Orwellian Doublethink: “Nationalize the banks.” “Free Markets.”

The language of deception

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> Banking shares began to plunge Friday morning after Senator Dodd, the Connecticut Democrat who is chairman of the banking committee, said in an interview with Bloomberg Television that he was concerned the government might end up nationalizing some lenders “at least for a short time.” Several other prominent policy makers – including Alan Greenspan, the former chairman of the Federal Reserve, and Senator Lindsey Graham of South Carolina – have echoed that view recently. (Eric Dash, “Growing Worry on Rescue Takes a Toll on Banks,” The New York Times, February 20, 2009)

How is it that Mr. Greenspan, free-market lobbyist for Wall Street, recently announced that he favored nationalization of America’s banks – and indeed, mainly the biggest and most powerful? Has he “gone left”? Or are we dealing with the most recent exercise in Orwellian doublethink?

The answer is that the rhetoric of “free markets,” “nationalization” and even “socialism” (as in “socializing the losses”) has been turned into the language of deception to help the financial sector mobilize government power to support its own special privileges. Having undermined the economy at large, Wall Street’s public relations think tanks are now dismantling the language itself.

The popular media should not let them get away with it.

Economic idealism from the left to the right wing of the political spectrum advocates a free market. But what does this mean? Is it what the classical economists advocated – a market free from monopoly power, business fraud, political insider dealing and special privileges for vested interests – a market protected by the rise in public regulation from the Sherman Anti-Trust law of 1890 to the Glass-Steagall Act and other New Deal legislation? Or is it a market free *for* predators to exploit victims without public regulation or economic policemen – the kind of free-for-all market that the Federal Reserve and Security and Exchange Commission (SEC) have created over the past decade or so? It seems incredible that people should accept today’s neoliberal idea of “market freedom” in the sense of neutering government watchdogs, Alan Greenspan-style, letting Angelo Mozilo at Countrywide, Hank Greenberg at AIG, Bernie Madoff, Citibank, Bear Stearns and Lehman Brothers operate freely enough to plunge the economy into crisis and then use Treasury bailout money to pay the highest salaries and bonuses in U.S. history.

Terms that are the antithesis of "free market" also are being turned into the opposite of what they historically have meant. Take today's discussions about nationalizing the banks. For over a century nationalization has meant public takeover of monopolies or other sectors to operate them in the public interest rather than leaving them so special interests. But when neoliberals use the word "nationalization" they mean a bailout, a government giveaway to the financial interests.

We are dealing with an abuse of language of the kind that George Orwell described in 1984, a degradation of the vocabulary to mean the opposite of what it formerly meant in order to rewrite intellectual and political history along lines that serve the currently dominant vested interests: "The past was erased, the erasure was forgotten, the lie became truth." Doublethink with regard to "nationalizing" or "socializing" the banks and other sectors is a travesty of political and economic discussion from the 17th through mid-20th centuries. Society's basic grammar of thought, the vocabulary to discuss political and economic topics, is being turned inside-out in an effort to ward off discussion of the policy solutions posed by the classical economists and political philosophers that made Western civilization "Western."

Today's clash of civilization is not really with the Orient; it is with our own past, with the Enlightenment itself and its evolution into classical political economy and Progressive Era social reforms aimed at freeing society from the surviving trammels of European feudalism. What we are seeing is propaganda designed to deceive, to distract attention from economic reality so as to promote the property and financial interests from whose predatory grasp classical economists set out to free the world. What is being attempted is nothing less than an attempt to destroy the intellectual and moral edifice of what took Western civilization eight centuries to develop, from the 12th century Schoolmen discussing Just Price through 19th and 20th century classical economic value theory.

Any idea of "socialism from above," in the sense of "socializing the risk," is old-fashioned oligarchy – kleptocratic statism from above. Real nationalization occurs when governments act in the public interest to take over private property. The 19th-century program to nationalize the land (it was the first plank of the *Communist Manifesto*) did not mean anything remotely like the government taking over estates, paying off their mortgages at public expense and then giving it back to the former landlords free and clear of encumbrances and taxes. It meant taking the land and its rental income into the public domain, and leasing it out at a user fee ranging from actual operating cost to a subsidized rate or even freely as in the case of streets and roads.

Nationalizing the banks along these lines would mean that the government would supply the nation's credit needs. The Treasury would become the source of new money, replacing commercial bank credit. Presumably this credit would be lent out for economically and socially productive purposes, not merely to inflate asset prices while loading down households and business with debt as has occurred under today's commercial bank lending policies.

How Neoliberals falsify the West's political history

The fact that today's neoliberals claim to be the intellectual descendants of Adam Smith make it necessary to restore a more accurate historical perspective. Their concept of "free markets" is the antithesis of Smith's. It is the opposite of that of the classical political economists down through John Stuart Mill, Karl Marx and the Progressive Era reforms that sought to create markets free of extractive *rentier* claims by special interests whose institutional power can be traced back to medieval Europe and its age of military conquest.

Economic writers from the 16th through 20th centuries recognized that free markets required government oversight to prevent monopoly pricing and other charges levied by special privilege. By contrast, today's neoliberal ideologues are public relations advocates for vested interests to depict a "free market" is one free of government regulation, "free" of anti-trust protection, and even of protection against fraud, as evidenced by the SEC's refusal to move against Madoff, Enron, Citibank *et al*.). The neoliberal ideal of free markets is thus basically that of a bank robber or embezzler, wishing for a world without police so as to be sufficiently free to siphon off other peoples' money without constraint.

The Chicago Boys in Chile realized that markets free for predatory finance and insider privatization could only be imposed at gunpoint. These free-marketers closed down every economics department in Chile, every social science department outside of the Catholic University where the Chicago Boys held sway. Operation Condor arrested, exiled or murdered tens of thousands of academics, intellectuals, labor leaders and artists. Only by totalitarian control over the academic curriculum and public media backed by an active secret police and army could "free markets" neoliberal style be imposed. The resulting privatization at gunpoint became an exercise in what Marx called "primitive accumulation" – seizure of the public domain by political elites backed by force. It is a free market William-the-Conqueror or Yeltsin-kleptocrat style, with property parceled out to the companions of the political or military leader.

All this was just the opposite of the kind of free markets that Adam Smith had in mind when he warned that businessmen rarely get together but to plot ways to fix markets to their advantage. This is not a problem that troubled Mr. Greenspan or Mr. Bush. There really is no kinship between their neoliberal ideals and those of the Enlightenment political philosophers. For them to promote an idea of free markets as ones "free" for political insiders to pry away the public domain for themselves is to lower an intellectual Iron Curtain on the history of economic thought.

The classical economists and American Progressives envisioned markets free of economic rent and interest – free of *rentier* overhead charges and monopoly price gouging, free of land-rent, interest paid to bankers and wealthy financial institutions, and free of taxes to support an oligarchy. Governments were to base their tax systems on collecting the "free lunch" of economic rent, headed by that of favorable locations supplied by nature and given market value by public investment in transportation and other infrastructure, not by the efforts of landlords themselves.

The argument between Progressive Era reformers, socialists, anarchists and individualists thus turned on the political strategy of how best to free markets from debt and rent. Where they differed was on the best political means to achieve it, above all the role of the state. There was broad agreement that the state was controlled by vested interests inherited from feudal Europe's military conquests and the world that was colonized by European military force. The political question at the turn of the 20th century was whether peaceful democratic reform could overcome the political and even military resistance wielded by the Old Regime using violence to retain its "rights." The ensuing political revolutions were grounded in the Enlightenment, in the legal philosophy of men such as John Locke, political economists such as Adam Smith, John Stuart Mill and Marx. Power was to be used to free markets from the predatory property and financial systems inherited from feudalism. Markets were to be free of privilege and free lunches, so that people would obtain income and wealth only by their own labor and enterprise. This was the essence of the labor theory of value and its complement, the concept of economic rent as the excess of market price over socially necessary cost-value.

Although we now know that markets and prices, rent and interest, contractual formalities and nearly all the elements of economic enterprise originated in the "mixed economies" of Mesopotamia in the fourth millennium BC and continued throughout the mixed public/private economies of classical antiquity, the discussion was so politically polarized that the idea of a mixed economy with checks and balances received scant attention a century ago.

Individualists believed that all that shrinking central governments would shrink the control mechanism by which the vested interests extracted wealth without work or enterprise of their own. Socialists saw that a strong government was needed to protect society from the attempts of property and finance to use their gains to monopolize economic and political power. Both ends of the political spectrum aimed at the same objective – to bring prices down to actual costs of production. The common aim was to maximize economic efficiency so as to pass on the fruits of the Industrial and Agricultural Revolutions to the population at large. This required blocking the *rentier* class of interlopers from grabbing the public domain and controlling the allocation of resources. Socialists did not believe this could be done without taking the state's political and legal power into their own hands. Marxists believed that a revolution was necessary to reclaim property rent for the public domain, and to enable governments to create their own credit rather than borrow at interest from commercial bankers and wealthy bondholders. The aim was not to create a bureaucracy but to free society from the surviving absentee ownership power of the vested property and financial interests.

All this history of economic thought has been as thoroughly expunged from today's academic curriculum as it has from popular discussion. Few people remember the great debate at the turn of the 20th century: Would the world progress fairly quickly from Progressive Era reforms to outright socialism – public ownership of basic economic infrastructure, natural monopolies (including the banking system) and the land itself (and to Marxists, of industrial capital as well)? Or, could the liberal reformers of the day – individualists, land taxers, classical economists in the tradition of Mill, and American institutionalists such as Simon Patten – retain capitalism's basic structure and private property ownership? If they could do so, they recognized that it would have to be in the context of regulating markets and introducing progressive taxation of wealth and income. This was the alternative to outright "state" ownership. Today's extreme "free market" idea is a dumbed-down caricature of this position.

All sides viewed the government as society's "brain," its forward planning organ. Given the complexity of modern technology, humanity would shape its own evolution. Instead of evolution occurring by "primitive accumulation," it could be planned deliberately. Individualists countered that no human planner was sufficiently imaginative to manage the complexity of markets, but endorsed the need to strip away all forms of unearned income – economic rent and the rise in land prices that Mill called the "unearned increment." This involved government regulation to shape markets. A "free market" was an active political creation and required regulatory vigilance.

As public relations advocates for the vested interests and special *rentier* privilege, today's "neoliberal" advocates of "free" markets seek to maximize economic rent – the free lunch of price in excess of cost-value, not to free markets from *rentier* charges. So misleading a pedigree only could be achieved by outright suppression of knowledge of what Locke, Smith and Mill really wrote. Attempts to regulate "free markets" and limit monopoly pricing and privilege are conflated with "socialism," even with Soviet-style bureaucracy. The aim is to deter the analysis of what a "free market" really is: a market free of unnecessary costs: monopoly rents, property rents and financial charges for credit that governments can create freely.

Political reform to bring market prices in line with socially necessary cost-value was the great economic issue of the 19th century. The labor theory of intrinsic cost-value found its counterpart in the theory of economic rent: land rent, monopoly price gouging, interest and other returns to special privilege that increased market prices purely by institutional property claims. The discussion goes all the way back to the medieval Churchmen defining Just Price. The doctrine originally was applied to the proper fees that bankers could charge, and later was extended to land rent, then to the monopolies that governments created and sold off to creditors in an attempt to extricate themselves from debt.

Reformists and more radical socialists alike sought to free capitalism of its egregious inequities, above all its legacy from Europe's Dark Age of military conquest when invading warlords seized lands and imposed an absentee landlord class to receive the rental income, which was used to finance wars of further land acquisition. As matters turned out, hopes that industrial capitalism could reform itself along progressive lines to purge itself of its legacy from feudalism have come crashing down. World War I hit the global economy like a comet, pushing it into a new trajectory and catalyzing its evolution into an unanticipated form of finance capitalism.

It was unanticipated largely because most reformers spent so much effort advocating progressive policies that they neglected what Thorstein Veblen called the vested interests. Their Counter-Enlightenment is creating a world that would have been deemed a dystopia a century ago – something so pessimistic that no futurist dared depict a world run by venal and corrupt bankers, protecting as their prime customers the monopolies, real estate speculators and hedge funds whose economic rent, financial gambling and asset-price inflation is turned into a flow of interest in today's *rentier* economy. Instead of industrial capitalism increasing capital formation we are seeing finance capitalism strip capital, and instead of the promised world of leisure we are being drawn into one of debt peonage.

The financial travesty of democracy

The financial sector has redefined democracy by claiming claims that the Federal Reserve must be "independent" from democratically elected representatives, in order to act as the bank lobbyist in Washington. This makes the financial sector exempt from the democratic political process, despite the fact that today's economic planning is now centralized in the banking system. The result is a regime of insider dealings and oligarchy – rule by the wealthy few.

The economic fallacy at work is that bank credit is a veritable factor of production, an almost Physiocratic source of fertility without which growth could not occur. The reality is that the monopoly right to create interest-bearing bank credit is a free transfer from society to a privileged elite. The moral is that when we see a "factor of production" that has no actual labor-cost of production, it is simply an institutional privilege.

So this brings us to the most recent debate about “nationalizing” or “socializing” the banks. The Troubled Asset Relief Program (TARP) so far has been used for the following uses that I think can be truly deemed anti-social, not “socialist” in any form.

By the end of last year, $20 billion was used to pay bonuses and salaries to financial mismanagers, despite the plunge of their banks into negative equity. And to protect their interests, these banks continued to pay lobbying fees to persuade legislators to give them yet more special privileges.

While Citibank and other major institutions threatened to bring the financial system crashing down by being “too big to fail,” over $100 billion of TARP funds was used to make them even bigger. Already teetering banks bought affiliates that had grown by making irresponsible and outright fraudulent loans. Bank of America bought Angelo Mozilo’s Countrywide Financial and Merrill Lynch, while JP Morgan Chase bought Bear Stearns and other big banks bought WaMu and Wachovia.

Today’s policy is to “rescue” these giant bank conglomerates by enabling them to “earn” their way out of debt – by selling yet more debt to an already over-indebted U.S. economy. The hope is to re-inflate real estate and other asset prices. But do we really want to let banks “pay back taxpayers” by engaging in yet more predatory financial practices vis-à-vis the economy at large? It threatens to maximize the margin of market price over direct costs of production, by building in higher financial charges. This is just the opposite policy from trying to bring prices for housing and infrastructure in line with technologically necessary costs. It certainly is not a policy to make the U.S. economy more globally competitive.

The Treasury’s plan to “socialize” the banks, insurance companies and other financial institutions is simply to step in and take bad loans off their books, shifting the loss onto the public sector. This is the antithesis of true nationalization or “socialization” of the financial system. The banks and insurance companies quickly got over their initial knee-jerk fear that a government bailout would occur on terms that would wipe out their bad management, along with the stockholders and bondholders who backed this bad management. The Treasury has assured these mismanagers that “socialism” for them is a free gift. The primacy of finance over the rest of the economy will be affirmed, leaving management in place and giving stockholders a chance to recover by earning more *from* the economy at large, with yet more tax favoritism. (This means yet heavier taxes shifted onto consumers, raising their living costs accordingly.)

The bulk of wealth under capitalism – as under feudalism –always has come primarily from the public domain, headed by the land and formerly public utilities, capped most recently by the Treasury’s debt-creating power. In effect, the Treasury creates a new asset ($11 trillion of new Treasury bonds and guarantees, *e.g*. the $5.2 trillion to Fannie and Freddie). Interest on these bonds is to be paid by new levies on labor, not on property. This is what is supposed to re-inflate housing, stock and bond prices – the money freed from property and corporate taxes will be available to be capitalized into yet new loans.

So the revenue hitherto paid as business taxes will still be paid – in the form of interest – while the former taxes will still be collected, but from labor. The fiscal-financial burden thus will be doubled. This is not a program to make the economy more competitive or raise living standards for most people. It is a program to polarize the U.S. economy even further between finance, insurance and real estate (FIRE) at the top and labor at the bottom.

Neoliberal denunciations of public regulation and taxation as "socialism" is really an attack on classical political economy – the "original" liberalism whose ideal was to free society from the parasitic legacy of feudalism. A truly socialized Treasury policy would be for banks to lend for productive purposes that contribute to real economic growth, not merely to increase overhead and inflate asset prices by enough to extract interest charges. Fiscal policy would aim to minimize rather than maximizing the price of home ownership and doing business, by basing the tax system on collecting the rent that is now being paid out as interest. Shifting the tax burden off wages and profits onto rent and interest was the core of classical political economy in the 18th and 19th centuries, as well as the Progressive Era and Social Democratic reform movements in the United States and Europe prior to World War I. But this doctrine and its reform program has been buried by the rhetorical smokescreen organized by financial lobbyists seeking to muddy the ideological waters sufficiently to mute popular opposition to today's power grab by finance capital and monopoly capital. Their alternative to true nationalization and socialization of finance is debt peonage, oligarchy and neo-feudalism. They have called this program "free markets."