in an orgy of mass mutual murder, that the only thing that was

left standing, protected by the Atlantic Ocean on one side and the Pacific on the other – in other words from Germany and the war in Europe and from Japan and the war in Asia – was the United States. And so in 1945 it reached an absurd nodal point. The war was over. And not only was the war over, but the United States was the only one left standing with an intact economy. The only bombs that fell on Pearl Harbor at the very beginning of the war, and after that, nothing. No damaged factories, no damaged railroads, nothing.

On the contrary, the war had enabled US capitalism to recover from the Great Depression, which nothing else it had done had achieved. The war had to be fought in the end because everything else that they tried was hampered one way or another. And so the economy at the end of the war was stronger than at the beginning. Not only had they escaped destruction, they had recovered a capitalist moment, a capitalist potential for growth. And then the greater irony: the growth in the United States was enhanced by being the only way for recuperation from the war in Europe, Japan, and so on, creating an enormous demand without the money to pay for it, and so again, to make a long story short, the Marshall Plan to provide the finances that could then enable the demand to become effective and the boost to American production even greater than it would otherwise have been.

This situation, coming at the same historical moment as the decline of the British Empire that had already begun earlier, that had been badly boosted by World War I and was then finished in World War II – India left, the empire fell apart. The first research I ever did as a young person on the Mau Mau revolt in Kenya was another chapter in all of that. And so the American empire fell into its hands. The British too late, everybody else destroyed. And what should have been understood as a very temporary, highly conditional situation, became in the mind of the American people, heavily cultivated ideologically, as something exceptionally American, uniquely American, that there was something about American capitalism that would not subject it to the kinds of limits, constraints, and so on, that we could apply and had applied to most other capitalisms.

And my point is, why do I do this? Because the petrodollar was one of the early vague recognitions that there were some limits. After all, there was that crisis around then. De Gaulle was taking the gold back, the special situation now in the 70s was a generation old, given what the war was in '45. So it became necessary to shore it up. The petrodollar system, as you nicely summarized, did that. It shored it up. Well, we are at a point now where that empire, the American empire, has reached limits I do not think it is capable of overcoming. I think we are in the decline phase. Every empire in the history of the world has been born, evolved, and died. The American one obviously was born. We know that. The American has existed for a while. We know, too. The decline is not a question of whether, it's really only a question "when". And I think we are now in the "when" phase.

It was prepared by the loss, in my judgment, in Vietnam, which changed many, many things we're still not fully aware of in our culture here in the United States. But it was certainly boosted by the defeat in Afghanistan, by the fact of what has happened Iraq, by the evolution of the Ukraine War, and now in a very dramatic way by this fight with Iran. Of course, we are in the middle of that, so I can't speak about it as a settled matter. But it seems to me it does

threaten the whole petrodollar arrangement. Iran is an irreducible reality for the Gulf states that they have to come to terms with one way or another, and I believe we're watching the United Arab Emirates do it in one way, Saudi Arabia in yet another, and Qatar and Oman each trying to figure out how to survive what may be coming any day now in the way of resumed hostilities.

But with or without them, nothing will ever be the same in the whole world. You have touched the money situation, the currency situation, and above all the energy situation. These are fundamental pillars of the capitalist empire. I don't see how the United States can hold on. I see, in fact, both internationally, but finally also here inside the United States, the disintegration of all kinds of accommodations that had been made that underpinned the American empire abroad, that consensus at home is disintegrating as we talk. The level of division in this country and the level of hostility attending those divisions are beyond anything I have seen in my lifetime in the United States. I was born here. I've lived here all my life. And I am clearly confronted on a daily basis by shifting political winds I had not expected to live to see. I am sitting in Manhattan in a city that enthusiastically elected a young Muslim socialist to be its mayor. I don't want to overdo it but that's a remarkable event in this culture at this time. And it too, if you were to explain it, would build on everything I've just said as its foundation for this moment.

So it's a declining empire, and the symptoms are what we are talking about. Those symptoms, and this is my final point, include most dramatically Donald Trump, a character who would not have been the president had it not been for all of these phenomena coming to a head. And what he does and how he proceeds are symptoms of what we're watching. Last week, in one week, we had the withdrawal of 5,000 troops, US troops from Germany, and 4,000 from Poland. Three days later, we were sending troops to Poland. This is a government on the edge. Dysfunction. Does that mean we're about to collapse? No. I'm not saying the United States isn't an enormous economic power. Still, it is. It's a decline, it is not the end. It is a decline, but that, I think, is how we have to understand the visit to Xi Jinping, the spectacular behaviors. This is part of the desperate; that's the key word that keeps arising here, a desperate effort to cope with a declining empire.

**MT:** Thank you very much for those comments. I'll hand it over to Professor Varoufakis and ask the same question, what your general thoughts are? How do you think we got here? And do you agree with what Professor Wolff has just suggested? It's fundamentally about the decline of the American Empire.

**Yanis Varoufakis (YV):** Well, I'm so pleased to be having this discussion in the context of your introduction, before Rick came in. In other words, the fact that we are here conscious of the fact that unless you understand what's happening in Iran as an extension of the class war in the United States and beyond, unless you can understand this in dialectical terms, you simply won't grasp what's going on. And I'm very glad that Rick laid down the historical foundations for this dialectical class analysis, starting with World War II. Look, to motivate the conversation, I'm going to start with a puzzle. In the last few weeks, something remarkable happened. Scott Bessent, the US Treasury Secretary, announced a 20 billion swap

line with the Gulf States. To me, that needs to be shouted from the rooftops as a very significant moment. I read the Wall Street Journal, I read The Financial Times, The New York Times. They were talking about a potential bailout for the Gulf states because of the war in Iran. They got it completely wrong. The Gulf States really do not need a bailout. If you take Saudi Arabia and the Gulf Cooperation Council States together, they've got about six and a half trillion dollars worth of investments and of which 1.7 is liquid cash, 1,7 trillion. That's 1,700 billion. The 20 billion of a swap line by Scott Bessent is just a peep squeak. It's not even worth talking about. So why did he go through the motions of announcing it? Because it's not a small thing for a swapline to be offered to regimes like the Gulf States. I'm going to tell you what my interpretation is, but then dress it up, dress it up, found it on the analysis that constitutes the answer to your question. What's happening is that Scott Bessent is absolutely panicking about the financial circuits of Wall Street. And this is an indication, it's simply a symbolic gesture, the swap line that he proposed, effectively telling people like himself – because remember Scott Bessent is a very accomplished poacher that has turned gamekeeper, you know, he made a lot of money out of betting against governments, together with George Soros, they broke the Bank of England. So he knows how that pack of wolves in the markets work. And he's absolutely terrified that they're about to move in against the bond market and against the stock markets of the United States. And why is he worried about that? And as I said, the 20 billion, he knows that it is not worth speaking of in terms of the size of the swapline. It's symbolic. Effectively, he's saying, I'm here and I'm going to bail America out, the American financial markets, not a bail out of the Gulf States.

So let me explain that. And now I'm gonna to base myself, step on the solid foundations that Rick presented us with. The period between 1944, that's the Bretton Woods Conference, and today, I break it down into three main timeframes. The first one is the Bretton Woods period, between 1944 and 1971, the 15th of August, the Nixon shock. The second one is between then, 1971, and the great financial collapse of 2008, and the third is beyond that. But for the purposes of our discussion, the petrol dollar, I'm going to stick to the first two. The Bretton Woods period and the post-Bretton Woods period. As Rick said, when the United States was contemplating life after the end of the Second World War, the new dealers in power in Washington DC were absolutely freaking out about the prospect of the return of the Great Depression, because they knew that at the moment the factories wouldn't be producing aircraft carriers and bullets and munitions and tanks and so on, and the men came back from the war, so labor demand would come down and labor supply would skyrocket, and they feared; they feared that the United States didn't have the capacity as a political economy to absorb all the supply that the gleaming factories that had massively increased their productivity during the war, due to the war could produce. So it was simply a question of how do we maintain our surpluses? Without slipping into a great depression. And they were talking about 1949. They were predicting in 1944 that 1949 would be a new 1929. And the answer they gave was the Bretton Woods system. In other words the answer to the question, okay, even if we convert all our factories to produce instead of aircraft carriers and tanks, white goods and automobiles and Boeing jets and McDonnell Douglas jets, who's going to buy all that stuff? The American economy can't absorb all that. There isn't enough aggregate demand, effective demand for that in Keynesian terms. So the answer was the Europeans and

the Japanese. And where will they find the money to do it? They don't have money. The money systems of Europe and Japan were gone. The answer was, we will create them and we will dollarize them. And the Bretton Woods system was the dollarization of Europe and Japan with fixed exchange rates and a system founded on the revolving around the International Monetary Fund, primarily into a lesser extent, the World Bank, the both of which would be to promise foreign capitalists, even to the Greek capitalists, that for 30 drachmas they would get one dollar as long as they had capital controls and the American government would determine through the Washington based IMF how many dollars they would give to the German, to the Italian, to Greek capitalists. It was completely controlled. But it was a system that was hinged, which was anchored on the American dollar. And forget the story that gold was lurking in the background because of their convertibility of \$35 to one ounce, that was also symbolic, it was a dollar, okay? So, the dollar was the anchor that held down a system whereby America's surpluses were recycled to Europe and to Japan in order to maintain them.

And as Rick said, the Vietnam war must not be underestimated, because it was two things. The Vietnam war and the great society program by LBJ, which were of course related to one to another. There was a causal dialectical relations between the two, but those two things together, together with the fact that the Japanese and the German capitalists boosted productivity well beyond American productivity, American capitalist productivity, the result was that by 1968, 1969, the United States had slipped from a surplus position to a deficit position. And it was then that Henry Kissinger, who was at the NSC at that time, the National Security Council, before he moved over to the State Department, put a question to his team. He said: How can we maintain our hegemony now that we are a deficit country? And a young man called Paul Volcker, who worked for him at the time, 1970, slipped him a note and he said: We'll make the capitalists of the rest of the world pay for our deficits. We have to increase our deficits and have the capitalist of the rest of the world pay for them. And this is the post-1971 period, the period of financialization, neoliberalism. All those words that we use often with good cause describe a system where the recycling mechanism of the postwar period was inverted. Between the 50s and the late 60s, early 1971, American surpluses were being sent over to Germany and to France and to Japan. And after that, once America became a deficit country, the whole state was weaponized to recycle the surpluses of Germany, of Japan, and later China.

Now, again, as Rick said before, petrodollar, the Arab states, effectively the OPEC states, played a very important role in this. Because to begin with, from 1946 and 1947 onwards, under the Truman Doctrine in particular, essentially Saudi Arabia would not have existed without a deal, a quid pro quo between the CIA, between the State Department and the Saudi royal family. You do as you're told, and we will let you keep a substantial part of the oil rents. But of course, it will all be part of a dollar system, which was of course absolutely straightforward back then, because even the French franc, even the Deutsche Mark was part of the dollar system as of the Bretton Woods system – soon after that. The interesting thing, however, was that – remember, Bretton Woods was predicated on capital controls, because Washington wanted to control the movement of dollar funds across the borders of the Bretton Wood system. But because so much money was accumulating as petrodollars in the pockets

of the monarchs or the Gulf States, a lot of that money didn't go back to the United States. A lot of it went to London, and that's where the petrodollar market and the Eurodollar market, which was a result of the fact that once America became a deficit country, dollars were accumulating in Europe with every Mercedes-Benz that was being sold in the states without the reciprocal purchase of a Cadillac by a Frenchman or woman, a bunch of dollars went to Europe and that accumulated. So it was Euro dollars and petrodollars. And that was the chink in the armor of the Bretton Woods system, which was supposed to prevent the free flow of dollars to the rest of the system. And this is the reason why the city of London became significant and it was not a backwater; to this day, it remains somewhat significant.

So, to cut a long story short, let me answer my own puzzle, the one that I'd begun with. Why is Scott Bessent freaking out? Well, he's freaking out because Trump had succeeded during 2025 to extract from Saudi Arabia, from Qatar, I remember his visits in Qatar, the plane, the gift and all that, there was something far more important happening behind the scenes. And that was the Gulf States had together, Saudi Arabia, United Arab Emirates, Qatar, Bahrain, and Kuwait, together, they had pledged and they mentored, they have pledged to invest \$1.8 trillion in the next 18 months, that is before the end of 2027, in AI and other businesses in the United States. That's 1800 billion dollars. Plus Saudi Arabia together with the UAE, had pledged to buy weaponry from the American military industrial complex of about one trillion. Remember, the US military budget used to be about one trillion. Now it's going to go up to 1.5 trillion. Another trillion would come from the Gulf States. And that would have been spent within 2026, early 2027. Together, we are talking about nearly 3 trillion that was about to flow to Wall Street from the Gulf States. That's gone. And it's gone because the Gulf States have lost their liquidity. They're not selling enough oil, but it's not just oil. Dubai has diversified from oil to a very large extent. They are into the business of trading gold. Most of Indian gold is being traded through Dubai. Hotels, I mean, it's a huge tourist business. They are running at 10% of their capacity, 90% of the rooms are empty. I mean, they've got, as I said before, they got something like almost \$6 trillion worth of American dollars, but that's a stock. It's a stock of dollars, right? It's on the flow. Money, the 2.7 to 2.8 trillions that they had pledged to Bessent, or to Trump, for this year, that was a flow, and that flow dried up. And Scott Bessent does his mathematics, and he can see that if you deny Wall Street 1, 1.5, 1.6 trillion in a period of 18 months, during a period when they are going haywire with expenditure – I mean, there's a huge bubble. Everybody knows it's a bubble. Everybody knows it is going to burst. But as always with bubbles, you never know when the bursting is going take place. It is impossible. It's mathematical. You can prove mathematically that it's impossible to predict when it will burst. And he's really worried that with this bubble in Wall Street, if you take out \$1.5 trillion of a flow into Wall Street and people will go excuse the Australianism ape shit. And this swap line was essentially his little message to financiers. Here, I'm willing and ready to print as much dollars as is necessary in order to prop you guys up, while at the very same time the companies in which most people work in the United States, the blue-collar workers, are being bled dry. If you look at consumer goods companies, corporations, even pharmaceuticals you will find transport companies, you'll find that they are tanking in the United States. AI is being propped up through the bubble, the self-perpetuating bubble, through Scott Bessent's symbolic messages. And thus, the point I

made at the beginning, that this is a very definitive, very vicious class war that is raging within the MAGA movement, within American corporate capitalism within American society, it is spilling over to Europe. Now, does this mean that American hegemony is on the way out? Well, look, I hope it does because I've been looking forward to the waning of American hegemonies since I was ten, maybe eight. But again, it's the same as with a bubble. You know it's going to burst. You know American hegemony is a goner, but you don't know when it's going to happen. And as Keynes very pithily said once, the markets can stay irrational longer than I can stay solvent.

**MT:** All right. Thank you.

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