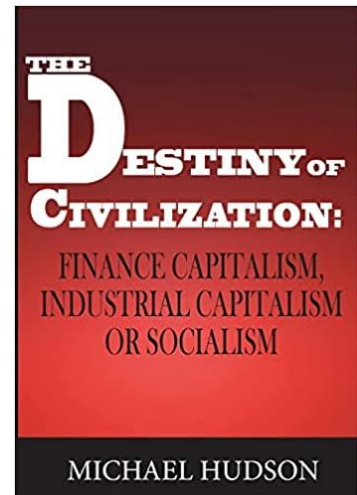


## **Predatory Finance Means Escalating Inequality, Then What?**

a review from Dick Burkhardt of

## **The Destiny of Civilization: Finance Capitalism, Industrial Capitalism, or Socialism**

By Michael Hudson (2022)



Professor Michael Hudson describes how financial oligarchies and inequality develop in modern societies, going back to the Greeks and Romans, threatening eventual revolution, war, or collapse unless banking becomes a *public utility* instead of a predatory scheme. China has been wildly successful by adopting such a pragmatic socialism. US-led imperialism is in crisis because its FIRE sector (Finance, Insurance, Real Estate) has been leaving working classes in debt or poorly served, both domestically and globally.

Hudson insists that international debts must be cancelled if they cannot be repaid without imposing austerity. Domestically, excess profits based on the “free lunch” of land or natural resources must be fully taxed, with the proceeds used to finance universal public services, such as for housing, education, health care, and transportation, reversing privatization as needed. This will both dramatically lower the cost of labor and make it more productive and competitive. China does all this very well except via public investment banking instead of taxing nature’s freebies.

That is, the Chinese Central Bank (People’s Bank of China), doesn’t prop up Wall Street, like the US Fed, but creates money to directly meet public needs, like many investment banks worldwide. This is done with the assistance of 4 large public banks – for trade, infrastructure, industry, and agriculture. Western-style commercial finance exists too but is

subordinate and closely regulated. Note that in the US, the vast majority of bank lending is for the purchase of assets, such as real estate and stocks, not for productive investment.

As a heterodox economist, Hudson is plain spoken and to-the-point but the book is somewhat repetitious. It was developed from a series of lectures on the political economy of neoliberal globalization, especially on US Dollar Diplomacy, and for a Chinese audience and a partially socialist alternative. Missing is any assessment of how the current global economy could be reconstituted to better deal with escalating climate and ecological disasters. His only vision for countering US hegemony is a growing economic alliance centered around Russia and China to both dethrone the US dollar and one-sided banking and trading relations. The 20<sup>th</sup> century vision of democratic global governance never really got off the ground from this point of view.

The fundamental tension that Hudson explores is “not only between capitalism and socialism as such, but between the logic of an industrial economy [China] and that of a financialized *rentier* economy, increasingly dependent on foreign subsidy and exploitation as its own domestic economy shrivels [US]” (p iii). The “*rentier* economy” refers to the unearned income that comes from bidding up the price of land and other assets beyond their intrinsic costs of production, classically from “landlords, monopolists, and creditors”.

Economically, a key advantage of government, rather than private, provision of basic public services, is to dramatically reduce the cost of labor. That is, wages would not have to pay for housing, medical care, etc., so local manufacturing would be cheaper, as demonstrated by China vs the US. The phenomenon of “debt deflation” also hurt workers:

This debt deflation comes about when so much income is siphoned off by the FIRE sector, ending up as luxuries, that less is available for spending on the ordinary economy and the workers it supports. That is, debt service to FIRE ends up reducing the pricing and support for non-

FIRE services, such as anti-tax movements which target public services. The result is escalating economic inequality, or polarization – “an inherently undemocratic power grab by the One Percent” (p 1). In fact, history shows that “wealth is addictive”, leading to the “control of government and its use to facilitate greed and patronage power” (p 2).

Hudson outlines an 11 point program (p 225) for equitable economies internationally, in opposition to the neoliberal policy agenda of the IMF: (1) *Public ownership of natural monopolies, especially money and credit creation*, (2) *Keep basic infrastructure in public hands*, (3) *National self-sufficiency in money and credit*, (4) *Consumer and labor protection against rent seeking*, (5) *Capitol controls over foreign currency*, (6) *Heavily tax unearned income*, (7) *Progressive taxation of income and wealth*, (8) *A land tax to capture unearned capital gains*, (9) *Use the economic surplus for tangible investment to raise productivity and living standards and resilience*, (10) *National self-sufficiency in food and other basic needs*, (11) *Fiscal and capital controls to prevent speculative attacks on the domestic currency and prevent capital flight and tax avoidance*.

For the US all this must include a new respect for international law and new forms of debt-jubilee. Hudson notes that after WWII, “it was not expected that globalism would take the form of a self-serving US nationalism imposed globally, as if what is good for its corporations and banks will be good for the whole world” (p 229). That is, a more multipolar world is developing due to the lack of effective democratic global governance.

And the sad fact is that “political democracies have not shown themselves to be very effective in resisting the tendency to turn into financialized oligarchies” (p 238) – hence the need to learn from socialist-type mixed economies, such as China. Instead the US Fed has turned Wall Street into a Ponzi scheme while oppressing the working classes. “To distract attention from this deterioration in the US wage and work-place conditions in the face of rising FIRE-sector expenses,

identity politics based on racial, ethnic, gender, and religious categories has replaced the common identity of being wage earners” (p 259).