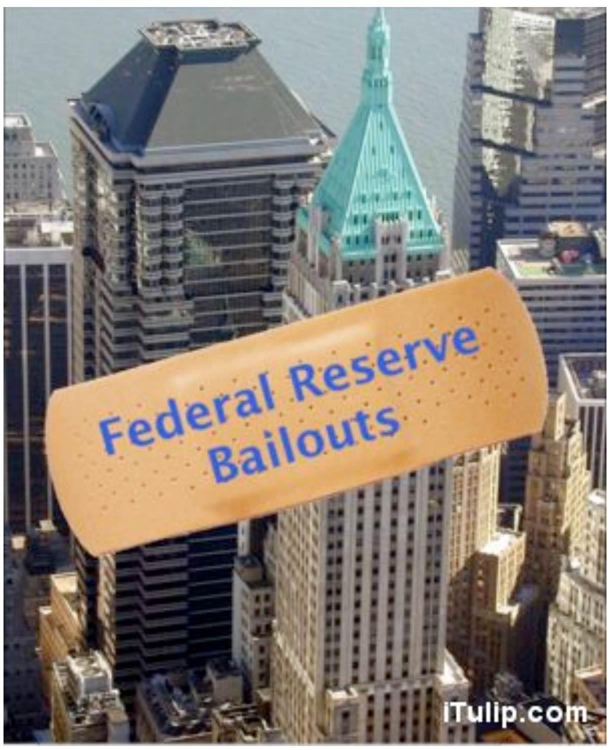
FRED 04-07-08 11:46 AM

Interview: Dr. Michael Hudson - Part II: Crisis in the FIRE Economy



ITULIP SELECT

The investment thesis for the next cycle™

Interview: Dr. Michael Hudson - Part II: Crisis in the FIRE Economy

April 7, 2008

Eric Janszen interviews Dr. Michael Hudson on:

- **Crisis in the FIRE economy**
- **Future liabilities of inflated asset prices**
- **Can Transportation, Energy, and Communications Infrastructure (TECI) save us?**

Janszen: Getting to our next issue, asset prices are deflating so it looks like the FIRE Economy is in pretty serious trouble here. As you know from my Harper's article, my theory is that an element of the way out of it seems to be developing: the privatization of infrastructure. Privatize, fix it up, and sell it again. In other words it's my observation that currently deflating and previously inflated assets cannot be re-inflated. Many technology stocks from the NASDAQ inflation deflated until they went to zero. The housing will deflate very substantially from here. I'm quite surprised the housing bubble has deflated as much as it has and as quickly as it has. Usually real estate doesn't fall unless there's rising and high unemployment and that's only just starting. So I think we're just beginning to see the decline in housing prices. Real estate cannot be re-inflated, so a new asset inflation game has to be started in another part of the economy.

Hudson: There's no question that there has to be more spending on infrastructure. Otherwise, the bridges are going to fall down. But I think regarding your Harpers article, the real estate bubble is different from other bubbles. There won't be anything like it. There are several reasons for the difference.

First, the dot-com companies went bankrupt and when they went bankrupt the debts were wiped out and there were corresponding losses. But the housing bubble is leaving a heavy legacy of mortgage debt. That's unlike the dot.com bubble. The government is trying to keep as much of this debt in place as possible.

J: Sure. Of course. No two bubbles are alike although they all are generated by a related system of government policy, financial markets, and other political and economic factors.

H: The telecom bubble actually reduced the cost of doing business when it was all over because other companies bought the wiring and the equipment very cheap from the companies that were going bankrupt. I think this was IDT's business plan. But all the housing bubble has left behind are increased carrying charges of the economy's largest asset: land and real estate. The price downturn has left negative equity in its wake on a very wide scale – 9 million homes, according to Treasury Secretary Paulson. When the dot.com bubble broke, people's assets went down, but it didn't leave negative equity to work off. Companies simply went bankrupt. It didn't leave people as a whole with negative equity. A lot of investors had less but very few had to carry the interest charges on the debts that had been run up.

J: Yes.

H: Also, the dot.com bubble was about monopolies, and the property bubble is about land sites. With the dot.com bubble it was the companies that were the frauds for which many CEOs were prosecuted. Some officers went to jail. But in the real estate bubble it's the banks that behaved in a fraudulent way, the banks and their affiliates such as Countrywide, now under investigation by the FBI. There's now talk about bringing racketeering charges against them because it's organized as a racket – not as a bank, but as a vertical conglomerate that includes the mortgage appraisers who provide the services, the lawyers, the brokers, arrangements with the insurance companies – the whole thing was an integrated racket.

J: Have you ever gone to the FBI website and looked at how many cases they have pending against people in the lending industry? Looks like hundreds of small rackets feeding into big rackets. If you go into the FBI website I think the last time I checked there's like 10,000 cases, an unbelievable number of cases that have been going on forever and ever. And they simply don't have the staff to chase them all down.

H: The Bush administration has kept them deliberately under-funded. This goes hand-in-hand with Greenspan's deregulation of banks. Every bank knew what was happening as the real estate bubble was bursting. It was no secret. It's inconceivable that the Fed didn't know this too. But they felt there was safety in numbers. All of this is made possible by the repeal of the Glass-Steagall Act. Just as the crash of the dot.com bubble gave birth to these stricter SEC reporting rules, you're going to have the real estate bubble bursting leading to all sorts of new regulations.

J: We warned of that way back in 2002. The process is awfully predictable.

H: And presumably there will be prosecutions.

J: That's the pattern. After the horse is out of the barn and off into the sunset, it's time to come out with the regulations to get the horse back into the barn again.

H: In terms in a new bubble, what you were just talking about with infrastructure and energy, the real estate bubble coincided with this global liquidity glut that we've been talking about. It resulted largely from the oil war in Iraq and Afghanistan. So for other Central Banks this is not purely an economic calculation. Other Central Banks said, "Wait a minute. We've ended up financing America's overseas military spending on a war that our voters don't approve of, and the dollar standard obliges us to finance America's wars as well as the US buyouts of our industries." So now, foreign governments would like to change the rules of international finance. The idea is that the global funding that fueled the last two bubbles is not going to be in place to fuel a future one.

J: That is one of several problems with a future bubble. Foreign lending has been financing all of our adventures – foreign wars and asset inflations. I wrote this a couple of years ago, the coming end of it, called a top in the bubble in foreign investment in the US.

H: Yes.

J: But also the market for securitized debt, the magic of making money out of nothing, is broken.

H: I think that is gone for a while. How can you have that again without an entirely new set of regulations? People don't trust the other accounting firms any more than they trusted Arthur Anderson. The government would have closed down KPMG and the others for similar doings to what Arthur Anderson did. But then it thought, "Well, wait a minute. There won't be any accounting firms left, because they're all doing it."

The same thing is true with the credit rating firms. Nobody trusts anyone anymore. That's why you had the chart with which we began this interview. On a deeper level, the breakdown of trust was inevitable, because the bubble was based on the belief that a Ponzi scheme can actually work for more than a short period of time. Today, everyone realizes that Ponzi schemes can only work for a very short time.

J: A couple of points. I'd be interested in hearing your thoughts on this. My theory about a new bubble is based on my experience watching the last two develop; one with a front row seat and one more second-hand, from interviewing people involved in it. I did interview a guy who ran a CDO firm in the early part of 2007. I want to get a baseline sense of where that market was going to go. I haven't heard from him for a while. But basically some of it's an article of faith that the guys I know on Wall Street are creative fellows. Once the game blows up, they're pretty good at starting a new one. In fact, they're usually thinking about the new one even before the old one finishes blowing up. That's really what they're good at, as you say innovative. So I suspect they've already been spending some time thinking about the next credit invention that is going to fuel this next asset price inflation.

Wall Street is a very efficient machine for securitizing things. I mean what they do is they turn things into securities that they sell and trade. That's how they make a living. What they have to do is invent, starting with the privatization of public assets.

You can see that trend is already taking place. If you're in a really bad recession people don't really complain too much about the fact that they are being charged for something they already own, if, in the process, jobs are created. It doesn't have to be structured unfairly and in Spain the model works pretty well. Public/Private Partnerships that will effectively privatize public assets and rebuild them. And again, you sort of have to think of this on a much larger scale then just repairing bridges, because what we need is a transportation and communications infrastructure more like Europe's. So imagine going from what we have today to a European scale of transportation infrastructure in the US. That's probably a twenty trillion dollar project over ten years.

H: Yes.

J: America's communications infrastructure is pathetic compared to Europe's and Asia's, although that's due as much to historical reasons as tax and public policy. Our entire wireless infrastructure is out of date. Most of our wired infrastructure is in pretty good shape but there's a lot of room for investment there. The whole of America's energy infrastructure has to be completely rebuilt. We need to build nukes everywhere, new nuclear energy technology. We can rebuild the entire auto industry out of start-ups, not out of the finance companies Ford and GM have turned into.

H: Yes, I agree with all of your points.

J: All that kind of stuff is what I have in mind. It has to be on a large enough scale that it can develop into the kinds of demand creation that we'll need. It also has to be politically expedient. Nothing like an inflationary energy crisis to get the ball rolling.

H: A financial bubble basically reflects rent extraction. Simon Patton was the first professor of Economics at the Wharton School of Business in the 19th century. He said that public infrastructure was the fourth factor of production. However, its return was not based on the profit it would make but just the opposite. Its return can be measured by how far it lowers the cost structure for the economy as a whole. For a bubble to occur in these private public partnerships, you would have to have rent extraction. In fact you're already having a severe squeeze on states and localities right now to such an extent that they are selling off highways, sewer systems and even water systems to foreign investors to turn into toll roads. So you're having pretty much the opposite of what you're talking about. You're having foreigners buy public infrastructure already in the public domain, that they are now going to be charging more and thus increasing the cost structure.

So whereas Europe is lowering its cost structure, say, by providing for public health, America is raising its cost structure by privatizing health care. You can use the health care contrast right across the board. Where Europe is lowering the cost of business, America is raising it.

J: I agree that in the current context that's what's happening. But I think of those as somewhat desperate short-term measures in the context of the current structure of the US economy – which is, as we've discussed, heavily dependent on the FIRE sector. I propose a set of solutions to that problem in the book I'm writing. I'd tell you but if I give it all away my publisher will be unhappy with me.

H: Yes, they are desperate short-term measures. The question is how long is this desperate short-term going to last?

J: In my view it lasts until this recession gets completely out of control and the political mandate for some really significant change develops.

H: Okay, now I hope that what you're saying is correct because this is what I proposed in Kucinich's economic program. But most politicians – you'll notice that neither Kucinich nor Ron Paul, have been given much access to the public media – to put it mildly. The question is if both political parties respond primarily to their major campaign contributors –the rent extractors – how are you going to make the transition to this reasonable policy that you've just described?

Can you spot the FIRE Economy Candidates?

HILLARY CLINTON (D) opensecrets.org

Top Contributors

DLA Piper	$495,550
Goldman Sachs	$440,300
Citigroup Inc	$388,052
Morgan Stanley	$385,420
EMILY's List	$323,242
Lehman Brothers	$264,610
JPMorgan Chase & Co	$258,120
National Amusements Inc	$227,800
University of California	$223,667
Skadden, Arps et al	$218,485
Greenberg Traurig LLP	$191,100
Kirkland & Ellis	$186,551
PricewaterhouseCoopers	$185,000
Time Warner	$182,150
Microsoft Corp	$175,419
Merrill Lynch	$172,900
Ernst & Young	$157,575
Latham & Watkins	$155,088
Bear Stearns	$152,090
Cablevision Systems	$148,263

BARACK OBAMA (D)

opensecrets.org

Top Contributors

Goldman Sachs	$523,478
University of California	$339,168
UBS AG	$327,302
JPMorgan Chase & Co	$317,142
Lehman Brothers	$302,697
Citigroup Inc	$301,146
National Amusements Inc	$293,022
Sidley Austin LLP	$271,857
Harvard University	$268,491
Google Inc	$259,010
Skadden, Arps et al	$248,743
Exelon Corp	$227,661
Morgan Stanley	$225,976
Time Warner	$221,878
Jones Day	$212,525
Wilmerhale Llp	$194,688
Latham & Watkins	$187,208
University of Chicago	$183,147
Kirkland & Ellis	$182,176
Citadel Investment Group	$175,900

JOHN MCCAIN (R)

opensecrets.org

Top Contributors

Blank Rome LLP	$221,250
Merrill Lynch	$209,050
Citigroup Inc	$187,884
Greenberg Traurig LLP	$161,937
Goldman Sachs	$115,600
AT&T Inc	$111,600
JPMorgan Chase & Co	$101,650
Credit Suisse Group	$96,700
Univision Communications	$86,600
Lehman Brothers	$85,250
IDT Corp	$84,850
Bank of New York Mellon	$82,350
Morgan Stanley	$80,651
Wachovia Corp	$76,750
MGM Mirage	$71,500
Bridgewater Assoc	$69,900
Blackstone Group	$69,250
Bear Stearns	$66,800
Irvine Co Apartment Community	$66,100
Hess Corp	$65,700

MITT ROMNEY (R) opensecrets.org

Top Contributors

Goldman Sachs	$253,175
Citigroup Inc	$176,800
Merrill Lynch	$174,875
Morgan Stanley	$169,150
Lehman Brothers	$148,900
Marriott International	$144,150
Bain Capital	$139,250
UBS AG	$125,700
Bain & Co	$123,275
American Financial Group	$114,150
Credit Suisse Group	$105,800
Kirkland & Ellis	$105,450
Huron Consulting Group	$104,350
PricewaterhouseCoopers	$103,750
Affiliated Managers Group	$102,812
The Villages	$101,500
Compuware Corp	$98,550
Sun Capital Partners	$97,750
JPMorgan Chase & Co	$83,000
Cerberus Capital Management	$78,950

RON PAUL (R)

opensecrets.org

Top Contributors

US Army	$75,197
US Navy	$55,092
Google Inc	$52,451
US Air Force	$51,016
Microsoft Corp	$48,073
US Postal Service	$24,218
Lockheed Martin	$22,912
Boeing Co	$22,834
AT&T Inc	$19,630
Cisco Systems	$19,276
Verizon Communications	$18,821
Northrop Grumman	$18,107
General Dynamics	$17,610
US Dept of Defense	$17,550
Apple Inc	$17,503
Wachovia Corp	$16,329
IBM Corp	$15,844
Raytheon Co	$15,029
Hewlett-Packard	$14,917
Intel Corp	$14,646

DENNIS J. KUCINICH (D) opensecrets.org

Top Contributors

ActBlue	$29,767
Institute For Democracy Studies	$6,300
Laborers Union	$5,000
Sheet Metal Workers Union	$5,000
Maxum Integrated	$4,600
Swig, Weiler & Arnow Management	$4,600
Ridgeline	$4,600
Krasner Law Office	$4,200
Hands on Technology Transfer	$3,800
General Electric	$3,350
Hydromax Inc	$3,163
TM Productions	$3,000
North Ohio Heart Center	$3,000
University Of Illinois	$2,750
University of California	$2,600
Us Dept of Interior	$2,500
Intel Corp	$2,500
Intl Brotherhood of Electrical Workers	$2,500
University of Iowa	$2,500
Pacific Bakery	$2,300

See OpenSecrets.org

J: You'd be surprised. We listened to the debates on both sides, Republican and the Democrat, and we started to listen to what we call the "language of the alternative energy and infrastructure boom." Here are a few catch phrases. One is "energy security" and another is "energy innovation." You have to listen for that phrase. Romney in particular, as you can see a true FIRE Economy candidate whose top five contributors are – surprise! –Goldman, Merrill, Morgan, Citi, and Lehman – talked about "energy innovation." He had a fairly concise encapsulation of what I just described. But so do Clinton, Obama, and McCain. Hillary Clinton went so far as to assert in one recent speech, "We're in a recession and the only way we're going to have recovery is to build new infrastructure and fix our energy infrastructure throughout the country." Note her and Obama's and McCain's top contributors.

H: This is just what Gore would have done. In other words Gore was taking his position basically as a lobby for the nuclear industry.

J: Exactly. They are lobbying for a new Nuclear Industry and I support it. I mean if you look at the 2005 Energy Act, the first line item is beefing up nuclear energy and removing almost all the legal barriers so they can't get sued with impunity.

H: The amazing thing is there is so little on conservation of energy. For instance when I go to Europe a lot of individual houses now are digging wells, for heating or cooling, not just to water their lawns.

J: Yes I know. I have a big problem with that. The first priority needs to be conservation. The way to accomplish that through the markets is to allow oil prices to rise, without the government subsidy via the US military.

H: Wells to use the water either for heating or for cooling.

J: Yes. Geothermal is one of the areas that I think is very promising. I think the problem with geothermal from the scalability and thus a for-profit funding standpoint is that its too hard to franchise. It's the kind of business where on company might be able to supply the needs for a large geographic area.

H: That's right. Look at Russia and you'll see where they produce very inexpensive heat for everybody but none of the faucets seem to work in Moscow. You go into the apartments and see the faucets leaking because nobody bothers to fix them. It turns out to be enormously wasteful when you're getting it all for nothing. So you'd actually need to have expensive metering.

J: I'm in favor of expensive energy as a market incentive to create demand for conservation. Now I realize that's regressive but what will happen is that the needs of lower wage earners for transportation will be met with innovation in lower cost personal and more ubiquitous and higher quality public transportation.

H: It would probably work much better in Europe than it would work in Russia.

J: One of the paradoxes is that one of the "greenest" countries in Europe from a political perspective has the most nuclear power plants – France. Unlike the US, which hasn't built a nuke in 30 years (and when we did they were expensive one-off designs), the way the French did it was to build the same nuke over and over, to gain the benefits of economies of scale. Capital efficiency is much higher. That's what we need to do, but with modern technology, specifically, pebble-bed nukes. Our nukes will be smaller and more numerous. They'll be modular. They'll be like Lego Blocks. You can make them different sizes and put them together. They'll be pretty cheap to make and they'll be everywhere.

H: I think you're correct in that. You'll notice in the last few days that the Financial Times has observed "My heavens, look at the French buying out all of the British power companies because we in Britain are so incompetent now that we've Thatcherized everything and can't compete."

J: Yes. The British are a basket case in their energy infrastructure. They haven't done anything for about 35 years.

H: Right. So they say the irony is that a lot of the French technology originally was British and the Brits are unable to apply their own technology in a financially efficient way because of the corruption of Thatcherism. So much for the materialistic view of history that technology drives economies.

J: The British approach to public private partnerships provides a great lesson on how not to do it. The process became corrupt in short order, with projects often receiving one bid – and competition should be the cornerstone of good privatization. Company charters will need to *ensure that these problems are not re-created in the US. That said, anything is better than repeats of the Big Dig here in Boston. Privatizations can be wasteful and corrupt, but pure government projects always are. Technology determinism is an idea that appeals to technologists who don't like politics. Politics not technology drives economic change.*

H: That seems to be it. Politics and the financial structure. France seems to have by far the best public infrastructure and you'd think that would be a model for the US and other countries. But it doesn't seem to be yet.

J: One of the big challenges of course of developing a new energy infrastructure is current embedded interest of the incumbent interest that of course is the US oil industry and the so-called military industrial complex.

H: That's right.

J : So you'd have to find a way to take care of them. Paradoxically, high energy prices are bad for oil companies. And a lot of people misunderstand this. I think that when oil was $20 a barrel, they thought that this was bad for US oil companies and now that it's a hundred its good for them. What's happening is if you look at the demand numbers, in OECD countries oil demand has been declining since 2004 as prices have gone up. So the markets are doing their thing. In non-OECD countries like China, and also in the oil-producing countries where governments subsidize oil, demand is still rising. Overall, even in spite of that, oil demand globally has been rising about 2% a year since 2004, even though prices are up as you know more than 300% since 2002.

H: The oil companies' response has been to take a leading role in new energy technology. They realize this and they're trying to diversify to become general energy companies, not just oil companies. They've taken a major role in nuclear energy, wind power, right across the board.

J: I think they understand that they're going to get some help from government in the transition. If the government is going to pull back on these tax credits to the oil companies they're not going to take it on the chin. They're going to have to make it up by developing some alternative energy.

H: I think that's correct.

J: I really appreciate your time, As a final topic of discussion, at the rate we're going in this inflationary recession, I don't see any end to the inflation in sight. Do you?

H: No. The tendency will be just the opposite – to inflate our way out of debt. That's what is implied by the chart that you sent.

J: How does that chart imply inflation?

H: It means that just like after the stock market crashed in 2000 the government is flooding the economy with money to support asset prices. This is forcing down the dollar and thereby forcing up the price of imports as a price umbrella for goods and services provided in the United States.

J: Do you think there's any possibility of the dollar having a disorderly decline?

H: Yes.

J: We as a community have debated this for, oh, going on ten years and we think the only thing that mitigates that outcome is that our trade partners hold $3.8 trillion so they're going to act as a buffer to keep the dollar from crashing too fast.

H: It's not so much what they own. They hold the money because the foreign governments are not acting. The policy is set by central bankers and it's not their money. It's more the desire of central bankers to keep the status quo. It's an unthinking characteristic of them that somehow they have to prevent a crisis. They think that's what they're there for. I don't think it has anything to do with economically rational calculations. You're giving them much too much credit.

J: They're just going to keep doing what they're doing. If a disorderly collapse occurred, what would precipitate it?

H: The United States wants a disorderly collapse. America is really the only player in the game and has been the only player in the game for 30 years. That's the irony. You're supposed to think of international diplomacy as everybody pushing their own self-interest, and thereby comes to a fair equilibrium. But that's not the case. The US is the only country acting in its own self-interest. So it's hard to really blame it, because that's what countries are supposed to do. You can put just as much blame on the victim, namely Europe and the other countries, because they're not acting in their own interest. They're not doing what America does.

J: It's a mystery. Particularly in the case of China, because China is all about China. They're the only other country I can think of in the world that seems to act purely act in its own self-interest.

H: That's true. They are also acting defensively, and they don't want to upset America prematurely. It's like the British definition of a gentleman: somebody who never offends anyone else, unintentionally. China doesn't feel its ready for a confrontation yet. It is going to try to maintain diplomatically friendly relations as long as it can, and as long as the rest of the world is willing and able to absorb the dollars they have and all the new dollar debts that America is creating.

J: And that will go on until the domestic inflation and the weak dollar creates forces change. Meanwhile, dependency on the US for demand is declining.

H: At their fall 2007 meeting the Chinese Communist Party leadership discussed at what point they might shift over and begin to spur demand by our own citizens – to produce for themselves instead of for Americans.

J: And?

H: The Thatcherites say, let's keep exporting to America. These are old Communist party people who are as anti-labor as you can be. Ironically, Communism has been anti-labor theory in practice.

J: It's totally exploitive – slavery for the State.

H: The idea is that you have to squeeze out an economic surplus. Marx explained how it was done in his analysis of Capitalism. That, essentially, is Stalinism. But there is another element of the Chinese leadership – very much like the old Maoist leadership – that says, "If we can't reach economic takeoff without inequality, then we're just going to have to tear out the roots and start all over again." So there's still that radical view being expressed in China.

J: I see an in-between approach that they can take. They continue to grow exports in their mercantilist policies but with less and less to the US as a percentage of the total exports. Right now they're down to about 21% of all their exports in dollar value going to the US. Everything else goes to everyone else.

H: That's true and they also realize that if the US adds import restrictions then they will also shift over to the domestic Chinese market for demand. International law enables them to say, "Okay, we can't export to you. We're just doing A, B and C with your investments over here."

J: I always thought the Japanese approach to that was pretty effective. It was to make domestically produced goods much more expensive for the Japanese than for Americans. The Chinese are doing that today. The way around the WTO rules forbidding that is to make direct rebates to manufacturers.

H: That's certainly been the case. I was amazed when I first went to Japan in the 70s thinking that I could buy Japanese consumer goods much cheaper.

J: No sir.

H: More than twice as expensive than the same products bought in New York.

J: On that note, I want to thank you again for your time.

H: Nice interview.

J: Great talking to you. Let's talk again soon.

---

jk

04-07-08 03:52 PM

Re: Interview: Dr. Michael Hudson - Part II: Crisis in the FIRE Economy

Quote:

> Originally Posted by **hudson**
> *H: The United States wants a disorderly collapse.*

anyone want to explain this statement? my impression is that the u.s. wants an ORDERLY collapse.

icm63

04-07-08 04:33 PM

Re: Interview: Dr. Michael Hudson - Part II: Crisis in the FIRE Economy

Forecasts...

EURUSD will be 2.000

Gold = $1800 once

Inflation = Actual 10%, reported 5%

Stocks = No real returns (inflation will remove real returns)

Question: Do you really think that the massive $520 trillion dollars ($45 trillion of these a bullsh*t CDS) of derivatives will not do any damage to the markets when housing falls 20% ?

My question is how can the FED stop the comming derivative crash ?

metalman

04-07-08 04:38 PM

Re: Interview: Dr. Michael Hudson - Part II: Crisis in the FIRE Economy

Quote:

> Originally Posted by **icm63** (Post 33056)
> *My question is how can the FED stop the comming derivative crash ?*

by selling one derivatives laden bank to another ala bear to jp morgan.

grapejelly

04-07-08 05:27 PM

Re: Interview: Dr. Michael Hudson - Part II: Crisis in the FIRE Economy

Great interview. I am still digesting. But I cannot agree with stuff like "So whereas Europe is lowering its cost structure, say, by providing for public health, America is raising its cost structure by privatizing health care. You can use the health care contrast right across the board. Where Europe is lowering the cost of business, America is raising it."

Healthcare is being more socialized every day. Dr. Hudson has it backwards. And how is Europe
lowering its cost structure? I can't make any sense of remarks like this. If anything, Europe's costs in many areas are higher due to a higher government percentage of overall GDP. But Dr. Hudson doesn't see it this way because he leans so far to the left.

Also: *"J: I'm in favor of expensive energy as a market incentive to create demand for conservation. Now I realize that's regressive but what will happen is that the needs of lower* *wage earners for transportation will be met with innovation in lower cost personal and more ubiquitous and higher quality public transportation."*

Public transportation is not a free market solution. Taking the subsidies out of oil is fine. Then take the barriers away towards development of various private sector solutions.

This interview sounds like you both, Eric and Dr. H., are on board with increasing socialism and therefore decreasing private liberties and private choice. I am rather surprised not about Dr. Hudson, but about your leaning away from personal liberties and advocating public transit. Anything public decreases personal choice and is antithetical to liberty.

Further, Dr. Hudson has said many times, and says again here, that the US "is the only country operating out of its own self-interest."

However, I disagree. I think here is what he misses: GOVERNMENTS are the actors here. Government officials are acting in their own self interests when they continue subsidizing the US government and the dollar. They are paying a tax to the US through currency depreciation. In return they get the US government propping them up...this is the case for much of the world's governments. I am not sure if it is the case for the Chinese government...but they have other reasons, mercantile ones, to sustain the expansion of their production and build domestic consumer demand, so they don't want to rock the US dollar boat either.

But mostly, other countrys' governments are acting in their (the governments') best interests to stay in power and expand their power. Dr. Hudson is completely wrong here in what he says.

c1ue

04-07-08 07:01 PM

Re: Interview: Dr. Michael Hudson - Part II: Crisis in the FIRE Economy

Grape,

I think you are misunderstanding a couple of basic assumptions.

It is not that Dr. Hudson is necessarily a socialist demagogue, nor that Fred/EJ are jumping onto the socialist bandwagon, it is that there are circumstances where socialism is a better solution than rabid capitalism.

The economic - thus political - situation unfolding is one where tremendous suffering will be unleashed upon the American people.

Unlike in a autocratic nation, this suffering is not going to be pent up until it explodes in a bloody revolution - rather - this outrage will be channeled by those in power and influence.

Sometimes this channeling can be via private means, but we are at the point now where there is not sufficient private money to put Humpty Dumpty back together again.

Dr. Hudson may be serially against the rent extractors whilst EJ and Co. are on the side of the innovators, but it doesn't mean the solution eventually implemented via either school of thought is not the same - temporarily.

As for health care being socialized more every day - I completely disagree.

Until we see a payroll tax of 15% or more at the employee level specifically devoted to retirement and health care, we don't have anything remotely like socialized health care.

Even I, living in SF with its free clinics, would be hard pressed to find a way to have surgery unless I paid my own way. For someone in the 'burbs, no way at all.

Finally on the behavior of other governments: how can it be to their interest to allow the United States to pirate the rest of world's collective savings? To build up a monstrous military machine which - if unable to conquer - can certainly destroy any other modern nation's infrastructure?

The nations of Asia have the excuse of inexperience, but the nations of Europe have seen firsthand what a policy of placation does for a militant member of the community; at first they take what is free, then they starting taking what isn't.

An America which is both unable to pay its debts, unable to continue its comfortable status quo existence without additional borrowing, and has a large military fully capable of holding another nation's infrastructure hostage, is in no way a safe situation.

To have allowed this to occur is a clear failure of policy on many nation's parts.

EJ

04-07-08 07:52 PM

Re: Interview: Dr. Michael Hudson - Part II: Crisis in the FIRE Economy

Quote:

Originally Posted by **c1ue** (Post 33068)
Grape,

I think you are misunderstanding a couple of basic assumptions.

It is not that Dr. Hudson is necessarily a socialist demagogue, nor that Fred/EJ are jumping onto the socialist bandwagon, it is that there are circumstances where socialism is a better solution than rabid capitalism.

The economic - thus political - situation unfolding is one where tremendous suffering will be unleashed upon the American people.

Unlike in a autocratic nation, this suffering is not going to be pent up until it explodes in a bloody revolution - rather - this outrage will be channeled by those in power and influence.

Sometimes this channeling can be via private means, but we are at the point now where there is not sufficient private money to put Humpty Dumpty back together again.

Dr. Hudson may be serially against the rent extractors whilst EJ and Co. are on the side of the innovators, but it doesn't mean the solution eventually implemented via either school of thought is not the same - temporarily.

As for health care being socialized more every day - I completely disagree.

Until we see a payroll tax of 15% or more at the employee level specifically devoted to retirement and health care, we don't have anything remotely like socialized health care.

Even I, living in SF with its free clinics, would be hard pressed to find a way to have surgery unless I paid my own way. For someone in the 'burbs, no way at all.

Finally on the behavior of other governments: how can it be to their interest to allow the United States to pirate the rest of world's collective savings? To build up a monstrous military machine which - if unable to conquer - can certainly destroy any other modern nation's infrastructure?

The nations of Asia have the excuse of inexperience, but the nations of Europe have seen firsthand what a policy of placation does for a militant member of the community; at first they take what is free, then they starting taking what isn't.

An America which is both unable to pay its debts, unable to continue its comfortable status quo existence without additional borrowing, and has a large military fully capable of holding another nation's infrastructure hostage, is in no way a safe situation.

To have allowed this to occur is a clear failure of policy on many nation's parts.

I was hoping that this interview would spark some debate along these lines. The book *New New Deal* (henceforth NND) will deal with these issues in detail.

One of the people on the top of my list of interviewees for the book is Paul McCulley at PIMCO. An article of his from July 2002 is one of his best.

> When confronted with perplexing macroeconomic and capital market developments, I inevitably grab for my frayed copy of Keynes' The General Theory (1936), seeking succor in the master speculator's words. Call it triage for the brain. The last time I did so feverishly was the week after Christmas 2000, when I re-read The General Theory three times. I also re-read Schumpeter's *Capitalism, Socialism, and Democracy (1942)*, Minsky's *Stabilizing an Unstable Economy (1986)*, and Kindleberger's *Manias, Panics and Crashes (1978)*. The outcome of all that serial re-reading was the January 2001 Fed Focus, "Capitalism's Beast of Burden."

I'd add to reading list Marx's *Das Kapital*.

Does reading Marx make one a socialist? No, in my opinion it makes one literate. After all, how many hundreds of millions of people lived under governments inspired by this work? What is it about the combination of events that occurred in the 1920s and 1930s and the writings of Marx and his treatise on the political economy led to the development of communist and socialist regimes, mostly disasters for the people who suffered them especially under left wing dictators like Mao and Stalin? Might that happen again or is the future of capitalism so certain that socialism in its Stalinist form might appear again?

I have Russian, East German, and Chinese friends who have little good to say about the regimes their parents grew up under. They regard Richard Nixon and Ronald Reagan as great heroes. Hudson does not regard Thatcher and Reagan as heroes, and also abhors communists. If you listen you hear a voice of experience that says, "This is how governments actually work." His language is the lost art of political economy, which by association with the economists like Galbraith and Keynes sounds socialist.

Hudson is nothing if not literate. The designation of the current US political economy as neo-feudal is brilliant. I may not agree with many of his solutions, and nor all of his criticisms, but it's hard to fault him for lacking an intellectually rigorous perspective informed by scholarship. His tendency to look to government for answers is the flip side of the instinct, developed from 40 plus years of study and consulting, to look first at government as the most likely source of trouble in an economy, even ours that pretends to be market driven – all pretense is lost when the key beneficiaries with the system are at risk such as during the current credit crisis. Our first instinct is to look first to markets and entrepreneurs for answers, and we hope in the process of debate with Michael some of that rubs off.

So we take away from each of our interviews what wisdom we can. Think of our process as like walking down a street and encountering a dark alley. We can't find out what's down the alley if we don't walk down all the way into it. We never stay but always keep moving, searching all the alleys there are that can improve our understanding, and taking away from the experience of each the unique perspectives of the people there.

dbarberic 04-07-08 08:05 PM

Re: Interview: Dr. Michael Hudson - Part II: Crisis in the FIRE Economy

As a related note... I work for a major big-4 accounting/consulting firm and they are making a big push into services for valuation assistance in P3 deals. Discussions have been had with major infrastructure engineering/contracting firms and what they are communicating is that rebuilding America's infrastructure is the next big thing; the question is how to finance it. P3 is the game.

icm63 04-07-08 08:08 PM

Re: Interview: Dr. Michael Hudson - Part II: Crisis in the FIRE Economy

My question is how can the FED stop the comming derivative crash ?

JK Response: By selling one derivatives laden bank to another ala bear to jp morgan.

But Bear was small compared to JPM.

If Lehman goes down, sure I can see this happening again.

But what if Citigroup goes down, they (I guess) have $80 Trillion derivatives. Who wants them apples then ???

Will the Saudis still put up the cash then ??

UPDATE : And wasnt Bear valued at $10.00 or less, where as the banks are currently trading

> *at very good prices for all the derivative risk they carry. Note: I do realise that not all derivatives are bad, and that the banks are like a bookie for the holders of the positions of these trades.*

All times are GMT -4. The time now is 08:57 PM.