

Orwellian Economics

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SHARMINI PERIES: Come January 20th Donald Trump is placed to take power in Washington D.C., and there's one thing that everyone is wondering about is what kind of economic policies will he implement that we should really worry about it. Well there's been one economist, Michael Hudson, who's been thinking hard and taking a close look on the economics profession and how it misleads the general public in favor of the top 1%.

*Michael Hudson joins us today to talk about his forthcoming book, *J is for Junk Economics: A Guide to Survival in an Age of Deception*. Michael is a distinguished Research Professor of Economics at the University of Missouri, Kansas City Thanks Michael for joining us.*

MICHAEL HUDSON: Good to be back in Baltimore.

*PERIES: So Michael, your new book, *J is for Junk Economics* actually is a sequel if I may say, to [Killing the Host: How Financial Parasites and Debt Bondage Destroy the Global Economy](#). So give us a sense of the impetus for the new book.*

HUDSON: *Killing the Host* was a historical narrative of how the financial sector rose to power, and how it sought to take over government and resist the tendency to democratization by restoring a financial oligarchy. Europe's 1848 revolutions sought to free economies from landlords, monopolies and the banks. By the late 19th century there was a counter-move in economics that redefined the idea of free markets.

When Adam Smith and John Stuart Mill and even Marx wrote about free markets, they meant a market free from the idle rich. These were primarily the idle landlords who collected land rent on a hereditary basis without working. Also, financiers and the bankers, who had long insisted that governments create monopolies to give them in lieu of debt repayment.

The whole idea of industrial capitalism was to get free from these unnecessary costs. An economy doesn't need a landlord class to collect rent. It doesn't need monopoly rent. But around the late 19th century the landlords fought back and they claimed there was no such thing as unearned income. They claimed that *rentiers* were productive, not parasitic.

The essence of classical economics was to say there's a difference between value and price. Value is what it really costs to produce goods and services. This cost can be expressed in terms of what it costs to hire labor at a living wage. Everything that's not a real cost is just a privilege, a legal right to put up a toll booth and extract rent.

[Killing the Host](#) describes how the fight against classical economic reform was waged politically. I focus on what has happened since Margaret Thatcher and Ronald Reagan introduced neoliberalism, followed by the Clintons, by Tony Blair in England, and by most of

Europe today. *J is for Junk Economics* describes how the economic vocabulary has been turned around in an Orwellian way to mean the opposite of what words used to mean. A free market now means a market free *for* the landlords to charge whatever they want. Free *for* the monopolists to charge whatever they want. Free *from* regulation.

The neoliberal intent is to create a perverse methodology. I know that “methodology” is a technical word. What I mean by it is the creation of a deceptive way of looking at the economy. Today’s national income statistics, for instance, make it appear that Goldman Sachs is productive. As if Donald Trump plays a productive role. The aim is to make it appear that people who take money from the rest of the economy without working are productive, despite not really providing any service that actually contributes to GDP and economic growth.

People think that this concept of GDP is scientific economics, partly because it has a precise number and can be quantified. But the underlying concept of “the market” makes it appear as if today’s poverty is natural. It makes it appear that Goldman Sachs and Donald Trump are job creators instead of job destroyers. That is illogical, when you think about it.

So I talk about the vocabulary. It’s an A to Z vocabulary that goes over all of the concepts you need to know in order to pierce through the Orwellian rhetoric that passes for mainstream economics today. Mainstream economics has pretty much turned into junk economics. For instance, one example is the idea is that rent is perfectly natural to be paid. Neoliberals argue that a well run economy should have no government at all, but should shift all the economic planning to Wall Street, to the City of London, or Paris or other financial centers. Let financial managers do the planning, because they are the most productive people in the world – while government is just a deadweight bureaucracy.

This is the opposite of what was believed 100 years ago. I think I said before on this program that the first business school economics professor in the 19th century, at the Wharton School of Economics at the University of Pennsylvania, was Simon Patton. He defined public infrastructure – the public option, such as roads and other transportation – as a 4th factor of production. The biggest capital investment in every country is what governments spend on roads, water and sewer infrastructure, basic communications, telephone systems, natural resources, and of course land. All these things are being privatized now. But the aim under government ownership – under a public option, like public health in Europe – is to *lower* the cost of living, lower the cost of doing business, so as to make the economy more competitive.

By contrast, under Thatcherism or Clintonism (or whatever you want to call it), the idea is to turn infrastructure, roads and even the sidewalks over to the monopolists financed by Wall Street. They then begin charging rent as an access fee. The result is to make America a high cost economy. So when Donald Trump come sin and says that he’ going to make America great again, what he means is competitive again. But how can you make it competitive if you make Americans pay so much more in healthcare? They now pay as much in healthcare as an Asian would earn in an entire year. If you were to give Americans all their food and clothing, and everything they buy and self for nothing, they still couldn’t compete. That’s because of all the costs that wage earners have to pay out of their wages, but other countries provide by their government: government healthcare, government services, government roads and so forth.

This was America's economic development strategy in the 19th century. It's what made the United States the most competitive country in the world, and enabled it to undersell others. It's also what made Germany competitive. It's what made Japan competitive. But all this is being undone now, as if the world that existed before 1980 – before Margaret Thatcher, before Ronald Reagan, even before Bill Clinton – didn't really exist. There's been an expurgation of the basic tools of economic thought, of the vocabulary that was developed to distinguish between profits that are actually earned on capital investment and hiring people as compared to *economic rent*, which is a toll booth to extort money over and above the actual cost of production.

PERIES: You said something really important, which is that people (at least in this election cycle) started to believe that Donald Trump was a job creator rather than a job destroyer. What did you mean by that, and how have people been led down the garden path?

HUDSON: I didn't mean that they actually believed that he is a job creator. He wanted to convince them that he was a job creator. And it's true, he did hire a lot of workers and contractors. But probably not as many jobs as were lost by people gambling at his resorts. I teach at Kansas City, and one student did a study of why people go bankrupt there. It turns out that they have a ship that is docked in the river, and people can go and gamble. Most of the people who have declared bankruptcy have found themselves in a financial squeeze where they can't afford to pay their rent. They lost their jobs. They think that there's only one way to be able to pay the rent and not be out in the street. They've got to play for a 100 to 1 payoff. If they lose, it's that or nothing.

So for them it's actually rational. They're probably going to lose, but the only way they can keep their head above water is to win the lottery. But of course, most end up losing. So Donald Trump's hope is to convince workers that perhaps they can be a millionaire – and if they win the lottery, wouldn't they like not to be taxed? If so, then be nice to today's millionaires, because you might win the lottery and rise out of the working class.

That's the illusion of "labor capitalism." It's a nice trick if you can pull it off. But I think it's a myth – one that people want to believe. Lobbyists who represent Wall Street elites and the real estate interests want to promote the hope among voters that they might become capitalists, at least in miniature. But Donald Trump's father started him out with a few million. The odds are stacked against most people. A good economic theory would show how these odds are stacked against them. It would show why people are getting poorer and poorer since 2008.

For the last 8 years, the Obama administration has overseen a long downturn for 95% of the population. All the growth has been at the top 5%. We've got to show them this fact.

PERIES: Yet when we heard President Obama speaking at various rallies to support Clinton's candidacy, in terms of his own legacy, all he talked about was how much better off we are in terms of what he inherited in 2008. Which is true?

HUDSON: I think that Obama's attempt to put a happy face on most peoples' poverty was the kiss of death for Hillary. That was what lost her the election. Imagine Hillary going to the country and saying, just think of how much better off you are than you were 8 years ago. Most people must have thought, "Wait a minute! I'm not better off. I'm worse off. My real wages have gone down." Indeed, if you're 95 out of 100 Americans, your real wages *have* gone down. You're being squeezed by healthcare. Your housing costs are going

up. All your costs are going up, while your working conditions are getting worse. I think most voters thought, "I'm not better off at all. What is this? Who are Hillary and Obama trying to kid?"

Their feeling was one of revolt. So they said, "They can't fool me anymore. No matter how bad the opposite party is, we've got to throw them out. Even if we can't vote for someone good, at least we can keep throwing out the bad guys." Maybe like on a roulette wheel, a good candidate may come along going some day, like a winning number.

Unfortunately that's not how it works.

PERIES: So let's talk about the kind of mythologies that are being sold to the people, like what I was just talking about in terms of President Obama on the campaign trail telling people that they're better off than they really are. How are they being sold these mythologies, and what are some of the terminologies that you cover in your book that tricks people into believing what they're being told?

HUDSON: One way that he tries to convince them that they're better off is to cite the statistic that GDP, gross domestic product, is going up. It's true. For the overall economy, gross domestic product actually *has* gone up since 2008. The problem is, it's only gone up for 5% of the population. But it's gone up *so much* for Wall Street, *so much* for 5% of the population, that it's larger than the decline suffered by the 95%.

I don't know if I've talked about this on your show before, but I was just in Germany at an archeological conference where we were talking about the Roman empire turning into the Dark Age and feudalism. One critic said that there's been a new economic approach, a new economic archeology. In this new view, there really wasn't a Dark Age, because it turns out they've found so much luxury trade among the very rich – the landowners and warlords – that despite the fact the population was being turned into serfs, the rich were doing quite fine. Archaeologists have found nice pottery and luxury at the top of the pyramid. There was so much money that maybe there *was* actual growth. So they call transition to serfdom and just peonage for the population "growth," because so much wealth was being squeezed out for the top.

The question is, is that really growth, or not? If President Obama and Hillary convince people that GDP is going up but you haven't shared in it, something is wrong with you. This is a "blame the victim" rhetoric. She's blaming the victims for not participating in the growth that was enjoyed by Goldman Sachs and Wall Street, by Chase Manhattan and other bankers that were not thrown in jail.

Most people didn't want to think of themselves as victims, and they thought that Donald Trump was going to do something about them apart from just making himself rich.

PERIES: Right. And why is it that you blame the Obama period for this, because he actually did inherit terrible economy in a depression.

HUDSON: The reason he's so much worse than President Bush or even President Clinton is that 2008 was a potential turning point. When you look at who are the great presidents in history, you really think about who was a president during a great war or other turning point. Obama promised hope and change. But that was all demagoguery. He didn't bring about any hope and change. Or rather, the hope was for Wall Street. He delivered his constituency

to his Wall Street backers. Instead of making a change, he turned the economy over to Wall Street. He turned the treasury over to Robert Rubin and his Wall Street gang who had supported Bill Clinton. Rubin had taken over the most corrupt bank in the country, Citigroup. Sheila Bair at the FDIC wanted to close it down and turn it into a public option. But Obama turned over the Justice Department to Wall Street factotums like Eric Holder, who refused to put any of the crooked bankers in jail.

So basically, Obama made it appear as if he was representing the people where he slammed down hard on them. Just as he slammed down on them in his work in Chicago when he gentrified the city's black neighborhood, making billions of dollars in real estate gains for the Pritzker and Crown families. He was able to deliver his constituency to his backers, using false promises and a "golden tongue."

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