HOW TO GO FROM NEOLIBERALISM TO A PRODUCTIVE, SUSTAINABLE ECONOMY

- *By Radhika Desai and Michael Hudson, Geopolitical Economy.*

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Political Economists Radhika Desai And Michael Hudson Discuss Realistic Alternatives To The Neoliberal Model Of Financialization.

And tangible policies to build a productive, sustainable economy.

Transcript

Radhika Desai: Hello, and welcome to the 22nd Geopolitical Economy Hour, the show that examines the fast-changing political and geopolitical economy of our times. I'm Radhika Desai.

Michael Hudson: I'm Michael Hudson.

Radhika Desai: And working behind the scenes to bring you this show every fortnight are our host, Ben Norton, our videographer, Paul Graham, and our transcriber, Zach Weisser. We all urge you to click the Like button, if you like what we are doing, share it on social media, and subscribe to our work by hitting the Subscribe button.

In our last show, which we entitled "The Debt Explosion: How Neoliberalism Fuels Debt Crises", we promised that our next show would be about what the solution is, what is the solution to the myriad problems that we were describing. And that is indeed what we are going to discuss today.

The solution, we feel, in the United States and in all countries that have gone down the road of neoliberalism and financialization involves a root and branch reform of the financial system. And this would be the foundation for the urgent economic transformation. It will be the single largest component of the economic transformation that so many of us realize we also badly need.

We must reorient the financial system away from the sort of predatory lending and speculation that we described last time, the sort of predatory lending and speculation on which it has come to rest for the past five decades, and increasingly so over the last five decades.

It has to reorient away from that and towards lending for more sustainable production, pure and simple, and the sustainable production of the goods and services which everyone needs. This involves transforming the very basis of our money and credit system.

And given the link between the US financial system and the dollar's world role, it would also involve ending that role and setting up an international monetary system for the world on the basis of cooperation among the different countries of the world.

Most Americans, I mean this may surprise many Americans, because they are all invited to feel rather proud of their dollar's world role. However, precisely those who invite American citizens to feel proud of their role are hiding the fact that it is precisely this financial system or it is precisely this world role and the financial system that underpins it that has undermined the US's productive economy and its capacity to create well-paying, skilled and meaningful jobs for most people in the United States.

Most people in the rest of the world have been asked to regard the dollar's world role as natural and inevitable. But as Michael and I have shown repeatedly in so many shows, it is anything but natural and inevitable. It is indeed instead unstable, volatile, crisis-prone and profoundly exploitative.

The dollar's world role has always rested, as we have argued in our shows and our writings, on an attempted and never successful imperialism, and it has to give way to international cooperation for universal development and planetary sustainability, and the international monetary and financial system that promotes production, sustainability, equality and a broad-based prosperity, a broad-based well-being, let's say, if not prosperity.

The ultimate goal has to be economies in which money plays as small an independent role as possible, where most things are available as entitlements in kind, whether it's food, clothing, housing, education, transport, culture, goods produced publicly and equitably and provided in adequate quantity and quality with a view to sustainability.

However, to get there from here, from our very highly financialized economies, transformations are necessary in a number of spheres.

So today we want to focus on some of the main elements of this transformation, and one way to summarize what these elements would be is we've tried to divide our conversation into the following topics: Who should create money? What should monetary policy aim for? How do we redesign the taxation system? What about land, rent and so on? Should we nationalize the land and eliminate rent? How should the financial system be regulated? What should replace debt? Obviously, income rather than credit. And finally, how should international money be reorganized? So that's what we want to discuss today.

So Michael, why don't you start us off by just offering some thoughts on what should money creation look like in the different type of economy we're talking about now?

Michael Hudson: Well, the key word that you used was system. And a system has many dimensions of the solutions. And so all the points that you mentioned are various parts of the overall system that we're trying to put together. There's not one single reform that can cure the problem.

And the problem basically is that most money is issued by commercial banks, not by the government. And bank credit, as we've discussed in the last episode, is largely created for the wrong things. It's created against housing to inflate housing prices. It's granted for corporate takeovers.

One thing bank credit is not issued for is to build new factories and to employ labor and to increase economic growth. That's the job of the government when the government treasury creates money to spend into the economy for functions that are supposed to serve society and serve economic growth.

But when a government lends money, it's for very different reasons. It's for the real economy. And when banks lend money, it's for the financial overhead economy. And that's why we would like to see all money created basically by the Treasury.

And of course, if the loans are lent out by commercial banks, if they are the agents of the government, they will get credit and the ability to issue credit from the Treasury, but really not from the Federal Reserve.

The Federal Reserve was created to get rid of the Treasury in 1913. The Treasury wasn't even allowed on the Federal Reserve. Most people don't realize that before there was a Federal Reserve here, all of the functions that are now done by the Fed were created by the Treasury.

And that’s the same in most countries. Every country that has a central bank is to essentially take power away from the government to spend money into the economy, to insist that the government should run a balance and not create money and force everybody to depend on bank credit for whatever they need.

And the bank credit, as we’ve described before, is not very helpful. And so money is created by running into debt for a commercial bank.

We want money created by the Treasury where it does not involve this kind of debt. There are many ways of doing it.

If the commercial banks acted like savings banks, 100 percent reserve, then they would essentially be reliant on the government to create their credit for the kind of thing that the treasury creates credit for, for growth.

And so if you look at the solution, what is the problem that you’re trying to solve? The problem is to minimize the debt overhead and to maximize economic growth.

Radhika Desai: Absolutely. And just, you know, you’ve said so many interesting things, Michael, and I just, you’re prompting me to say a few things in this response.

So what are the implications of what we’re talking about here is that essentially the government would be, because it is the main issuer of money, it would be capable of lending to itself the money that it needs, whether to build roads or schools or hospitals or what have you. And for that matter, engage in all sorts of sustainability initiatives, whether it is protecting forests or transforming the fossil fuel economy into a different type of economy. All of these investments can be made. So that’s the first thing.

And so the key here in terms of the creation of money is to take away the power that has been given by governments to the private sector to create money as credit and essentially create instead money as cash on the part of the government, minimizing the role of credit and therefore also minimizing the kind of indebtedness that has been so problematic for economies.

This would then also lead to the merging of essentially fiscal policy and monetary policy, because in the sense that, you know, today the two are divided because in order to expand government spending, governments are told that they have to borrow from private creditors. This will no longer be the case.

And finally, thirdly, you know, central banks, you know, a lot of people, I mean, I'm against what the Federal Reserve has been doing for a very long time. But having said that, central banks are necessary because there has to be some institution that mediates the relationship between the national currency and the currency of other countries.

So typically, historically, central banks have had three roles: number one, to maintain the external value of your currency; number two, to set the interest rates; and number three, to regulate the financial sector.

So obviously, the first function is, of course, important. And the way in which it will be different in the scenario that we are talking about, the kind of anti-financialization scenario, is that the maintenance of the external value of the currency would not just be governed by the need to keep the value of the currency high in order to enable rich people to benefit from it. Sometimes devaluation may be necessary because that is what will be necessary to expand employment, etc.

As far as setting interest rate is concerned, the simple fact should be, as the old adage goes, credit should be cheap, but not easy. And I think that's the way in which this should be run.

And finally, the whole regulation of the financial sector, I mean, this is exactly where the Federal Reserve in particular, and many other central banks that have permitted vast degrees of financialization to occur, have essentially abused their power. Because instead of regulating the financial sector in the interest of a productive economy, they have regulated it in such a way as to permit financialization and predatory lending.

And the whole nature of financial regulation will have to change radically, and go back to something like what it was in the aftermath of the Depression-era banking legislation that was implemented in the United States.

Michael Hudson: Well, you pointed to another product of the banks, and that's junk economics, pretending that the bank credit fuels economic growth and that it does so in a way that promotes stability.

But what it really does is financial parasitism, a debt overhead. You mentioned cash, and that you want to replace the bank credit with cash. What you mean, basically, is like the paper money in your pocket.

The government would spend the equivalent of paper money by any kind of government-created credit through the Treasury or through Treasury banks, or even by commercial banks acting like savings banks with the savings coming from the government.

The distinguishing feature of the paper money you have in your pockets that's different from bank credit is the paper money doesn't have to be repaid. Nobody is going to somehow repay your currency and say, I'm going to cash it in. You cash in a $10 bill, you get two $5 bills. But bank credit does have to be paid and comes with interest.

The Treasury credit does not have to entail this huge increasing debt overhead that banks create. That's basically it. It's this debt overhead that actually, as we will discuss later, deflates the economy instead of inflates it.

Bank credit inflates prices for assets, for houses, for stocks and bonds. But it deflates the economy by making people spend more and more of their income on debt service to buy the higher-priced houses or to buy the higher-priced retirement income that the banks bid up.

Radhika Desai: Michael, I think that you're absolutely right that this is exactly what's going on right now. However, in our past programs, one of the things we have emphasized is that, historically, this was not the case even in the United States in the immediate post-War period. It was a very different type of banking system which did lend for productive expansion.

And it's only really sort of in the '60s and particularly from the '70s onwards that the kind of deregulation we have witnessed have converted the bank lending into lending essentially for mortgages and the kind of lending you're talking about.

And of course, the other thing we've emphasized is that historically in countries like Germany or Japan or China today, the banking system is very different. And it is geared not towards lending for mortgages, et cetera, alone, but rather lending for productive activities. And so there is a different model. And that's the model that we need to go for.

I just wanted to add one other point, which is that, of course, when you talk about increasingly taking away the right, [or] the franchise, that has been given to private financial institutions to create credit, create money in the form of credit.

One of the subjects that has become increasingly discussed these days is, of course, that today we can, in fact — the system of government creating money can be made far more efficient thanks to information technology, which is why so many central banks are looking at central bank digital currencies.

Now, the thing to remember about anything you read about central bank digital currencies is that a large part of the discourse is affected by the need to placate the financial sector, which would be wiped out — the private financial sector would be wiped out if you had central bank digital currencies. And I'll explain why in a minute.

But so it's either those who are trying to sort of create the world in favor of it, but they are afraid of the power of private finance. They articulate their discourse in a way as to placate private finance. And of course, private financial interests are dead set against the creation of central bank digital currencies.

But on the other hand, precisely because other countries, countries like China and so on, are going to look at it and may well be in the forefront of implementing it. Other central banks have to look at what's being done and look at its potential. So this is what you have to understand.

Now, the reason why the private financial sector is dead set against creating central bank digital currencies is very simple. Historically, the existence of a private financial sector has been justified by saying that, well, the central bank cannot have, you know, a presence in every locality.

So the idea has been that in order to create a dispersed financial system, you should have private, you should allow private banks to set up shop wherever it is needed. And all you then have to do is regulate it. And we've seen what has happened to that regulation, particularly over the past five decades.

But now, essentially, information technology allows every person to have an account directly with the central bank. And therefore, the central bank can essentially regulate, central banks can essentially regulate the money system in a much more tactile way than was ever possible without the intermediation of private interests.

And this would also have a further effect, which is that, you know, today there is a so-called financial exclusion. A number of people who are excluded from having bank accounts, etc., they would be included. And there are a number of people who are excluded from participating in payment systems like credit cards and so on, because they are unable to get them.

But if the government creates a payment system, then everybody could use it without the sort of usurous credit card charges that are essentially charged by central banks.

So, in this way, central bank digital currencies can be part of the solution.

Michael Hudson: Okay, next topic.

Radhika Desai: Okay, next topic. So, what should monetary policy aim for?

Michael Hudson: Well, we were going to, the monetary policy has to go hand in hand with tax policy. It always does, because what gives money its value is its ability to be accepted in payment of taxes.

One of the problems is that banks have led the fight for the last 100 years against progressive taxation. And the result has been that banks have united with the landlords and monopolies to create monopolies to finance an absentee ownership class.

And essentially, instead of following the classical economics that we discussed last time, Adam Smith, and John Stuart Mill, and Marx and the others, instead of making economic rent the basic tax base, land rent, monopoly rent, and financial rent, the banks have led the fight to untax real estate and to untax land because they know, they say, there's all this economic rent, this free lunch, the advantage of price over and above the cost of production, purely empty prices, monopoly prices, when monopolies raise the price of your pharmaceuticals or when stores raise the price of groceries, the banks want all of this monopoly rent for themselves.

And so if the government were to pursue anti-monopoly regulations, or if it was to do the classical policy of taxing the land, then there would be two results: number one, the land tax would not be paid to the banks and not be capitalized into higher housing prices; and number two, the price of housing would be kept down, the price of monopoly goods would be kept down, the price of doing business would be kept down because this excess economic rent, which means empty pricing, which means free lunch, would not be paid to the banks as its major source of income.

And we've talked before, last time, about how 80% of bank loans are mortgage loans. So the whole idea of progressive taxation is not simply taxing incomes higher, it's taxing a particular kind of income higher, bad income, unearned income, economic rent income, not wages, not corporate profits.

The original American income tax in 1913, along with the Federal Reserve, didn't tax wages, and it didn't tax normal small businesses. It taxed the wealthy bankers and the wealthy real estate owners and the monopolists. And the last century has been moving away from this because banks became the mother of trusts, as they used to be called. Banks became the main fighters against any kind of economic progress toward the kind of free markets that the classical economists talked about.

So we're not going to go into value, price, and rent theory here, but if you're looking at the principles of credit reform and bank reform, you want to ask, how does this affect the relationship between the prices that people have to pay and what it actually costs to build a house? The land is provided freely by nature. The locations are more valuable than others. But banks don't create this money, but they get all the rent for it, just like before the 20th century, landlords used to get all the rent for it.

You want to fulfill the fight that the classical economics had to free the economies from the legacy of feudalism. Banks want to restore a kind of feudal economy where the richest people live off rent, *rentiers*. They live off interest, off landlord rent, and monopoly rent. And you want to get rid of that, and that's what makes socialist economies so much more cost-efficient than finance capitalist economies. There are hardly any industrial economies anymore, except for the socialist economies. And if you want to say, what is a socialist economy? It's an industrial economy free of the rentier class.

Radhika Desai: Well, exactly, and this reminds me of a point that I made earlier, and this is very, very important. Just as you pointed out, these days, bank credit is designed to inflate the value of already existing assets. And in fact, in doing so, it tends to strangulate the production of new goods and services, which people need. So I call this a form of necromancy, the love of the dead, because the already existing goods whose values are being inflated, whether they are houses or fine wines or pictures or what have you, this is dead labor. And in order to inflate the value of dead labor, you are strangulating the exercise of living labor without which no economy can prosper. So that’s one point.

And before we move away from the issue of monetary policy, I just wanted to also share my screen once again and just remind people of how absolutely awful monetary policy has been for such a long time. So this is just a graph of U.S. interest rates and historically from 1955 onwards. And you see that there have been various periods of very high interest rates. This is us right here with the big increase in interest rates.

And all these increases in interest rates have been designed to strangulate the economy, to induce recessions, so that the value of existing money and of existing assets will be preserved rather than being undermined in any way. And this is precisely what we have to avoid.

And this type of policy is followed because it is believed, as Milton Friedman claimed, that inflation is everywhere and every time is always and everywhere a monetary phenomenon. That is to say, it results from creating too much money. So you have to stop creating money. You have to decrease money supply, increase interest rates and essentially strangulate the economy.

In reality, inflation is a supply problem. And if prices of certain things are going up because there is not enough supply, the best thing a government can do is to organize the supply, either incentivize the private sector to produce it or go into the production of those goods and services on its own. And this is the way to deal with inflation, not by strangulating the economy, as has been done in the past.

And as we are continuing to do so, one of the things you will have noticed is that even today, Jeremy Powell has said that he would like to decrease interest rates, but he’s not sure exactly when. Why? Because the U.S. economy is doing too well. I mean, consider the absolute, how can you say, obscenity of this. But that is what monetary policy is doing right now. And again, in the kind of economy we are talking about, the economy which will solve these problems, we will not have that kind of monetary policy. We will instead recognize that inflation is not always and everywhere a monetary phenomenon, that it is a phenomenon bound up with production and it will be attacked as such.

Michael, do you want to add anything else to the monetary policy matter before we go on to the next question?

Michael Hudson: Yes. The reality is just the opposite. The deflation is everywhere a monetary problem. The function of Milton Friedman and the Chicago School is to make sure that people are confused and do not understand how the economy works. You want to produce students that end up like Paul Krugman, not people who understand what Radhika and I are taking.

You can say just as well that increased money creates deflation. How does this work? If most bank credit is created to increase the price of housing, to lend against houses and raise the price of housing, that is going to increase the amount of money that people have to pay for housing.

From 1945 to 1980, 25% of American income was what you would pay for a mortgage or for rent. Today it's up to 43%, guaranteed by the government and even higher for many people. If you have to raise the amount of your income from 25% to 43% to pay the banks for mortgage credit, you're going to have to cut back your spending on goods and services accordingly.

In the 1930s, this was called debt deflation. Everybody knew what it was. Irving Fisher wrote a great article on debt deflation. My book, *Killing the Host*, describes debt deflation. The banks try to say, no, no, money inflates the economy and our credit helps employ labor and raise wages, but when we create too much, meaning when wages go up, then we have to step it back down. The worst thing that can happen to an economy for a banker is for wages to go up. The banker wants wages to go down, so the banker wants all the money to be paid as interest in the economy.

Somehow they can turn everything upside down. What you get in the press and the politician speeches is an inside-out economics, not realizing that bank credit deflates the economy, causes unemployment, and that's how the Federal Reserve manages the banks to make sure that wages don't grow, that housing prices grow, that rents grow, that money paid to the banks grows, but not money paid to labor or to industry. Because if you had industrialization, if America was still a manufacturing economy, there would be higher employment for labor, and that's not what the class war is all about in a financialized economy.

Radhika Desai: Exactly. Just one side point, Michael. You and I were discussing this a few days ago. You had written a book called Junk Economics, and you were doing a search on whether you were the first to use the term junk economics, and you found, no, somebody else had used the term before, and guess who that person ended up being? It was me.

The reason I'm bringing this up is because I wrote this book, *Geopolitical Economy*, in which a large part of my narrative actually rests on reading the economic reports of the president. As the U.S. economic policy became more and more essentially neoliberal, financialized, etc., which could not be justified on any sane basis, the economic discourse emanating from the highest places of the administration could be seen to be visibly deteriorating. It made less and less economic sense. I used the term junk economics when I was giving a presentation based on chapter 9 of that book, which covered the George Bush Jr. period, and I said that by this time the level of irrationality of economic policy had risen to such a great extent that essentially what was essentially a bubble economy was justified as being just perfectly fine on the basis of what I call five tall tales, that the highest, best-paid economists of the country were telling Americans and the rest of the world why they should keep investing. This is essentially when you create a junk economy, then you need junk economics to justify it, and that's what we've had so far.

Having said that, Michael, you already have touched on our third question, which is how do we redesign taxation? I think you have some really important things to say about this, so go ahead.

Michael Hudson: As I said, should I repeat myself? You want to tax economic rent, not value. Value is created by labor. You don't want to tax labor, because if you tax labor, the employer has to pay a higher price, and if the price of labor is what determines what goods industrial products are sold for, the more you tax labor and the more you tax industry, then the less competitive you are in the world, and you lose out to countries like Asia or countries that are not post-industrialized, but continue to industrialize. That's basically it.

Interest is an element of cost. Debt service is an element of cost. If you have to pay higher interest, then, of course, this is the cost of production, and the American economy, by being taken over by the banks, has made itself so high-cost an economy that that is what has de-industrialized the economy. The only way that you can re-industrialize the economy is to prevent all of this unearned income, this free lunch income, the land rent, the interest charges, the monopoly rent. You want to prevent that from being subsidized by the politicians that are put in place by bank contributions so that all of this rent can be paid to the banks.

If there is unearned income, obviously some houses and some locations are going to be better. You want this to be the tax base. If it's the tax base, it's not going to be capitalized into higher prices.

Radhika Desai: You mean a land tax?

Michael Hudson: Yes, a land tax primarily.

Also, you don't want to charge for student loans. You don't want students to say, OK, I want to get a job, I'll go to college, I'll pay $40,000 a year, and I'll come out owing so much money that I can't afford to buy a house and I can't afford to buy many of the goods and services I produce. They're not even producing many goods and services because those are basically industrial services and they've all been moved offshore.

It’s not that foreign countries have stolen this industry. It’s that America said we don’t want industry that employs labor because you’d have too high employment and you’d have high labor prices and we’re running the economy and we want the money, not labor. We bankers and monopolists and billionaires want all the money for ourselves, not labor. That’s why we’re moving it offshore to keep wages down because we want a low-wage economy. That’s what we call an efficient economy, an economy where people can’t afford higher education, an economy where people can’t afford housing because they’re paying us. They take out student loans that we get the money from. That’s the kind of economy that economists say is efficient. Another word for it is race to the bottom, and that’s the kind of economy we have.／

Radhika Desai: Absolutely. And just one final point on redesigning taxation. What Michael is saying essentially is that instead of taxing earned income, particularly labor income, what should be taxed is land, and that should be the main basis on which— and the rationale for this is very simple.

Basically, land becomes more valuable not because of anything you’ve done. Imagine I own a piece of land. I have absolutely no idea. Maybe it’s in a sleepy, faraway place in the country, and it’s really worth very little. And then somebody discovers that there is some new mineral that can be found on my land. Well, with me having done nothing to earn it, suddenly I become the beneficiary of a vast inflation in the price of my land. And ideally, since this discovery itself is a result of broader social processes, society as a whole should benefit from the increase in the value of the land, and that’s why the land tax makes sense.

I mean, you can have other scenarios as well. You can have a scenario in which imagine that I bought a piece of land for next to nothing, and then 10 years down the road, the government decides to put a bus route near it or put a railway line near it. Suddenly the value of my land would go up for my having contributed nothing because of broader social processes. So on the whole, the value of land tends to fluctuate as a result of this. And so neither should people not unduly benefit from such increases in valuations, and nor should they suffer from decreases in valuation. And that's why a land tax makes sense, because the increases and decreases in the value of land is a result of broader social processes for which the government should take the benefit and also the hit. So I think this is one thing.

And the only other thing I would say about taxation is that, of course, in the first instance, we want progressive taxation. That is to say that the absurd and obscenely high incomes and wealth of the people we have become so rich on the basis of the last 50 years of economic policy should, of course, be taxed.

But in the long run, the aim should be to depress the differentials in wages as well. There's absolutely no reason why somebody should make hundreds of times more money than somebody else. It simply doesn't make sense. They're not a hundred times better. They're not hundreds of times more intelligent. They're not working hundreds of times harder, etc., etc.

Michael, please.

Michael Hudson: Modern monetary theorists, as you know, say that it's not necessary to tax, that the government can simply create money without taxing. But even if the government could create money, there's a good reason for taxing. Some taxes are necessary because taxes prevent unearned wealth from being created.

For instance, here in New York, they spent a few billion dollars on extending the subway on the Upper East Side a few miles in a very high-rent, high-housing district where a lot of wealthy people live. When the subway was finally built along 2nd Avenue, housing prices and rents went up all along the line. So all of a sudden, the landlords got a free lunch. Radhika was just talking about landlords getting money for nothing. This is an example. They got a free lunch. The city could have said, OK, by building this subway line, we've created a much higher valuation for rents because people now don't have to walk so far to the subway and they're willing to pay for that. But instead, the transit authority raised the fares and stopped paying money to maintain the switches throughout the system. The system throughout all the rest of the city decayed. Fares went up, and the city did not recover this money from the absentee landlords who made a killing off the $2 billion that America paid.

You don't want people to make money that way. You don't want money to be taken by people who will then bribe the politicians or not bribing, but contribute to their political campaigns and mounting attack ads on their opponents and distort the economy. So the failure to tax economic rent, the failure to tax land rent and bank financial gains is you let a class develop whose economic interests are in fighting against the economy as a whole and turning the economy into getting wealth by unearned income, getting wealth by financial maneuvering and by rent-seeking, as economists say, not by actually producing labor and raising living standards, not by industry and improvements in productivity, but essentially not reinvesting in long-term development, research, and the kind of investment that the countries that are actually growing.

And if you look at what the Asian countries are doing, they're avoiding this. The Asian countries are doing exactly what Adam Smith, John Stuart Mill, Marx, and the other classical economists defined as a free market. America's going back towards the kind of 17th, 16th, 13th century. We're going back to feudalism, not moving out of it.

Radhika Desai: Yeah, I'd only say, by the way, that I personally tend to avoid using the term feudalism for our economic system, because it tends to let capitalism off the hook. I mean, this is what capital, senile capitalism looks like. And so we should, you know, but it's a terminological problem.

Now, our fourth point was nationalization of land and elimination of rent. And I think we've kind of covered that as much as possible. I just wanted to make one small point, which is that, you know, which matters for ordinary people, because a large part of our lives are dominated by things like long commutes. Long commutes happen precisely because of the unfair process of some people benefiting from the increase in the value of land, which again, they have nothing to do with, and essentially pricing people out of living near where they work. And a rational land policy, which would be possible if you had nationalized land, would actually enable people to live near where they work and not suffer from this kind of long commutes and all the distortions of life that that brings, and of course, distortions of productivity that that brings. So it would also be a solution that you'd have a rational location policy, rational location of workplaces, housing, and of course, a rational transportation policy, as a consequence as well.

Michael Hudson: This is exactly what's happened in London. Now they can't afford to live there anymore.

Radhika Desai: Exactly. Okay, so our fifth point was financial regulation to prevent speculation and predatory lending. So do you want to start off with anything there?

Michael Hudson: Well, basically, speculation is a function of how much credit will the Federal Reserve let banks lend against. Donald Trump could buy huge swaths of real estate for putting down no money at all. And most of the private capital companies are able to say, here's a profitable company like Sears Roebuck, or Toys R Us, lend me the money to buy it, and I will pay you interest on it, and I'll buy it, and I will immediately essentially break it up into parts, sell it off, fire the labor force, squeeze labor more, and then leave a bankrupt shell, but you, the banker, and I can get rich off this. That's basically speculation.

Speculation is making money financially by dismantling an industrial economy. Speculation is taking over a company, borrowing money, using the money to pay out as dividends, using the money for stock buybacks. Speculation is when you buy a company and say, well, look at a company like Boeing. Why is this company spending so much money on engineering aircraft? Let's not develop a new aircraft. Let's just take the money that we're getting already and pay it out as dividends, make stock buybacks, pay it to ourselves, and of course the company is going to go bankrupt and end up crashing in time, but that's not our problem because we'll become billionaires by the end of that. We'll make the banks rich. We'll get rich. Who needs investments? Let's just run it all down to the ground.

The whole economy is looking like Boeing right now, and what they've done to Boeing, what they've done to General Electric has become the model of how to de-industrialize and wreck an economy. They call it speculation, but it's really debt leveraging. It's really loading a company down with debt and using its income to pay debt service, not to invest in new capital formation.

Radhika Desai: You know, you say such an important thing about Boeing. Honestly, I remember reading in the Financial Times recently, just as these scandals are coming out about Boeing, that for the last several decades, actually engineers have been refusing to work for Boeing because it's no longer an engineering firm. It's a firm that values extraction of value out of whatever carcass is left of that firm and does not emphasize engineering good airplanes as it once used to do. So, this is really quite an interesting point you make.

Several other quick short points. Number one, you know, just a very basic thing, you know, you were talking about how this speculative activity, it happens in a kind of club-like environment. And that reminds me that one of the things I always like to say is that people think that credit relationship is a market relationship. It's not a market relationship. A credit relationship is effectively a social and political relationship in which you give credit to those who you know. And every model that has been created to try to replace that has essentially either not been practiced by the financial institutions or it has led to huge problems. So, I think that's the first thing I want to say.

The second thing I want to say is that the best way of preventing speculation was already found and it was found in the United States and it was called the Glass-Steagall Act. And the Glass-Steagall Act said something very simple. We are going to back those parts of the financial system that do not engage in speculation with federal deposit insurance. And if you want to engage in speculation, fine, you can do that. We'll let you do that, but you do it on your own dime. You do it at your own risk. If you lose money, the Federal Reserve is not going to come and the Federal Deposit Insurance Corporation is not going to come and rescue you. And I think that was fair.

And they didn't stop speculation, but it sure contains speculation to a very, very small number of people and a very small amount of money, et cetera, et cetera.

But beginning with the repeal of Glass-Steagall, and before it was repealed, it was also softened up quite a bit, beginning with the repeal of Glass-Steagall, the Federal Reserve has created a situation in which the big banks, which sit on your and my money, the billions and billions and trillions of dollars, which are made up of your and my small deposits can be thrown into the market for speculation. And as a result of that, what most people don't realize is that in 2008, all the small boutique banks that used to be the speculative banks, not protected by the Federal Deposit Insurance, were wiped out by the big commercial banks, which were now backed by the Federal Reserve, even though they were engaged in speculation.

I mean, so we know how to do it. We can do it. And I think that it would be not that difficult to do it.

A final point I want to make, you know, we've always emphasized that the problem with the financial system is predatory lending and speculation. And I think that, you know, we have had two very distinct periods in the history of neoliberalism and financialization. In the 1980s and 1990s, interest rates were relatively high. And there, basically, you just made money if you had a lot of money, because essentially, you were being paid lots of money just to sit on it with high interest rates. So in that sense, that was one type of, and of course, those who borrowed money paid through the nose for borrowing that money. So it was an era where predatory lending was much more, I mean, still happens, but it was sort of in the lead.

In the, after 2000, what you got were long periods of very, very easy credit, easy monetary policy. And that is what essentially fueled speculation, because it was easy to borrow money. And you, you know, if the margin was, you know, 0.0001%, on that margin, if you just put in a few thousand dollars, you're not going to make more than a couple of bucks. But if you could throw in millions and millions and billions of dollars into the trade, then you could make a lot of money. And that's the two different types of economies we had. And all of this is easy to regulate. It's just a question of finding the political will to do so.

Michael Hudson: Well, you use the word market, and that people don't realize that every economy is some kind of a market. Ancient Babylonia had a market. Briggs and Rome had a market. China has a market. Even Stalinist Russia had a market. The question is, what kind of a market are you going to have? And what's the relation between prices and the cost of production? And who gets the income? Labor, capital, landlord?

And today, almost all the economists say a market is something where the bank, where the government doesn't do anything. It's a free market, meaning the billionaires control the economy. The government will not regulate them. The government will not try to steer credit to be productive. The government will not help the people. It will help the 1% exploit the people. A free market is an economy won by the 1% in an oligarchy where democracy has either no role to play, or if you let the people vote, they don't understand how the market works and how to create an economic alternative.

So what we're really talking about in this broadcast is, what kind of a market do you want to have? And where does finance fit into this market? Where does tax policy fit into this market? And how do you then create an alternative?

Well, any economist, Paul Krugman or the New York Times or the entire Council of Economic Advisers will say, with Margaret Thatcher, there is no alternative. But of course there's an alternative. And that's what our program is all about. Every few weeks, we're trying to outline an alternative that it doesn't have to be this way. Economists say it has to be this way if you want a free market, a free market for the 1% to take whatever they want, to control the banks, to control real estate, to create monopolies, and to extend this all throughout the world so that there's no country in the world that has a different kind of a market to show that there is an alternative. That's really the geopolitics of our analysis of how an economy works. And every economy is a market. The question is, do you want an oligarchic market, a democratic market, a productive market, an industrial market, or a financialized market?

Radhika Desai: Exactly, Michael. So well put.

Okay, so our sixth point is expansion of income in place of debt. And my point here is a very simple one. At the moment, we have, over the last five decades and more, we have created a financial system which prioritizes, which strangulates ordinary people's income and instead invites them to expand credit, to become debtors instead. The kind of economy we are talking about would not do that. It would in fact leave the government free, either to encourage private enterprise or itself engage in the types of investments that will be necessary to increase the incomes of ordinary people. You have what you have by right. The government creates the kind of conditions in which you are able to make a contribution and make a good income, the kind of income you need for a decent standard of living. And the root and branch reform of the existing financial system is the *conditio sine qua non* of this kind of system. We have to eliminate it if we want to have a kind of economy in which we are capable, every society is capable of producing what it needs, employing its labor to good effect, and so on. So to me, that's the most important thing to say about this point. Yeah, you agree.

So a final point is the point about international money, moving from the dollar disorder to an international monetary system based on the kind of proposals that Keynes had made. So essentially, maybe just to start us off on the discussion of this, these are the main elements

Keynes had proposed to create. Let me just begin with the center and then we'll move to each one of these things.

But essentially, Keynes proposed to create a new currency. It was not going to be the currency of any country. All countries would continue using their national currencies. But this bancor would be used among central banks to settle imbalances. So if one country imported more from another country over a given year, at the end of that year, if you are clearing the balances, then that country owed a certain amount of bancor to the other country, et cetera, and so on. So bancor was the key thing I want to emphasize here is that bancor was not to be used in ordinary daily transactions. For that, every country would continue using its own currency. Bancor was only international currency to be used by central banks.

Michael Hudson: Yes. Obviously, something like that should be used today. There are two alternatives. One is the International Monetary Fund special drawing rights. They created an artificial currency, and they did it because the United States said, we're running a budget deficit because we have 800 military bases all over the world, and we can't afford them. Give us enough money. But of course, you can't give us money. In order to give us money to have our military bases to control the world, to make sure there's no alternative to our kind of free market, you have to give other countries the ability to special drawing rights, too, so that the IMF can lend money to Argentina and the global south so that they can pay for the banks for the balance of payments deficit from following the kind of warped economic growth that the World Bank sponsors, privatization and dependency on American exports.

What we want is indeed an international currency to be used, but it's not going to be to enable debtor countries to pay the American and European banks. It's not going to be a currency to finance American military spending. It's going to be a currency that people will not have to keep their money in dollars anymore.

Imagine you're Saudi Arabia, and you'd say, we're getting a lot of pressure from our Palestinian population to support Gaza. But if we support Gaza and don't support the United States, they're going to grab all of the money that we keep in the United States. They're going to do to us what they did to Russia. The United States can grab any country's foreign reserves if they support a policy that the United States doesn't support militarily. We need an alternative that is not controlled by the American military and by the American neoconservatives.

Countries do need credit, just like the economy needs credit that we're urging should be created by the Treasury. What Keynes suggested is the equivalent of an international treasury, but that would lend money for the things that treasuries are supposed to create money for, to promote economic growth, not military spending, not trade dependency, and not a debt-ridden international economy, which is now breaking apart as a result of the last 75 years of IMF and World Bank lending.

Radhika Desai: Great points, Michael. Let me just emphasize one quick thing, though, about SDRs, special drawing rights of the IMF. The problem with SDRs is that while in some respects it looks like a bancor, in a key respect, it is not like bancor, maybe in two key respects. Number one, because it is issued by the IMF, it is still under US control because the US still retains a veto in the IMF. So that's the first thing.

And the second reason is that, of course, thanks for historical reasons, the IMF and the World Bank are deeply implicated precisely in the US-based financial system, whereas a proper bancor would be extricated from the extremely unproductive, predatory, exploitative, speculative US-type financial system.

You also mentioned, Michael, not creating trade dependency. And another feature of the principles that were embedded in Keynes's idea of a bancor was the principle of creditor adjustment. Today, we have a situation in which if you are a trade deficit country, you are the one who is forced to adjust. If you owe money, if you're a debtor country, you are the one that is forced to adjust. But Keynes said that one person's deficit is another person's surplus. One country's deficit is another country's surplus. And therefore, the two are co-responsible for that situation, and the two must cooperate in order to get out of that situation.

So, for example, take Germany and Greece as a classic example of a persistent surplus country and a persistent deficit country. Germany and Greece have to come up with an agreement to end these persistent imbalances, deficits on the one hand and surpluses on the other, either by Germany investing in Greece, in the Greek economy, in a way as to make it capable of producing more things, which Germans can then buy from them, or by reducing its deficit. Have one way or the other. So, creditor adjustment for both trade flows and capital flows was a very, very important principle.

Michael Hudson: Well, we've just solved the world's problem.

Radhika Desai: Well, we still have a couple of other points here. So, anyway, let me just discuss the rest of this and then give it over to you, Michael, for whatever else you want to say. So, a third principle was, of course, that there should be capital controls. That is to say, governments and central banks should be able to monitor and control the inflows and outflows of large amounts of money with a view to ensuring that what was happening would not harm the economy.

So, for example, the kind of inflows of hot money that gave rise to the East Asian financial crisis in 1997-98 would not happen, would not be permitted, etc. So, capital controls were a very, very important principle and that would have to be accepted. And all capital flows that are flowing in and out of the country would be based on what is good for that economy.

The price of Bancor, the value of Bancor was to be set on the basis of the 30 most traded commodities. Today, we may expand the list, maybe 50, 60 commodities, but whatever. The idea being that the prices of commodities, that is to say, primary commodities like wheat or copper or gold or what have you, these were the prices that were the most volatile. And if the value of the currency was based on that, oil, of course, was based on that, then this would provide a kind of stable and acceptable value to the commodities.

And finally, the whole system was to be run — Michael mentioned the equivalent of a treasury. That equivalent was to be the International Clearing Union, which would be a multilateral agency agreed by all countries on the basis of, you know, and whose principles would be to prevent persistent surpluses and deficits and where there were surpluses and deficits, essentially to tax them, both surpluses and deficits, in order to provide financing for development. So, these were some of the principles that Keynes brought to Bretton Woods.

This, if they had been implemented, they would have actually led to the creation of a permanently expansionary world economy because it would have allowed every country to govern its economic fate. But of course, precisely because of that, the United States essentially nixed his plans. And every time there's a big economic crisis in the world, people recall the sensibleness of Keynes' ideas.

Michael Hudson: Well, these ideas that we've discussed were all discussed 75 years ago. And there were big political arguments about them. I've summarized them in *Super Imperialism*, a chapter on this. And the result of the way that the world economy was malstructured by rejecting Keynes' idea was the United States did not want to have economic balance. It wanted all the money for itself. The United States said, we're the world banker. What does a banker do? The banker impoverishes the rest of the economy to get rich. That's why you're a banker. And that's what we're going to do. We're going to create an economy, especially to the World Bank, through diplomacy, through military spending, and especially by regime change, so that raw materials prices go down. We're not only fighting labor, we're fighting the third world raw materials exporters. We're fighting the copper producers. We're fighting the agricultural producers of warm climate tropical crops that we import. We're fighting everybody who supplies us with what helps our economy so that we can get rich, not them. We can get rich in America and our satellites in Europe by keeping the global South poor, and by keeping Asia poor. There's not going to be any kind of bancor. There's not going to be any creditor responsibility for not monopolizing the world gains, because the economic system we want is all about monopolizing the world gains, and that's what the dollar standard has become.

All of this was foreseen 75 years ago, and because of America's power after World War II, it was able to establish this regressive, exploitative, unfair economic system that finally today, for the first time, the world is looking back at these principles and saying there is an alternative, while the United States educational system tries to convince economic students that there is no alternative, and the military and the neocons want to say, hey, if you got an alternative, we have some people who can take care of you and have a regime change.

Radhika Desai: Quite so, and you mentioned imbalances, Michael, and one of my favorite points, you reminded me of one of my favorite points about Keynes's bancor system and the current dollar system. The dollar system relies on imbalances. The greater the imbalance is, the more there will be a demand for dollars, etc., etc. Whereas the genius of Keynes's — and of course, imbalances create volatility, create crises, and all these things we've discussed, all these things in previous shows — the genius of Keynes's idea was actually that if you reduced imbalances, then the actual amount of bancor that would be needed to make the system work would actually be as little as possible, you know, because ideally, think about it, if you buy $100 worth of goods from me and I buy $100 worth of goods from you, there is nothing, we don't need money to settle imbalances. The only reason you need bancor is when there are imbalances, and the idea was to reduce imbalances, and the purpose of this was that, again, with credit adjustment, Keynes basically said that, look, if you're in a stronger position, you should be able to help your partner who is in a weaker position to become productively stronger. That was the whole point, and I would say that it still makes a lot of sense, as you just said, Michael.

So here we are, we've dealt with actually all our seven questions, and I hope that we've given you something to think about, about the kind of economic system we could have, we could easily have. The most important difficulty is not intellectual, it is political, and as the political legitimacy and power of those who are running the system, particularly in the United States, is visibly declining, cracking, etc., now is the time to strike, now is the time to raise demands for an alternative system, much as, by the way, Jill Stein is doing in her campaign, and I should add that Michael and I are both part of her advisory team, and so please look out for it. We hope to have her on one of our shows very soon, as soon as she is able to find some time, so that we will discuss the kind of economy that the U.S. needs, and I would say if the U.S. turned around, boy, so many other problems would be solved.

So, on that note, unless Michael, you want to add anything, we will end for now, and see you again in a couple of weeks. Meanwhile, please like, please share, please give us our comments, please subscribe, and look forward to seeing you next time. Thank you. Bye-bye.

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