MICHAEL HUDSON TO TOUR AUSTRALIA

An introduction to Michael Hudson including quotes from his articles and books

Prosper Australia has invited Michael Hudson to Australia to raises awareness about the driving issues behind the Global Financial Crisis (GFC) - we must delve deeper into how we can create a sustainable economy.

The tour is from October 12th - 27th and includes Melbourne, Sydney, Brisbane, Adelaide and Canberra.

Check p3 and www.prosper.org.au for details.

Editor: I've been reading and listening to Michael Hudson a lot in the last few months. The impression I get from him is that his knowledge is extensive. He's studied history thoroughly especially economic history from ancient to modern times. He has an indepth understanding of the science of economics that makes most economists look as if they believe in fantasy. His big focus nowadays appears to be on debt and that encompasses currencies, balance of payments, real estate and taxes. He certainly understands the importance of removing taxes from labour and trade and putting them on land and resources, but he wouldn't identify himself as a georgist, preferring to call his ideas classical economics or creditary economics.

He belongs to a group called the Institute for Creditary Economics that also have a yahoo group called the gang8 discussion list (that you may be able to get onto if you ask nicely). Creditary Economis principles include that Money is assignable debt and money is created by borrowing. The main problem for the economy is that borrowing pushes up prices of existing assets instead of for investment in productive activities.

So who is Michael Hudson?

Michael Hudson is Distinguished Research Professor of Economics at the University of Missouri (Kansas City). He was one of twelve economists recognised for predicting the GFC.

He is a government advisor to many nations, and is fast gaining a reputation in policy circles as the go-to man in GFC hotspots. This has seen him visit Iceland and Latvia a number of times this year to assist with policy outcomes. From Mexico to China to the depths of Wall St, Hudson is an insider to the latest global policy trends.

Prof Hudson was the Chief Economic Advisor to Denis Kucinich in the recent US Presidential Campaign. He is the president of the Institute for the Study of Long-term Economic Trends (ISLET). He is a founder of the Institute For Creditary Economics.

Previously Prof. Hudson was a former balance-of-payments economist for Chase Manhattan Bank and Arthur Andersen. In 1990 he established the world's first Third World sovereign debt fund at Scudder Stevens & Clark, which went on to be the second best performing international fund in 1991.

Prof. Hudson has written cover stories for Harpers and is on the editorial board of Lapham's Quarterly. He is a regular on NPR's Marketplace, Bloomberg Radio and numerous Pacifica interview programs, and is a contributor to CounterPunch. He has written for the Journal of International Affairs, International Economy, and New York Times, and currently publishes editorials in leading Latvian, Polish and Arabic business papers. His trade books are translated into Japanese, Chinese, Spanish and Russian, and his website has over a million hits per year.

In 1972 his book Super Imperialism: The Economic Strategy of American Empire was the first book to describe the global free ride for America after it went off gold in 1971, putting the world onto a paper Treasury-bill standard. Obliging foreign central banks to keep their monetary reserves in Treasury bonds forced them to finance U.S. Military spending abroad, which was responsible for the U.S. Balance of Payments deficit at this time.

PHOTO FROM FLICKR BY CHRIS JOHN BECKETT

The remainder of this article consists of quotes from articles and books by Michael Hudson.

Hudson on the GFC

No amount of money can sustain the exponential growth of debt, not to mention the freely created credit and mutual gambles on derivatives and other financial claims whose volume has exploded in recent years. The government is committed to "bailing out" banks and other creditors whose loans and swaps have gone bad. It remains in denial with regard to the debt deflation that must be imposed on the rest of the economy to "make good" on these financial trends.

Saturday's (20/09/2008) $700 billion junk mortgage bailout is the largest and worst giveaway since a corrupt Congress gave land grants to the railroad barons a century and a half ago. If it goes through, it will shape the coming century by giving finance unprecedented power over debtors – homebuyers, industry, state and local government, and the federal government as well.

Many families are able to remain financially afloat by running down their savings and cutting back their spending to try and avoid bankruptcy. This diversion of income to pay creditors explains why retail sales figures, auto sales and other commercial statistics are plunging vertically downward in almost a straight line, while unemployment rates soar toward the 10% level. The ability of most people to spend at past rates has hit a wall. The same income cannot be used for two purposes. It cannot be used to pay down debt and also for spending on goods and services. Something must give. So more stores and shopping malls are becoming vacant each month.

Hudson on Taxes

Debt service is the major charge that is institutional rather than "real" and technologically necessary. Our tax system favors debt rather than equity financing. By encouraging debt it has prompted a tax shift onto the "real" economy's labor and capital. The resulting interest charge and tax shift mean that we're not as efficient and low-cost producers as we used to be. This makes it hard to work out way out of our foreign debt.

You want to phase out the "tollbooth" economy that adds unnecessary charges to the cost of living and doing business - charges that have no counterpart in actual necessary cost of production. You want to avoid monopoly rent of the sort that Mexicans have to pay Telmex. And you want to avoid having the tax collector lower property taxes, leaving more revenue available to be pledged to banks as interest on higher mortgage loans. To get a lower-cost world, you have to counter political pressure from real estate owners and their bankers to shift taxes off rent-yielding properties onto labor and capital. Income and sales taxes add to the price of doing business, and hence reduce their supply and competitiveness. Most economists - even Milton Friedman - recommend that the more efficient tax burden is one that collects economic rent - property rent, fees charged for using the airwaves, monopoly rent, and other income that is basically an access charge. If you tax land rent, for instance, this doesn't raise the price of housing or office space. The rent-of-location is set by the market place. Taxes - or interest charges to buy such property - are paid out of the market price for using this space or natural resource.

"Rent-seeking" charges are paid out of prices. So taxing economic rent doesn't add to prices. It simply collects what nature or public infrastructure spending have provided freely - site value, the broadcasting spectrum, the rights to access the internet or other technology in cases where prices exceed the reasonable cost of production. Unfortunately, despite what Milton Friedman said, the economy today is increasingly about how to get a free lunch of this sort - and how to get the government to avoid taxing it, and shift the tax onto labor and industry instead. This loads down the economy with unnecessary costs and higher prices, especially when rent-yielding assets are bid up on credit. That's the essence of this decade's real estate boom.

Hudson on Iceland

Editor: Britain and the Netherlands government bailed out depositors of Icelandic banks and now want the Icelandic government to repay the debt. Normally in these situations the IMF will loan the money on conditions that the country raise taxes, reduce spending, privatise infrastructure and allow foreign investment. The new Icelandic government has refused to go down that path. They drew up an agreement that limits repayments to ability to pay. In Hudson's article: ***Iceland's debt repayment limits will spread*** he said this:

This agreement is, so far as I am aware, the first since the 1920s to subordinate foreign debt to the country's ability to pay. Iceland's payments will be limited to 6 per cent of growth above 2008's gross domestic product. If creditors thrust austerity on the Icelandic economy there will be no growth and they will not get paid.

A similar problem was debated 80 years ago over Germany's first world war reparations. But many policymakers remain confused over the distinction between squeezing out a domestic fiscal surplus and the ability to pay foreign debts. No matter how much a government may tax its economy, there is a problem turning the money into foreign currency. As John Maynard Keynes explained, unless debtor countries can export more, they must pay either by borrowing or by selling off domestic assets. Iceland today has rejected these self-destructive policies.

In taking this stand, Iceland promises to lead the pendulum swing away from the ideology that debt repayments are sacred.

Hudson on US Dollar

Editor: One of the most amazing things Hudson talks about is how the US Dollar is only backed by debt in the form of US Treasury bonds and how this had led to a global takeover. The next quotes are from his book, ***Super Imperialism: The Economic Strategy of American Empire***.

The thesis of this book is that it is not to the corporate sector that one must look to find the roots of modern international economic relations as much as to U.S. Government pressure on central banks and on multilateral organizations such as the IMF, World Bank and World Trade Organization. Already in the aftermath of World War I, but especially since the end of World War II, intergovernmental lending and debt relationships among the world's central banks have overshadowed the drives of private-sector capital.

At the root of this new form of imperialism is the exploitation of governments by a single government, that of the United States, via the central banks and multilateral control institutions of intergovernmental capital rather than via the activities of private corporations seeking profits. What has turned the older forms of imperialism into a superimperialism is that whereas prior to the 1960s the U.S. Government dominated international organizations by virtue of its preeminent creditor status, since that time it has done so by virtue of its debtor position.

This Treasury-bond standard of international finance has enabled the United States to obtain the largest free lunch ever achieved in history. America has turned the international financial system upside down. Whereas formerly it rested on gold, central bank reserves are now held in the form of U.S. Government IOUs that can be run up without limit. In effect, America has been buying up Europe, Asia and other regions with paper credit – U.S. Treasury IOUs that it has informed the world it has little intention of ever paying off.

Links: www.michael-hudson.com/articles/

Below, two of Hudson's books that are available from our bookshop.