

How Financial Parasites and Debt Bondage Destroy the Global Economy

by Michael Hudson via gus - Economics Sunday, Jun 5 2016, 4:54am

international / prose / post

This interview with leading economist Michael Hudson is highly relevant to Australia as the current prime minister, Malcolm Turnbull, made most of his millions working for Goldman Sachs and later as a merchant banker. He made his money 'paper shuffling,' exploiting the system, tax havens and insider investments/legal rorts, in other words, not from PRODUCTION. Furthermore, he has no experience whatsoever in working or understanding the dynamics of a production based real economy, as his feeble, slogan saturated rhetorical discourse indicates.



Paper shuffling, financial parasite, Malcolm Turnbull

Eric Draitser: Today I have the privilege of introducing Michael Hudson to the program. Doctor Hudson is the author of the new book *Killing the Host: How Financial Parasites and Debt Bondage Destroy the Global Economy*, available in print on Amazon and an e-version on CounterPunch. Michael Hudson, welcome to CounterPunch Radio.

Michael Hudson: It's good to be here.

ED: Thanks so much for coming on. As I mentioned already, the title of your book - *Killing the Host: How Financial Parasites and Debt Bondage Destroy the Global Economy* - is an apt metaphor. So parasitic finance capital is really what you're writing about. You explain that it essentially survives by feeding off what we might call the real economy. Could you draw out that analogy a little bit? What does that mean? How does finance behave like a parasite toward the rest of the economy?

MH: Economists for the last 50 years have used the term "host economy" for a country that lets in foreign investment. This term appears in most mainstream textbooks. A host implies a parasite. The term parasitism has been applied to finance by Martin Luther and others, but usually in the sense that you just talked about: simply taking something from the host.

But that's not how biological parasites work in nature. Biological parasitism is more complex, and precisely for that reason it's a better and more sophisticated metaphor for economics. The key is how a parasite takes over a host. It has enzymes that numb the host's nervous system and brain. So if it stings or gets its claws into it, there's a soporific anesthetic to block the host from realizing that it's being taken over. Then the parasite sends enzymes into the brain. A parasite cannot take

anything from the host unless it takes over the brain.

The brain in modern economies is the government, the educational system, and the way that governments and societies make their economic policy models of how to behave. In nature, the parasite makes the host think that the free rider, the parasite, is its baby, part of its body, to convince the host actually to protect the parasite over itself.

That's how the financial sector has taken over the economy. Its lobbyists and academic advocates have persuaded governments and voters that they need to protect banks, and even need to bail them out when they become overly predatory and face collapse. Governments and politicians are persuaded to save banks instead of saving the economy, as if the economy can't function without banks being left in private hands to do whatever they want, free of serious regulation and even from prosecution when they commit fraud. This means saving creditors - the One Percent - not the indebted 99 Percent.

It was not always this way. A century ago, two centuries ago, three centuries ago and all the way back to the Bronze Age, almost every society has realized that the great destabilizing force is finance - that is, debt. Debt grows exponentially, enabling creditors ultimately to foreclose on the assets of debtors. Creditors end up reducing societies to debt bondage, as when the Roman Empire ended in serfdom.

About a hundred years ago in America, John Bates Clark and other pro-financial ideologues argued that finance is not external to the economy. It's not extraneous, it's part of the economy, just like landlords are part of the economy. This means that if the financial sector takes more revenue out of the economy as interest, fees or monopoly charges, it's because finance is an inherent and vital part of the economy, adding to GDP, not merely siphoning it off from producers to pay Wall Street and the One Percent. So our economic policy protects finance as if it helps us grow, not siphons off our growth.

A year or two ago, Lloyd Blankfein of Goldman Sachs said that the reason Goldman Sachs' managers are paid more than anybody else is because they're so productive. The question is, productive of what? The National Income and Product Accounts (NIPA) say that everybody is productive in proportion to the amount of money they make/take. It doesn't matter whether it's extractive income or productive income. It doesn't matter whether it's by manufacturing products or simply taking money from people, or simply by the fraud that Goldman Sachs, Citigroup, Bank of America and others paid tens of millions of dollars in fines for committing. Any way of earning income is considered to be as productive as any other way. This is a parasite-friendly mentality, because it denies that there's any such thing as unearned income. It denies that there's a free lunch. Milton Friedman got famous for promoting the idea that there's no such thing as a free lunch, when Wall Street knows quite well that this is what the economy is all about. It's all about how to get a free lunch, with risks picked up by the government. No wonder they back economists who deny that there's any such thing!

ED: To get to the root of the issue, what's interesting to me about this analogy that we're talking about is that we hear the term neoliberalism all the time. It is an ideology I that's used to promote the environment within which this parasitic sort of finance capital can operate. So could you talk a bit about the relationship between finance capital and neoliberalism as its ideology.

MH: Today's vocabulary is what Orwell would call DoubleThink. If you're going to call something anti-liberal and against what Adam Smith and John Stuart Mill and other classical economists described as free markets, you pretend to be neoliberal. The focus of Smith, Mill, Quesnay and the

whole of 19th-century classical economics was to draw a distinction between productive and unproductive labor – that is, between people who earn wages and profits, and rentiers who, as Mill said, “get rich in their sleep.” That is how he described landowners receiving groundrent. It also describes the financial sector receiving interest and “capital” gains.

The first thing the neoliberal Chicago School did when they took over Chile was to close down every economics department in the country except the one they controlled at the Catholic University. They started an assassination program of left wing professors, labor leaders and politicians, and imposed neoliberalism by gunpoint. Their idea is you cannot have anti-labor, deregulated “free markets” stripping away social protections and benefits unless you have totalitarian control. You have to censor any idea that there’s ever been an alternative, by rewriting economic history to deny the progressive tax and regulatory reforms that Smith, Mill, and other classical economists urged to free industrial capitalism from the surviving feudal privileges of landlords and predatory finance.

This rewriting of the history of economic thought involves inverting the common vocabulary that people use. So, the idea of the parasitism is to replace the meaning of everyday words and vocabulary with their opposite. It’s DoubleThink.

Democratic vs. oligarchic government and their respective economic doctrines

ED: I don’t want to go too far off on a tangent, but you mentioned the example of Chile’s 1973 coup and the assassination of Allende to impose the Pinochet dictatorship. That was a Kissinger/Nixon operation as we know, but what’s interesting about that is Chile was transformed into a sort of experimental laboratory to impose the Chicago school economic model of what we now would call neoliberalism. Later in our conversation I want to talk a bit about some recent laboratories we have seen in Eastern Europe, and now in Southern Europe as well. The important point about neoliberalism is the relationship between totalitarian government and this form of economics.

MH: That’s right. Neoliberals say they’re against government, but what they’re really against is democratic government. The kind of governments they support are pre-referendum Greece or post-coup Ukraine. As Germany’s Wolfgang Schäuble said, “democracy doesn’t count.” Neoliberals want the kind of government that will create gains for the banks, not necessarily for the economy at large. Such governments basically are oligarchic. Once high finance takes over governments as a means of exploiting the 99 Percent, it’s all for active government policy – for itself.

Aristotle talked about this more than 2,000 years ago. He said that democracy is the stage immediately preceding oligarchy. All economies go through three stages repeating a cycle: from democracy into oligarchy, and then the oligarchs make themselves hereditary. Today, Jeb Bush wants to abolish the estate tax to help the emerging power elite make itself into a hereditary aristocracy. Then, some of the aristocratic families will fight among themselves, and take the public into their camp and promote democracy, so you have the cycle going all over again. That’s the kind of cycle we’re having now, just as in ancient Athens. It’s a transition from democracy to oligarchy on its way to becoming an aristocracy of the power elite.

ED: I want to return to the book in a second but I have to interject that one particular economist hasn’t been mentioned yet: Karl Marx. It’s an inversion of Marx as well, because Marx’s labor theory of value was that that value ultimately is derived from labor. Parasitic finance capital is the opposite of that. It may increase prices without value.

MH: Correct, but I should point out that there’s often a misinterpretation of the context in which the labor theory of value was formulated and refined. The reason why Marx and the other classical

economists - William Petty, Smith, Mill and the others - talked about the labor theory of value was to isolate that part of price that wasn't value. Their purpose was to define economic rent as something that was not value. It was extraneous to production, and was a free lunch - the element of price that is charged to consumers and others that has no basis in labor, no basis in real cost, but is purely a monopoly price or return to privilege. This was mainly a survival of the feudal epoch, above all of the landed aristocracy who were the heirs of the military conquerors, and also the financial sector of banking families and their heirs.

The aim of the labor theory of value was to divide the economy between excessive price gouging and labor. The objective of the classical economists was to bring prices in line with value to prevent a free ride, to prevent monopolies, to prevent an absentee landlord class so as to free society from the legacy of feudalism and the military conquests that carved up Europe's land a thousand years ago and that still underlies our property relations.

The concept and theory of economic rent

ED: That's a great point, and it leads me into the next issue that I want to touch on. You've mentioned the term already a number of times: the concept of economic rent. We all know rent in terms of what we have to pay every month to the landlord, but we might not think about what it means conceptually. It's one of the fabrics with which you've woven this book together. One of the running themes, rent extraction, and its role in the development of what we've now termed this parasitic relationship. So, explain for laymen what this means - rent extraction - and how this concept evolved.

MH: To put the concept of economic rent in perspective, I should point out when I went to get my PhD over a half a century ago, every university offering a graduate economics degree taught the history of economic thought. That has now been erased from the curriculum. People get mathematics instead, so they're unexposed to the concept of economic rent as unearned income. It's a concept that has been turned on its head by "free market" ideologues who use "rent seeking" mainly to characterize government bureaucrats taxing the private sector to enhance their authority - not free lunchers seeking to untax their unearned income. Or, neoclassical economists define rent as "imperfect competition" (as if their myth of "perfect competition" really existed) stemming from "insufficient knowledge of the market," patents and so forth.

Most rent theory was developed in England, and also in France. English practice is more complex than America. The military conquerors imposed a pure groundrent fee on the land, as distinct from the building and improvements. So if you buy a house from a seller in England, somebody else may own the land underneath it. You have to pay a separate rent for the land. The landlord doesn't do anything at all to collect land rent, that's why they call them rentiers or coupon clippers. In New York City, for example, Columbia University long owned the land underneath Rockefeller Center. Finally they sold it to the Japanese, who lost their shirt. This practice is a carry-over from the Norman Conquest and its absentee landlord class.

The word "rent" originally was French, for a government bond (rente). Owners received a regular income every quarter or every year. A lot of bonds used to have coupons, and you would clip off the coupon and collect your interest. It's passively earned income, that is, income not actually earned by your own labor or enterprise. It's just a claim that society has to pay, whether you're a government bond holder or whether you own land.

This concept of income without labor - but simply from privileges that had been made hereditary - was extended to the ideas of monopolies like the East India Company and other trade monopolies.

They could produce or buy goods for, let's say, a dollar a unit, and sell them for whatever the market will bear – say, \$4.00. The markup is “empty pricing.” It's pure price gouging by a natural monopoly, like today's drug companies.

To prevent such price gouging and to keep economies competitive with low costs of living and doing business, Europe kept the most important natural monopolies in the public domain: the post office, the BBC and other state broadcasting companies, roads and basic transportation, as well as early national airlines. European governments prevented monopoly rent by providing basic infrastructure services at cost, or even at subsidized prices or freely in the case of roads. The guiding idea is for public infrastructure – which you should think of as a factor of production along with labor and capital – was to lower the cost of living and doing business.

But since Margaret Thatcher led Britain down the road to debt peonage and rent serfdom by privatizing this infrastructure, she and her emulators in other countries turned them into tollbooth economies. The resulting economic rent takes the form of a rise in prices to cover interest, stock options, soaring executive salaries and underwriting fees. The economy ends up being turned into a collection of tollbooths instead of factories. So, you can think of rent as the “right” or special legal privilege to erect a tollbooth and say, “You can't get television over your cable channel unless you pay us, and what we charge you is anything we can get from you.”

This price doesn't have any relation to what it costs to produce what they sell. Such extortionate pricing is now sponsored by U.S. diplomacy, the World Bank, and what's called the Washington Consensus forcing governments to privatize the public domain and create such rent-extracting opportunities.

In Mexico, when they told it to be more “efficient” and privatize its telephone monopoly, the government sold it to Carlos Slim, who became one of the richest people in the world by making Mexico's phones among the highest priced in the world. The government provided an opportunity for price gouging. Similar high-priced privatized phone systems plague the neoliberalized post-Soviet economies. Classical economists viewed this as a kind of theft. The French novelist Balzac wrote about this more clearly than most economists when he said that every family fortune originates in a great theft. He added that this not only was undiscovered, but has come taken for granted so naturally that it just doesn't matter.

If you look at the Forbes 100 or 500 lists of each nation's richest people, most made their fortunes through insider dealing to obtain land, mineral rights or monopolies. If you look at American history, early real estate fortunes were made by insiders bribing the British Colonial governors. The railroad barons bribed Congressmen and other public officials to let them privatize the railroads and rip off the country. Frank Norris's *The Octopus* is a great novel about this, and many Hollywood movies describe the kind of real estate and banking rip-offs that made America what it is. The nation's power elite basically began as robber barons, as they did in England, France and other countries.

The difference, of course, is that in past centuries this was viewed as corrupt and a crime. Today, neoliberal economists recommend it as the way to raise “productivity” and make countries wealthier, as if it were not the road to neofeudal serfdom.

The Austrian School vs. government regulation and pro-labor policies

ED: I don't want to go too far off on a tangent because we have a lot to cover specific to your book. But I heard an interesting story when I was doing a bit of my own research throughout the years about the evolution of economic thought, and specifically the origins of the so-called Austrian School

of Economics - people like von Mises and von Hayek. In the early 20th century they were essentially, as far as I could tell, creating an ideological framework in which they could make theoretical arguments to justify exorbitant rent and make it seem almost like a product of natural law - something akin to a phenomenon of nature.

MH: The key to the Austrian School is their hatred of labor and socialism. It saw the danger of democratic government spreading to the Habsburg Empire, and it said, "The one thing we have to stop is democracy. Their idea of a free market was one free of democracy and of democratic government regulating and taxing wealthy rentiers. It was a short step to fighting in the streets, using murder as a "persuader" for the particular kind of "free markets" they wanted - a privatized Thatcherite deregulated kind. To the rentiers they said: "It's either our freedom or that of labor."

Kari Polanyi-Levitt has recently written about how her father, Karl Polanyi, was confronted with these right-wing Viennese. His doctrine was designed to rescue economics from this school, which makes up a fake history of how economics and civilization originated.

One of the first Austrian's was Carl Menger in the 1870s. His "individualistic" theory about the origins of money - without any role played by temples, palaces or other public institutions - still governs Austrian economics. Just as Margaret Thatcher said, "There's no such thing as society," the Austrians developed a picture of the economy without any positive role for government. It was as if money were created by producers and merchants bartering their output. This is a travesty of history. All ancient money was issued by temples or public mints so as to guarantee standards of purity and weight. You can read Biblical and Babylonian denunciation of merchants using false weights and measures so see why money had to be public. The major trading areas were agora spaces in front of temples, which kept the official weights and measures. And much exchange was between the community's families and the public institutions.

Most important, money was brought into being not for trade (which was conducted mainly on credit), but for paying debts. And most debts were owed to the temples and palaces for public services or tribute. But to the Austrians, the idea was that anything the government does to protect labor, consumers and society from rentiers and grabbers is deadweight overhead.

Above all, they opposed governments creating their own money, e.g. as the United States did with its greenbacks in the Civil War. They wanted to privatize money creation in the hands of commercial banks, so that they could receive interest on their privilege of credit creation and also to determine the allocation of resources.

Today's neoliberals follow this Austrian tradition of viewing government as a burden, instead of producing infrastructure free of rent extraction. As we just said in the previous discussion, the greatest fortunes of our time have come from privatizing the public domain. Obviously the government isn't just deadweight. But it is becoming prey to the financial interests and the smashers and grabbers they have chosen to back.

ED: You're right, I agree 100%. You encounter this ideology even in the political sociological realm like Joseph Schumpeter, or through the quasi-economic realm like von Hayek in *The Road to Serfdom*.

MH: Its policy conclusion actually advocates neo-serfdom. Real serfdom was when families had to pay all their income to the landlords as rent. Centuries of classical economists backed democratic political reform of parliaments to roll back the landlords' power (and that of bankers). But Hayek claimed that this rollback was the road to serfdom, not away from it. He said democratic regulation

and taxation of rentiers is serfdom. In reality, of course, it's the antidote.

ED: It's the inversion you were talking about earlier. We're going to go into a break here in a minute but before we do I want to touch on one other point that is important in the book, again the book, *Killing the Host: How Financial Parasites and Debt Bondage Destroyed the Global Economy*, available from CounterPunch - very important that people pick up this book.

MH: And from Amazon! You can get a hard copy for those who don't want to read on computers.

Finance as the new mode of warfare

ED: Yes, and on amazon as well, thank you. This issue that I want to touch on before we go to the break is debt. On this program a couple of months ago I had the journalist John Pilger. He and I touched on debt specifically as a weapon, and how it is used as a weapon. You can see this in the form of debt enslavement, if you want to call it that, in postcolonial Africa. You see the same thing in Latin America where, Michael, I know you have a lot of experience in Latin America in the last couple of decades. So let's talk a little bit, if we could, before we go to the break, about debt as a weapon, because I think this is an important concept for understanding what's happening now in Greece, and is really the framework through which we have to understand what we would call 21st-century austerity.

MH: If you treat debt as a weapon, the basic idea is that finance is the new mode of warfare. That's one of my chapters in the book. In the past, in order to take over a country's land and its public domain, its basic infrastructure and its mineral resources, you had to have a military invasion. But that's very expensive. And politically, almost no modern democracy can afford a military invasion anymore.

So the objectives of the financial sector - of Wall Street, the City of London or Frankfurt in Germany - is to obtain the land. You can look at what's happening in Greece. What its creditors, the IMF and European Central Bank (ECB) want are the Greek islands, and they want the gas rights in the Aegean Sea. They want whatever buildings and property there is, including the museums.

Matters are not so much different in the private sector. If you can get a company or individual into debt, you can strip away the assets they have when they can't pay. A Hayek-style government would block society from protecting itself against such asset stripping. Defending "property rights" of creditors, such "free market" ideology deprives the rest of the economy - businesses, individuals and public agencies. It treats debt writedowns as the road to serfdom, not the road away from debt dependency.

In antiquity, private individuals obtained labor services by making loans to families in need, and obliging their servant girls, children or even wives to work off the loan in the form of labor service. My Harvard-based archaeological group has published a series of five books that I co-edited, most recently *Labor in the Ancient World*. Creditors (often palace infrastructure managers or collectors) would get people into bondage. When new Bronze Age rulers started their first full year on the throne, it was customary to declare an amnesty to free bond servants and return them to their families, and annul personal debts as well as to return whatever lands were forfeited. So in the Bronze Age, debt serfdom and debt bondage was only temporary. The biblical Jubilee law was a literal translation of Babylonian practice that went back two thousand years.

In America, in colonial times, sharpies (especially from Britain) would lend farmers money that they knew the farmer couldn't pay, then they would foreclose just before the crops came in. Right now you have corporate raiders, who are raiding whole companies by forcing them into debt, and then

smashing and grabbing. You now have the IMF, European Central Bank and Washington Consensus taking over whole countries like Ukraine. The tactic is to purposely lend them the money that clearly cannot be repaid, and say, "Oh you cannot pay? Well, we're not going to take a loss. We have a solution." The solution is to sell off public enterprises, land and natural resources. In Greece's case, 50 billion euros of its property, everything that it has in the public sector. The country is to be sold off to foreigners (including domestic oligarchs working out of their offshore accounts). Debt leverage is thus the way to achieve what it took armies to win in times past.

ED: Exactly. One last point on that as well. I want to get your comment on and we see this in post-colonial Africa, especially when the French and the British had to nominally give up control of their colonies. You saw debt become an important tool to maintain hegemony within their spheres of influence. Of course, asset stripping and seizing control, smashing and grabbing was part of that. But also it is the debt servicing payments, it is the cycle of debt repayment and taking new loans on top of original loans to service the original loans - this process this cycle is also really an example of this debt servitude or debt bondage.

MH: That's correct, and mainstream economics denies any of this. It began with Ricardo, who's brothers were major bankers at the time, and he himself was the major bank lobbyist in England. Right after Greece won its independence from Turkey, the Ricardo brothers made a rack-renting loan to Greece at far below par (that is, below the face value that Greece committed itself to pay). Greece tried to pay over the next century, but the terms of the loan ended up stripping and keeping it on the edge of bankruptcy well into the 20th century.

But Ricardo testified before Parliament that there could be no debt-servicing problem. Any country, he said, could repay the debts automatically, because there is an automatic stabilization mechanism that enables every country to be able to pay. This is the theory that underlines Milton Friedman and the Chicago School of monetarism: the misleading idea that debt cannot be a problem.

That's what's taught now in international trade and financial textbooks. It's false pleading. It draws a fictitious "What If" picture of the world. When criticized, the authors of these textbooks, like Paul Samuelson, say that it doesn't matter whether economic theory is realistic or not. The judgment of whether an economic theory is scientific is simply whether it is internally consistent. So you have these fictitious economists given Nobel Prizes for promoting an inside out, upside down version of how the global economy actually works.

ED: One other thing that they no longer teach is what used to be called political economy. The influence of the Chicago School, neoliberalism and monetarism has removed classical political economy from academia, from the Canon if you will. Instead, as you said, it's all about mathematics and formulas that treat economics like a natural science, when in fact it really should be more of a historically grounded social science.

MH: The formulas that they teach don't have government in them,. If you have a theory that everything is just an exchange, a trade, and that there isn't any government, then you have a theory that has nothing to do with the real world. And if you assume that the environment remains constant instead of using economics to guide public and national policy, you're using economics for the opposite of what the classical economists did. Adam Smith, Mill, Marx, Veblen - they all developed their economic theory to reform the world. The classical economists were reformers. They wanted to free society from the legacy of feudalism - to get rid of land rent, to take money creation and credit creation into the public domain. Whatever their views, whether they were right wingers or left wingers, whether they were Christian socialists, Ricardian socialists or Marxian socialists, all the capitalist theorists of the 19th century called themselves socialists, because they saw capitalism as

evolving into socialism.

But what you now have, since World War I, is a reaction against this, stripping away of the idea that governments have a productive role to play. If government is not the director and planner of the economy, then who is? It's the financial sector. It's Wall Street. So the essence of neoliberalism that you were mentioning before, is indeed a doctrine of central planning. It states that the central planning should be done by Wall Street, by the financial sector.

The problem is, what is the objective of central planning by Wall Street? It's not to raise living standards, and it's not to increase employment. It is to smash and grab. That is the society we're in now.

A number of chapters of my book (I think five), describe how the Obama administration has implemented this smash and grab, doing the exact opposite of what he promised voters. Obama has implemented the Rubin-omics [Robert Rubin] doctrine of Wall Street to force America into what looks like a chronic debt depression.

ED: Exactly right. I couldn't agree more. Let's take a short break and we'll continue the discussion. Again, I'm chatting with Michael Hudson about his new book, *Killing the Host: How Financial Parasites and Debt Bondage Destroy the Global Economy*.

The case of Latvia: Is it a success story, or a neoliberal disaster?

ED: I want to go back to some of the important issues that we introduced or alluded to in the first part of our discussion. As I was mentioning to you off-air, a couple years ago I twice interviewed your colleague Jeffrey Sommers, with whom you've worked and co-published a number of papers. We talked a lot about many of the same issues that you and I are touching on. Specifically Sommers - and I know you as well - did a lot of work in Latvia, a country in the former Soviet space in Eastern Europe on the Baltic Sea. Your book has a whole chapter on it, as well as references throughout the book.

So let's talk about how Latvia serves as a template for understanding the austerity model. It is touted by technocrats of the financial elite as a major success story - how austerity can work. I find it absurd on so many different levels. So tell us what happened in Latvia, what the real costs were, and why neoliberals claim it as a success story.

MH: Latvia is the disaster story of the last two decades. That's why I took it as an object lesson. You're right, it was Jeff Sommers who first brought me over to Latvia. I then became Director of Economic Research and Professor of Economics at the Riga Graduate School of Law.

When Latvia was given its independence when the Soviet Union broke up in 1991, a number of former Latvians had studied at George Washington University, and they brought neoliberalism over there - the most extreme grabitization and de-industrialization of any country I know. Latvians, Russians and other post-Soviet countries were under the impression that U.S. advisors would help them become modernized like the U.S. economy - with high living and consumption standards. But what they got was advice to emulate American experience. It got something just the opposite - how to enable foreign investors and bankers to carve it up, dismantle its industry and become a bizarre neoliberal experiment.

You may remember the Republican presidential candidate Steve Forbes, who in 2008 proposed a flat tax to replace progressive taxation. The idea never could have won in the United States, but Latvia

was another story. The Americans set the flat tax at an amazingly low 12 percent of income – and no significant property tax on real estate or capital gains. It was a financial and real estate dream, and created a classic housing and financial bubble.

Jeff and I visited the head of the tax authority, who told us that she was appointed because she had done her PhD dissertation on Latvia's last land value assessment – which was in 1917. They hadn't increased the assessments since then, because the Soviet economy didn't have private land ownership and didn't even have a concept of rent-of-location for planning purposes. (Neither did Russia.)

Latvia emerged from the Soviet Union without any debt, and also with a lot of real estate and a highly educated population. But its political insiders turned over most of the government enterprises to themselves. Latvia had been a computer center and also the money-laundering center of the Soviet leadership already in the late 1980s (largely as a byproduct of Russian oil exports through Ventspils), and Riga remains the money-laundering city for today's Russia.

Privatizing housing and other property led to soaring real estate prices. But this bubble wasn't financed by domestic banks. The Soviet Union didn't have private banks, because the government had simply created the credit to fund the economy as needed. The main banks in a position to lend to Latvia were Swedish and other Scandinavian banks. They pounce on the lending opportunities to opened up by an entire nation whose real estate had almost no tax on it. The result was the biggest real estate bubble in the world, along with Russia's. Latvians found that in order to buy housing of their own, they had to go deeply into debt. Assets were only given to insiders, not to the people.

A few years ago there was a reform movement in Latvia to stop the economic bleeding. Jeff and I brought over American property appraisers and economists. We visited the leading bank, regulatory agencies. Latvia was going broke because its population had to pay so much for real estate. And it was under foreign-exchange pressure because debt service on its mortgage loans was being paid to the Swedish and foreign banks. The bank regulator told us that her problem was that her agency's clients are the banks, not the population. So the regulators thought of themselves as working for the banks, even though they were foreign-owned. She acknowledged that the banks were lending much more money than property actually was worth. But her regulatory agency had a solution: It was to have not only the buyer be obligated to pay the mortgage, but also the parents, uncles or aunts. Get the whole family involved, so that if the first signer couldn't pay the cosigners would be obligated.

That is how Latvia stabilized its banking system. But it did so by destabilizing the economy. The result is that Latvia has lost 20 percent of its population over the past decade or so. For much the same reasons that Greece has lost 20 percent of its population, with Ireland in a similar condition. The Latvians have a joke "Will the last person who leaves in 2020 please turn off the lights at the airport."

The population is shrinking because the economy is being run by looters, domestic and foreign. I was shown an island in the middle of the Daugava river that runs to the middle of Latvia, and was sold for half a million dollars. Our appraisers said that it's worth half a billion dollars, potentially. There are no plans to raise the property tax to recapture these gains for the country – so that it can lower its heaviest labor taxes in the world, nearly half each paycheck for income tax and "social security" spending so that finance and real estate won't be taxed.

A few years ago, I was at the only meeting of INET (George Soros's group) that I was invited to, and in the morning one of the lead talks was on how Latvia was a model that all countries could follow to balance the budget. Latvia has balanced the budget by cutting back public spending, reducing

employment and lowering wage levels while indebting its population and forcing to immigrate. The neoliberal strategy is to balance by selling off whatever remains in the public domain. Soros funded a foundation there (like similar ones he started in other post-Soviet countries) to get a part of the loot.

These giveaways at insider prices have created a kleptocracy obviously loyal to neoliberal economics. I go into the details in my chapter. It's hard to talk about it without losing my temper, so I'm trying to be reasonable but it's a country that was destroyed and smashed. That was the U.S. neoliberal model alternative to post-Stalinism. It wasn't a new American economy. It was a travesty.

Why then does the population continue to vote for these neoliberals? The answer is, the neoliberals say, the alternative is Stalinism. To Latvians, this means exile, deportations and memories of the old pro-Russian policy. The Russian-speaking parties are the main people backers of a social democracy party. But neoliberals have merged with Latvian nationalists. They are not only making the election over resentment against the Russian-speaking population, but the fact that many are Jewish.

I find it amazing to see someone who is Jewish, like George Soros, allying with anti-Semitic and even neo-Nazi movements in Latvia, Estonia, and most recently, of course, Ukraine. It's an irony that you could not have anticipated deductively. If you had written this plot in a futuristic novel twenty years ago, no one would have believed that politics could turn more on national and linguistic identity politics than economic self-interest. The issue is whether you are Latvian or are Russian-Jewish, not whether you want to untax yourself and make? Voting is along ethnic lines, not whether Latvians really want to be forced to emigrate to find work instead of making Latvia what it could have been: an successful economy free of debt. Everybody could have gotten their homes free instead of giving real estate only to the kleptocrats.

The government could have taxed the land's rental value rather than letting real estate valuation be pledged to pay banks - and foreign banks at that. It could have been a low-cost economy with high living standards, but neoliberals turned in into a smash and grab exercise. They now call it an idea for other nations to follow. Hence, the U.S.-Soros strategy re Ukraine.

ED: That's an excellent point. It's a more extreme case for a number of reasons in Ukraine - the same tendency. They talk about, "Putin and his gaggle of Jews." That's the idea, that Putin and the Jews will come in and steal everything - while neoliberals plan to appropriate Ukraine's land and other resources themselves. In this intersection between economics and politics, Latvia, Lithuania, Estonia - the Baltic States of the former Soviet Union - are really the front lines of NATO expansion. They were some of the first and most pivotal countries brought into the NATO orbit. It is the threat of "Russian aggression" via the enclave at Kaliningrad, or just Russia in general. That is the threat they use to justify the NATO umbrella, and simultaneously to justify continuing these economic policies. So in many ways Russia serves as this convenient villain on a political, military and economic level.

MH: It's amazing how the popular press doesn't report what's going on. Primakov, who died a few months ago, said during the last crisis a few years ago that Russia has no need to invade Latvia, because it owns the oil export terminals and other key points. Russia has learned to play the Western game of taking countries over financially and acquiring ownership. Russia doesn't need to invade to control Latvia any more than America needs to invade to control Saudi Arabia or the Near East. If it controls exports or access to markets, what motive would it have to invade? As things stand, Russia uses Latvia it as a money laundering center.

The same logic applies to Ukraine today. The idea is that Russia is expansionary in a world where no

one can afford to be militarily expansionary. After Russia's disaster in Afghanistan, no country in the world that's subject to democratic checks, whether it's America after the Vietnam War or Russia or Europe, no democratic country can invade another country. All they can do is drop bombs. This can't capture a country. For that you need major troop commitments.

In the trips that I've taken to Russia and China, they're in a purely defensive mode. They're wondering why America is forcing all this. Why is it destroying the Near East, creating a refugee problem and then telling Europe to clean up the mess it's created? The question is why Europe is willing to keep doing this. Why is Europe part of NATO fighting in the Near East? When America tells Europe, "Let's you and Russia fight over Ukraine," that puts Europe in the first line of fire. Why would it have an interest in taking this risk, instead of trying to build a mutual economic relationship with Russia as seemed to be developing in the 19th century?

ED: That's the ultimate strategy that the United States has used - driving a wedge between Russia and Europe. This is the argument that Putin and the Russians have made for a long time. You can see tangible examples of that sort of a relationship even right now if you look at the Nord Stream pipeline connecting Russian energy to German industrial output - that is a tangible example of the economic relationship, that is only just beginning between Russia and Europe. That's really what I think the United States wanted to put the brakes on, in order to be able to maintain hegemony. The number one way it does that is through NATO.

MH: It's not only put the brakes on, it has created a new iron curtain. Two years ago, Greece was supposed to privatize 5 billion euros of its public domain. Half of this, 2.5 billion, was to be the sale of its gas pipeline. But the largest bidder was Gazprom, and America said, "No, you can't accept the highest bidder if its Russian." Same thing in Ukraine. It has just been smashed economically, and the U.S. says, "No Ukrainian or Russian can buy into the Ukrainian assets to be sold off. Only George Soros and his fellow Americans can buy into this." This shows that the neoliberalism of free markets, of "let's everybody pay the highest price," is only patter talk. If the winner in the rigged market is not the United States, it sends in ISIS or Al Qaeda and the assassination teams, or backs the neo-Nazis as in Ukraine.

So, we're in a New Cold War. Its first victims, apart from Southern Europe, will be the rest of Europe. You can imagine how this is just beginning to tear European politics apart, with Germany's Die Linke and similar parties making a resurgence.

The Troika and IMF doctrine of austerity and privatization

ED: I want to return us back to the book and some other key issues that you bring up that I think are most important. One that we hear in the news all the time, and you write extensively about it in the book, is the Troika. That's the IMF, the European Central Bank (ECB) and the European Commission. It could be characterized as the political arm of finance capital in Europe, one that imposes and manages austerity in the interest of the ruling class of finance capital, as I guess we could call them. These are technocrats, not academically trained economists primarily (maybe with a few exceptions), but I want you to talk a bit about how the Troika functions and why it's so important in what we could call this crisis stage of neoliberal finance capitalism.

MH: Basically, the Troika is run by Frankfurt bankers as foreclosure and collection agents. If you read recently what former Greek finance minister Yanis Varoufakis has written, and his advisor James Galbraith, they said that when Syriza was elected in January, they tried to reason with the IMF. But it said that it could only do what the European Central Bank said, and that it would approve whatever they decided to do. The European Central Bank said that its role wasn't to

negotiate democracy. Its negotiators were not economists. They were lawyers. "All we can say is, here's what you have to pay, here's how to do it. We're not here to talk about whether this is going to bankrupt Greece. We're just interested in how you're going to pay the banks what they're owe. Your electric companies and other industry will have to go to German companies, the other infrastructure to other investors - but not from Russia."

It's much like England and France divided up the Near East after World War I. There's a kind of a gentlemen's agreement as to how the creditor economies will divide up Greece, carving it up much like neighboring Yugoslavia to the north.

In 2001 the IMF made a big loan to Argentina (I have a chapter on Argentina too), and it went bad after a year. So the IMF passed a rule, called the No More Argentinas rule, stating that the Fund was not going to participate in a loan where the government obviously can not pay.

A decade later came the Greek crisis of 2011. The staff found that Greece could not possibly pay a loan large enough to bail out the French, German and other creditors. So there has to be a debt write-down of the principal. The staff said that, and the IMF's board members agreed. But its Managing Director, Strauss-Kahn wanted to run for the presidency of France, and most of the Greek bonds were held by French banks. French President Sarkozy said "Well you can't win political office in France if you stiff the French banks." And German Chancellor Merkel said that Greece had to pay the German banks. Then, to top matters, President Obama came over to the G-20 meetings and they said that the American banks had made such big default insurance contracts and casino gambles betting that Greece would pay, that if it didn't, if the Europeans and IMF did not bail out Greece, then the American banks might go under. The implicit threat was that the U.S. would make sure that Europe's financial system would be torn to pieces.

ED: And Michael, I just want to clarify, I guess it's sort of a question: about what you're talking about here in terms of Geithner and Obama coming in: These would be credit default swaps and collateralized debt obligations?

MH: Yes. U.S. officials said that Wall Street had made so many gambles that if the French and German banks were not paid, they would turn to their Wall Street insurers. The Wall Street casino would go under, bringing Europe's banking system down with it. This prompted the European Central Bank to say that it didn't want the IMF to be a part of the Troika unless it agreed to take a subordinate role and to support the ECB bailout. It didn't matter whether Greece later could pay or not. In that case, creditors would smash and grab. This led the some of the IMF European staff to resign, most notably Susan Schadler, and later to act as whistle blowers to write up what happened.

The same thing happened again earlier this year in Greece. Lagarde said that the IMF doesn't do debt reduction, but would give them a little longer to pay. Not a penny, not a euro will be written down, but the debt will be stretched out and perhaps the interest rate will be lowered - as long as Greece permits foreigners to grab its infrastructure, land and natural resources.

The staff once again leaked a report to the Financial Times (and maybe also the Wall Street Journal) that said that Greece couldn't pay, there's no way it can later sell off the IMF loan to private bondholders, so any bailout would be against the IMF's own rules. Lagarde was embarrassed, and tried to save face by saying that Germany has to agree to stretch out the payments on the debt - as if that somehow would enable it to pay, while its assets pass into foreign hands, which will remit their profits back home and subject Greece to even steeper deflation.

Then, a few weeks ago, you have the Ukraine crisis and the IMF is not allowed to make loans to

countries that cannot pay. But now the whole purpose is to make loans to countries who can't pay, so that creditors can turn around and demand that they pay by selling off their public domain – and implicitly, force their population to emigrate.

ED: Also, technically they're not supposed to be making loans to countries that are at war, and they're ignoring that rule as well.

MH: That's the second violation of IMF rules. At least in the earlier Greek bailout, Strauss Kahn got around the "No More Argentinas" rule by having a new IMF policy that if a country is systemically important, the IMF can lend it the money even if it can't pay, even though it's not credit-worthy, if its default would cause a problem in the global financial system (meaning a loss by Wall Street or other bankers). But Ukraine is not systemically important. It's part of the Russian system, not the western system. Most of its trade is with Russia.

As you just pointed out, when Lagarde made the IMF's last Ukrainian loan, she said that she hoped its economy would stabilize instead of fighting more war in its eastern export region. The next day, President Poroshenko said that now that it had got the loan, it could go to war against the Donbass, the Russian speaking region. Some \$1.5 billion of the IMF loan was given to banks run by Kolomoisky, one of the kleptocrats who fields his own army. His banks send the IMF's gift abroad to his own foreign banks, using his domestic Ukrainian money to pay his own army, allied with Ukrainian nationalists flying the old Nazi SS insignia fighting against the Russian speakers. So in effect, the IMF is serving as an arm of the U.S. military and State Department, just as the World Bank has long been.

ED: I want to interject two points here for listeners who haven't followed it as closely. Number one is the private army that you're talking about – the Right Sector which is essentially a mercenary force of Nazis in the employ of Kolomoisky. They're also part of what's now called the Ukrainian National Guard. This paramilitary organization that is being paid directly by Kolomoisky. Number two – and this relates back to something that you were saying earlier, Michael – that IMF loan went to pay for a lot of the military equipment that Kiev has now used to obliterate the economic and industrial infrastructure of Donbass, which was Ukraine's industrial heartland. So from the western perspective it's killing two birds with one stone. If they can't strip the assets and capitalize on them, at least they can destroy them, because the number one customer was Russia.

MH: Russia had made much of its military hardware in Ukraine, including its liftoff engines for satellites. The West doesn't want that to continue. What it wants for its own investors is Ukraine's land, the gas rights in the Black Sea, electric and other public utilities, because these are the major tollbooths to extract economic rent from the economy. Basically, US/NATO strategists want to make sure, by destroying Ukraine's eastern export industry, that Ukraine will be chronically bankrupt and will have to settle its balance-of-payments deficit by selling off its private domain to American, German and other foreign buyers.

ED: Yes, that's Monsanto, and that's Hunter Biden on the Burisma board (the gas company). It's like you said earlier, you wouldn't even believe it if someone would have made it up. It's so transparent, what they're doing in Ukraine.

Financialization of pension plans and retirement savings

I want to switch gears a bit in the short time we have remaining, because I have two more things I want to talk about. Referring back to this parasitical relationship on the real economy, one aspect that's rarely mentioned is the way in which many regular working people get swindled. One example

that comes to my mind is the mutual funds and other money managers that control what pension funds and lots of retirees invest in. Much of their savings are tied up in heavily leveraged junk bonds and in places like Greece, but also recently in Puerto Rico which is going through a very similar scenario right now. So in many ways, US taxpayers and pensioners are funding the looting and exploitation of these countries and they're then financially invested in continuing the destruction of these countries. It's almost like these pensioners are human shields for Wall Street.

MH: This actually is the main theme of my book - financialization. Mutual funds are not pension funds. They're different. But half a century ago a new term was coined: pension fund capitalism, sometimes called pension fund socialism. Then we got back to Orwellian doublethink when Pinochet came to power behind the natural alliance of the Chicago School with Kissinger at the State Department. They immediately organized what they called labor capitalism. In labor capitalism labor is the victim, not the beneficiary. The first thing they did was compulsory setting aside of wages in the form of ostensible pension funds controlled by the employers. The employers could do whatever they wanted with it. Ultimately they invested their corporate pension funds in their own stocks or turned them over to the banks, around which their grupo conglomerates were organized. They then simply drove the businesses with employee pension funds under, wiping out the pension fund liabilities - after moving the assets into their captive banks. Businesses were left as empty corporate shells.

Something similar happened in America a few years ago with the Chicago Tribune. Real estate developer Sam Zell borrowed money, bought the Tribune, using the Employee Stock Ownership Plan (ESOP) essentially to pay off the bondholders. He then drove/looted the Tribune into bankruptcy and wiped out the stockholders. Employees brought a fraudulent conveyance suit.

Already fifty years ago, critics noted that about half of the ESOPs are wiped out, because they're invested by the employers, often in their own stock. Managers give themselves stock options, which are given value by employee purchases. Something similar occurs with pension funds in general. Employee wages are paid into pension funds, which bid up the stock prices in general. On an economy-wide basis, employees are buying the stock that managers give themselves. That's pension fund capitalism.

The underlying problem with this kind of financialization of pensions and retirement savings is that modern American industry is being run basically for financial purposes, not for industrial purposes. The major industrial firms have been financialized. For many years General Motors made most of its profits from its financial arm, General Motors Acceptance Corporation. Likewise General Electric. When I was going to school 50 years ago, Macy's made most of its money not by selling products, but by getting customers to use its credit cards. In effect, it used its store to get people to use its credit cards.

Last year, 92% of the earnings of the Fortune 100 companies were used for stock buy-backs — corporations buying back their stock to support its price - or for dividend payouts, also to increase the stock's price (and thus management bonuses and stock options). The purpose of running a company in today's financialized world is to increase the price of the stock, not to expand the business. And who do they sell the stock to? Essentially, pension funds.

There's a lot of money coming in. I don't know if you remember, but George W. Bush wanted to privatize Social Security. The idea was to spend all of its contributions - the 15+% that FICA withholds from workers paychecks every month - into the stock market. This would fuel a giant stock market boom. Money management companies, the big banks, would get an enormous flow of commissions, and speculators would get rich off the inflow. It would make billionaires into hundred-

billionaires. All this would soar like the South Sea Bubble, until the American population began to age - or, more likely, begin to be unemployed. At that point the funds would begin to sell the stocks to pay retirees. This would withdraw money from the stock market. Prices would crash as speculators and insiders sold out, wiping out the savings that workers had put into the scheme.

The basic idea is that when Wall Street plays finance, the casino wins. When employees and pension funds play the financial game, they lose and the casino wins.

ED: Right, and just as an example for listeners - to make what Michael was just talking about it even more real - if we think back to 2009 and the collapse of General Motors, it was not General Motors automotive manufacturing that was collapsing. It was GMAC, their finance arm, which was leveraged on credit default swaps, collateralized debt obligations and similar financial derivatives - what they call exotic instruments. So when Obama comes in and claimed that he "saved General Motors," it wasn't really that. He came in for the Wall Street arm of General Motors.

Obama's demagogic role as Wall Street shill for the Rubinomics gang

MH: That's correct. He was the Wall Street candidate, promoted by Robert Rubin, who was Clinton's Treasury Secretary. Basically, American economic policies can run by a combination of Goldman Sachs and Citigroup, often interchangeably.

ED: This was demonstrated very clearly in the first days of Obama taking office. Who does he meet with to talk about the financial crisis? He invites the CEOs of Goldman Sachs and JP Morgan, Bank of America, Citi and all of the rest of them. They're the ones who come to the White House. It's been written about in books, in the New Yorker and elsewhere. Obama basically says, "Don't worry guys, I got this."

MH: Ron Suskind wrote this. He said that Obama said, "I'm the only guy standing between you and the pitchforks. Listen to me: I can basically fool them." (I give the actual quote in my book.) The interesting thing is that the signs of this meeting were all erased from the White House website, but Suskind has it in his book. Obama emerges as one of the great demagogues of the century. He may be even worse than Andrew Jackson.

ED: So much of it is based on obvious policies and his actions. The moment he came to power was a critical moment when action was needed. Not only did he not take the right action, he did exactly what Wall Street wanted. In many ways we can look back to 2008 when he was championing the TARP, the bailout, and all the rest of that. None of that would have been possible without Obama. That's something that Democrats like to avoid in their conversations.

MH: That's exactly the point. It was Orwellian rhetoric. He ran as the candidate of Hope and Change, but his real role was to smash hope and prevent change. By keeping the debts in place instead of writing them down as he had promised, he oversaw the wrecking of the American economy.

He had done something similar in Chicago, when he worked as a community organizer for the big real estate interests to tear up the poorer neighborhoods where the lower income Blacks lived. His role was to gentrify them and jack up property prices to move in higher-income Blacks. This made billions for the Pritzker family. So Penny Pritzker introduced him to Robert Rubin. Obama evidently promised to let Rubin appoint his cabinet, so they appointed the vicious anti-labor Rahm Emanuel, now Chicago's mayor, as his Chief of Staff to drive any Democrat to the left of Herbert Hoover out of the party. Obama essentially pushed the Democrats to the right, as the Republicans gave him plenty

of room to move rightward and still be the “lesser evil.”

So now you have people like Donald Trump saying that he’s for what Dennis Kucinich was for: a single payer healthcare program. Obama fought against this, and backed the lobbyists of the pharmaceutical and health insurance sectors. His genius is being able to make most voters believe that he’s on their side when he’s actually defending the Wall Street special interests that were his major campaign contributors.

ED: That’s true. You can see that in literally every arena in which Obama has taken action. From championing so-called Obamacare, which is really a boon for the insurance industry, to the charter schools to privatize public education and also become a major boon for Wall Street, for Pearson and all these major education corporations. In terms of real estate, in the gentrification, all the rest. Literally every perspective, every angle from which you look at Obama, he is a servant of finance capital of investors, not of the people. And that’s what the Democratic Party has become, delivering its constituency to Wall Street.

A left-wing economic alternative

MH: So here’s the problem: How do we get the left to realize this? How do we get it to talk about economics instead of ethnic identity and sexual identity and culture alone? How do we get the left to do what they were talking about a century ago – economic reform and how to take the side of labor, consumers and debtors? How do we tell the Blacks that it’s more important to get a well paying job? That’s the way to gain power. I think Deng said: “Black cat, white cat, it doesn’t matter as long as it catches mice.” How do we say “Black president, white president, it doesn’t matter, as long as they give jobs for us and help our community economically?”

ED: I think that’s important and I want to close with this issue: solutions. One of the things I appreciate in reading your book is that it is broken up into sections. The final section, I think, is really important. You titled it: “There Is An Alternative.” That is of course a reference to Margaret Thatcher’s TINA (There Is No Alternative). That ideology and mindset took over the left, or at least the nominally left-wing parties. So you’re saying that there is an alternative. In that section you propose a number of important reforms. You argue that they would restore industrial prosperity. Now, I’m not asking you to name all of them, to run down the list, but maybe touch on a little bit of what you included, and why that’s important for beginning to build this alternative.

MH: There are two main aims that classical economists had 200 years ago. One was to free society from debt. You didn’t want people to have to spend their lives working off the debt, whether for a home, for living or to get an education. Second, you wanted to fund industry, not by debt but by equity. That is what the Saint-Simonians and France did. It’s what German banking was famous for before World War I. There was a debate in the English speaking countries, especially in England saying that maybe England and the Allies might lose World War I because the banks are running everything, and finance should be subordinated to fund industry. It can be used to help the economy grow, not be parasitic.

But instead, our tax laws make debt service tax deductible. If a company pays \$2 billion a year in dividends, a corporate raider can buy it on credit and, if there’s a 50% stock rate, he can pay \$4 billion to bondholders instead of \$2 billion to stockholders. Over the past twenty years the American stock market has become a vehicle for corporate raiding, replacing equity with debt. That makes break-even costs much higher.

The other point I’m making concerns economic rent. The guiding idea of an economic and tax system

should be to lower the cost of living and doing business. I show what the average American wage earner has to pay. Under the most recent federal housing authority laws, the government guarantees mortgage loans that absorb up to 43% of family income. Suppose you pay this 43% of income for your home mortgage, after the 15% of your wages set aside for Social Security under FICA.

Instead of funding Social Security out of the general budget and hence out of what is still progressive taxation, Congress has said that the rich shouldn't pay for Social Security; only blue-collar workers should pay. So if you make over \$115,000, you don't have to pay anything. In addition to that 15% wage tax, about 20% ends up being paid for other taxes - sales taxes, income taxes, and various other taxes that fall on consumers. And perhaps another 10% goes for bank loans besides mortgages - credit card loans, student loans and other debts.

That leaves only about 25% of what American families earn to be spent on goods and services - unless they borrow to maintain their living standards. This means that if you would give wage earners all of their food, all their transportation, all their clothing for nothing, they still could not compete with foreign economies, because so much of the budget has to go for finance, insurance and real estate (FIRE). That's why our employment is not going to recover. That's why our living standards are not going to recover.

Even if wages do go up for some workers, they're going to have to pay it to the bank for education loans, mortgage loans (or rent), bank debt and credit card debt, and now also for our amazingly expensive and rent-extracting medical insurance and health care and medications. The result is that if they try to join the middle class by getting higher education and buying a home, they will spend the rest of their lives paying the banks. They don't end up keeping their higher wages. They pay them to the banks.

ED: You don't have to tell me. I'm living that reality. Interestingly, in that final section of your book you talk about alternatives, like a public banking option that many people have discussed. You talk about the Social Security cap that you were just mentioning, and focus on taxing economic rent. Some critics would suggest that these sorts of reforms are not going to be able to salvage the capitalist model that is so enshrined in the United States. So I want to give you a chance to sort of present that argument or maybe rebut it.

MH: I won't rebut that criticism, because it's right. Marx thought that it was the task of industrial capitalism to free economies from the economic legacies of feudalism. He saw that the bourgeois parties wanted to get rid of the "excrescences" of the industrial capitalist marketplace. They wanted to get rid of the parasites, the landowners and usurious creditors. Marx said that even if you get rid of the parasites, even if you socialize finance and land that he dealt with in volume II and III of Capital, you're still going to have the Volume I problem. You're still going to have the exploitation problem between employers and employees - the labor/capital problem.

My point is that most academic Marxists and the left in general have focused so much on the fight of workers and labor unions against employers that they tend to overlook that there's this huge FIRE sector - Finance, Insurance, and Real Estate - tsunami is swamping the economy. Finance is wrecking industry and government, along with labor. The reforms that Marx expected the bourgeois parties to enact against rentiers haven't occurred. Marx was overly optimistic about the role of industrial capitalism and industrialized banking to prepare the ground for socialism.

This means that until you complete the task of freeing of society from feudalism - corrosive banking and economic rent as unearned income - you can't solve the industrial problems that Marx dealt

with in Volume I. And of course even when you do solve them, these problems of labor exploitation and markets will still exist.

ED: Yes, absolutely. Well we're out of time. I want to thank you for coming onto the program.

MH: It's great to be here. It's been a wonderful discussion.

ED: Thank you.

Copyright applies.

<http://evonomics.com/how-financial-parasites-and-debt-bondage/>

Jungle Drum Prose/Poetry. <http://jungledrum.lingama.net/news/story-2255.html>