

Escape From Economics

By [Dr. Paul Craig Roberts](#)

Theme: [Global Economy](#)

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Readers ask me from time to time to recommend a book from which they can learn about economics.

The problem with reading a book to learn economics that is taught in the universities and practiced in Washington is that economics is now a highly formalized subject based on abstract models and assumptions and has been mathematized. It is not that the subject is totally useless and without any applicability to real world problems. Rather, the problem is that the discipline both lags an ever-changing world and got some things wrong at the beginning. Consequently, learning economics places one inside a box where some of the tools and understanding provided are outdated and incorrect.

For example, every textbook will draw a picture of agriculture as the perfect example of competitive markets in which “no producer’s output is large enough to affect price.” This made sense when one-third of the US work force was on family farms. Today, American agriculture is dominated by corporations and agribusiness. Additionally, part of the disastrous financial deregulation pushed by no-think economists and special interests was the removal of position limits on speculators. Formerly, speculators smoothed agricultural and commodity markets by buying and selling in order to stabilize price over periods when supply and demand were out of balance. Now speculators can dominate markets and rig prices to the benefit of their profits.

There are many such examples where economics no longer speaks to the real world.

Two other examples will suffice:

Most intelligent people are aware that natural resources are finite, including the environment’s ability to absorb the wastes or pollution from productive activities (see for example, Jared Diamond, Collapse, 2005). But few economists are aware, because economists assume that man-made capital is a perfect substitute for nature’s capital. This assumption implies that there are no finite environmental limits to infinite economic growth. Lost in such a make-believe world, economists neglect the full cost of production and cannot tell if the value of the increases in GDP are greater or less than the full cost of producing it.

Economists have almost universally confused jobs offshoring with free trade. Economists have even managed to produce “studies” purporting to show that a domestic economy is benefitted by being turned into the GDP of some other country.

Economists have managed to make this statement even while its absurdity is obvious to what remains of the US manufacturing, industrial, and professional skilled (software engineers, for example) workforce and to the cities and states whose tax bases have been

devastated by the movement offshore of US jobs.

The few economists who have the intelligence to recognize that jobs offshoring is the antithesis of free trade are dismissed as “protectionists.” Economists are so dogmatic about free trade that they have even constructed a folk myth that the rise of the US economy was based on free trade. As Michael Hudson, an economist able to think outside the box has proven, there is not a scrap of evidence in behalf of this folk myth (see *America’s Protectionist Takeoff 1815-1914*).

My advice to readers who wish to develop economic comprehension is to begin with the outside-the-box economists who are addressing real issues. For example, Herman E. Daly and John B. Cobb’s *For the Common Good* is accessible to ordinary readers willing to take the effort to google the definitions of unfamiliar terms. However, the most

important development in trade theory is not. *Global Trade and Conflicting National Interests* by Ralph E. Gomory and William J. Baumol (MIT Press, 2000) is apparently even over the heads of professional economists, who prefer to babble on ignorantly about the “benefits of free trade” than to learn what they don’t know. Nevertheless, readers should understand that the case for free trade will never been the same after its dissection by Gomory and Baumol.

With this preface to the column, I now turn to its subject: economist Michael Hudson.

Hudson is totally outside the matrix in which economists imprison themselves. Hudson doesn’t live in the artificial reality of economists or shill for corporations and Wall Street.

A person can learn a lot from Hudson. His book, *Trade, Development and Foreign Debt* (2009) explains how foreign trade and economic development have been used to concentrate economic power in the hands of dominant nations. What is really going on is covered up with do-good verbiage and formal models. In reality, trade and development are ways to colonize countries that think they are independent. (Another good book on this subject is Michel Chossudovsky’s *The Globalization of Poverty*.)

Perhaps the best place to begin with Hudson is his latest book, *The Bubble and Beyond*, which should be available within a few days of the appearance of this column. In this book Hudson addresses the crisis in the economy and the crisis in the discipline of economics. From this book you can understand not only the crisis but also why economists have misdiagnosed the crisis and are applying incorrect remedies.

Hudson shows that a central problem is that economic theory ignores the role of debt in the economy. Economic theory also pretends that economic policy, such as the Federal Reserve’s monetary policy, serves the public’s interest rather than the interests of powerful private interests.

As Lenin and others predicted, industrial capitalism has turned into finance capitalism. Finance capitalism does not finance or create new real investments such as manufacturing facilities. Instead, finance capitalism functions as a rentier. It leverages debt and extracts interest payments (and today taxpayer bailouts for its over-leveraged gambles). Finance capitalism flourishes by converting more and more of society’s resources into payments to itself.

One result is that markets cease to expand and economies cease to grow as austerity is imposed to service the build-up in debt. Austerity pushes economies down as consumption and investment are cut back in order to service debt. Hudson concludes that the result is that bankers now receive the rents (a form of unearned income) that once flowed to the landed aristocracy. Unlike the aristocracy, who were dispossessed of their rents, the bankers have not been.

Hudson knows the history of economic thought and economic history. Reading *The Bubble and Beyond* lets readers see how economic ideas developed in ways that leave economists unable to perceive the real character of the problems that are challenging them. Trapped in the matrix that they have constructed for themselves, economists are unable to devise solutions.

Hudson writes that western economies are at a turning point. GDP growth consists increasingly of the build-up of financial overhead. The wealth gains are paper gains, not gains from real plant and equipment, and are increasingly concentrated in the hands of the one percent. Financial earnings are extracted from the earnings of tangible capital and labor. Matt Taibbi captured the point with his imagery of Goldman Sachs as “a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money.”

My suggestion is that you read Hudson along with Taibbi’s *Griftopia*, Nomi Prins’ *It Takes A Pillage*, Gretchen Morgenson and Joshua Rosner’s *Reckless Endangerment*, and Daly and Cobb’s *For the Common Good*. Then if you ever do study economics, you will be armored against being ensnared in the matrix that produces economists as skills for finance capitalism, environmental destruction, and the offshoring of the economy.

Everyone always wants a solution. Hudson offers suggestions how to reconstruct the economy in order that it serves the needs of the 99% instead only of the needs of the 1%.

Get busy. Reading these books will do you much greater good than playing video games, watching TV or hanging out in bars. Our country needs a larger informed younger generation to replace the smaller informed older generation.

Note to readers: Accompanying my column today is an article in the guest section by Herman Daly. For those looking for solutions to the banking crisis, this astute and highly experienced economist tells you what can be done.
<http://www.paulcraigroberts.org/2012/07/30/nationalize-money-not-banks-herman-daly/>

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