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Reforming the U.S. Financial and Tax System

Restore America's past prosperity and rescue the future from the financial grabbers

By Prof Michael Hudson
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On November 3, 2011, Alan Minsky interviewed Economic Professor and Global Research author Michael Hudson on KPFK's program, "Building a Powerful Movement in the United States" in preparation for an Occupy L.A. teach-in. To clarify my points I have edited and expanded my answers from the interview transcript.

Alan Minsky: I am joined now by Michael Hudson. He is a distinguished research professor of economics at the University of Missouri-Kansas City, and also is president of the Institute for the Study of Long Term Economic Trends. Welcome to the show, Michael.

Michael Hudson: Thank you very much.

Alan Minsky: Michael Hudson is scheduled to address Occupy L.A. as part of a teach-in that includes William Black and Robert Scheer, who will be moderating the panel that Michael will be on this weekend. Michael, I'm familiar with your work and I know that you are a big-picture economic thinker. This is definitely a movement that is asking the big questions about how the global economy and the national economy should be re-organized. What would you say to the movement at large about how best to organize a high-tech modern industrial economy in a way that would produce more social and economic justice?

America is being radicalized by coming to realize how radical Wall Street's power grab is

Michael Hudson: The Occupy Wall Street movement has many similarities with what used to be called the Great Awakening periods in America. Such periods always begin by realizing how serious the problem is. So diagnosis is the most important tactic. Diagnosing the problem mobilizes power for a solution. Otherwise, solutions will seem to come out of thin air and people won't understand why they are needed, or even the problems that solutions are intended to cure.

The basic problem today is that nearly everyone is in debt. This is the problem in Europe too. There are Occupy Berlin meetings, the Greek and Icelandic protest, Spain's "Indignant" demonstrations and similar ones throughout the world.

When debts reach today's proportions, a basic economic principle is at work: Debts that can't be paid; won't be. The question is, just how are they not going to be paid? People with student loans are not permitted to declare bankruptcy to get a fresh start. The government or collection agencies dock their salaries and go after whatever property they have. Many people's revenue over and above basic needs is earmarked to pay the bankers. Typical American wage earners pay about 40 percent of their wages on housing whose price is bid up by easy mortgage credit, and another 10 to 15 percent for credit cards and other debt service. FICA takes over 13 percent, and federal, local and sales taxes another 15 percent or so. All this leaves only about a quarter of many peoples' paychecks available for spending on goods and services. This is what is causing today's debt deflation. And Wall Street is supporting it, because it extracts income from the bottom 99% to pay the top 1%.

Half a century ago most economists imagined that the problem would be people saving too much as they got richer. Saving meant non-spending. But the problem has turned out to be just the opposite: debt. Overall salaries have not risen in decades, so many people have borrowed just to break even. Instead of an era of free choice, very little of their income is available for discretionary spending. It is earmarked to pay the financial, insurance and real estate sectors, not the "real" production and consumption economy. And now repayment time has arrived. People are squeezed. So when America's saving rate recently rose from zero to 3 percent of national income, it takes the form of people paying down the debts.

Many people thought that the way to get rich faster was to borrow money to buy homes and stocks they expected to rise in price. But this has left the economy financially strapped. People are feeling depressed. The tendency is to blame themselves. I think that the Occupy Wall Street movement, at least here in New York, is like what has occurred in Greece and also in the Arab Spring. People are coming together, and at first they may simply watch what's going on. Onlookers may come by to see what it's all about. But then they think, "Wait a minute! Other people are having the same problem I'm having. Maybe it is not really my fault."

So they begin to see that all these other people who have a similar problem in not being able to pay their debts, they realize that they have been financially crippled by the banks. It is not that they have done something wrong or are sore losers, as Herman Cain says. Something radically wrong with the system.

Fifty years ago an old socialist told me that revolutions happen when people just get tired of being afraid. In today's case the revolution may grow nearer when people get over being depressed and stop blaming themselves. They come to think that we are all in this together – and if this is the case, there must be something wrong with the way the economy is organized.
Gradually, observers of Occupy Wall Street begin to feel stronger. There is positive peer pressure to reinforce their self-confidence. What they intuitively feel is that the Reagan-Clinton-Bush-Obama presidencies have squeezed their lives. The economy has become untracked.

What's basically wrong is that the financial system is running the government. For years, Republicans and Democrats both have said that a strong government, careful regulation and progressive taxation is the road to serfdom. The politicians and neoliberal economists who write their patter talk say, "Let's take planning out of the hands of government and put it in the 'free market.'" But every market is planned by someone or other. If governments step aside, then planning passes into the hands of the bankers, because of their key role in allocating credit.

The problem is that they have not created credit to finance industrial investment and employment. They have lent for speculation on asset price inflation using debt leveraging to bid up housing prices, stock and bond prices, and foreign exchange rates. They have convinced borrowers that they can get rich on rising housing prices. But this merely makes new homebuyers go deeper into debt to buy a home. And when banks say that rising stock and bond prices are good for the economy, this price rise lowers the dividend or interest yield. This means that pension funds and individuals have to save much more for retirement. Instead of improving their life, it makes them work harder and borrow more just to stay in place.

The banking system's alternative to "the road to serfdom" thus turns out to be a road to debt peonage. This financial engineering turns out to be worse than government planning. The banks have taken over the Federal Reserve and Treasury and put their lobbyists in charge – men such as Tim Geithner and the others with ties to Rubinomics dating from the Clinton administration, and especially to Goldman Sachs and other giant Wall Street firms.

So the first thing to realize is something that is characteristic of all great reform movements. Voters are not yet supporting a radical position to restructure the whole system. But at least they are coming to see that small marginal reforms won't work, or are simply trick promises, like President Obama's promise that banks would renegotiate mortgages for homes in negative equity as part of the quid pro quo for the bailouts they received from Treasury Secretary Geithner. There's been no quid pro quo, merely talk.

People see that law enforcement is missing when it comes to the banks and Wall Street. So simply restoring the criminal justice system would be progress. It used to be that if you ran a fraud, if you cheated people, if you lied on your income tax and falsified statistics, then you would be sent to jail. But the Obama administration has appointed Eric Holder to represent Wall Street. He has not thrown any bankers in jail, recognizing that they are the major campaign contributors of the party, after all.
What is easiest for most people to accept is the idea of restoring the way the economy used to be more in balance – back when people earned income by being productive rather than getting rich by transferring other peoples' savings and public giveaways into their own pockets. But what I sensed in New York was anger not only at this economic problem, but the fact that the political system is broken. There is no one to vote for as an alternative to pro-bank candidates. So what began as anger has become a gathering awareness that Mr. Obama was simply fooling voters instead of leading the change he promised. That's what politicians do, of course. But people hoped that he might be different. That was the gullibility he played on. He has turned into the nightmare they thought they were voting against.

Moving to the right of the Republicans, he started his administration by appointing the Simpson-Bowles Commission staffed by opponents of Social Security. He recently followed that up by appointing the Congressional Super-committee of Twelve to come out with an even more anti-Social Security, anti-Medicaid and anti-minority position that the Republicans could get away with. If they would have tried to pass such a right-wing policy, the Democratic Congress would have refused to pass it. But they don't know how to deal with a Democratic president who appoints Wall Street lobbyists to his cabinet and acts like Margaret Thatcher saying that There Is No Alternative (TINA) to making Social Security recipients, labor and minorities pay for Wall Street's bad gambles and bank losses. He has helped Wall Street capture the government – on behalf of the 1%.

The man whom Mr. Obama asked to be his mentor when he joined the Senate was Joe Lieberman. He evidently gave Obama expert advice about how to raise funds from the financial class by delivering his liberal constituency to his Wall Street campaign contributors. So the problem is not that President Obama is well meaning but inept – an idealist who just can't fight the vested interests and insiders. He's thrown in his lot with them. In fact, he really seems to believe the right-wing, pro-Wall Street ideology – that the economy can't function without a financial system that guarantees "savers" (the top 1%) against loss, even when the bottom 99% have to pay more and more.

And on a personal level, Mr. Obama knows that his fund raising comes mainly from Wall Street, and the only way to get this money is to sell out his constituency. You've got to give him enough credit to recognize this obvious fact.

The upshot is that we now have a political nightmare. Yet Mr. Obama still seems to be the best that the Democrats can offer! This is why I think the protestors are saying they are not going to let the Democrats jump in front of the parade to try and mobilize support for their party. Like the Irish say: "Fool me once, shame on you. Fool me twice, shame on me." They realize that the financial system is broken and that neither party is trying to do much about it. So the political system has to be changed as well as the economic system.

Suppose you were going to design a society from scratch. Would you create what we have now? Or would you start, for instance, by reforming the most egregious distortions of campaign finance? As matters stand, Goldman Sachs has been able to buy the right to name who is going to be Treasury Secretary. They selected Geithner, who gave them $29 billion from A.I.G. just before he was appointed. It's like that all down the line – in both parties. Every Democratic congressional committee chairman has to pay to the Party a $150,000 to buy the chairmanship. This means that the campaign donors get to determine who gets committee chairmanships. This is oligarchy, not democracy. So the system is geared to favor whoever can grab the most money. Wall Street does it by financial siphoning and asset stripping. Politicians do it by getting money from the beneficiaries – the 1%.

Once people realize that they're being screwed, that's a pre-revolutionary situation. It's a situation where they can get a lot of sympathy and support, precisely by not doing what The New York Times and the other papers say they should do: come up with some neat solutions. They don't have to propose a solution because right now there isn't one – without changing the system with many, many changes. So many that it's like a new Constitution. Politics as well as the economy need to be restructured. What's developing now is how to think about the economic and political problems that are bothering people. It is not radical to realize that the economy isn't working. That is the first stage to realizing that a real alternative is needed. We've been under a radical right-wing attack – and need to respond in kind. The next half-year probably will be spent trying to spell out what the best structure would be.

There is no way to clean up the mess that the Democratic Party has become since politics moved into Wall Street's pockets. The Republicans also have become a party of lobbyists. So it looks like there is no solution within the existent system. This is a revolutionary, radical situation. The longer that the OWS groups can spend on diagnosing the problem and explaining how far wrong the system has gone, the longer the demonstrators can gain support by showing that they share the feelings everybody has these days – a feeling of being victimized. This is what is creating a raw material that has to potential to flower into political activism, perhaps by spring or summer next year.

The most important message is that all this impoverishment and indebtedness is unnecessary. There is no inherent economic reason for things to be this way. It is not really the way that "markets" need to work. There are many kinds of markets, with many different sets of rules. So the important task is to explain to people how many possibilities there are to make things better. And of course, this is what frightens politicians, Wall Street lobbyists and the other members of the pro-oligarchic army of financial raiders.

Alan Minsky: Well, let me ask you this – and of course, it is something of an intellectual speculative game. Let's say that it's January 2013, and the radical progressive candidate X, Dennis Kucinich or Bernie Sanders, is miraculously elected president, and Michael Hudson is the chief economic advisor. What would you do, given the opportunity with a favorable congress, to transform the American economy in ways that would produce policies you think would at least start to help break the grip that the financial sector has had in devastating the economy in terms of its performance for average households?

Michael Hudson: There are two stages to any kind of a transformation. The first stage is simply to start re-applying the laws and the taxes that the Bush and Obama administrations have stopped applying. You don't want Wall Street to be able to put its industry lobbyists in charge of making policy. So the first task is to get rid of Geithner, Holder and the similar pro-financial administrators whom Obama has appointed to his cabinet and in key regulatory positions. This kind of clean-up requires election reform – and that requires a reversal of the Supreme Court's recent Citizens United ruling that enables a financial oligarchy to lock in its control of American politics.

One of the first things that is needed – and only a President could do it – would be to demand a new Supreme Court. This is what Roosevelt threatened, and it worked. You make them an offer they can't refuse. If this can be done only by expanding the number of court justices, then you nominate ones who are not radicals on the right – judges who will reverse the 19th-century ruling that corporations are the same as people and indeed have even more rights (and certainly more campaign money) than people have. You then move to clean up the corruption of the legal system that has protected financial crooks instead of sending them to jail. Financial fraud has effectively been decriminalized, at least by Wall Street's largest campaign contributors.

But this is really Bill Black's area. I'm only going to talk about financial and tax reforms here, because they are the easiest to understand and ultimately the most immediate task.

Prevent monopoly price gouging. Bring bank charges in line with the real cost of doing business.

What is needed today is more than just going back to the past ideals. After all, the good old class warfare was not so rosy either. But at least the Progressive Era had a program to subordinate finance to serve industry and the rest of the economy. The problem is that its reformers never really had a chance to carry out the ideas that classical economists outlined.

The classical idea of a free market economy was radical in its way – precisely by being natural and thus getting rid of unnatural warping by special privileges for absentee landlords and banks. This led logically to socialism, which is why the history of economic thought has been dropped – indeed, excluded – from today's academic curriculum. What is needed is to complete the direction of change that World War I interrupted and that the Cold War further untracked. After 1945 you didn't hear anything any more about what John Maynard Keynes called for at the end of his General Theory in 1936: "euthanasia of the rentier." But this was the great fight for many centuries of European reform, and it even was the path along which industrial capitalism was expected to evolve. So let me begin with what was discussed back in the 1930s, trying to recover the Progressive Era reforms.

Setting up a more fair banking and financial system requires changing the tax favoritism as well, which I will discuss below. There are a number of good proposals for reform. One of the easiest and least radical is set up a public option for banking. Instead of relying on Bank of America or Citibank for credit cards, the government would set up a bank and offer credit cards, check clearing and bank transfers at cost.

The idea throughout the nineteenth century was to create this kind of public option. There was a Post Office bank, and that could still be elaborated to provide banking services at cost or at a subsidized price. After all, in Russia and Japan the post office banks are the largest of all!

The logic for a public banking option is the same as for governments providing free roads: The aim is to minimize the cost of living and doing business. On my website, michael-hudson.com, I have posted an article just published in the American Journal of Economics and Sociology on Simon Patten. He was the first professor of economics at the Wharton Business School. He spelled out the logic of public infrastructure as a “fourth” factor of production (alongside, labor, capital and land). Its productivity is to be measured not by how much profit it makes, but by how much it lowers the economy’s price structure.

Providing a public option would limit the ability of banks to charge monopoly prices for credit cards and loans. It also would not engage in the kind of gambling that has made today’s financial system so unstable and put depositors’ money at risk. Ideally, I would like to see banks act more like the old savings banks and S&Ls. In fact, the most radical regulatory proposal I would like to see is the Chicago Plan promoted in the 1930s by the free marketer Herbert Simon. This is what Dennis Kucinich recently proposed in his National Emergency Employment Defense Act of 2011 (NEED).

This may seem radical at first glance, but how else are you going to stop the banks from their mad computerized gambling, political lobbying and creating credit for corporate raiders to borrow and pay their financial backers by emptying out pension funds and cutting back long-term investment, research and development?

The guiding idea is to take away the banks’ privilege of creating credit electronically on their computer keyboards. You make banks do what textbooks say they are supposed to do: take deposits and lend them out in a productive way. If there are not enough deposits in the economy, the Treasury can create money on its own computer keyboards and supply it to the banks to lend out. But you would rewrite the banking laws so that normal banks are not able to gamble or play the computerized speculative games they are playing today.

The obvious way to do this is to reinstate the Glass-Steagall Act so that they can’t gamble with insured deposits. This way, speculators would bear the burden if they lost, not be in a position to demand “taxpayer liability” by threatening to collapse the normal vanilla banking system. Abolishing Glass-Steagall opened the way for Wall Street to organize a protection racket by mixing up peoples’ deposits with bad gambles and with the growth of debts way beyond the ability to be paid.

To sum up, the idea is to shape markets so as to steer the banks to lend for actual capital formation and to finance home ownership without credit inflation that simply bids up prices for homes as well as for other real estate, stocks, and bonds.

Today's economic problem is systemic. This is what makes any solution so inherently radical. In changing part of the economic system, you have to adjust everything, just as when a doctor operates on a human body. Financial reform requires tax reform, because much of the financial problem stems from the tax shift off real estate and finance onto labor and industry. Taxes are the business of Congress, not the President or his advisors, but I assume that your question really concerns what I think the economy needs.

The most obvious fiscal task that most people understand – and support – is to restore the progressive tax system that existed before 1980, and especially before the Clinton and Bush tax cuts. It used to be that the rich paid taxes. Now they don't. But the key isn't just income-tax rates as such. What needs to be recognized is the kind of taxes that should be levied – or how to shift them back off labor onto property where they were before the 1980s. You need to restore the land taxes to collect the "free lunch" that is not really "free" if it is pledged to pay the banks in the form of mortgage interest.

Over the past few decades the tax system has been warped more and more by bank lobbyists to promote debt financing. Debt is their "product," after all. As matters now stand, earnings and dividends on equity financing must pay much higher tax rates than cash flow financed with debt. This distortion needs to be reversed. It not only taxes the top 1% at a much lower rate than the bottom 99%, but it also encourages them to make money by lending to the bottom 99%. The result is that the bottom 99% have become increasingly indebted to the top 1%. The enormous bank debt attached to real estate does not reflect rising rents as much as it reflects the tax cuts on property. Wall Street lobbyists have backed Congressional leaders who have shifted taxes onto consumers via sales taxes and income taxes, as well as FICA payroll withholding. This ploy treats Social Security and Medicare as "user fees" rather than paying them out of the overall budget – and financed out of progressive taxation on the top 1%. If wage earners pay more in FICA, you can be sure that the wealthy get a tax cut.

This anti-progressive tax shift is largely responsible for the richest 1% doubling their share of income. It also has led to the 99% having to pay banks what they used to pay the tax collector. They pay interest rather than taxes. If I were economic advisor, I would explain just how this works – which is what I already try to do on my website. In a nutshell, the tax shifts since World War II have left more and more of the land's site value to be capitalized into interest payments on bank loans. So the banks have ended up with what used to be taken by landowners. There is no inherent need for this. It doesn't help the economy; it merely inflates a real estate bubble. Economic growth and employment would be much stronger if income tax rates were lowered for most people. Property owners and speculators would pay. There would be less free lunch and more "earned" income.

The Obama Administration has proposed the worse of both worlds – getting rid of the tax deductibility of interest for homeowners. This would squeeze them, without scaling down the bank debts that have absorbed the cuts in property taxes. So Mr. Obama is sponsoring yet another anti-consumer proposal to make the bottom 99% pay for government – while using government funds to subsidize the banks and bail out their bad bets.

What needs to be done is to remove the tax deductibility of interest for investors in general. This tax favoritism is a subsidy for debt financing – and the main problem that the U.S. economy faces today is over-indebtedness. A good policy would aim at lowering the debt overhead. Debt leveraging should be discouraged, not encouraged.

Speculators have borrowed largely to make capital gains. They originally were taxed as normal income in the 1913 income tax. The logic was that capital gains build up a person's savings, just as earning an income does. But the financial and real estate interests fought back, and today there is only a tiny tax on capital gains – a tax that sellers don't have to pay if they plow their money into another property or investment to make yet more gains! So when Wall Street firms, hedge funds, and other speculators avoid paying normal taxes by saying that they don't "earn" money but simply make capital gains, this is where a large part of today's economic inequality lies.

I would tax these asset-price gains (mainly land prices) either at the full income-tax rate or even higher. The wealthy 1% make their gains in this way, claiming that they don't really "earn" income, so they shouldn't have to pay taxes as if they are wages or profits. But that's precisely the problem: Why would you want to subsidize not earning income, but merely making money by speculating – and then demanding that the government bail you out if you make a capital loss when your speculations go bad, on the logic that you have tied up most peoples' normal bank deposits in these gambles? This is what exists today. And it is why people think the system is so unfair. Most of the super-rich families have made their fortunes by insider dealing and financial extraction, not by being productive. They are not "job creators" these days. They have become job destroyers by demanding austerity to squeeze out more money from a shrinking economy to pay themselves.

Many people – especially homeowners – are sucked into thinking that low capital gains taxes make them rich, and that high property prices leave them with less to spend. But this turns out not to be the case once the process works its way through the economy. These workings need to be more widely explained.

For many years families got rich as the price of their home rose. But they also got much deeper in debt. The real estate bubble was debt-financed. A property is worth whatever a bank will lend against it. The end result of "easy lending" and tax distortions to favor interest-bearing debt is that most families own a smaller and smaller proportion of their homes' value – and have to pay rising mortgage debt service. This doesn't really make them better off. The job of a president or economic advisor should be to explain how this game works, so people can get off the debt treadmill. The economy will shrink if it doesn't lower its debt overhead.

I would close down tax avoidance in offshore banking centers by treating offshore deposits by Americans as "earned but hoarded" income and tax it at 90%. You restore the rates of the Eisenhower administration when the country had the most rapid debt growth that it had. You reinstate criminal penalties for financial fraud and tax evasion by misrepresentation. But the tax avoiders are asking the Obama administration to do just the opposite: to declare a "tax holiday" to "induce" them bring this offshore money home – by not taxing it at all! This kind of giveaway should be blocked. Tax avoiders among the top 1% should be penalized, not rewarded.

The Bush-Obama administration has promoted "neoliberal" tax and financial policies that have reversed a century of Progressive Era reforms. The past 30 years have suffered a radical transformation of tax policy and financial policy. So it takes an equally deep response to undo their distortions and put the American economy back on track. The guiding idea is simply to restore normalcy. The Progressive Era that emerged from classical economics understood the economic benefits of taxing unearned wealth ("rent extraction") at the top of the economic pyramid, provide basic infrastructure services at cost rather than creating fiefdoms for privatizers to install tollbooths and make their gains tax-exempt. Radical neoliberalism has reversed this. It has vastly multiplied the debts owed by the bottom 99% to the top 1%.

This is leading to debt peonage and what really is neo-feudalism. We are seeing a kind of financial warfare that is as grabbing as the old-style military conquests. The aim is the same: the land, basic infrastructure, and use of the government to extract tribute.

A financial Clean Slate

To restore the kind of normalcy that made America rich, most important long-term policy would be to recognize what is going to be inevitable for every economy. Debts need to be written down – and the politically easiest way to cut through the tangle is to write them off altogether. That would free the bottom 99% from their debt bondage to the top 1%. It would be a Clean Slate, starting over – and trying to do things right this time around. The creditors have not used the banking system to make America more productive and richer. They have used it as a vehicle to reduce the population to debt serfdom.

A debt write-down sounds radical and unworkable, but it's been done since World War II with great success. It is the program the Allies carried out in the German economy in that country's 1947 currency reform. This was the policy that created Germany's Economic Miracle. And America could experience a similar miracle.

Any economy would benefit from cancelling the bad debts that have been built up. Keeping them on the books will handcuff the economy and cause debt deflation by diverting income to pay debt service rather than to spend on goods and services. We are going into a new economic depression – not just a "Great Recession" – because most spending is now on finance, insurance and real estate, not on goods and basic services. So markets are shrinking, and unemployment is rising. That is what will happen if debts are not written down.

This can be done either by a Clean Slate across the board, or it can be done more selectively, by applying what's been New York State law since before the Revolution, going back to when New York was still a colony. I'm referring to the law of fraudulent conveyance. This law says that if a creditor lends to a borrower without having any idea how the debtor can pay in the normal course of business, without losing property, the loan is deemed to be fraudulent and declared null and void.

Applying this law to defaulting homeowners would free the homes that are in negative equity throughout the country. It would undo the fraudulent loans that banks have made, the trick loans with exploding interest rates, balloon mortgages and so forth. It also would free debt-strapped companies from being forced to sell off their parts to make their corporate raiders rich.

As an associated law, pension funds should be first in line in any bankruptcy, not at the end of the line as they now are. Current practice lets companies replace defined-benefit programs with defined contribution programs – where all that employees know is how much is taken out of their paychecks each month, not what they will be receiving when they retire. Only the managers have protected their pensions with special contracts and golden parachutes. This is the reverse of what pension plans were supposed to do.

Employee Stock Option Plans (ESOPs) also are being looted. This is what has recently happened at the Chicago Tribune by Sam Zell, who borrowed money and repaid it by looting the Tribune's ESOP. A fraudulent conveyance law applied at the nationwide level would stop this. People like Zell are looters, and so are the bankers behind him. This is the class warfare that is being waged today. And the war is being won by the 1% – while pushing the American economy into depression.

As part of the rules to define what constitutes "fraudulent" or irresponsible lending, mortgage debt service should be reduced to the rate that FDIC head Sheila Bair recommended: 32 percent. The problem with debt write-downs, of course, is that when you cancel a debt, you also cancel some party's savings on the other side of the balance sheet. In this case, the banks would have to give up their claims. But this is what used to happen in financial crashes. When debts go bad, so do the loans. So the government is radical in saying that America's debts will be kept on the book, but it will create new public debt to give to Wall Street for its own debts that have gone bad as a result of its reckless lending.

The banks obviously would prefer to bankrupt millions of homeowners than to take even a penny's loss. Their fight to make the government pay for their bad debts – while keeping the debts of the bottom 99% on the books – explains why the richest 1% of Americans have doubled their share of income and the returns to wealth in the last thirty years. That's inequitable. Their accumulation of financial savings has not taken the form of tangible capital investment in factories or other enterprises to employ labor. It's looted labor's savings and got employees so deep into debt that they're "one paycheck away from homelessness." They're afraid to go on strike, because they would miss a mortgage payment or an electric utility payment, and their credit-card interest rates would jump to 29 percent. They're even afraid to complain about working conditions today, because they're afraid of getting fired.

This wasn't formerly the case. It is the result of "financial engineering" that should be reversed. There's no reason to treat the savings that the top 1% have got in this predatory way as being sacrosanct. Their gain – their increase in financial wealth, in bonds, savings and ownership of bank loans – equals the debts that have been imposed on the bottom 99%. This is the basic equation that needs to be more widely understood. It is not an equilibrium equation. At least, it won't be political equilibrium when people start to push back.

We are seeing a financial grab for special privilege and for political power to use the government to subsidize the top 1% at the expense of the bottom 99%, by scaling back social spending, Social Security, Medicare, Medicaid and federal revenue sharing with the states. The Treasury and Federal Reserve have printed new debt to give to Wall Street – some $13 trillion and still counting since Lehman Brothers went under in September 2008. Tim Geithner and Hank Paulson used the crisis as an opportunity to give enormous U.S. debt to Wall Street. That's more radical than reversing this to restore the economy's financial structure to the way it used to be. If you don't restore it, you've replaced economic democracy with financial oligarchy.

The way to reverse this power grab is to reverse the giveaways by cancelling the bad debts that have been loaded onto the economy. That is the only way to restore balance and prevent the polarization that has occurred. The problem is that savings by the top 1% have been used in a parasitic, extractive manner. It has been lent to the bottom 99 percent to get them deeper and deeper into debt. So they "owe their soul to the company store," as the song Sixteen Tons put it. "You get a day older, and deeper in debt."

The government itself has become more indebted, most recently by the $13 trillion in new debt printed and given to the banks to make sure that no financial gambler need surfer a loss. At the same time the Obama administration did this, it claimed that a generation in the future, the Social Security system may be $1 trillion in deficit. And that, Mr. Obama says, would cause a crisis – and not leave enough to continue subsidizing his leading campaign contributors. So in view of this new debt creation – while moving debts to consumers and Social Security contributors to the bottom of the list – if you are going to reverse the bad-debt polarization that we've reached today, it is necessary to do more than simply reinstate progressive taxation and shift the tax system so that you collect predatory unearned income – what the classical economists call economic rent. The burdensome debts need to be written off.

This probably will take half a year to get most people to realize and accept the idea is to reconstitute the system by lending for productive purposes, not speculation and rent-seeking opportunities. You want to stop the banks from lobbying for monopolies to create a market for leveraged buy-outs of these opportunities – and of course also for real estate speculation and outright gambling.

Wall Street has orchestrated and lobbied for a rentier alliance whose wealth is growing at the expense of the economy at large. It is extractive, not productive. But this fact is concealed by the national income and product accounts reporting financial and other FIRE sector takings as "earnings" rather than as a transfer payment from the economy at large – from the 99% – to the 1% of Americans who have got rich by making money off finance, monopolies and absentee real estate rent-seeking.

It is not really radical to resist Wall Street's financial attack on America. Resistance is natural – and so is a reversal of the savings they have built up by indebting the rest of the economy to themselves. They have taken their money and run, stashing it offshore in tax-avoidance islands, in Switzerland, Britain and other havens. Shame on the political hacks who defend this and who attack Occupy Wall Street simply for resisting the financial sector's own radical power grab and shifted taxes off themselves onto the bottom 99%.

Privatization is an asset grab masquerading as full employment policy

Alan Minsky: I have one final question for you. Would you support programs that are put forward similar to what Randy Wray, an associate of yours, suggests in terms of government employment projects to guarantee full employment?

Michael Hudson: Yes, of course I approve. In fact, it was I who introduced Randy, Pavlina Tchernova and others to Dennis Kucinich's staff to help write his full-employment proposal along these lines. My first caveat is to warn against letting the Obama administration turn these projects into a military giveaway. I think Randy and I are in agreement with that.

My second caveat is to prevent this full-employment program from creating a later privatization giveaway to Wall Street – that is, infrastructure that the government will sell off to the ruling party's major campaign contributors for pennies on the dollar. This is what Public/Private Partnerships have become, as pioneered in England under Margaret Thatcher and Tony Blair. Wall Street is rubbing its metaphoric hands and saying, “That’s a great idea! Let the government pay for infrastructure and spend a billion dollars on a bridge – and then sell it to us for a dollar.” The “us” may not be the banks themselves, but their customers, who will borrow the money and pay the banks an underwriting commission as well as interest on the money they use to buy what the government is privatizing.

The pretense is that privatization is more efficient. But privatizers add on interest and financial fees, high executive salaries and bonuses, and turn the roads into toll roads and other infrastructure into neofeudal fiefdoms to charge monopolistic access fees for people to use. This is what has happened in Chicago when it sold off its sidewalks to let bankers finance parking meters in exchange for a loan. Chicago needed this loan because the financial lobbyists demanded that it cut taxes on commercial real estate and on the rich. So the financial sector first creates a problem by loading the economy down with debt, and then “solves” it by demanding privatization sell-offs under distress conditions.

This is happening not only in America, but in Greece and other countries under the insistence of Europe’s bank lobbying organization, the European Central Bank. That’s why there are riots in Athens. So the financial war against society is not only being waged here, but throughout the world.

To answer your question about how best to promote full employment, the aim should be to invest public money in a way that the Republicans and Democrats cannot later turn around and privatize the capital investment at a giveaway price. So I am all on favor of public infrastructure spending as long as you have safeguards against the financial fraud and giveaways to insiders of the sort that that the current administration is sponsoring. The privatizers and their banks would like to install tollbooths on new bridges and get a free ride to turn America into a tollbooth economy. But that’s really another story.

Alan Minsky: Michael Hudson, I want to thank you for joining us on KPFK.

Michael Hudson: Thanks a lot, Alan.