Editor's note: This is a transcript of the recording, D@W Exclusive Podcast: Michael Hudson on Junk Economics. Democracy at Work's Paul Sliker and Dante Dallavalle talk with Michael Hudson, one of the world's six economists who accurately predicted the 2007-2008 financial crisis —see "The New Road To Serfdom: An illustrated guide to the coming real estate collapse" (*Harper's*, May 2006). His new book, *J is for Junk Economics* (see review by Peter Koenig), reveals how mainstream economic vocabulary has been turned upside down in striking Orwellian fashion to mean just the opposite of what the words and terms originally described. Michael Hudson explains how the corporate media and academia use well-crafted euphemisms to conceal how the economy actually operates. The transcript includes select time markers relative to the start time. A local mp3 file is provided as well as articles/interviews and film links of/with Michael Hudson at the end of this file.

Michael Hudson on Junk Economics, Debt Cancellation, and Emptying Out Economies

Interviewed by Paul Sliker and Dante Dallavalle
Democracy at Work, April 3, 2017
local MP3 file (71.7MB)

"How a society defines economic terms and relationships will determine who controls it."
—Michael Hudson, The Insider's Economic Dictionary, Part A, July 2013

Michael Hudson is President of The Institute for the Study of Long-Term Economic Trends (ISLET), a Wall Street Financial Analyst, Distinguished Research Professor of Economics at the University of Missouri, Kansas City and author of many books including:

- *J Is For Junk Economics: A Guide to Reality in an Age of Deception* (2017),
- *Absentee Ownership and its Discontents: Critical Essays on the Legacy of Thorstein Veblen* edited with Ahmet Öncü (2016),
- *Killing the Host – How Financial Parasites and Debt Destroy the Global Economy* (2015),
- *Finance as Warfare* (2015),
- *The Bubble and Beyond: Fictitious Capital, Debt Deflation and Global Crisis* (2012),
- *Finance Capitalism and Its Discontents: Interviews and Speeches 2003-2012* (2012),
- *America's Protectionist Takeoff 1815-1914: The Neglected American School of Political Economy* (New Edition 2010),
- *Super-Imperialism: The Economic Strategy of American Empire*, complete book in PDF (2nd ed 2003),
- Archeology of the Ancient Near East (Edited books)
    - *Labor in the Ancient World* (2015)
    - *Creating Economic Order: Record-Keeping, Standardization and the Development of Accounting in the Ancient Near East* (2004)
    - *Debt and Economic Renewal in the Ancient Near East* (2002)
    - *Urbanization and Land Ownership in the Ancient Near East* (1999)
    - *Privatization in the Ancient Near East and Classical Antiquity* (1996)
    - *The Lost Tradition of Biblical Debt Cancellations* (1993)

ISLET engages in research regarding domestic and international finance, national income and balance-sheet accounting with regard to real estate, and the economic history of the ancient Near East. Michael Hudson acts as an economic advisor to governments worldwide including Iceland, Latvia and China on finance and tax law. He has been been associated with Harvard's Peabody Museum for over thirty years in Babylonian economic archeology. For more than twenty years he has headed a group out of Harvard, the International Scholars Conference on Ancient Near Eastern Economies (ISCANEE), writing a new economic history of the ancient Near East. Beginning in 1994, the five colloquia volumes ISCANEE has published, was based on the decision of the necessity to re-write the history to free it from the modern ideological preconceptions that have distorted much popular understanding. His academic focus has been on financial history and since 1980 on writing a history of debt, land tenure and related economic institutions from the Sumerian period, antiquity, and feudal Europe to the present.

> Now, it is clear the decline of a language must ultimately have political and economic causes ... It becomes ugly and inaccurate because our thoughts are foolish, but the slovenliness of our language makes it easier for us to have foolish thoughts. The point is that the process is reversible.... If one gets rid of these habits one can think more clearly, and to think clearly is a necessary first step towards political regeneration ...
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> —George Orwell, "Politics and the English Language (1946)

Killing the Host is a more popular version of *The Bubble and Beyond*. It shows that when the financial sector takes over, it's very much like a parasite in nature. People think of parasites simply as taking the life blood of the host and draining the energy. But in order to do that, the parasite has to have an enzyme to take over the host's brain. They take over the brain and convince the host that the free luncher is actually part of the host's own body, and even its baby to be protected. That's what the financial sector has done.

Classical economics was all about separating the rent-extracting sectors—landlords, monopolies, and finance—from the rest of the economy. That was unearned income. It wasn't necessary. The whole idea of classical economics from Quesnay's Tableau Economique all the way through Adam Smith and John Stuart Mill was to look at the finance sector, the landlord sector and monopolies as unnecessary. You're going to get rid of them. You're going to tax away the land's rent or else nationalize the land. And you are going to have public enterprises as basic infrastructure so that they couldn't be monopolized.

—Michael Hudson, 22 Nov 2016

[0:05:47]

... Why did you choose to begin your introduction [to *J Is For Junk Economics*] with George Orwell and Confucius, particularly your reference to our need to "rectify our definitions of crucial economic terminology." How does this relate to the theme of your overall book?

When I wrote it, I didn't realize that the very month it came out, George Orwell's *1984* was going to be on the bestseller list. And that's because of his concept of doublethink. A vocabulary that you use shapes how you think about the economy around you. And it shapes how you think about politics. Doublethink, using words to mean the opposite of what they really mean, is a tool of deception. It's a tool that persuades people to act against their interest.

For instance, if you talk about The Great Moderation that's supposed to have preceded the 2008 crash, that was actually the most immoderate period in recent history. It's the period where the economy polarized between the 1 percent and the 99 percent. The only thing moderate was that the working class didn't really fight back and say, Wait a minute, the economy's been hijacked.

One reason that they were made quiescent was because of the use of vocabulary telling them, There's no such thing as unearned income. There's no discussion of economic rent as unearned income. If you look at the national income and product accounts it shows the economy is growing when actually what's growing is simply overhead. That's not real wealth. The real economy is actually shrinking and if people believe not only what they're told on the news, but if they use the vocabulary that the newscasters use, they're going to live in a kind of parallel universe world instead of seeing reality.

... Another prominent distinction ... is this: you're technically a financial economist. So one would expect to see lots of economic and mathematical jargon filling the pages of your book. But a really refreshing dimension of your work, Michael, is your integration of sociological and historical references. Reading the book I find [some] of this has to do with your respect for the institutionalists school of thought. What was this vein of theory focused on [and] who were it's main proponents?

[0:08:13]
People don't really hear of the word Institutionalists anymore. I don't know when you will find that in a popular publication. The main Institutionalists were people who said, Wait a minute, Marx talked about the means of production and the material world and what was necessary to produce. They looked at the technology. If you look at technology and productivity—the Institutionalists were writing in the 1890s and early 20th century—Thorstein Veblen, Simon Patton—and if you look at technology a century ago, you'd think the whole world would be living in prosperity now. You'd think we had a 3-day week with 5 hours a day. The Institutionalists said, There's a reason why we're not achieving what's technologically possible and that reason is economic rent.

Capitalism, according to Marx, was supposed to fulfill its historic destiny in getting rid of the landlord class, getting rid of the monopolists, getting rid of the banks and making them public in character, and evolving towards socialism. Instead of evolving towards socialism, industrial capitalism has retrogressed towards feudalism and you've had a resurgence of the financial sector, the real estate sector, the monopoly sector, the privatization of natural resources. Instead of socialization you have privatization and the Institutionalists looked at Why is this happening? Where does the actual wealth go if it's not going to producers, if it's not going into the production system? It looks at the whole superstructure of wealth and debt that the technology economy is wrapped in.

... [Regarding *J Is For Junk Economics*] what is a bubble or a bubble economy? ...

A bubble economy is where you make money not by producing more and consuming more but actually just by inflating the price of stocks and bonds and real estate on credit. In a way it's a Ponzi Scheme. For instance, a Ponzi Scheme is where you tell people they're going to get rich but the only way that you can pay off the investors of a Ponzi Scheme, you say you have a wonderful way of making money, they're all going to get rich and you essentially do it by economic fraud. The fraud is you convince other people to join and instead of investing their money to make this fantastic 10 percent or 11 percent return (that Bernie Madoff promised) you simply pay off all of this output as current income to the investors. In order for a Ponzi Scheme to keep growing it has to grow exponentially. They have to keep doubling the number of investors every so often. Once new investors stop joining this scheme all of a sudden there's no money to pay anybody because all the money that people thought was creating wealth has already been paid out to everybody. So essentially that's how the whole economy has worked....

[0:13:02]
Basically, a bubble economy requires not only increasing debt but it requires massive bank fraud. Alan Greenspan deregulated the banks and when the FBI in 2004, said already there's the largest wave of bank fraud in American history, the Federal Reserve refused to do anything about the fraud all around it. The newspapers by 2007, 2008 ... everybody was talking about liar's loans (the liars were the banks and the brokers) [and] NINJA borrowers (No Income No Job no Assets) getting loans.

So the fact was everybody knew there was a fraud but all the investors thought they could get out in a hurry or they could have their guy in the government bail out the banks and make sure that all of the investors were repaid totally by leaving the economy debt-ridden and shrinking and bringing on what's really a financial depression. That was what Obama did. He'd promised to write down the debt. He didn't. He wanted to keep the bubble economy going. So the Federal Reserve kept the bubble economy going by lowering interest rates to less than 1 percent—it was one tenth of 1 percent, actually—just about zero, so that people could borrow enough money to keep buying stocks that yielded more than 1 percent or buy foreign currency or buy bonds yielding.

[0:14:40]
There's been a gigantic bubble, really, since 2008—even more than there was before 2008 because of Obama's policies and that's what people don't realize. That the zero interest rate policy is creating all of this bank credit. None of this goes in to financing new production. None of this goes into creating new means of production or output or living standards. It's all gone in to the stock and bond market and the real estate market to prevent a bank crash. To save the 1 percent or the 5 percent from actually losing on their investments and to pay them by cutting back social security, by trying to privatize it, by cutting back social spending, by cutting back government spending in the economy and making the 95 percent pay for the 5 percent.

[0:16:17]
... Explain the evolution of the term "free market" as a way of introducing what Junk Economics and the book is all about.

That's the perfect example of doublethink—using a word to be the opposite. For Adam Smith and John Stuart Mill and all the classical economists of the 19th century, their idea of a free market meant the free market *from* economic rent. To free it *from* the landlords. To free it *from* the monopolists and to free markets *from* the banks so that you'd really have, in effect, Say's Law, you'd really have what people earned would be earned by producing goods and services not from just adding empty prices on. Not from property claims, not from credit. The idea was that everybody would earn what they produce and that would be a fair economy.

But after 1890, you had the *rentier* [pronounced **ron'tee-ā**] class—the rent recipients, the landlords, and the monopolists, and the banks—all fight back and for them a free market was one free for them *from the government*. Free *from* government regulation. Free *to* charge monopoly rent. Free *for* landlords to shift the taxes off themselves onto the economy and make the working class and the middle class pay. And to make sure that the bankers could continue to indulge in fraud and reckless lending and all get bailed out. So the idea of freedom and of the free market has been turned into the exact opposite: to un-freedom and neofeudalism.

> **Neofeudalism:** Much as warlords seized land in the Norman Conquest and levied rent on subject populations (starting with the Domesday Book, the great land census of England and Wales ordered by William the Conqueror), so today's financialized mode of warfare uses debt leverage and foreclosure to pry away land, natural resources and economic infrastructure. The commons are privatized by bondholders and bankers, gaining control of government and shifting taxes onto labor and small-scale industry. Household accounts, corporate balance sheets and public budgets are earmarked increasingly to pay real estate rent, monopoly rent, interest and financial fees, and to bear the taxes shifted off *rentier* wealth. The ***rentier* oligarchy** makes itself into a hereditary aristocracy lording it over the population at large from gated communities that are the modem counterpart to medieval castles with their moats and parapets.
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> —*J Is For Junk Economics*, p. 167

Expanding on what you just said can you talk a little bit more about the term rentier capitalism and its relationship to what you call the counter-enlightenment.

One hundred years ago people actually used the word, *rentier*, in the vocabulary. A *rentier* was a recipient of economic rent. The meaning of rent, originally, was a french word for a bond holder. A government bond was called a rent. And they were coupon clippers, basically. You essentially would live on what your ancestors had been able to take from the economy. As Balzac said, every great fortune really originates in a great theft like privatization as we're seeing in Russia today and in the neoliberal countries.

Landlords got their land originally by primitive accumulation. They were warlords that seized the land and their ancestors got it. A *rentier* lives on money they've inherited, basically. Or in a monopoly privilege that they've bought from the government by convincing government—by backing politicians who let them be free of government regulation, free of prosecution, and charge whatever they want and gouge the economy. Like your cable companies, your electric companies, your phone companies and whatever they want to charge.

[0:19:31]
So we're retrogressing back into a *rentier* economy which is the opposite of what Adam Smith, John Stuart Mill, and other people talked about as an economy free from this unearned income.

... Are politicians and orthodox or mainstream economists even aware of the history and this inversion when they use such vocabulary in their creation and implementation of policies and programs?

When I went to school they still taught the history of economic thought instead of mathematics. You mentioned earlier that right now a financial economist talks about mathematics. These are all just on quick one-minute deals. I think the average length of time for a stock transaction—the average holder of stock in America holds it for 1 minute, maybe not quite. Because they're all computerized, quick buying and selling, all on computerized robot programs.

So the mathematics they use isn't the mathematics of economic growth. It's the economics of a quick trade, at a given moment of time, within the status quo. Not using mathematics to say, Wait a minute, where is there going to be a crisis? Where is there going to be an intersection between two different trends? The whole role of mathematics has changed but economic students are forced to spend so much time with this complex calculus, so that they can go to work on Wall Street, that there is no room in the course curriculum for the history of economic thought. All they know about Adam Smith is what they hear on CNN News or other mass media that are a travesty of what these people really say.

If you don't read the history of economic thought you'd think there's only one way of looking at the world and that's the way that the mass media promote things. It's a propagandistic, Orwellian way: war is peace, prosperity is only for the rich. That's why I called the book "J Is For Junk Economics" because the whole economic vocabulary is to cover up what's really happening and to make people think that the economy is getting richer while the reality is they're getting poorer and only the top is getting richer and they can only get rich as long as the middle class and the working class don't realize the scam that's being pulled off on them.

We obviously saw this in our recent election—the tension between the media and working class voters and some would argue that's how we ended up with Trump....

[0:23:07]
The mainstream press is an echo chamber for Wall Street. I don't think the press was favoring

Trump. The press universally favored Hillary. That's why all of the fake surveys pretended that Hillary was going to win, trying to convince people, Why don't you vote for the majority and be a conformist? When every single poll that was taken in May or June showed that Hillary was going to lose to Trump but that Bernie could beat Trump—the real enemy of the press wasn't Trump—the enemy was Bernie Sanders. They would much rather lose overwhelmingly with Hillary than win with Bernie. Trump to them was the lesser evil. I think everybody knew that Trump was what he is. But he was the lesser evil compared to Hillary who wanted war with Russia—atomic war is probably the most evil thing you can do—and she was so much on the side of the 1 percent, so greedy, such a scam artist, so deceptive and just a liar that people said that no matter how bad Trump is, he's the lesser evil. So when Hillary came out and in speech and speech said, Vote for the lesser evil, the voters said, Ok, I will vote for the lesser evil. I'm going to vote for Trump.

This comes to a deeper question about the economics profession, about the flawed state of mainstream or orthodox economics. I think it was your friend, Steve Keen, who blurbed your book who said, I've spent forty years dealing with neoclassical economists. They sincerely believe they're doing good which is why they're so dangerous. In studying more closely the theoretical framework and processes that mainstream economists use for measuring the health of the economy, for the most part they don't include money, banks, or private debt in their analytical models. That seems insane ... banks play a huge role in the economy [and] that high levels of private household debt is what threatened our financial system in 2008. What's happening here? Are they just innocent and stuck in their flawed models and modes of practice? Or do they know that they're flawed and are just unwilling to admit it for whatever reason?

[0:25:07]
They're what's called Useful Idiots. My best economic students, by the time they got an MA in economics back in the '70s, they decided not to go on for the PhD because they said, Wait a minute, this is all garbage. Some of them, the most imaginative ones, wanted to be economists to make the world better, to promote economic reform, and to help things. Then they found that economics is simply a question of the status quo and it wasn't how the real world worked at all. It was really just propaganda and it had nothing to do with understanding the world.

They found out that, Gee, we registered in economics to understand how the economy worked and instead we're talking all sorts of nonsense. For instance one friend of mine, who went to school with Paul Krugman, said Krugman told him, The one thing we're told is don't question money. Don't talk about money. Leave that to someone else. And Paul Krugman said that banks don't create credit. Banks are like savings banks. All banks do is relend the savings to borrowers. That's the opposite of what reality is. Modern Monetary Theory knows that banks do create credit. Krugman would never really talk about any individual. Finally he found this Australian, that, to him, was on the other side of the world, and that was Steve Keen. He got in a debate with Steve Keen where Steve said, Look, banks create credit. It's what we call endogenous money. If you google Keen and Krugman it's like Bambi meets Goliath and was absolutely crushed.

The response in Australia was so furious—that here was somebody that said money matters—that they thought, How do we get rid of Steve Keen? We can't fire him because that's against academic freedom. So they closed the entire economics department at the university he was at and said, I'm sorry we don't teach economics anymore. It ended up they had to pay him a million dollars or something like that and he went to England.

It's reminiscent of what the Romania Dictator Ceaușescu did when his daughter got engaged to a mathematician who Ceaușescu didn't like. So what did Ceaușescu do? He closed every economics department in Romania so that the daughter would be marrying somebody without a job. That's the kind of thing that [shows how] the mainstream economists are totalitarian.

What the University of Chicago people realized is their definition of free market, which is one that I didn't give before: they realized, You can't have a free market in Chile, for instance, if you're not willing to kill every one who disagrees with you. The first thing the Chicago Boys did in Chile, after assassinating the labor leaders, assassinating and having the assassination program of land reformers, they closed every economics department in Chile except for the Catholic University that taught Chicago School of Economics. Unless you have totalitarian censorship you cannot have the free market of the form that the mainstream economists talk about. Free only for the 1 percent and unfreedom for the 99 percent.

> **Chicago Boys:** After the Kissinger-Pinochet 1973 military coup in Chile, University of Chicago economists were brought in to give away public enterprises to the junta's supporters. To silence criticism of Chile's privatization of social security, to let corporate owners loot pension plans, to end public subsidies and to break labor union power, they shut down every economics department in Chile except that of the Catholic University where the Chicago School had gained control. (See **Labor Capitalism**, **Privatization** and **Washington Consensus**).
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> These anti-government ideologues recognized that their brand of "free markets" and giveaway of the public sector required that no economic alternative be permitted or even discussed, but could only be imposed at gunpoint with totalitarian political control. Their neoliberal version of "free markets" is akin to medieval conquerors appropriating the land and basic infrastructure by force of arms. The aim is to privatize economic rent, and weaken the power of communities by rolling back democracy. This is typically done by establishing client oligarchies and economic dukedoms.
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> —*J Is For Junk Economics*, p. 53

You can only have Junk Economics if you censor and block any discussion of how the economy is actually working. That's why the *Washington Post* came out with the junk news list of sites. The junk news sites that they cite are things like *counterpunch*, *nakedcapitalism*, *Paul Craig Roberts*—all the sites that I write on. You have to go to what the fakers call junk news to get reality and if you to the mainstream you get junk economics and junk news. You can't have more Orwellian doublethink than that.

Going back to terminology. You discuss alienation in the first chapter: how debt has been used as a tool to obtain dependency. But an elucidating variation to alienation and capitalism is emotional alienation. Talk about Thorstein Veblen, the Institutionalist economists we referred to earlier, and his concept of the instinct of workmanship and the impact of how we structure our relations of production under capitalism.

[0:30:32]
Alienation is a Marxian term. It is a loss of control over your working conditions. When you're afraid to complain about working conditions because if you complain, or if you go on strike, you're one paycheck away from losing your credit rating and having your credit-tied interest rate go up to 29 percent, and you're 3 paycheck away from homelessness, defaulting on your mortgage or not paying your rent. Alienation is where you have to take whatever you're given. It's a loss of self-support and it's a loss of the production that you create. You're told what to do and you become a cog in a machine. You can have a bad manager, a bad office, and you know what's exploitative, but there's no better job anywhere.

Veblen said the antithesis to alienation is what he called the instinct of workmanship where now that robots do the work and production is mechanized, people should be able to have a roll in production where they actually use their brains, use their creativity, [and where] they can design. We're supposed to be living in a leisure society so they're supposed to have enough free time to be imaginative and to be creative and to be more productive and self-fulfilling.

What we're having is not the instinct of workmanship but the financialization of industry that squeezes more and more money out of the workforce when the increase is productivity, really, by not hiring new workers (when old workers leave the job or quit) [but] by just working the work force more and more and more. Longer and longer days without paying. Alan Greenspan talked about this before the Senate Committees and he said, This is what makes it the great moderation. Even though productivity is going up and we're squeezing workers more and more, wages are not going up because they owe so much money on their paycheck they're afraid to go on strike. They're afraid to fight back. They're afraid to complain. That's what real alienation is. It's powerlessness.

Can you explain what junk bonds are and why they are dangerous vehicles for what passes as wealth creation in our status quo?

In the text books you have pictures of banks issuing bonds and the bond holders will give banks money to build a factory and hire more workers, and you'll have pictures of workers carrying their lunch pails into the factory now that all this credit is coming forth. But that's not what happens at all. The junk bonds really were begun seriously in the 1980s by Drexel Burnham. They're bonds not to finance new production but simply to take over *existing* companies. To take over existing means of production and you can say, Well, a company is now paying, let's say, a 5 percent dividend. To pay a 5 percent dividend it has to earn 10 percent because there's a 50 percent tax rate. If we can borrow money, we can take over the company and we can pay out 10 percent to bond holders because interest is tax-deductible—I hope I'm not losing the audience here—but junk bonds really are for corporate raiders and they raid the company. They break it up, they grab the pension fund and tell the workers, I'm sorry we've just created a holding company for our company and our company is really bankrupt. Our financial holding company has everything. (It's a trick they learned from the Chicago Boys in Chile.) If you don't let us cut back your pensions we're going to have to go bankrupt and leave you all without pensions or depending on the government for its kindness to pension defaulters.

The junk bond people were basically corporate raiders, predators. I knew them very well and their personalities were, Well, it's up there for the grabbing. They were financing political campaigns; people like Alan Greenspan, that said the economy's getting richer because the only important thing is the stock is going up as a result of this. The junk bonds are when you issue credit without increasing the means of production at all but just transferring ownership out of the hands of equity owners and workers and into the hands of creditors.

How is the miracle of compound interest a disaster for the 99 percent who must borrow in order to meet the necessities of life? How does it affect the overall economy generally?

[0:35:27]
The miracle is that any rate of interest is a doubling time. You can look at the rate of interest by what's called the rule of 72. If you take 72 and divide it by a rate of interest, 5, then the doubling time is 14 years. If you divide it by 8 it's something like 9 years. The miracle of compound interest is that if you keep reinvesting the interest in new loans it will keep doubling. But the economy doesn't grow that way. Economies don't grow exponentially even though the mainstream models project GDP is growing at X percent per year, economies really grow in S curves.

The more that interest rises, the more that the debt overhead rises, the more the economy slows down because you're diverting money away from spending on goods and services—we talked about at the beginning of the show—you're diverting that to pay the banks and the banks don't spend this money back into the economy. The wealthiest 5 percent simply use their money to make more loans to get the economy even more in debt and that's really how the 5 percent and the 1 percent get rich: by indebting the 95 percent or indebting the 99 percent and having this interest grow and double and re-double while the economy grows less and less. That is exactly why every western economy is polarizing these days.

To get back into current events, the stock market has been booming under President Trump. Working and middle class people, even if they don't own stock, still believe the stock market is some sort of indicator of the health of the real economy or somehow connected to their economic well-being or pocketbooks. In the book you consistently bring up the term stock buy-backs ... where basically CEOs who can be paid in stock options use corporate profits to buy back their own stocks to artificially inflate the price of them and cash out instead of using profits for capital investment in new factories and equipment, research and development, or to hire more labor and expand production. Explain how this became the norm today and help us understand what's going on with the stock market today and why ordinary people should or shouldn't be concerned with it.

[0:38:06]
The stock market is going up because companies are being looted to pay stock owners. Professor Wiskonick (sp?) did a study recently, 92 percent of corporate profits are spent either on buying back the stock—which means that you're bidding up the price by having less and less stock so the earnings per share rise—or by raising dividend rates. Only 8 percent of corporate profits are plowed back into the business. So that means that the economy is not replacing itself. It's like a farmer whose eating the seed corn instead of re[planting]. The industrial economy in America is essentially being emptied out in order to pay the stockowners and about 75 percent of stocks are owned by the richest 5 percent of the population.

So if you look at who owns the stock, it's not the working class, it's not the middle class, it's the super rich. The super rich are saying, We're willing to use all the corporate income to run it down. Basically, the 5 percent have decided that industrial capitalism is over and it's time to take the money and run. And you take the money and run by just paying out all the income, just to yourselves, leaving the corporation an empty shell.

That's how the Chicago Boys introduced free markets into Chile after 1974 when Pinochet took over from Allende. It's the neoliberal model. It's what happened in Russia after the neoliberals convinced Russia to go along. It's what's happening in Greece when you're just emptying out the economy to pay the bond holders.

It's economic shrinkage. The trick is to get the middle class and the working class to think the stock market is them when the stock market isn't themselves at all. It's the five percent.

Since your book is a dictionary of sorts of economic terms the Federal Reserve system and interest rates are two things you cover in the book. The Fed recently raised interest rates a quarter of a percentage point. How does this affect the economy and ordinary Americans? ...

[0:40:56]
The quarter percent rise—to make a long story short, there is no effect on the economy at all. Zero. A teeny, marginal squiggle. Because if you look at any chart of interest rates, you'll see them plunging after 2008 right down to the bottom—to zero. The fact is, only the rich people can borrow. Only corporate raiders can borrow. Only the parasites can borrow. You can't borrow to create a new factory. You can't borrow to create new means of production. You can't borrow to employ people. You can only borrow to take over an existing asset and empty it out and pay the creditors.

The interest rate is so low that corporate raiders can still afford to borrow at almost nothing and take over any corporation for mergers, acquisitions, etc. The role of the Fed is then to make sure that their clients—they're supposed to be to regulate the banks, but instead their clients are the banks. The Federal Reserve was created in 1913 as an alternative to what was managing the economy at that time, which was the U.S. Treasury.

The Federal Reserve is privatizing what should be the Treasury's function of public money creation and of public credit. The Fed's job is to make sure that there is no public option in banking and to protect the other big banks, especially Citibank—which is the most crooked bank—Wells Fargo, to make sure that banks continue to engage in financial fraud against consumers, against the fraud of selling junk mortgages—that's how they have AAA ratings—basically they're part of what my colleague Bill Black at Kansas City calls the "criminogenic sector." The Fed is the Public Relations Department for Citibank and for Wall Street and for Goldman Sachs.

Speaking of banks and mortgages, I'm recalling when President Obama and Larry Summers convinced the American people that hundreds of billions of their own taxpayer money was needed to bail out the banks after the financial collapse in 2008. It was pitched as some extraordinary populist program to help ordinary Americans which ... didn't do any of the sort and instead handed over instant cash to Wall Street with no strings attached. Are there specific examples in that story of how the language of junk economics was used to deceive the American people?

[0:43:53]
The whole idea of bailout: who was bailed out? The people who [were] bailed out were the banks that had been writing junk mortgages. Not a single penny of this went to the American people. It didn't have to go. The solution, that was called for, is what has happened for the last 5,000 years. When debts go beyond the ability of people to pay under normal conditions, the debts should have been written off. You could have let the bank bond holders, essentially, lose the money.

They were bond holders for a bad bank that had been engaging in massive fraudulent lending—of making loans to mortgage borrowers, to corporations, to speculators, that they *knew* could not be repaid. (I knew that when I was working for banks on Wall Street.) They knew they couldn't be repaid. The solution was to write down the debts and to get rid of the debt overhead so that there would be a crash of the rich people instead of the economy.

So Obama and Summers had a choice: either you save the economy or you save your campaign contributors and the 1 percent. And Obama said, My constituency are my campaign contributors, the 1 percent. He called the banks to the White House and said, I'm the only guy standing between you and the mob with pitchforks. Don't worry, I can lead them along; I'm protecting you guys. And his job was to be a demagogue, supporting Wall Street and his constituency, using Larry Summers as a patter talk to saying that the host needs the parasite. The economy needs the banks to take their money. We need the crooks because without the crooks and without the banks, and without the monopolists, and without the cable systems charging whatever they want, and without the phone companies charging whatever they want, the economy would collapse.

Well it wouldn't collapse at all. You had Sheila Bair at the Federal Deposit and Insurance Corporation saying, Wait a minute. Let's take over Citibank. Citibank's broke and not only is it broke but it's corrupt and it's hopelessly incompetent. A free market would be: the incompetent bank gets wiped out. But Citibank was where Robert Rubin, Clinton's Treasury Secretary, had taken over. Citibank was the root of where all of the Clinton crime family was centered. Not only with Rubin but also with his protégé Tim Geithner.

[0:46:41]
The whole economy was sacrificed in order to save the Clinton crime group at Citibank and Goldman Sachs. All of this was concealed by not explaining to the people where the money was going. There was very little discussion except in my group—Randy Wray did a wonderful analysis for the Levi Institute showing where all the money had gone—really to bail out the fraudsters; to bail out fraud and to make it appear as if the economy was rich enough to survive without the fraud by making industrial workers pay, by shrinking the economy, by shrinking the middle class, by shrinking the working class and you'd think that this would be the center of political discussion. But when Bernie Sanders tried to raise it, you saw what happened to him. The mass media just kept saying, Oh, it's unthinkable. The reality is that Sanders made socialism into a good word like it was a century ago.

A century ago, the whole political spectrum from Christian Socialists to Anarchists to Industrial Capitalists and business schools saw capitalism as evolving into socialism. Until Bernie Sanders, socialism was identified with Soviet Russia, with totalitarianism. But now finally, people are realizing that it doesn't have to be this way. That the only alternatives to neofeudalism is socialism. Either you're going to have barbarism or you're going to have a renovation of the economy which means the debt write-down, anti-monopoly legislation, and prosecution of crooks.

... [Please discuss] the historical significance of the clean slate....

[0:49:10]
Take the case of what's happening in Greece right now: perfect example. Crooked banks were helped by the Greek government falsifying its statistics by hiring Goldman Sachs to give fake numbers and convince other banks in France, Germany, and elsewhere, to buy bonds. The problem was, by 2010, 2012, it's obvious that Greece couldn't pay the debt. The IMF said, We insist that you *do* pay the debt and it's worth pushing you into the worst depression—Greece now is in a worse situation than the Great Depression was in in the 1930s. They're cutting back pensions, they're forcing huge emigration. (You're having the same thing in Latvia.) If you don't cut back the debts that have grown so exponentially—the miracle of compound interest—that they can't be paid, then you're going to absolutely devastate the Greek economy.

The IMF and the mainstream economics says, Devastation is actually good because the economy is so bankrupt that we'll have to privatize it and privatization is what we want. Privatization means you're going to sell the land, the ports, the railroads; the electric utilities have already been sold to German investors. Everything that the Greek economy owned is now being sold off to foreigners largely on credit because it can't pay the debt. It's like a family that falls further and further behind, loses the home, runs into debt, ends up homeless and is destroyed by having taken on too much debt.

That's how entire economies are being run today by the IMF and the World Bank and by mainstream economics that says it's unthinkable to write down debts. So I've written a number of books about the whole history of debt cancellation. Adam Smith said that no government has ever paid its debt, although some have pretended to, and the IMF and modern economists say, Maybe we can show that Adam Smith was wrong. Maybe we can show that governments can pay the debts even at the price of impoverishing the economy and making the U.S. economy look like Greece. Greece is the future of where America is going now under the policies of Clinton and Obama and Trump.

> From February through July 2015 James K. Galbraith was advisor to the Greek Minister of Finance, Yanis Varoufakis. In the Introduction of *J Is For Junk Economics*, Michael Hudson writes, "Nowhere is the Doublethink vocabulary more blatant than in the financial conquest of Greece by the Eurozone 'troika' – the European Central Bank, European Commission and IMF." When Galbraith was asked whether "the institutions (the IMF, the EC and the ECB) will have to

rescue Greece indefinitely" he answered:

> There is no "rescue" going on here. There is no "rescue," there is no "bailout," there is no "reform" going on. I really need to insist on this, because these words creep into our discourse. They are placed there by the creditors in order for unwary people to use them, but there is nothing of the kind taking place. What is going on is a seizure of the assets owned by the Greek state, by Greek businesses and by Greek households. There is no sense that this has anything to do with the recovery of the Greek economy or with the welfare of the Greek people. On the contrary, the policy is utterly indifferent to those considerations.
>
> —James Galbraith and Luis Martíin, The Poisoned Chalice,
> *Open Democracy*, 1 Sep 2015

Greece is the future of where America is going now under the policies of Clinton and Obama and Trump.

... You were one of the few economists to accurately predict the 2008 financial crash. [see: "The New Road To Serfdom: An illustrated guide to the coming real estate collapse" (*Harper's*, May 2006, pp. 39-46] [Do you now have] predictions for the both the America and global economy? ...

[0:52:14]
For the American economy it's a slow crash until people fight back. Until people think that there's an alternative. Until they think, It doesn't have to be this way, the economy is going to shrink and shrink and shrink and there are going to be more and more empty stores for rent on the big street. Wages will go down and people are going to have to borrow more and more on their credit cards just to get by, spend less and less eating out at restaurants, less and less on goods and services. And it will just shrink until there is a pushback. And the same thing in Europe.

At least in the United States, America has the ability to run a budget deficit that'll spend money into the economy and try to slow the economic shrinkage. But in the eurozone, the euro isn't allowed to run budget deficits. The eurozone says all growth in credit has to come from the private banks at interest. When you rely on private banks instead of public banks you rely on what banks make loans for: they only make loans, as we discussed, to take over existing companies—not to help the economy grow at all.

So the eurozone has already turned into a dead zone which is shrinking. You're having the world outside the United States shrink more and more except for countries that are withdrawing from the neoliberal orbit: China, Russia, The Shanghai Cooperation Organization. Basically Eurasia is the only part of the world that's withdrawing from all of this which is why the neocons wanted to back Hillary so much to try to force them—to de-stabilize them and try to overthrow their governments and make them as neoliberal as Greece or the United States or Europe.

At Democracy at Work we advocate for worker-owned cooperatives, that is worker-owned and controlled enterprises where the workers decide democratically, one member one vote, what to produce, where to produce, how to produce, and what to do with the profits as a key part of transitioning to a better economic system. We believe that you can't have political democracy without first having economic democracy. What can people do, in addition to what we do, who feel helpless and powerless and want to achieve economic democracy? Would one example be to nationalize the banks or create some sort of political movement to nationalize the banks?

[0:55:40]
Here's the problem: once the financial managers have emptied out corporations, there's nothing they'd rather do than turn these big corporations over to the workers. Because they'll say, Okay, you operate a broke steel company or you operate the broke auto company and see what you can do—as long as they leave the debts in place. But as long as the existing corporate economy—as long as the car companies and the industrial companies and the manufacturing firms and the farms are all left as deeply in debt as they are, it doesn't matter who owns them or what they can do as long as they have to repay the debt. So you *do need* a public option.

Back in 2008 when Citibank was broke, imagine what would have happened if the government would have said, Ok Citibank's broke. We're taking it over. We're not paying the bond holders and the stock holders because they invested in a criminogenic organization. But we're going to operate this as a public bank. So now that Citibank is a public bank, and Wells Fargo, and Bank of America, and the other banks that have paid tens of billions of dollars for fraud, now that they're public banks, they can issue credit cards at cost; at 2 percent interest—what they borrow. They won't make loans for corporate takeovers. They'll make loans to actually help companies grow. You need a public option for this and you need public banking for this because the existing financial model is extractive, not productive.

What would be the basis for public banking? One way of getting away from the payday loans that people have is use the Post Offices as the germs of banks. When I worked on Wall Street, 3 percent of American bank deposits were in the Post Office for banks which is why the banks wanted to drive them under. Maybe 15 or 20 percent were in savings banks and savings and loans. They were mutual savings banks. They don't exist anymore. They were looted by the commercial banks taking them over.

In order to change the ownership structure and the function of industry, you need a financial system that actually promotes industry. All of this is what Saint-Simon in France wrote about 200 years ago in the 1810s, 1820s. That was a basis for Saint-Simonian socialist reform, for French socialist reform. Marx accepted this later. He admired Saint-Simon. You had German banks in the late 19th century following this new public banking model with a unity between government, banks, and industry.

Everybody expected that this would become the basis for worker owned for socialist industrialization. World War I changed all of that and you had a retrogression and that's what both *Killing The Host* and *J Is For Junk Economics* are really all about, to describe how history was turned into a detour, into a financial detour that's leading to neoliberalism and to neofeudalism making the kind of world that *you* want to see—an economy run for the producers—impossible.

... Do you think the solution is then for there to be some sort of political movement essentially focused on changing the financial system? Is that our only way out of this? Does it have to come from the grass roots?

[0:59:07]
It has to be a political movement. And that requires meaning breaking up the Democratic Party. The Democratic Party now is the party of Wall Street and the neocons. You have to have some political party that's going to work. If you're a third party, as Ralph Nader found out, the media are just going to ignore you and you're not going to have much effort. You have to say, What party can you take over? The Tea Party people tried to take over the Republicans and you see where they are. They are way out-voted by the Koch brothers and Donald Trump has just surrendered to Paul Ryan in the budget. Really the most demagogic, doublethink, Orwellian party is the Democratic Party and you've got to take it away from Wall Street. You've got to get rid of Hillary Clinton and her gang forever.

That requires a fight. If the fight means that the Bernie supporters and the socialists are expelled from the Democratic Party then you want to leave the remaining Wall Street as only the 1 percent. They'll have the donors but they won't have any voters at all and the Party that's expelled, the Socialist Party, in effect, is going to become the Democratic Party, the real democratic party. And you've got to have a political fight. Without a political movement you're not going to be able to achieve any change in the economic system.

We want to thank you for your time today. Please tell us how people can find your book, website, etc., etc.

My website is michael-hudson.com and the books are all available on amazon. I couldn't get a regular publisher to publish the economic book because they say, This is not bad news. Saying that the economy is going to go down is like telling people you're going to have bad sex after 30. People won't want to read about—they want to indulge in the fantasy that they can get rich by investing. Can't you tell them what stocks to get rich on as the economy is shrinking and destroyed? So amazon publishes the book.

My Institute For the Study of Long-Term Economic Trends finances most of [my work]. Basically we're funded to do archeology and the history of debt cancellations and the jubilee year in antiquity. Most of our writing is on Sumer and Babylonia actually. But now we're doing the modern economic books as—almost treating the modern economy as an archeologist would treat it from the future saying, How did the economy ever get into this mess? How are we ever going to explain it? It doesn't seem to make sense....

... [Please] give us a brief rundown of what got you interested in economics, where you started out, and your role as a Wall Street financial analyst?

[1:02:50]
I wanted to see how the economy worked and the way of finding out how it worked was to go to work on Wall Street. So I went to work on Wall Street and I went to work for banks basically as a statistician. Not as a mathematical economist but actually doing statistics. I became Chase Manhattan's balance of payments economist.

I wanted to find out what is the deficit stemming from? The entire balance of payments deficit in the 1960s when I was working there came from the military spending abroad. So I found out it was really the Vietnam War and allied military spending.

I was hired for a year by Arthur Anderson—the accounting firm that was closed down for fraud on the Enron scandal—who was going to publish it. But McNamara at the World Bank apparently called them and said if you publish this you'll never get another government contract. So I published it through NYU, the Solomon Brothers Economic Institute. [See: A Financial Payments-Flow Analysis of U.S. International Transactions: 1960-1968] And then went into academia. I figured, Well, I did have a PhD but it didn't tell me anything about how the real world worked. So I tried to talk about trade theory and financial theory and there was really no way that I could fit it into the curriculum.

Herman Kahn at the Hudson Institute offered to hire me—he was the model for Dr. Strangelove—and said, Don't call yourself an economist. An economist tells people you're going to save the economy by giving more money to the rich people. Call yourself a futurist. He became a friend of mine, other people, futurists, became friends of mine.

I really called myself a futurist until I got interested in archeology where I've been spending much of my effort for the last 30 years trying to see how the ancient near east and classical antiquity and medieval Europe all solved their debt crises, basically writing a history of debt crisis showing that every economy has had to cancel the debt. So you could say all my work in economics since the 1960s, more than 50 years, is spent on seeing how society handles its debt crisis.

In addition to some of his books listed at the beginning, the following is a selection of Michael Hudson's articles, papers, and interviews.

- The Economics of the Future, *counterpunch*, May 2, 2017
- How Bankers Became the Top Exploiters of the Economy, *counterpunch*, Mar 15, 2017
- Why Failing to Solve Personal Debt and Polarization Will Usher in a New Dark Age, *nakedcapitalism*, Jan 23, 2017
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- The Slow Crash. The Shrinking of the Real Economy, *guns + butter - the economics of politics*, Apr 2016
- The Insider's Economic Dictionary - The Antidote to Euphemism, *michael-hudson.com*, 2013-2015
- Veblen's Institutionalist Elaboration of Rent Theory, *nakedcapitalism*, Aug 2012
- Productivity, The Miracle of Compound Interest, and Poverty, *nakedcapitalism*, Apr 22, 2012
- 2,181 Italians Pack a Sports Arena to Learn Modern Monetary Theory—The Economy Doesn't Need to Suffer Neoliberal Austerity, Levy Economics Institute of Bard College, Feb 2012
- The Road to Debt Deflation, Debt Peonage, and Neofeudalism, Levy Economics Institute of Bard College, Feb 2012
- The Transition from Industrial Capitalism to a Financialized Bubble Economy, Levy Economics Institute of Bard College, Oct 2010
- Debtor Nation: The Hijacking of America's Economy *ACRES*, Jan 2008

- The New Road To Serfdom: An illustrated guide to the coming real estate collapse, *Harper's*, May 2006
- The $4.7 Trillion Pyramid: Why Social Security won't be enough to save Wall Street, *Harpers* Apr 2005
- Real Estate and the Capital Gains Debate, with Kris Feder, Levy Economics Institute of Bard College, Mar 1997
- FILM:
    - Why the Greek debt should be cancelled. It was odious in the first place, SYMPOSIUM | Greece, Out of The Crisis: Debt-End or Dead-End, May 2017 (15:00)
    - Michael Hudson on the Orwellian Turn in Contemporary Economics, *The Real News*, Nov 2016 (15:22)
    - Meet the Renegades: Michael Hudson, Renegade, Inc., Nov 2016 (30:07)
    - The Delphi Initiative - Speech by Michael Hudson, Defend Democracy Press, Jun 2015 (13:44)
    - Michael Hudson: Money & Debt, Modern Money and Public Purpose, Columbia Law School, 2012 (25:55), local MP3 file (37+ MB)