Debtor Nation
The Hijacking of America’s Economy

Some few issues ago, Acres U.S.A. quipped, “Why not dismantle the CIA and have the government take out one subscription to Harper’s magazine?” Certainly the editors of Harper’s have a track record of calling the international shots that leaves the CIA in the dust.

An agency that could not discern that the Soviet Union was being closed down should hand over its trench coats, mini-cameras and spy glasses. One of the reasons Harper’s calls the economic shots so often is Dr. Michael Hudson, the president of an economic service so unique it might well summon Simon Kuznets from the grave. Kuznets often remarked, “They’re using my Economic Indicators for short-term projections. They were designed to forecast the long term.” Hudson’s business card reads, Institute for the Study of Long-Term Economic Trends. He is a Wall Street financial analyst, distinguished research professor at the University of Missouri — Kansas City, and the author of books that could reshape economic thought in America and help egalitarian forces change the kleptoparasitic financial structure that now holds most Americans in thrall. His 1972 book, Super Imperialism: The Economic Strategies of American Empire (updated in 2003), is a critique of how the United States exploited foreign economies through the International Monetary Fund and the World Bank. He is also the author of The Myth of Aid and Global Fracture: The New International Economic Order. He is presently chief economic advisor to Dennis Kucinich in his presidential campaign.

At the recent American Monetary Institute meeting in Chicago, he laced his economic insight with snippets on human foibles: “[A British politician] looked at me, his eyes widened, and he laughed uproariously. He said, We’ve had an intellectual breakthrough. The poor are honest! They believe that the poorer they are, the more it is a matter of honor to pay their debts!”

In this taped interview, Acres U.S.A. asks the questions, and Hudson’s responses are eye-openers, a threshing for the failure of academia to teach economic thought, chastisement for foreign nations that “want to be poor,” and rejection of free trade’s haunting fear that labor might rise above subsistence after paying interest and debt.

Michael Hudson, Ph.D.

ACRES U.S.A. Let’s start with subprime lenders, 182 of which have filed bankruptcy, causing Merrill-Lynch to write off $8 billion, Citibank for another $11 billion, and others reporting rising losses. What happened?

MICHAEL HUDSON. Subprime lenders were selling homes without a credit check, inflating prices, and now their managers are walking away with golden parachutes. They set up their clients for a scam and acted in unethical ways. My basic judgement is good riddance — not only to them, but also to their parent banks and to the money managers that bought their debt, knowing full well that these debts would go bad, yet not caring, just so they could show higher three-month earnings premiums on their high-yield “junk” mortgages.

ACRES U.S.A. That’s for the companies, but what will be the impact on all these people losing their homes?

HUDSON. You’re right that the problem of people losing their homes is a separate problem from the survival of junk-mortgage companies and their Wall Street parents or managers and the institutional investors who went along. The fact that the mortgage companies are being folded means that it is harder to have recourse against loans that were unethical to begin with. The solution has to be political in character, but so far the Democrats in Congress are supporting the creditors, not the people who are losing their homes. When the Democrats say they want to pass a law to bail out homeowners and keep troubled mortgage debtors in their homes, they mean they want to use
these mortgage debtors as passthrough vehicles to give money to the big financial institutions that contribute to their political campaigns. If the government pays these bad mortgages to keep insolvent mortgagees in their homes, the holders of these junk mortgages will not have to take a loss; taxpayers will. The homeowners who are losing their homes are being squeezed both by Democratic and Republican politicians, who pretend that these debts should be paid with all the high interest charges, and should be subsidized by the government. In fact, the subsidy is going to the holders of these mortgages, and to the financial institutions that have bought hundreds of billions of dollars’ worth of these bad mortgages. If you really want to help homeowners, you should renegotiate the mortgage down to something that is affordable with their current income.

ACRES U.S.A. Down here in southern Missouri we have the historical home of Laura Ingalls Wilder, who wrote the Little House on the Prairie books. She was a lender in the agricultural arena, and she said there was no such thing as a bad loan, only bad loan managers.

HUDSON. Bad loan managers were facilitated by repeal of the Glass-Steagall Act. Bad management has been built into the conflict of interest that goes hand in hand with vertical integration of the banks, brokerage houses, Wall Street and mortgage lenders. You find this particularly in Citibank and Countrywide Financial. The October 2007 Columbia Journalism Review includes an article, “A Tale of Two Citis,” that describes how Sandy Weill built his empire on subprime lending. Much of the research was done by Michael Hudson of the Wall Street Journal (not me, a different Michael Hudson). In his article “Banking on Misery: Citigroup, Wall Street, and the Fleecing of the South,” he describes how the banks found it in their interest to have affiliates that wrote mortgages way beyond the ability of borrowers to pay, because they knew they could turn around and sell these mortgages to someone else and avoid liability. Nobody knows who is liable for the defaults. Is it the current mortgage holder? Is it the mortgage originator? Is it the mortgage brokers who are now going out of business and therefore can’t be held liable? All of this is going to take a long time in the courts.

ACRES U.S.A. Is there a remedy for this situation?

HUDSON. I’ll describe one solution I think is a good one. This approach was prevalent in New York State, where I live, before the American Revolution, and it’s a law that is still on the books here — the law of fraudulent conveyance. Around the time of the Revolution, a lot of New York farmers borrowed from British lenders who would come over, make a loan to a farmer far in excess of the normal ability to pay, and then, just before the crop was harvested, just before the farmer had liquidity, they would call in the loan, that is, demand that it be paid. The farmer couldn’t pay because he hadn’t sold his crop yet or because the loan was too big to begin with, and the British creditor would foreclose. To stop this practice, New York State passed the law of fraudulent conveyance, which said that if a creditor makes a loan to a borrower without having any idea how the borrower can repay the loan, then that loan is nullified. That law is still on the books, as I mentioned, and it was often brought up in court in the 1980s, when corporate raiders would load down companies with corporate debt. If this law were implemented nationwide, it would apply to subprime borrowers and other borrowers who signed loan agreements far in excess of what they could pay, once the teaser interest rates adjusted to much higher levels.

ACRES U.S.A. Isn’t this exactly what the government was doing with its farm lending system, literally entrapping farmers into getting bigger and buying more machinery in order to feed the world so they could close them down and bankrupt them?

ACRES U.S.A. With the farm crops being somewhat up and down, especially when there were imports involved, the practical effect in many cases was to take some 5 million family farms out of agriculture over a 40-year period.

HUDSON. Much of this is a result of rising farm productivity. The increase in farm productivity has been far in excess of that in manufacturing, contrary to what most people believe. That means more and more output can be produced with fewer and fewer people because of the substitution of capital and fertilizer in place of labor.

ACRES U.S.A. In terms of bins and bushels, perhaps. In terms of quality, our legacy would be our doubt. But let’s move on. We now have a situation in which a great many dollars are going into foreign climes and then coming back to us. We’d like to have you explain to us, how is this working? How did we make the transition from a creditor nation to a debtor nation and still continue to mount a war that’s costing us 2 billion dollars a week?


“Bad management has been built into the conflict of interest that goes hand in hand with vertical integration of the banks, brokerage houses, Wall Street and mortgage lenders.”

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surplus country to a deficit country. This deficit was caused by the war in Korea. Throughout the 1960s and '70s the entire balance of payments deficit stemmed from U.S. overseas military spending. The private sector was exactly in balance, and the government — apart from military — actually was running a balance-of-payment surplus on its foreign aid. The deficit stemmed from U.S. military spending. The United States became a true deficit country after August 1971, when President Nixon took the country off gold. Once European and Asian countries and their central banks could no longer turn in their surplus dollars for gold, they had only one choice, and that was to invest their international monetary reserves in the form of U.S. Treasury bonds. Central banks don't invest in the stock market, they don't buy real estate, and they don't buy companies — at least not until recently. They buy government securities because those are the most secure. So the United States found that the larger the balance of payments deficit became, the more dollars it would pump into foreign economies. The recipients of these dollars, either exporters or sellers of companies, would turn the surplus dollars over to their central banks in exchange for domestic currency, and then the central banks had a problem — what do they do with these dollars? The only thing they could do was to buy U.S. Treasury bonds.

ACRES U.S.A. That would add up to a lot of bonds.

HUDSON. Yes, the balance of payments was so large and pumped so many dollars into the hands of foreign central banks, when they turned around and bought U.S. Treasury bonds, they bought enough to finance most of the domestic U.S. federal budget deficit. Thus, the balance of payments deficit turned out to be the means of financing the government's federal budget deficit. This gave America a free ride, and enabled it to make war with other countries' savings instead of giving up its own gold reserves or ownership of companies and resources. Foreign countries had a narrow choice: either their central banks would accept the excess dollars and recycle them into U.S. Treasury bonds, or they wouldn't buy these dollars — they would let them be sold on the market, and their currency would appreciate against the dollar. This would have raised the price of their exports to foreign countries, causing unemployment in their export industries. When they complained about the U.S. payments deficit, the U.S. government said "That's your problem, not ours." The United States found that it could run a balance of payments deficit without ever having to pay for it — and today, the U.S. Treasury owes $2.5 trillion to foreign central banks.

ACRES U.S.A. That's an astronomical debt!

HUDSON. There is no way in which the U.S. economy can repay $2.5 trillion. Of this amount, about half is owed to China, and all the while dollars continue to be pumped into the global economy. In effect, the United States is exporting paper dollars, or paper bonds, and other countries are exporting goods and services and selling their corporate stocks and natural resources in exchange. The dollar is getting a free ride from this. As far as it is concerned, the debts owed to foreign central banks are never going to be repaid.

ACRES U.S.A. Don't these nations know this?

HUDSON. Yes, but as yet they have no political response. That would require changing how the overall international payments system works and also break the U.S. economy out of the global orbit, isolating it until it can give a quid pro quo for what it buys. A change would also require restructuring European and Asian domestic economies to replace dollar-export markets with their own domestic market. So foreign countries could indeed refuse to accept more excess dollars, refusing to sell out to Americans, and try to develop their internal market. But the German government is so anti-labor that it refuses to build the internal market, and the Chinese — like the Germans — continue to produce cheaply for export.

ACRES U.S.A. Why did they do this? Why does Germany with its high unemployment rely on this world trade, and the same with China, when they have their own internal economies they might service?

HUDSON. Because they don't seem to care about their internal economies, except to go on waging the old class war. That is how mainstream economics is taught these days — and why I stopped teaching academic economics for many years. Many people have tried to explain why European central bankers are so idiotic when it comes to this system. One suggestion is the "Stockholm Syndrome": When somebody is kidnapped, the victim tends to identify with the kidnapper, the victimizer — and there is an idea in Germany, in England, and other countries that no matter what, they have to do whatever the U.S. government recommends. It's a passive mentality. But for Europe and Asia to behave in this way violates every theory of how international relations are supposed to work. In theory, every nation is supposed to act in its own self-interest. But in today's world it seems that only the U.S. government is acting in this way. It is understandable why the United States would love to pay paper dollars and get foreign resources for nothing. It's not understandable why foreign countries go along.

ACRES U.S.A. How could these nations protect their own economies?

HUDSON. Well, Europe could have a dual exchange rate, for instance — one exchange rate for capital account, one for trade account. It could do what the United States did and levy an interest equalization charge to equalize interest rates between Europe and the United States. It could put a floating tariff against appreciated currencies, as the U.S. Congress did in 1921 when the German mark was appreciating. Or it could use its dollars to buy out, to nationalize U.S. assets there. This would settle the U.S. payments deficit in tangible assets rather than paper dollars. But Europe seems to be a continent acting purely on inertia without seeming to care much about the lessons of history, or else it simply is acting shamefully, which is why Donald Rumsfeld refers to it so contemptuously as "Old Europe." Europe is senile from the vantage point of how to conduct international diplomacy and domestic economic growth. It imagines
that it is getting a benefit by exporting goods to American buyers rather than providing for its own population.

ACRES U.S.A. Why this disregard for their own internal economies?

HUDSON. The only reason I can think of is that the one thing central bankers feel passionate about is class warfare. They are trained as financial planners to hate labor so much that they will give everything to America for free if it will hurt their own labor force. That anti-labor ideology is a precondition for getting a job at the central bank in today's world.

ACRES U.S.A. But we give that whole system an assist because of this pseudo-religious mantra about free international trade and the World Bank and the International Monetary Fund.

HUDSON. The United States has always been the most protectionist nation in the world. That's how it built up its industry, by protectionism. It's how it built up its agriculture, by protectionism. However absurd much of its agricultural protectionism may appear, the fact is that it has achieved the largest productivity of any industry in world history over the last hundred years. America has always put its own interests above those of foreign interests. This is natural. What is unnatural is that other countries don't act in a symmetrical way to protect their own economic interests. They don't confront the degree to which the IMF and World Bank promote foreign dependence on U.S. food exports and Treasury IOUs.

ACRES U.S.A. We don't think the farmers feel that they're being protected very well, though, because after having put the land into a few strong hands, most of the big operations are really technically bankrupt and are getting subsidies, so the subsidy can in turn pay the bank for the loan that kept them going last year.

HUDSON. If that is the case, then the U.S. government is treating farmers just like it wants to treat subprime debtors — the real beneficiaries are the creditors, not the debtors. Under historically normal conditions the debts would be written down.

ACRES U.S.A. Are you familiar with Joe Stiglitz?

HUDSON. Yes.

ACRES U.S.A. What's your assessment of his book?

HUDSON. He's done some good exposes. He is still largely a neoclassical economist, but now he's begun to see the light, and his new books have been helpful in exposing the system that he was once a part of.

ACRES U.S.A. But basically is he correct in describing disciplines for these various nations and the United States in effect bullying them?

HUDSON. Yes.

ACRES U.S.A. Can you explain to us why we entered Panama? What was that all about?

HUDSON. There are a number of countries that are in the character of anti-countries — Panama is not really a country. A country has its own currency, and its own foreign policy, and its own tax system. But America wanted to incorporate Panama to control the canal as a choke-hold on world commerce. It wanted to own the toll booth on the sea- way, so to speak. There was an attempt to keep control of the Panama Canal away from then-President Noriega, and there was the belief that he was not a dependable American puppet.

ACRES U.S.A. Just that simple?

HUDSON. Yes. They called it national security.

ACRES U.S.A. Why is Panama so important to international oil and banking?

HUDSON. The oil industry doesn't want to pay taxes. It created Panama and Liberia as anti-countries where oil companies could incorporate their international shipping. This is called "flags of convenience," meaning in effect a corpo- rate bubble out of view of the domestic tax authorities. As Exxon's treasurer once explained to me, the oil companies will sell the crude oil they produce in the OPEC countries and other suppliers to their shipping affiliates in Panama or other "just pretend" countries at so low a price that they don’t have to report any net income to the tax collectors in OPEC. The shipping companies registered in Panama will then turn around and sell this crude oil to their refineries in Europe or island quasi-nations such as Trinidad at so high a price that there is no room for these "downstream" operations to make any money. So all the profit is taken in Panama, Liberia or other tax-avoidance centers that don’t impose any income tax.

ACRES U.S.A. How did this come about?

HUDSON. During the Vietnam War, Robert McNamara at the Defense Department went to Chase Manhattan and other banks and said that he wanted to attract more foreign funds to the dollar so as to stabilize the war-induced balance-of-payments deficit. He and the banks calculated that the most liquid industry in the world was the drug and crime industry — the Mafia, the Colombian drug cartel, etc. — and of course the dictators that America was keeping in power to fight the class war throughout Latin America, Africa and the rest of the Third World. At that time, however, their money was going largely into numbered Swiss bank accounts, pushing up that country's currency. So Chase and other banks set up branches throughout the Caribbean and other island quasi-nations to attract this money. The Cayman Islands, for instance, had declared independence from Britain, but then renounced it and joined the empire once again so that it could act as a money laundering center. The U.S. banks that established branches in these countries found an inexpensive source of deposits, and also a way of helping their customers avoid taxation by arranging dummy companies locally — "a veil of tiers," it was called at the time. But the big picture was clear every three months from the U.S. Treasury Bulletin and the Federal Reserve Bulletin, which reported the deposits recycled.
from these tax-avoidance branches to the head offices in New York and other money-center cities. Criminal money thus became a mainstay of the U.S. balance of payments, along with the grain exports that in turn required foreign food dependency on the United States.

ACRES U.S.A. Was it “national security” when Allende was deposed in Chile?

Hudson. No. That was pure ideology. Kissinger said that if the Chileans were stupid enough to vote into power someone who was not pro-U.S., then they deserved to be overthrown. The University of Chicago economists came in and said that there’s only one way to make a free market and that is to close down every economic department in the country except for the Catholic University in Santiago (which had a tie with Chicago), and to either drive into exile, torture, or murder everyone who had a different idea than the ideas we espoused. So the free market was introduced at gunpoint. The economy was privatized at gunpoint, given away to the junta’s insiders. This became the dress rehearsal for George W. Bush’s attempt to privatize U.S. Social Security, pretending that it was a success instead of the national disaster it was. Nearly every privatized social security fund in Chile was wiped out by the end of the 1970s as companies running their “labor capitalism” savings simply looted the pension funds and turned them over to the banks that were part of the grupo conglomerates that supported the military junta.

ACRES U.S.A. Who was pointing the guns that enabled this scheme?

Hudson. It was an international assassination force mobilized out of Chile by Kissinger to murder people in Argentina and the rest of Latin America, and in the United States itself. There was no real American national security involved at all. In fact, over the broader timeframe you can see Latin America, Brazil, Chile, Venezuela all turning away in abhorrence against the murderous policies pursued by the United States. An entire generation of professors and social commentators was killed or driven abroad. The intention was to make dictatorship irreversible — and also provide an object lesson for other countries that might seek economic independence from the United States.

ACRES U.S.A. Where did the Pinochetistas come in?

Hudson. The idea in the Democratic Party under Bob Rubin, Secretary of the Treasury under Bill Clinton, was to do in Russia and other countries basically what they did in Chile. Chile served as the dress rehearsal for the big neoliberal ripoffs of the 1980s and ’90s. The architect of the murders in Chile was a University of Chicago professor — Arnold Harberger, who had married a Chilean wife and went down to advise the Pinochet dictatorship. He was so successful in destroying socialism and democracy in Chile and then privatizing the public domain in the largest asset grab since the enclosure movements of Britain, they wanted to bring him to Harvard and make him the head of the Harvard Institute for International Development. The students at Harvard, much to their credit, protested. They accused Harberger of sitting in his hotel fingering the professors to be murdered by the Pinochet regime — professors who disagreed with Harberger’s approach. That’s a sure way of imposing your approach on academia — you just kill everyone who doesn’t believe in your ideas! The upshot was that Harberger was not given the job — Harvard gave it to someone who was less well-known, much less notorious, Jeffrey Sachs. At that time people did not know how Sachs had destroyed the Yugoslav economy with his austerity plan and shock treatment under the IMF rule, so Sachs became head of the HIID and went to Russia and essentially repeated the Chilean experience there, without the bloodshed but with millions of people dying of poverty, alcoholism, drug addiction and general loss of the will to live.

ACRES U.S.A. And the Pinochetistas?

Hudson. The Russian criminals who became oligarchs or kleptocrats created what they called the Union of Right Forces — in other words, a united right-wing party, and they explicitly called themselves the Pinochetistas. They admired Pinochet. They wanted to “privatize” the Russian economy — meaning give it to themselves for absolutely nothing. The idea was the same as what had happened in Chile, where the backers of the military junta would start a bank, the government would put its deposits in the private bank, and they would then put domestic firms up for auction. The banks would use the government deposits to write a check to the government for the company being privatized. The government would take the check and redeposit it in the bank. So, in effect, it was a cost-free takeover of private enterprise.

ACRES U.S.A. And it was limited to the inner circle of the communists, presumably?

Hudson. Yes. The inner circle were largely old communist youth league graduates, and criminal insiders got in. It was a process of giving away Russia’s public domain for nothing to political insiders, much like America gave away the lands of the West to the Railroad Barons in the mid-19th century and made the railroads the nation’s largest landlord.

ACRES U.S.A. And this is what brought on the Mexican standoff, the standoff between Putin and that oligarch . . .

Hudson. Mikhail Khodorkovsky.

ACRES U.S.A. Right — he imprisoned him. Was that a sort of running up the flag to tell the rest of them what was going to happen?

Hudson. Khodorkovsky not only had been the most notorious tax evader in Russia, but having privatized Russian oil, he was then about to turn around and sell his company to Exxon so that he could take the money out of the country in much the same way that Berezovsky and other Russian oligarchs had done. This would have essentially sold out Russia’s natural resources to its major Cold War enemy, the United States. Russia would have been economically destroyed had Khodorkovsky gone through with it. Khodorkovsky also announced that he was going to run for president and be the main funder of the
right-wing Pinochetista party there. It actually was called “The Party of Right Forces.” So of course Putin threw him in jail, quite rightly.

ACRES U.S.A. This was de facto seizure of the government by the oligarchs and the big business.

HUDSON. They were the government. It would have been the large kleptocrats, which would have been the most centralized oligarchy in the world. It should be noted that an identical phenomenon happened in almost every former Soviet Republic. They all had fake voucher plans for the workers that were worthless. They all had giveaways of resources and land to Komsomol political insiders. Latvia Lithuania, Kazakhstan, Turkmenistan, the Ukraine, they all had very similar experiences — all promoted by the U.S. Treasury and the World Bank that said this was the way to get rich. There were other, much better plans promoted there, including plans by the groups of people that I worked with. But the World Bank and right-wing think tanks would send people behind us offering huge bribes to local mayors and to local officials not to tax the land, not to keep the land and the natural resources in the public domain. The number one objective of the U.S. government was to destroy Russian agriculture to make sure there was no funding for agricultural machinery or seeds — to make Russia dependent on food imports from the United States. Other sectors came under fire, too, especially manufacturing. The U.S. idea was to dismantle post-Soviet industry on the grounds that a country whose industry was dismantled would not be able to support a military complex.

ACRES U.S.A. Was this the scheme during the Cold War?

HUDSON. No, the plan was put forth in 1990 in Houston, in a meeting convened by the World Bank and the International Monetary Fund and other international agencies for Russia. The Communist leadership of Gorbachev and others was so dispirited that it imagined the United States and other countries would help it develop — presumably in the same way that the United States itself had developed. They didn’t realize that the United States didn’t want rivals or even partners; it wanted client states and dependencies. The neoliberal plan was already outlined clearly before the Soviet Union broke up. The Houston report explained that it was necessary to wipe out everybody’s savings, which it called the “savings overhang,” in order to stop inflation, in this case referring to inflation of stock market prices for the industries being privatized. The idea, then, was first of all to wipe out everybody’s savings in hyperinflation, and then, when the economy had zero purchasing power, to privatize the entire economy. Now, if you sell off all of the government assets in an economy without any domestic savings available, obviously the only people who can buy them are foreigners — except for what the government gives away to its insiders, who will get it basically for free, or maybe for one cent on the dollar. If they sell it for two cents on the dollar to Americans or other foreign investors, they’ll become billionaires. Meanwhile, for an investment of a billion dollars, America would get a hundred billion dollars’ worth of assets and gain control of Russia’s raw materials, agriculture, land, real estate and manufacturing.

ACRES U.S.A. This goes quite a ways beyond R.H. Tawney’s statement that people always seek to have perpetual revenue independent of a further expenditure of energy. There’s a little power play involved, too, is there not?

HUDSON. That’s correct. America has broken almost every treaty it made with Russia, starting with its promise that if it dissolved the Soviet Union, the United States would not push NATO up into the countries that were being separated from Russia. The United States almost immediately broke that promise, as Putin pointed out recently. The United States promised a mutual atomic disarmament and has now done just the opposite. Russia is now being driven into an alliance with China and possibly with India in what’s called the Shanghai Cooperation Organization. Thus, the nightmare of Robert McNamara and other U.S. officials in the 1960s, the thought of a Russian/Chinese coalition, has now been realized by the underhanded dealings of the Clinton and Bush administrations, pushing Europe and Asia into a common group. The one buffer area between them, now being turned into a boundary, is western Europe. It looks like Europe may be following a suicidal statecraft that is going to lead to Russia shipping its gas and oil to China and the rest of Asia, leaving Europe to freeze in the dark.

ACRES U.S.A. And all this is happening while our dollar is sinking and the Chinese are funding a war for us by buying our paper.

HUDSON. That’s right.

ACRES U.S.A. Should the Chinese stop buying our paper, what would happen?

HUDSON. We wouldn’t be able to make war in Iraq or anywhere else, for starters.

ACRES U.S.A. Which brings up the question, how long will the world put up with the United States dollar as a reserve currency under Bretton Woods?

HUDSON. You can never tell how long something will go until somebody pushes back. I speak frequently with foreign political leaders and there is no sign at all of their pushing back, certainly not in the former countries of the Soviet Union. Even in the popular press there is very little talk of pushing back. So the answer is, from America’s point of view, you just keep pushing whatever you want until there is a counter-reaction. I guess you could call this Newton’s Third Law of political motion — every action has an equal and opposite reaction. But America hasn’t seen any reaction yet, so it’s going to keep on pushing without limit until countries devise some way of calling a halt to America’s free lunch.

ACRES U.S.A. Why these wars?

HUDSON. There’s a crude rationale. We want to show that when any country doesn’t do what we want, they get wiped out. We want to control oil, we want to put military and shipping bases everywhere. Basically, these wars support the idea that all the resources of the world should be under effective American control. Anyone who wants to withdraw from
the agenda is subject to assassination, sanctions, withholding of oil, even attack.

ACRES U.S.A. In other words, those 737 military bases around the world are intimidating the world to that extent?

Hudson. I don’t think they’re worried militarily, because to militarily conquer a country you actually have to invade it. You can bomb a country easily enough from the air and the sea, but America has no manpower to invade or control a country from within. In that sense it’s what Mao Zedong called a paper tiger.

ACRES U.S.A. We can’t even handle an occupation, can we?

Hudson. That’s correct. So no country feels militarily intimidated, because American troops are tied up in a lost cause in Iraq and Afghanistan. It’s a failure of wealth. No one is even thinking of an alternative.

ACRES U.S.A. Doesn’t that in effect say that war is obsolete? The atomic bomb is obsolete?

Hudson. Yes, because countries with an atomic bomb are musclebound — they can’t use it. The atomic bomb couldn’t win the Korean War for the Americans, it couldn’t win the Vietnam War, and it can’t win the oil war in the Near East. There’s nothing that America can do with its atomic weapons.

ACRES U.S.A. So it’s a matter of will at this point.

Hudson. Yes. Not only will, but imagination, too. American government agencies such as the National Endowment for Democracy are financing so many pro-American writers and academics around the world that they’ve crowded out any discussion of an alternative international diplomacy that would provide monetary equity and quid pro quo in international finance and international trade. Countries are not even thinking about protecting their own industries, except for Venezuela and a few countries like that.

ACRES U.S.A. In some of your works you’ve suggested that land is probably 75 to 80 percent of the real wealth.

Hudson. That’s correct.

ACRES U.S.A. Is it the land or is it the production from the land?

Hudson. It’s the land itself, defined to include land-like subsoil resources, and for that matter the frequencies on the broadcasting spectrum. But basically the land — as site value and “choke point” in cities as well as agricultural soil in the countryside. Even as the Roman Empire sank into feudalism and self-sufficient landed estates, available wealth was put into land as the major means of control. For instance, the value of New York City real estate is larger than the value of all the industrial plant and equipment in the United States. Land as the pure area is itself valuable.

ACRES U.S.A. Does that deliver you right into the camps of Henry George?

Hudson. Well, this is basically classical economics. I’d prefer to say Thorstein Veblen and Simon Patten rather than Henry George. George talked about rural land, he didn’t talk about urban land, and he had little clear concept of economic rent because he was a journalist, not an economist. The movement of his followers is not an academic movement, it basically lobbies for the construction industry and wants to shift taxes off the large high-rise buildings and utilities and onto labor’s low-rise residential housing. That is not what Henry George himself put forth. Most people think of Henry George as the author of Progress and Poverty, which was a wonderful book that he published in 1879. But after he ran for Mayor of New York in 1886, he was bitten by the political bug and moved from the left wing of the spectrum to the right wing. He started his own newspaper and party and became a sectarian. By the 1890s he had alienated most of his followers by refusing to talk about monetary issues and debt and interest. He had no concept of how rent was used for paying interest once outside buyers came in, borrowed from the banks to buy property, and then pledged the rent to the banks to carry their interest charges. There was no understanding in either George himself or the Georgist movement of that mechanism, which is why his closest followers such as Michael Flurscheim and writers such as Gustavus Myers, who wrote the History of the Great American Fortunes, broke from him. George even expelled Father McGlynn from his movement, on the grounds that the Catholic Church was communist. So George turned into an early McCarthyite, Joe McCarthy, that is.

ACRES U.S.A. You mentioned Thorstein Veblen.

Hudson. Veblen wrote a wonderful book in 1923 called Absentee Ownership and Business Enterprise in Recent Times. He said that if you want to understand a small town you should look at every town in America like a real estate promotion project, with the idea that most of the mayor’s campaigns and the politics were done by local real estate developers. The aim of civic boosters and publicists is to promote land values so that they can turn around and sell their land and property at a capital gain, meaning a land-price gain. You could say that this is true not only of small towns in Veblen’s day, but also of large cities such as New York. The largest contributors to campaigns today in every city and even at the national level are the real estate interests with the financial interests behind them. Thus, the banks know that a campaign for lower property taxes, ostensibly to help the homeowners — or farmers, for that matter — actually means that everything the tax collector relinquishes becomes available for outside buyers to pledge to the bankers for the money to buy into this property. The lower the property taxes are, the more net economic rent can be pledged to the banker and capitalized into a larger mortgage loan. When the government cuts the property tax, then, it doesn’t actually lower the cost of doing business for real estate owners or homeowners. It merely replaces the tax with an interest payment to the bank. The problem is that now that the cities or counties don’t receive the property tax, they have to shift to an income tax or sales tax. I described
most of this in an article in Harper’s with about 12 charts in May 2006.

ACRES U.S.A. We have suggested tongue-in-cheek that they ought to disband the CIA and replace it with one subscription to Harper’s.

HUDSON. That would certainly save a lot of money and probably get better results!

ACRES U.S.A. Some months back, a presidential aspirant, John McCain, said that if Alan Greenspan died, we’d have to put dark glasses on him and send him into battle like the legend of El Cid. When El Cid died, they put a rod down his back and put him in the saddle for the battle against the Moors. In other words, McCain is saying that here was a man so brilliant and so important that we really can’t get along without him. I’d like to have your assessment of this oracle.

HUDSON. The reason Greenspan was put in the Federal Reserve was because he was neither brilliant nor important. I’ll give you a few anecdotes. I used to work at Chase Manhattan Bank, and far above me was Paul Volcker. In the 1970s I had to visit the White House for one reason or another, and met with a member of the Council of Economic Advisers, who said “Michael, you’ve worked with Paul Volcker, you’ve been at meetings with him, what is he like?” I said, “Well, at meetings Volcker would be the person who would say, ‘Mr. X says this and Mr. B says this,’ and he would always be able to restate everybody’s position without ever committing himself, always being the man in the middle.” And the politician said, “That’s the man we want.” Sure enough, a few weeks later, Volcker was appointed as Chairman of the Federal Reserve. When Greenspan was appointed, his role was basically that of a designer of the rhetoric of anti-labor policy. Remember, I said that the role of the central banker is to represent the commercial banking interests, the financial sector, against labor. Greenspan was known as a political hack, but he was a political hack who was a specialist in advertising rhetoric for his clients. He was very much like an expert witness in legal cases. An expert witness will try to frame the issue in a way that will favor his clients. He’s a special pleader, so to speak. Greenspan proved his ability to be a special pleader against labor as head of the Greenspan Commission in 1982 for Social Security — to shift the taxes off the wealthy and onto the bottom 90 percent of the population, people who earned less than $40,000 a year. He passed the litmus test, so it was appropriate to make him head of the Fed. You don’t want someone brilliant as head of the Fed. You want somebody who’s not going to surprise you, who’s just going to muddle the usual truisms. In Greenspan’s case this was the Ayn Rand free market patter that characterized his entire tenure.

ACRES U.S.A. Hasn’t that been pretty much the situation since about the Korean War, to shift the taxes from the high-income people down to the lesser-income people?

HUDSON. Yes. They pretend that the aim is to promote saving, but it doesn’t do this at all. What it does do is shift the use of savings away from financing tangible, capital formation in the form of means of production and toward lending out new credit to the bottom 90 percent of the population. Although gross savings today, the Keynesian rate of overall savings to income, is as high as ever, what happens is that 100 percent of these savings are lent out by the wealthiest 10 percent and the financial institutions to the bottom 90 percent. Thus, one person’s savings now takes the form of another person’s debt. This is basic balance-sheet accounting. You have the assets on the left-hand side of the balance sheet and the liabilities on the right, and the liabilities are the debts plus what’s left over. The bottom line, net worth, is on the right-hand side. Right now, there is almost no net worth for the U.S. economy being built up; it’s all new debt. When you add in America’s run-up of foreign debt, you actually have a negative savings rate. Debts are now rising even more than savings.

ACRES U.S.A. What happens to the Social Security savings that people are allegedly making?

HUDSON. A few months ago President Bush quite accurately said there really isn’t any money in Social Security. It’s only a bookkeeping fiction. We say that the Social Security system has been holding U.S. Treasury securities, but the Treasury is no more going to repay the Social Security holdings than it is going to repay the foreign central bank dollar holdings.

ACRES U.S.A. But at the same time it is enlarging the tax burden of the lower-income people from 30 percent to maybe 45 percent.

HUDSON. That’s correct. That is exactly correct. They pretend it’s a user fee, but it used to be paid out of general tax revenues — progressive taxes that fell mainly on the wealthiest tax brackets. Meanwhile, what Greenspan calls “wealth creation” is his euphemism for debt creation.

ACRES U.S.A. We now have a political campaign going on. What’s your assessment? First of all, what we hear out in the countryside is that nobody is really very happy with the candidates on either side, except you might hear some favorable talk about Dennis Kucinich and Ron Paul. What are we going to do, replace Bush with Hillary and have, in effect, the same public policy?

HUDSON. In every national election, a smaller and smaller percentage of the voting population has turned up, and this will probably continue. It looks like the Democratic Party is basically run by the Clintonites, who call themselves Democratic. It looks like an awful choice is looming. I’m the chief economic advisor to Dennis Kucinich, and I would not work for any other Democratic politician except him. I’m doing this not so much because I expect him to get the Democratic presidential nomination, but because the campaign will give visibility to the policies he’s promoting, and will continue to promote as a congressman from Cleveland. From my point of view, this will be an educational campaign. I cannot imagine who these people are who are allegedly supporting Hillary Clinton. When you look back, if one is really against the war, you’d almost prefer a continued Republican administration to a Democratic administration because the Republicans, the Bush administration, are held in such contempt and distrust by
foreign governments that there is no way another Republican President would be able to push the belligerent policy that is pursued by the Clinton Democrats. Can you imagine if Gore and Lieberman had been elected, how much worse the situation in the Near East would be with Lieberman instead of Cheney, awful as Cheney is? Not only that, but Gore would have been finishing his second term, and you would now have Lieberman, who is if anything to the military right of Cheney himself, as the presidential candidate. The world would be in a state of disaster. Hillary is part of the group that promoted Gore and Lieberman. I can’t imagine most people who oppose the war being willing to vote for Hillary or any right-wing counterpart on the Republican ticket. It’s an awful choice.

ACRES U.S.A. At the American Monetary Institute meeting, you made the remark, if we remember correctly, that the Republicans would really like to have something to the effect of Bush continue as President, but since that can’t be, their next choice is Hillary.

HUDSON. You certainly can see that in the pattern of campaign contributions. The major contributors to Bush in the last two elections are now Hillary’s main contributors. So you can see whose pocket she’s in. Basically what we’re seeing here is a privatization of the political process. Politics has been put up for sale to the campaign contributors. You can look at Hillary and the others, and then look at their contributors, and you’ll see what people expect their policies to be. You also can look at the advisers. Obama’s adviser is the brother of Rahm Emanuel, the head of the Democratic National Committee who refused to back anti-war Democrats in the last election, and was only willing to give Democratic Party funding to the pro-war democrats. I consider Obama as pro-war as Hillary. If you’re going to support the war but you want to get voted in, you say, “I’m against it,” and then once you are in office you say, “Well, of course, this is a just war and this is to protect American security,” just like Wilson did in World War I. I look at Obama as sort of a modern Woodrow Wilson, and I can’t understand anything that he’s really come out in favor of. It’s just bland rhetoric.

ACRES U.S.A. Isn’t that also the case with Hillary?

HUDSON. No. She’s quite explicitly on the right. Like her husband, she’s a Wall Street Republican in Democratic clothing.

ACRES U.S.A. Yes, she’s talking against the war, but her rhetoric is hedged.

HUDSON. I don’t hear her talking against the war. I thought that John Edwards did a wonderful job in the last debate of condemning her for supporting the Lieberman Resolution. She’s against the war in Iraq because she wants to invade and bomb Iran. This is crazy. It would threaten World War III. In supporting the Lieberman Resolution against Iran, she has put herself to the right of some Republicans when it comes to military hawkishness.

ACRES U.S.A. And the campaign?

HUDSON. It’s like Harold Wilson, the British Labour prime minister, is reported to have said, “What’s the point of having a constituency if you can’t sell it out?” Well, Hillary can say the same thing about the Democratic Party constituency. Whenever a Democrat runs for president, you have to ask them where and when they’re going to go to war, because almost every war in American history, until Bush’s Near East war, has been led by a Democrat. Hillary has already told us her answer. She’ll go to war with Iran.

ACRES U.S.A. That’s probably why so many people are dropping out of the voting booth.

HUDSON. Yes. If the choices are between “Yes, please,” and “Yes, thank you,” what’s the point of voting?

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