

"Casino Capitalism": Economist Michael Hudson on What's Behind the Stock Market's Rollercoaster Ride

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TRANSCRIPT

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AMY GOODMAN: "Black Monday." That's how economists are describing yesterday's market turmoil, which saw stock prices tumble across the globe, from China to Europe to the United States. China's stock indexes fell over 8 percent Monday and another 7 percent today. On Wall Street, the Dow Jones Industrial Average initially fell a record 1,100 points before closing down nearly 600 points. The decline also caused oil prices to plunge to their lowest levels in almost six years.

Joining us now to try to make sense of what's really behind the fluctuations in the market is economist Michael Hudson, president of the Institute for the Study of Long-Term Economic Trends, a Wall Street financial analyst and distinguished research professor of economics at the University of Missouri, Kansas City. His latest book, *Killing the Host: How Financial Parasites and Debt Bondage Destroy the Global Economy*.

MICHAEL HUDSON: Welcome to *Democracy Now!* It's great to have you with us. Thanks for having me again.

AMY GOODMAN: Professor Hudson, talk about what happened in China and what happened here in the United States.

MICHAEL HUDSON: Well, what happened in China doesn't have very much to do at all with what happened in the United States. Wall Street would love to blame China, and the Obama administration would love to blame China, and Europe would love to blame China. But most of the Chinese stocks went down because small Chinese investors were borrowing from, let's say, the equivalent of payday loan lenders to buy stocks. There was a lot of small speculation in Chinese stocks pushing it up. But this was an internal Chinese phenomenon. And China, as a whole, doesn't really have the problems.

The real problem is that we're still in the aftermath of when the bubble burst in 2008, that all of the growth in the economy has only been in the financial sector, in the monopolies - only for the 1 percent. And it's as if there are two economies, and the 99 percent has not grown. And so, the American economy is still in a debt deflation. So the real problem is, stocks have doubled in price since 2008, and the economy, for most people, certainly who listen to your show, hasn't grown at all.

So, finally, the stocks were inflated really by the central bank, by the Fed, creating an enormous amount of money, \$4.5 trillion, essentially, to drop over Wall Street to buy bonds that have pushed the yields down so high - so low, to about 0.1 percent for government bonds, that pension funds and investors say, "How can we make money?" So they buy stocks. And they borrowed at 1 percent to buy up stocks that

yield maybe 4 percent. But who are the largest people who buy the stocks? They're the companies themselves that have done stock buybacks. They're the managers of the companies that have used their earnings, essentially, to push up stock prices so they get more bonuses. Ninety percent of all the earnings of the biggest companies in America in the last five years have gone for stock buybacks and dividends. It's not being invested. It's not building new factories. It's not employing more people.

So, the real problem is that we're in a nonrecovery in America, and Europe is in an absolute class war of austerity. That's what the eurozone is, an austerity zone. So that's not growing. And that's really what's happening. And all that you saw on Monday was just sort of like a shift, tectonic shift, is people realizing, "Well, the game is up, it's time to get out." And once a few people want to get out, everybody sees the game's up.

AMY GOODMAN: And China?

MICHAEL HUDSON: In China, it's largely small borrowers who borrowed from intermediate lenders, that have borrowed from the big banks. So a lot of individuals in China that tried to get rich fast by riding the stock market all of a sudden find out that they have a lot of debt to intermediate, you know, non-bank lenders, insiders, people who banks will lend to. It's like the British banks lending to real estate speculators to lend out to homebuyers. So this is essentially the attempt to get rich by riding the stock market in China went way overboard. Chinese stocks are still above what they were at the beginning of the year. This is not a crisis. This is not very much. It's just that the artificial increase in the market has now ended some of the artificial push-up. And it's still artificial, and it will still go down some more.

AMY GOODMAN: I'm surprised you say that what happened in China and what happened in the United States are not related.

MICHAEL HUDSON: They are related in a way, but the U.S. funds have not invested very much in the Chinese stocks. Most of the China fund stocks are in HSBC, which lends to China - the bank. The break first happened in China, but the break itself was within China. And this showed investors - this is a symptom - that what happened in China is going to happen in Europe, and it's going to happen in the United States.

AMY GOODMAN: Talk about China as the world's second largest economy, and what you think would be the healthiest relationship between China and the United States.

MICHAEL HUDSON: Well, the economy is not the stock market. China's economy had to accumulate a large amount of foreign reserves just to withstand the kind of American financial war that brought the Asia crisis of 1997. So China acted defensively. It exported a lot, developed huge international reserves to make itself independent of the West. And now it's in the middle of shifting away from an export economy to begin to produce for its own people. I mean, why should Chinese workers spend all their lives making goods for Wal-Mart to sell in the United States and Europe? Why don't they make goods for themselves to raise their own standard of living? That was what China's doing, and that means that China doesn't have to export more, and there's really nowhere to export to, if Europe isn't growing and the U.S. consumers aren't spending. Obviously, the attempt is to make China itself grow. But the Chinese took the money; instead of consumer goods, they bought stocks.

AMY GOODMAN: As markets in China plunged Monday, former U.S. treasury secretary and president emeritus of Harvard University, Larry Summers, tweeted this dire prediction: "As in August 1997, 1998, 2007 and 2008 we could be in the [early] stage of a very serious situation." Is he overstating what's going on?

MICHAEL HUDSON: The question is: What does he mean by "situation"? When he says "situation," he means his constituency, the 1 percent. He doesn't mean the economy as a whole, the 99 percent. He's been wrong on almost everything that he's called. What he's calling for now is: You have to cut taxes on the 1 percent more; you have to give the 1 percent more money, and it will all trickle down. This is part of his patter talk, trying to support his usual right-wing position. But you have to be very careful when you listen to Larry Summers.

AMY GOODMAN: Michael Hudson, your book is titled *Killing the Host: How Financial Parasites and Debt Bondage Destroy the Global Economy*. Explain what you mean.

MICHAEL HUDSON: Well, most people think of parasites as sort of just taking, taking money from the economy, and the 1 percent is sort of sucking up all the income from the 99 percent. But in nature, what parasites do, they don't simply take. In order to take, they have to take over the brain of the host. And economists have a word, "host economy." It's for a foreign country that lets American investors in. Smart parasites help the host grow. But the parasite, first of all, has to make the host believe that the intruder is actually part of the body, to be nurtured and taken care of. And that's what's happened in national income accounting in America and in other countries. The newspapers and the media - not your show, but most of the media - treat the financial sector as if that's really the economy, and when the stock market goes up, the economy is going up. But the economy isn't going up at all.

And the financial sector somehow depicts itself as the brains of the economy, and it would like to replace government. What Larry Summers said is what - governments have to pay their debts by privatizing more, essentially, by doing what Margaret Thatcher did in England. That's his solution to the crisis: All the governments have to do is balance the budget, sell everything to Wall Street on credit, and we won't have any more problem. And that's basically - the financial sector is almost at war, not only against labor, as most of the socialists talk about, but against governments and against industry. It's cannibalizing industry. So now most of the corporations in America are using their income not to do what industrial capitalism did a century ago, not to build more factories and employ more people and make more profits; they're just using it, as I said, to push it to pay dividends and to buy back their shares and to somehow manipulate the financial sector in the stock prices, not the economy as a whole. So there's been a divergence between the real economy and what I call the - economists call the FIRE sector - finance, insurance and real estate. And they're going in separate directions.

AMY GOODMAN: You are - you have been an adviser to the Syriza party in Greece. You're a friend of the former finance minister, Yanis Varoufakis. Can you talk about what's happening there now and what that bodes for the economy, not only in Greece, but in Europe, maybe even here?

MICHAEL HUDSON: Well, the story begins, actually, about four years ago, when Greece had a very large foreign debt, taken on basically by the military government and what followed. And it was obvious that as soon as the PASOK, the socialist

party, came in, they said, "Look, the debt's much larger than we thought. We can't pay it." And they were going to write it down. The IMF looked in and said, "Greece can't pay the debts. We've got to write them down." The board looked in, said they can't pay the debts. But then the European central banks came in and said, "Look, our job as central bankers is to support the banks. Greece owes the debt to the, essentially, French banks and German banks, and we've got to support them." So, despite the fact that the IMF was pushing for a debt write-down four years ago - the head of the IMF at that time, Dominique Strauss-Kahn, wanted to run for president of France, and he was told by French President Sarkozy, "Well, wait a minute, if French banks hold most of Greek debts, you can't, at the IMF, say that we're going to write down the debts." So they didn't. And meanwhile, the eurozone said, "We won't let you, the IMF, be part of our program, the troika, if you don't pretend that Greece can pay the debt."

So Greece was left with a huge debt. It was pushed into depression. The GDP fell worse than it did in the 1930s. Finally, the Syriza party came in, in January, and Varoufakis and Tsipras thought, "Well, then, OK, we can explain to the finance ministers of Europe that you can't expect to push Greece into a depression, push more austerity, and somehow austerity will enable us to repay the debt. That's crazy." And he thought that he could reason with them. And the Europeans, who he was reasoning with, the central bankers, said, "We're not here to talk about economics. We're lawyers. We're here to collect money. It doesn't matter that you're going to go into a depression. It doesn't matter that you're going to have to have another 20 percent of your population emigrate. We're only here to collect the payments. And if you don't pay, then we're going to pull the plug."

And they pulled the plug on the Greek banks a few months ago and said, "We're not going to accept any of the bank transfers, payments with Greek banks here. So, if you're exporting and you want credit for export, you're not going to give it to you. We're going to treat Greece like America treated Cuba and America treated North Korea. You're going to be the North Korea of Europe if you don't succumb, surrender and pay." And that's why Tsipras said, "Oh, my - we don't want to bring an absolute, you know, total breakdown, because that would bring the right wing to power." Varoufakis said, well, he agrees that there's no alternative but to sort of surrender for the present and try to join hands with Italy, Spain and Portugal, but he wasn't going to be the administrator of the depression. So you had the referendum, and the Greeks now say, "Well, no matter what, we're not going to pay." And the eurozone says, "Then we're going to just wreck you, or smash and grab."

AMY GOODMAN: I want to ask you very quickly about presidential politics, about two of the Republican presidential candidates, Jeb Bush and John Kasich. Both worked for Lehman Brothers, Kasich after he ran for - after he was a congressman; Jeb Bush, according to *The Wall Street Journal*, Bush signed on with Lehman after leaving the Florida Governor's Mansion, making it clear he wanted to work as a hands-on investment banker. I believe he made something like \$14 million working for Lehman and then Barclays.

MICHAEL HUDSON: Well, almost - both parties are basically run by Wall Street. The Democratic Party, ever since Bill Clinton, was run by Robert Rubin. And all of the secretaries of the treasury, the officials, have basically come from Goldman Sachs, especially Tim Geithner. One of the problems in Greece, by the way, was that Obama and Geithner, coming from the Rubin group, met at the Group of Eight

meetings and told - were told, basically, Greece, "You have to pay, because the American banks have made so many big bets on Greek bonds that if Greece doesn't repay" - this is back in 2011 - "then the American banks will go under, and if we go under, we're going to pull Europe down." So, the American banks basically - we're talking about Wall Street investment firms. They don't - they're called investment bankers, but they don't invest. They gamble. And we're really much more in casino capitalism than finance capitalism.

So you have Wall Street people basically running politics, whether they're the actual politicians - Obama didn't work on Wall Street, but he worked with the real estate families. No matter who the president is, they're going to appoint Treasury heads and Fed, Federal Reserve, heads from Wall Street. Wall Street has a veto power on all the major Cabinet positions, and so, essentially, the economy is being run by the financial sector for the financial sector. That's the problem with politics in America today.

AMY GOODMAN: Michael Hudson, thank you very much for being with us, president of the Institute for the Study of Long-Term Economic Trends, a Wall Street financial analyst, distinguished research professor of economics at the University of Missouri, Kansas City. His latest book, *Killing the Host: How Financial Parasites and Debt Bondage Destroy the Global Economy*.

When we come back, we look at South Sudan. A new film is out. Stay with us.