Subject: Re: Modern Monetary Theory
Posted by Rusty on Mon, 30 Jan 2023 18:09:16 GMT
View Forum Message <> Reply to Message

What causes inflation? The latest revelation I seem to hear is that the government has been spending too much. Sounds very familiar. So the debt limit chicken game is in effect. Give concessions or shut down the government. This charade has been a staple for many years now. There may be, just maybe, other factors involved that aren't fleshed out... At all. Here's one. Asset inflation. Michael Hudson explains:
What has really been inflated, since 2008, has not been consumer prices, but asset prices -- [that is,] real estate prices, stocks and bond prices, things that the 1% hold. Wealth has been inflated much more than goods and services. [This is especially true] for real estate.

This debt has been inflated not by government debt, not by government deficits, but by the Federal Reserve creating a $9 trillion subsidy to the banks to support real estate prices, and hence the value of bank-held mortgages and stock and bond prices.

What about the big corporations showing tremendous profits during this period?
Hudson:
All across the board in the United States companies have been saying, "We're raising the prices because we think there's going to be inflation, and we're just trying to raise it in advance."

Since the Democrats took power in the 1990s under Clinton, they've stopped the anti-monopoly regulation. They've stopped the antitrust laws from being enforced, and you have a great concentration of monopolies, and they can raise prices for whatever they want, as much as they want. For agricultural goods, the distributors have simply raised the prices without paying the farmers and the dairy farmers any more.

So when you say that inflation is only a monetary phenomenon, what Milton Friedman is saying is, "Don't look at the power structure. Don't look at how markets are structured. Don't look at monopolies. Don't look at how the wealthy corporations are inflating [prices]. Look at something that we can blame on labor."

The meaning of money.
Hudson:
Money is -- most people think of it as an asset: what you have in your pocket. All monetary assets have debt on the other side of the balance sheet. All money is debt. The currency in your pockets is actually, technically, a debt to you.
By far [though], most money is bank credit. And bank credit is debt. And if you look at debt, then you have a whole different perspective, not only on inflation, but on how wealth is created and how the economy is polarizing.

You have to look at the whole economy as an economic system, which you and I have been talking about for years. The purpose of the mainstream media talking about inflation is to prevent you from looking at how the economy is working, to prevent you from looking at how corporations are raising prices, and to prevent you from looking at monopolies and war.

When an economy is financialized, privatized and monopolized, we have thus..

The Hudson Paradox:
More money and credit is used to bid up asset prices for housing, and retirement income, and that puts downward pressure on consumer spending. Because if you have to spend more money on paying a mortgage, on a house that's rising in price, if you have to spend more money on rent, if you have to spend money on monopolized healthcare services, on monopoly goods in general, then you are going to have less and less income to spend on goods and services.

Again, what's deflated is [the] spending of 99% -- well certainly 90% -- of the population on goods and services, because their spending is diverted to pay for access to assets and to monopolized goods, and to goods that are subject to protectionism or warfare.

So the irony is that asset price inflation leads to rising housing prices and consumer income deflation. You have to look at the economy as an economic system, [not simply as] two variables (consumer prices and money).

You have to look at who owns the wealth, who owes what to whom, how much debt is diverting money away from consumer spending to the upper asset holders (the 1%, the 10%), who owns most of the stocks and bonds and real estate, and who are now buying up private capital investment in medical practices, and almost every kind of consumer goods, and taking them private, and sharply raising the prices.

If you don't look at how the economy is structured, and how the ownership is changing, and the relationship between ownership and non-ownership, and consumption and labor, you're going to miss all of the variables that are really necessary to explain how the economy works. Most discussions of inflation are designed to avoid talking about how the economy works.

So what's wrong with privatization and monopolization?
Hudson:
What's caused this is the privatization of what used to be social infrastructure services. The whole dynamic of industrial capitalism, a century ago, was to lower the cost of basic needs, of retirement income, of healthcare, of education, because if you could provide these basic needs freely, or at subsidized prices, then you wouldn't have to pay labor more wages to buy a high-priced education, or high-priced healthcare. You would make your industry more productive because you [lowered] the cost of living by socializing the cost of education, medicine, transportation, communications.

The prices of these monopolized services have increased not only because of higher debt service, but because of higher dividends, higher managerial payments. None of this would occur under the previous public sector services. So you have a transformation of the organization of industry as a result of privatization that builds huge financial costs to the banks and to the financial sector into the pricing of goods and services. So the whole character of what the prices consist of is transformed and expanded and inflated.

What is capitalism now?
Well, there's obviously two kinds of capitalism. The textbooks like to talk about industrial capitalism, especially industrial capitalism as it seemed to be evolving in the 19th century into socialism.

But what we've had instead is something very different, and that's finance capitalism, that's based on basically rentier income: land rent, monopoly rent, natural resource rent, and financial debt charges. So when you talk about demand, the textbooks think, "Well, workers pay their wages on buying goods and services." But that's not what they do at all. That's not how it works. Before they have any money to spend at all, they have to pay their taxes that are taken off, and their medical care. That's taken off the top of their paycheck, and they are given after-tax income.

So the actual disposable personal income is not simply what they can spend after paying taxes, but what they can spend after paying taxes and rentier services. And [the] increase in these various forms of economic rent has widened so much that it squeezes what's actually available out of the worker's paycheck to spend on goods and services.

And if you don't look at this rentier overhead, then you're not going to understand why finance capitalism today doesn't produce the rosy results that advocates of industrialism talked about. They are 100 years behind the times. They are not looking at the transformation into finance capitalism and how it's transformed the economy.

What's the Federal Reserve's role?
Hudson:
Well, the Federal Reserve was created in 1913 to take monetary policy out of the hands of government. The idea was, actions that the Treasury used to do -- managing the economy -- would be transferred to Wall Street and other centers. The Treasury Secretary was not even allowed to be a member of the Federal Reserve Board.

J.P. Morgan organized the bankers and said, "We're going to take the twelve Treasury districts and we're going to make them into Federal Reserve districts. Basically we're going to shift economic planning away from Washington and put it in the hands of Wall Street in New York, Boston, Philadelphia, Chicago, San Francisco. But we're not going to let the government do the planning. The problem is that people vote for politicians. And you don't vote for who's going to be on the Federal Reserve Board. We've got to take planning away from democracy and put it where it belongs: in the hands of the 1% and the bankers."

That was the purpose of central banks in every country. Central banks were the alternative to socialism. Central banks were to prevent industrial capitalism from developing into socialism, but [rather] to develop into a financialized capitalism that instead of being productive was predatory.

What's wrong with this Federal Reserve policy?
Hudson:
Well, what's wrong with it is that it believes that the way to make an economy grow is to make it poorer.

This is the doctrine that the International Monetary Fund tells all of its borrowers. Latin America, Africa, Asia. [The IMF says to them,] "If you can only prevent labor unionization. If you can only cut social spending. If you can lower wages, you'll be more competitive and you will grow. So yes, we will bail you out of debt so you can pay the bondholders in the United States and other dollar bondholders, and the foreigners who've lent you money, because the World Bank has pushed you into dependency on the creditor nations. If you can pay them by being poorer."

That's the financial philosophy. The financial philosophy in a nutshell, is: Pay labor less, leave the economic surplus for the owners of wealth, the owners of money, and most of all the owners of [monopolies on] creating credit and creating money. That's what makes Western capitalism different from the Chinese system, where it's the central bank of China that creates the credit, not the commercial banks that end up turning all of this rent into interest and economic overhead that is responsible for most of the cost increases.

What are the long term consequences of this policy?
Hudson:
The fact is that the debt that has been run up can't be paid. There is no way that the Federal Reserve can cope with the fact that every recovery since WWII, every recovery since 1945, has started from a higher and higher and higher debt level, until, now, there's so much debt that the economy cannot compete, and cannot avoid homelessness and polarization, unless the debt is wiped out.

And that is what the Federal Reserve doesn't do. The Federal Reserve can't change the financial system and say, "Well, for the last 100 years, actually for centuries, commercial banks, when they make a loan, they make it against collateral. Banks do not make loans in order to create new means of production. The stock market may do that, for seed capital. But banks don't lend for assets that are not already in place. They only lend against assets that are already there that they can foreclose on if the debt can't be paid."

Well, we're now in a mass foreclosure period, and the reason that all this $9 trillion was created when Obama bailed out the banks, was that the banks were insolvent. They had made so many bad loans that, as the FDIC had pointed out, Citibank was bankrupt, all the big banks were broke. We spoke about that in the very first show. And the financial system is still basically insolvent. It's being kept alive -- it's a zombie-bank system, keeping zombie corporations afloat by more and more debt that ultimately is going to have to be written down.

But banks don't do that. And the only solution is beyond the Federal Reserve's policy. Number one, [it has to] write off the bad debts. This is certainly obvious for many Global South countries. But you also have to have a different financial system. You have to make credit a public utility, as it is in China. A public utility that actually is designed to create money and credit, to create new means of production, without adding to the overhead costs and debt service.

This requires de-privatization as well as making credit a public utility. Economic rent should be socialized and used as the basic tax base so you don't have rent being used to pay interest. You have rent to prevent housing prices from being bid up on credit by a financial sector whose job is to inflate asset prices to keep the Ponzi scheme going so the economy doesn't --

So this is the ongoing dilemma that is never addressed, never discussed or made note of. It's sacrilege to challenge the conventional dysfunction. That's all for now folks. See what you think.