

# For Economic Truth Turn to Michael Hudson

## Book Review

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*Readers ask me how they can learn economics, what books to read, what university economics departments to trust. I receive so many requests that it is impossible to reply individually. Here is my answer.*

There is only one way to learn economics, and that is to read **Michael Hudson's** books. It is not an easy task. You will need a glossary of terms. In some of Hudson's books, if memory serves, he provides a glossary, and his recent book "J Is for Junk Economics" defines the classical economic terms that he uses. You will also need patience, because Hudson sometimes forgets in his explanations that the rest of us don't know what he knows.

The economics taught today is known as neoliberal. This economics differs fundamentally from classical economics that Hudson represents. For example, classical economics stresses taxing economic rent instead of labor and real investment, while neo-liberal economics does the opposite.

An economic rent is unearned income that accrues to an owner from an increase in value that he did nothing to produce. For example, a new road is built at public expense that opens land to development and raises its value, or a transportation system is constructed in a city that raises the value of nearby properties. These increases in values are economic rents. Classical economists would tax away the increase in values in order to pay for the road or transportation system.

Neoliberal economists redefined all income as earned. This enables the financial system to capitalize economic rents into mortgages that pay interest. The higher property values created by the road or transportation system boost the mortgage value of the properties. The financialization of the economy is the process of drawing income away from the purchases of goods and services into interest and fees to financial entities such as banks. Indebtedness and debt accumulate, drawing more income into their service until there is no purchasing power left to drive the economy.

For example, formerly in the US lenders would provide a home mortgage whose service required up to 25% of the family's monthly income. That left 75% of the family's income for other purchases. Today lenders will provide mortgages that eat up half of the monthly income in mortgage service, leaving only 50% of family income for other purchases. In other words, a financialized economy is one that diverts purchasing power away from productive enterprise into debt service.

Hudson shows that international trade and foreign debt also comprise a financialization process, only this time a country's entire resources are capitalized into a mortgage. The West sells a country a development plan and a loan to pay for it. When the debt cannot be

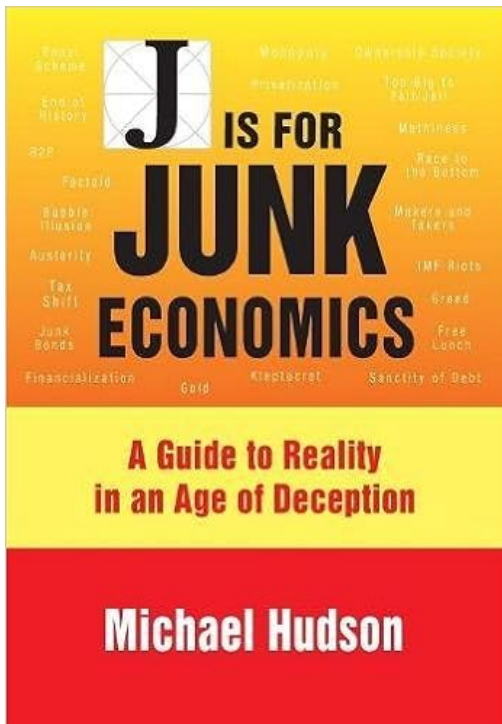
serviced, the country is forced to impose austerity on the population by cutbacks in education, health care, public support systems, and government employment and also to privatize public assets such as mineral rights, land, water systems and ports in order to raise the capital with which to pay off the loan. Effectively, the country passes into foreign ownership. This now happens even to European Community members such as Greece and Portugal.

Another defect of neoliberal economics is the doctrine's denial that resources are finite and their exhaustion a heavy cost not born by those who exploit the resources. Many local and regional civilizations have collapsed from exhaustion of the surrounding resources. Entire books have been written about this, but it is not part of neoliberal economics. Supplement study of Hudson with study of ecological economists such as **Herman Daly**.

The neglect of external costs is a crippling failure of neoliberal economics. An external cost is a cost imposed on a party that does not share in the income from the activity that creates the cost. I [recently wrote](#) about the external costs of real estate speculators. Fracking, mining, oil and gas exploration, pipelines, industries, manufacturing, waste disposal, and so on have heavy external costs associated with the activities.

Neoliberal economists treat external costs as a non-problem, because they theorize that the costs can be compensated, but they seldom are. Oil spills result in companies having to pay cleanup costs and compensation to those who suffered economically from the oil spill, but most external costs go unaddressed. If external costs had to be compensated, in many cases the costs would exceed the value of the projects. How, for example, do you compensate for a polluted river? If you think that is hard, how would the short-sighted destroyers of the Amazon rain forest go about compensating the rest of the world for the destruction of species and for the destructive climate changes that they are setting in motion? Herman Daly has pointed out that as Gross Domestic Product accounting does not take account of external costs and resource exhaustion, we have no idea if the value of output is greater than all of the costs associated with its production. The Soviet economy collapsed, because the value of outputs was less than the value of inputs.

Supply-side economics, with which I am associated, is not an alternative theory to neoliberal economics. Supply-side economics is a successful correction to neoliberal macroeconomic management. Keynesian demand management resulted in stagflation and worsening Phillips Curve trade-offs between employment and inflation. Supply-side economics cured stagflation by reversing the economic policy mix. I have told this story many times. You can find a concise explanation in my short book, "The Failure of Laissez Faire Capitalism." This book also offers insights into other failures of neoliberal economics and for that reason would serve as a background introduction to Hudson's books.



I can make some suggestions, but the order in which you read Michael Hudson is up to you. “J is for Junk Economics” is a way to get information in short passages that will make you familiar with the terms of classical economic analysis. “Killing the Host” and “The Bubble and Beyond” will explain how an economy run to maximize debt is an economy that is self-destructing. “Super Imperialism” and “Trade, Development and Foreign Debt” will show you how dominant countries concentrate world economic power in their hands. “Debt and Economic Renewal in the Ancient Near East” is the story of how ancient economies dying from excessive debt renewed their lease on life via debt forgiveness.

Once you learn Hudson, you will know real economics, not the junk economics marketed by Nobel prize winners in economics, university economic departments, and Wall Street economists. Neoliberal economics is a shield for financialization, resource exhaustion, external costs, and capitalist exploitation.

Neoliberal economics is the world’s reigning economics. Russia is suffering much more from neoliberal economics than from Washington’s economic sanctions. China herself is overrun with US trained neoliberal economists whose policy advice is almost certain to put China on the same path to failure as all other neoliberal economies.

It is probably impossible to change anything for two main reasons. One is that so many greed-driven private economic activities are protected by neoliberal economics. So many exploitative institutions and laws are in place that to overturn them would require a more thorough revolution than Lenin’s. The other is that economists have their entire human capital invested in neoliberal economics. There is scant chance that they are going to start over with study of the classical economists.

Neoliberal economics is an essential part of The Matrix, the false reality in which Americans and Europeans live. Neoliberal economics permits an endless number of economic lies. For example, the US is said to be in a long economic recovery that began in June 2009, but the labor force participation rate has fallen continuously throughout the period of alleged recovery. In previous recoveries the participation rate has risen as people enter the work force to take advantage of the new jobs.

In April the unemployment rate is claimed to have fallen to 3.9 percent, but the participation rate fell also. Neoliberal economists explain away the contradiction by claiming that the falling participation rate is due to the retirement of the baby boom generation, but BLS jobs statistics indicate that those 55 and older account for a large percentage of the new jobs during the alleged recovery. This is the age class of people forced into the part time jobs available by the absence of interest income on their retirement savings. What is really happening is that the unemployment rate does not include discouraged workers, who have given up searching for jobs as there are none to be found. The true measure of the unemployment rate is the decline in the labor force participation rate, not a 3.9 percent rate concocted by not counting those millions of Americans who cannot find jobs. If the unemployment rate really was 3.9 percent, there would be labor shortages and rising wages, but wages are stagnant. These anomalies pass without comment from neoliberal economists.

The long expansion since June 2009 might simply be a statistical artifact due to the under-measurement of inflation, which inflates the GDP figure. Inflation is under-estimated, because goods and services that rise in price are taken out of the index and less costly substitutes are put in their place and because price increases are explained away as quality improvements. In other words, statistical manipulation produces the favorable picture required by The Matrix.

Since the financial collapse caused by the repeal of Glass-Steagall and by financial deregulation, the Federal Reserve has robbed tens of millions of American savers by driving real interest rates down to zero for the sole purpose of saving the “banks too big to fail” that financial deregulation created. A handful of banks has been provided with free money—in addition to the money that the Federal Reserve created in order to take the banks’ bad derivative investments off their hands—to put on deposit with the Fed from which to collect interest payments and with which to speculate and to drive up stock prices.

In other words, for a decade the economic policy of the United States has been run for the benefit of a few highly concentrated financial interests at the expense of the American people. The economic policy of the United States has been used to create economic rents for the mega-rich.

Neoliberal economists point out that during the 1950s the labor force participation rate was much lower than today and, thereby, they imply that the higher rates prior to the current “recovery” are an anomaly. Neoliberal economists have no historical knowledge as the past is of no interest to them. They do not even know the history of economic thought. Whether from ignorance or intentional deception, neoliberal economists ignore that the lower labor force participation rates of the 1950s reflect a time when married women were at home, not in the work force. In those halcyon days, one earner was all it took to sustain a family. I remember the days when the function of a married woman was to provide household services for the family.

But capitalists were not content to exploit only one member of a family. They wanted more, and by using economic policy to suppress pay while fomenting inflation, they drove married women into the work force, imposing huge external costs on the family, child-raising, relations between spouses, and on the children themselves. The divorce rate has exploded to 50 percent and single-parent households are common in America.

In effect, unleashed Capitalism has destroyed America. Privatization is now eating away

Europe. Russia is on the same track as a result of its neoliberal brainwashing by American economists. China's love of success and money could doom this rising Asian giant as well if the government opens China to foreign finance capital and privatizes public assets that end up in foreign hands.

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