

Globalized Economy and Recapture of Rent

by Dr. Michael Hudson, New York, NY

Everyone says that globalization is inevitable. But what kind of globalization are we going to have? Whose globalization? Can we still influence what kind of globalization the world will have?

A century ago, Marx supported the globalization of his day - colonization - to the extent that it would break down the institutions of backwardness in Asia, the Near East, Latin America and the Far East.

Marx saw globalization even in its British colonialist form as a catalyst for industrialization, and an organization of the labor force along economically modern lines.

But this is not what is occurring today. In retrospect, Marx was overly optimistic.

Today's globalization does not replicate the economic relations of the core. It is creating something else - something that nobody spoke of a century ago.

Today's globalization is much like the Enclosure movement in England from the 16th through 18th centuries. The enclosers carved out the land for themselves, displacing labor from the land and its traditional means of support, and herding it into the cities.

The result was inequality, not equality. But the result also provided the labor for industrialization. From the 16th to the 19th centuries, the rural exodus into cities in England, France and other countries formed the foundations for industrial capitalism.

However, although today's globalization is bringing manufactures to many developing countries, and also goes hand in hand with a great rural exodus to huge overgrown cities, it is in many ways a relapse back into pre-capitalist economic forms. It is precapitalist in the sense that what the large global corporations - and the stockholders and bankers behind them - what they seek is rent and interest.

Many of you here criticize the drive for profits made by multinational firms. But if you look at the statistics, you will find that these firms do not make a profit - or rather, they take all their profit in a few small islands throughout the world. These islands are called offshore banking centers. They are tax havens, extra-

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legal and criminal havens, which do not levy any income tax. Multinational firms in the developing countries, in Europe and North America give the statistical appearance of not earning any profits at all. This means that any country that tries to make a profit-sharing agreement with a foreign investor runs the risk of ending up with half of almost nothing.

Rather, global companies pay out their would-be profits as interest to the financiers who put up the money for corporate raiders and investors and other corporations to buy out these multinational firms. They also pretend that their profits are expenses on insurance and other non-production charges.

Sometimes, high technology IS spread to the developing countries. But their labor does not benefit. Wage rates remain low, even in high-technology industries such as computers and pharmaceuticals.

Part of the problem is technological. The leading core economies concentrate research and development in the United States and Europe.

But most of the problem is financial. Industry throughout the world has been taken over by the financial sector, including corporate raiders.

Most of you here focus on the exploitation of cheap low-wage labor in the developing countries. But what the global corporations want from these countries is NOT primarily their labor.

They are not primarily interested in exploiting surplus value. What global investors want is the land, along with other natural resources such as mineral rights, and natural monopolies, that is, public utilities.

They want the railroads and airline systems now in place, created largely by governments running deeply into foreign debt. Global investors want the telephone and communications monopolies, the TV stations - and the electromagnetic spectrum that goes with it - electrical power monopolies, oil and gas. They want the monopoly rights possessed by these industries - monopoly rights that led them to be organized as public enterprises in the first place - to buy it at distress prices, and then to privatize labor's social security savings to bid up prices for shares in these companies. They seek an outlet for savings in the United States.

Most of all, they want the land and real estate. For even in highly industrialized economies such as the United States and Japan, it is the land that is the largest asset. And the most valuable land is urban land - the value of urban real estate in New York City alone exceeds the depreciated value of all the industrial machinery and equipment in the United States.

In sum, global investors do not want to bring development to the developing countries, any more than they brought it to Russia. What they want is the capital that already is in place.

Their objective and historical role is not to create new capital. They want to levy monopoly charges on labor, not to employ it. They want to downsize their labor force, not exploit it to obtain surplus value.

Privatization thus goes hand in hand with globalization. A century ago, Marx believed that globalization and international investment would modernize host-country economies, and lead naturally to increase government co-ordination of national planning. But governments are now being forced out of the picture.

The world economy and its financial systems are being planned - but not by governments. It is being planned not by elected officials, nor by industrial engineers, but by financial engineers.

The word "technocrat" no longer means industrial engineer, but financial engineering - by unelected officials in the Ministry of Finance, Treasury and Central Bank of country after country. The term "technocrat" means non-democratic, that is, oligarchic. Indeed, the word "democracy" itself has come to be abused as a synonym for "pro-American." As such, "democracy" now means "oligarchy."

Their interest is not to create new investment and employment, but to strip assets and downsize the labor force. This is a kind of exploitation that Marx did not emphasize. The global corporations want to collect rent, to pay out monopoly profits - and most of all, to get capital gains. They want a stock-market boom in the shares of hitherto government enterprises.

They can make more money out of stock-market speculation in the shares of these companies than they can make by employing the labor of these sectors. Indeed, they squeeze out more profit - and hence, increase the price of their shares - by firing workers and downsizing the labor force than they can make by employing more labor and exploiting it directly in the way described by Marx.

While they cut back wages, they force workers to place their pension funds and social security savings in the stock market, to inflate a financial bubble.

My paper addresses the topic of whether this process is reversible.

Today's corporate globalists claim that now that they have privatized public monopolies, land and mineral rights, the process is irreversible. As the Americans say, they have stolen the public domain fair and square. They have forced governments into debt, raided their currencies, and the IMF and world Bank have told governments to sell off their public domain.

I want to suggest to you a counter-move, that does not involve the political trauma of re-nationalization. There is one Achilles heel in the globalists' strategy, an option that remains open to governments. This option is a tax on the rental income - the "unearned income" - of land, natural resources and monopoly takings.

This tax is not an income tax. It is not a tax on labor and the wages it earns. It is not a tax on industrial investment, on factories or the material capital equipment that all economies want to encourage, Cuba as well. It is a tax on the "free lunch," the "free ride" that the buyers of natural resources seek to exploit. This is the "free lunch" that neoliberal economists such as Milton Friedman pretend does not exist.

Jose Marti, in one of his essays (reprinted in Vol. 22 of his Collected Works in the Havana 1966 edition, p. 124), endorsed this tax as put forth by his fellow New York City journalist Henry George. Marti wrote that "reform of the actual conditions of labour, transformation of land into public property and conversion of all types of taxes into a single tax on occupied land, is a doctrine that has not been well received by the powerful corporations that today control virtually all the productive wealth, or by that part of the Catholic clergy that lives close to the rich, and with their support."

This is precisely our message: a rent-tax on land, natural resources and monopoly earnings, as calculated before payment of interest, insurance and other parasitic non-production charges. This tax is legal, as long as it affects domestic and international investors equally. It will recapture for the public sector the rent - the free lunch, and hence the capital gains - that the privatizers thought they had stolen, fair and square, and irreversibly. This

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recapture of the flow of rent and monopoly earnings, the income created by social progress and the public domain, is so large that governments need not tax labor, or even industry. The country that does this will give itself a great competitive advantage in international trade and investment.

My colleague, Ted Gwartney, will tell you of our work in Russia, where the American globalists have had their own way and created a model of how not to develop.

The task is not only to attack globalization, it is to show the way out, to propose a policy alternative, a counter-strategy.

There is such a thing as market socialism. Governments can shape the market to encourage productive investment, and tax away what is parasitic. This is just what they were doing - or what they were supposed to be doing - prior to the Thatcher-Reagan-Pinochet revolution by the neoliberal Chicago Boys.

The kind of globalization we have seen since 1980 has been primarily parasitic. It is like a tumor, a tapeworm on the economic organism, not the organism itself.

This gives a new meaning to "host country economies" and "host country government. But host-country governments can recapture the economic rents that global financial investors seek. This will leave parasitic investors holding an empty bag. And it is all legal. It recovers for society what the global investors believe they have taken away, while leaving wages untaxed, and also the earnings of legitimate, non-parasitic industry.

In fact, an income tax will not capture real estate rents or financial interest charges. The global firms do not declare profits to tax. They have a number of stratagems. The first stratagem is to borrow against their earnings and super-profits - that is, monopoly rents and real estate rents - and to pay out these revenues as interest.

A second stratagem is for the accountants of multinational firms to levy fictitious charges for insurance, reinsurance and shipping, as well as for management and for inter-corporate supplies such as parts, machinery and so forth.

Globalization and the Foreign Debt Lever

Privatization has been a voluntary pre-bankruptcy sale by governments. Most of the money was used (1) to pay foreign debt, and (2) to subsidize capital flight (as well as to pay currency speculators).

To repay these debts, whose proceeds have been wasted rather than productively invested, governments have been told to pay the price and sell off the assets that rightly belong to the people. The resulting foreign debt leads to permanent currency depreciation by host countries.

The oligarchs that run most countries are in favor of foreign debt. First, the more money governments borrow, the less they need to tax their own real estate and large rent-taking corporations.

Second, the currency depreciation that results from repaying foreign debt has the effect of lowering the wages of labor. Let me explain why. Capital equipment has the same price throughout the world. It is dollarized. Fuels and raw materials have the same worldwide dollar price. Computers and transport equipment. Debt financing also is dollarized. All that is left to be affected by currency depreciation is labor's wages, and land rents. But even for real estate, in the large commercial centers land prices are now dollarized. The way to counter unionization

is by running up so much foreign debt that the process of repaying it devalues labor's wages.

Third, foreign debt is a lever by which countries can be controlled, and forced to sell their public resources to foreign investors. For example, Korea and Japan, as well as Russia.

An alternative to the World Bank and IMF neo-usury institutions are needed. Such a body was created in 1929 to deal with the reparations that defeated Germany was obliged to pay. This was the Young Plan. It limited debt service to the capacity to pay. (I have described the details in my book *Super Imperialism*, which has been translated into Spanish.)

Today, debtor countries are being treated as losers in a war. It is an international class war, the final mop-up stage of the class war. But new tactics can change the outcome of this economic war. That is what revolutionary economics is all about.

(Editor's note: Dr. Hudson has informed GroundSwell that the text for this speech and its longer one on how to create a new georgist World Bank for Economic Acceleration is available on request from Schalkenbach's Exec. Director, Ted Gwartney, Schalkenba@aol.com)
