

Prof. Steve Hanke: Iran's Hormuz Gambit: How the US Lost the Strait

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#Nima

The latest news from the Israeli Channel 12 says that Israel requested the details and a copy of the U.S.-Iran MOU, the memorandum of understanding, but Washington refused. And you remember when the war started, it was all coordinated between the United States and Israel. They knew what they wanted. They may have had different objectives with the war against Iran, but after all, there was some sort of cooperation. Right now, it seems that Israel is not happy with what's going on between Iran and the United States and this memorandum of understanding. I don't know how... I talked with people in Iran. They're not optimistic about it. In the United States, the same way. But it's a huge step after all, looking at what's going on. Do you think that is going to be a viable choice for the two sides to start? It's not any sort of agreement; it's a step toward negotiations. It's not the mere negotiations. That's why it's important as a first step. But I don't know—what is your understanding of that? How do you see the MOU?

#Steve

Well, my take on an MOU reminds me of the Hollywood mogul Samuel Goldwyn's line. He said, a verbal contract is not worth the paper it's printed on. So that's roughly where I see the thing in general. More specifically though, and particularly given your introductory remarks about Israel, I view Israel as fundamentally a spoiler in the process. And you have to look at the parties who are actually involved in the picture. It's not just the United States and Iran. You've also got Israel and Hezbollah. And Hezbollah and Israel have not been a party to this MOU. They have not agreed to it. And we know very well, or at least I think, I think the Israelis do not want to have a peace agreement with Iran settled.

And things, shall we say, to reach a stage in which somehow Iran is viewed as a normal country again. So they're going to do everything they possibly can to sabotage the implementation of whatever it is that's going to happen. And we have no idea what's going to happen because we don't even know what's in the MOU. And the leaks that are coming out are very contradictory because the Iranians seem to be saying that Lebanon, Hezbollah, and Israel are part of the deal — that Israel basically has to, you know, unload its weapons in Lebanon and retreat back to Israel. And Israel

says adamantly that it's not part of the deal. But if Israel hasn't seen the deal, how can they say that it's not part of the deal?

What they're saying is that if it's part of the deal, they're not going to agree to it and they're going to spoil it. So it's all very fuzzy what's going on. And that's why, by the way, you know, it was a quip, Samuel Goldwyn's remark about an oral contract not being worth the paper it's printed on. But it's realistic because, as somebody in the business world, I know what memoranda of understanding are worth in the business world. And it's not even as good as a handshake used to be in the old days. It doesn't really mean anything. There are no penalties if you don't follow through on the memorandum. And a contract without penalties is basically worthless.

#Nima

I think the problem for the two sides right now is, what would be the next step? Is that going to be a new round of war? Is that going to be the United States deciding to leave the region, get out of the region as they did with the Yemenis in the Red Sea? What is the option for the Trump administration? It seems to me that he wants to get out of the region, but he's trying to achieve something before leaving the region. I don't know what that would be, and is there any better option for the Trump administration?

#Steve

Well, to answer that, you say "better option"—well, we don't know what the first option is. So this is all an option.

#Nima

I mean, my understanding of the first option—sorry for interrupting you—my understanding of the first option would be getting back to war together with Israel against Iran.

#Steve

Again, repeat that, Nima.

#Nima

My understanding of the first option is to get back to war, starting a new round of war—the third round of war—together with Israel. This is the first option.

#Steve

Well, I don't think that the Trump administration wants to get on board with that. But I think ideally Trump, and given Trump's behavior, would like something to evolve that he could continue to spin

that he's won, right? And everything is great, and in short, Trump's a hero. So if you can put the pieces together that would allow him to do that, that would be his optimum strategy. Now, that would be a rhetorical kind of nominal position, but underneath that nominal position would be one hell of a mess. Because there would be continued—number one, you'd have Israel in Lebanon. That's not going away. You have continued, you know, back and forth with Hezbollah. That's not going away.

And you'd have, shall we say, little firefights around the edges always occurring—little interventions and so forth. So you'd have a very, shall we say, unstable equilibrium. So the best-case scenario for Trump is one where he can spin victory, but that will be rhetorical. The reality will be, going along with that, an extremely unstable equilibrium where there are all kinds of things that have never been settled and maybe never will be settled. So I think that from Trump's point of view, that would be the optimum thing. Because just look at where we're at right now. Look at what he's spinning. He's spinning, "We're going to open the Strait. I'm a hero. We're winning at everything."

The reality is, the reality is right now, given what we know, that the U.S. has suffered a major strategic defeat. And the way to analyze this is what we call in finance an event study. And event studies on Wall Street are: you have a company, its stock is moving along, and then you have an event. You have an earnings guidance announcement, or reported earnings, or credit, a merger, or buyback of stock. That's the event. And then you look to see, well, what happened to the stock after the event? And if you look at the—it's very easy to do an event study, by the way, and analyze things like this, which is what you should be doing. And that is, before the U.S.-Israeli strike on Iran, let's just look at the Strait itself. It was open.

And Iran basically wasn't involved in the thing. Now you had the event, the strike against Iran. Now what do you have? Iran is clearly going to have some control or be a visible player in the Strait going forward. They're going to have some control one way or another. And there's a lot of fiction going around that Trump said there'll be no tolls, but they'll just call them something else. They'll call them logistical management fees or something like that. So I think what you're going to end up with—and by the way, I think this would be a good equilibrium solution—is that, in fact, you'd have something like the Montreux Agreement of 1936 for the Bosphorus. And that settled a very unsettled situation and gave Turkey the right to impose management fees on those going through the Bosphorus and the Dardanelles.

So I think that's probably what's actually going to happen. But we don't even know that. I'm just speculating. I'm saying from my point of view, and from the point of view, by the way, of most of the major shipping companies, that's what they would prefer too. They don't mind paying a management fee or a toll as long as they have certainty that if they apply to go through the Strait to the Iranians and they pay the toll, they're going to have safe passage and be able to go. But remember, think about this in terms of the event study. That's a loser for the United States. It's a winner for who? For Iran, because beforehand, Iran wasn't in the picture. Everybody just went through. And you go right down the line of all these things.

What about the reparations? J.D. Vance says that, well, the MOU includes something about reparations. And the reparations are over \$300 billion that's going to be paid supposedly by the Gulf Cooperation Council members. Well, the Gulf countries were never a party to the MOU. So the MOU is going to impose a tax on them and they're going to pay it? So now we're getting into the zone of little details, and you can just see there's one after the other that comes up that all point to the event study conclusion that the situation after the event, the Israeli-U.S. war on Iran, is going to leave the U.S. in a much worse strategic position. That's my general take at 30,000 feet. But, Nima, the only place we can fly right now is at 30,000 feet. Yeah.

#Nima

The Wall Street Journal reported that the United States will allow Iran to immediately sell oil and fuel without sanctions as part of the MOU. And this has been, I think, more than seven years they've had this problem of selling oil and gas. They were not allowed because of the sanctions. Right now, the United States is trying to facilitate that—selling oil and gas from Iran after seven years. And that's a huge change. But it's all about the economy. Looking at these arguments, what we've learned from these leaks coming out of the MOU, it's all about the economy. It's all about sanctions.

It's all about how the U.S. blockade in the Persian Gulf is over. Iran still has that sort of management of the Strait of Hormuz. And we've learned about the Iranian frozen assets going to be released upon signing, because they have already signed the MOU digitally, and they're going to go to Switzerland to do it physically. And it's naming the head of the Iranian parliament and J.D. Vance. Donald Trump said he may go there. I don't know how that's possible for J.D. Vance and Donald Trump to be at the same time outside of the United States. It's somehow against the law, but he said that. So, looking at the economy.

#Steve

Name it the law? Who cares about the law, you know? I'm being a little bit facetious, but, you know, I mean, Trump will do whatever he wants to do. And if it's against the law, he'll worry about it later.

#Nima

But how do you see the way that the two—let's assume that he's going to do whatever he tries to put out with the case of sanctions, with the case of this and that—but the major issue is still the case of Lebanon, in my opinion, because today the Iranian foreign minister said that Israel has to withdraw totally from Lebanese territory. And Benjamin Netanyahu said that's never happening. He's not going to do that. He doesn't care about the MOU. He's not part of the MOU. That's why Israel is going to do whatever is in its interest. Do you think that Donald Trump would have some sort of leverage on Israel?

Because let's assume Israel decides to get back to the conflict, to the war. If Israel attacks Beirut, if Israel attacks Dahiyeh, which is in the southern part of Beirut, two times they attacked. The first time Iran responded. The second time, Donald Trump and his administration interfered. And Iran said that there was a huge sort of concession on the part of the Trump administration. That's why they decided not to respond to the second Israeli attack. So right now, if Israel decides to attack Iran, to get back to the conflict, without the help of the United States, they're not going to be able to continue the war. This is the reality of what's going on.

#Steve

Well, I think what you've outlined here is consistent with my thinking, and my thinking is, again, in general, without getting into any details, we know Israel's going to try to be a spoiler. And what you're going to have, I think, is a good cop, bad cop routine between the United States and Israel, because with the Israel lobby in the United States, Trump has his hands pretty tied. He is not going to cut Israel off, believe me. No way. The U.S. is going to continue to support the Israeli military, not only financially, but also with weapons, with surveillance, intelligence, and so forth and so on. All that is going to continue. So when Israel does strike out against Hezbollah—and by the way, strike out first—they don't even wait and make a counterattack.

These are preemptive first strikes, most of these. It's not spun that way in the press, but if you listen very carefully and look at what's happening on the ground, most of these are preemptive first strikes. And the spin is, well, it comes from Israeli intelligence. The Israelis will say, well, we bombed some apartment in Beirut because there was some guy in the apartment just ready to launch a rocket at Israel or something like that. You know, I mean, it's kind of a joke, actually. But they get by with it. No one raises a finger. And that will continue. And then you'll have a telephone call with Trump reaming out Netanyahu, and Netanyahu, you know...

The reality is not much is going to change in the U.S. relationship with Israel. That's the bottom line. And that means what? That means that the U.S. will be facilitating the spoiler to spoil. And we went through this in our first part of our conversation, Nima, and that is, you've got a lot of important parties that aren't part of this MOU. I mean, even look at Hezbollah. Hezbollah hasn't even been a party to the negotiation between the Lebanese government and Israel. I mean, aren't the members of Hezbollah, or people who are sympathetic with Hezbollah, or people who are living in southern Lebanon, aren't they Lebanese? They're all Lebanese.

#Nima

That's so absurd because the war is basically between Hezbollah and Israel, and the government is negotiating with the Israelis in these so-called peace talks. They don't have any problem. There is no war between the government in Lebanon and Israel. It's all about Hezbollah and Israel. I think the point that you've raised is so important, of particular importance, which is, unfortunately, one of the main issues with what Donald Trump is trying to do—bringing Lebanon and Israel together. That's

the main issue. And he said recently, just today, he said that he wants to replace Israel with Syria. What is that? I don't know what your understanding is. He said that Israel is killing too many people, that's why we have to replace it with Syria. It seems that he's seeking some sort of civil war in Lebanon. And while they're fighting each other, Israel is capturing the land in the southern part of Lebanon.

#Steve

Well, what again, all these things that we're discussing, it leaves us, in the best-case scenario, with an extremely unstable equilibrium. Even in almost a perfect world, you end up with a very unstable situation. And I think that's going to be the situation in the region. And the geopolitical fallout will be tremendous because everyone now is saying, gee, we were exposed to all of this, and it was very damaging. We have to hedge ourselves. We have to diversify. And so I think you're going to get a lot of chairs moved around on the deck again after the event. Things are not going to go back to where they were before the event.

I mean, Trump talks like a memorandum of understanding—everything will be, as far as the Strait, I'm talking only narrowly about the Strait—that it will be just like it was before. It's not going to be. There's no way. And that's just one element. You were talking about the other elements, and that's removing the sanctions, for example, and somehow integrating or opening the door for the Iranian economy to be integrated into the international economy in a way that's different than it was in the past. Because, believe me, they were dealing in the international economy before, even though they were sanctioned and so forth.

They were selling oil and they were trading and so forth. But a lot of it was associated with black markets, workarounds for sanctions, etc.—all kinds of basically nefarious operations of one sort or another. So the imposition of sanctions always ends up with black markets, nefarious activities, international gangsters, etc., etc. That's how things were operating. So supposedly the MOU is going to change all of that and either immediately or gradually open things up. And again, back to one big economic thing: how about the frozen assets? What's happening with those? And what about the GCC financing a rebuilding of Iran—\$300 billion—and they aren't even a party to the MOU.