Negating 1984: Michael Hudson's antidote to doublespeak vocabulary in economics

Michael Hudson, *J is for Junk Economics: A Guide to Reality in an Age of Deception* Dresden: ISLET-Verleg, 2017, 403pp. ISBN: 978 3 9814842 5 0

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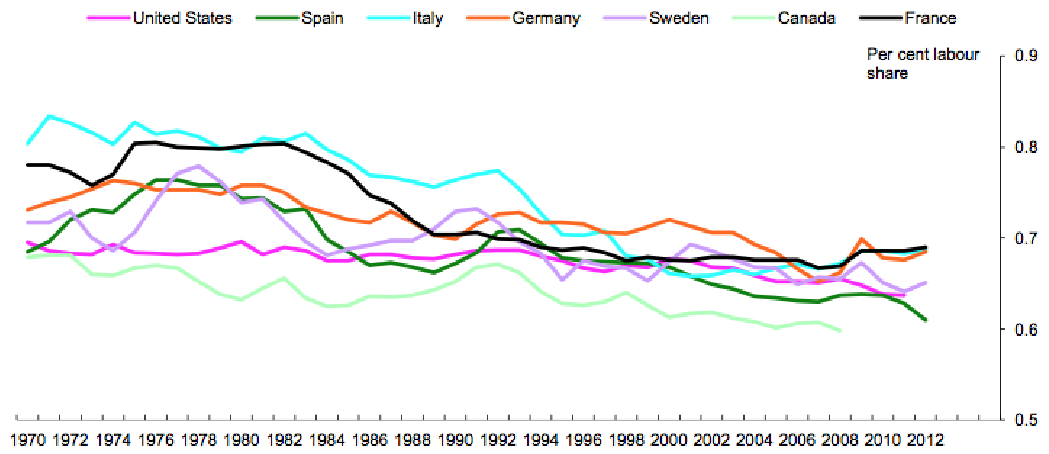
Introduction

Michael Hudson is a professor of economics at University of Missouri, Kansas City, and Levy Institute associate. He is perhaps best known for his recent book *Killing the Host* (2015) and for his Harper's articles (2005; 2006) that identified key aspects of the financial crisis that was to manifest in 2007/8. *J is for Junk Economics* is ostensibly a dictionary, but a highly unusual one. The typical entries do not deal with terms commonly used in mainstream economics as they are used, but rather seek to clarify these in terms of the fallacies and mismeanings they encapsulate, whilst also providing entries that state the foundations from which the clarifications arise. That is, classical economics, post-Keynesianism, MMT and elements of new theories of money creation and financial system activity, as well as some insights from Marx. The range is eclectic and personal and yet also systematic, in so far as consistently thematic with reference to the structure, dynamic, and logic of actual contemporary financialised economies. The "dictionary" is in many ways an excellent work. It contains numerous pithy statements that concisely express important insights. It does so according to themes that follow directly from Hudson's more general concerns and that are set up in the introduction and developed throughout the text entries (and also in five appended previously published essays). The preface provides a brief account of the format of the book and how it came into being:

> "I drafted this dictionary and its accompanying essays more than a decade ago, for a book to have been entitled *The Fictitious Economy*. It did not find a publisher. My warnings about how debt leveraging would lead to a crisis hardly qualified as a timely how-to-get-rich manual of the sort that publishers consider to be popular 'economics books'. Most readers were making easy money in the stock market and real estate… Nobody wanted to hear that the gains couldn't be permanent" (2017: p. 7).

It is, of course, both tragic and ironic that the work would have been genuinely timely had it been published over a decade ago and that it was delayed precisely because of its relevance and point. This, as Hudson notes, extended to the incomprehension expressed by an anonymous reviewer who read the whole in terms of the kinds of misappropriation and distortion of classical economics that has helped to inform modern mainstream economics. For Hudson, the driving intention of classical political economy was to *free* markets from exploitative rent extraction, whilst today free market ideology, theory and policy consequences have become ways to facilitate that extraction. Hudson in general essentially justifies and contextualises *J is for Junk* as applied sociology of knowledge, and does so by initial reference to Orwell's *1984*. Economics now seems to have become a Ministry of Truth producing doublespeak and newspeak that reverse, invert, occlude or obfuscate regarding actual states of affairs. According to Hudson, this is not purposeless, it serves the interests of a minority and enables the perpetuation of *caused* inequality. There is a real and continuing problem here that maintains the relevance of *J is for junk* even though the project was initially mooted more than 10 years ago. This is easily demonstrated (see also 2017: p. 179). For example, one can track the decline in labour share of national income over the neoliberal period:

Labour share selected countries, 1970-



Source: Bank of England/OECD in Haldane 2015: p. 28.

Economics that speaks falsity *for* power rather than truth *to* power

For Hudson, the causes of inequality include an ideational framework that involves a "learned ignorance" (see 2017: p. 141) or "trained incapacity" articulated by mainstream economics. This capture creates widespread passivity, confusion, and a sense of powerlessness (in so far as the way things are, is naturalised and becomes ultimately either a claim that it is to everyone's benefit or without reasonable alternative, and so suppresses alternatives). The capture has its own language:

> "The academic curriculum has been hijacked to replace classical political economy with a seemingly de-politicized but actually pro-*rentier* ideology. Mathematical symbolism is given the sanctifying role once afforded by Latin. Aping the natural sciences, economists take refuge in abstruse modes of expression. The more complex the math, the more simplistic and banal the postulated relationships and conclusions tend to be. Most of the math refers to choices between different 'menus' of goods and services, without much analysis of how these come to be produced, or the long-term economy-wide consequences of buying on credit instead of cash. Economic theories that focus on the exchange of goods and services without discussing the means of acquiring control over wealth divert attention from examining what is most important in shaping the economy" (2017: p. 18).

And so part of the point of *J is for Junk* is to clarify what has been confused, and this in particular revolves around:

- The distinction between productive investment and asset price expansion/inflation (where money creation can occur towards either of these ends);
- The important positive and constructive role of the state in sponsoring productive investment (especially in infrastructure) where the state can also provide an effective institutional check and balance on elites and corporations, rather than simply delegate power to them through deregulation (creating an unelected concentration of power and decision-making that whilst oligarchic and oligopolistic is articulated as free market individualism),
- The key distinction between earned and unearned income.[1]

Without this final distinction rent extraction becomes conflated with economic growth and wealth creation. This is a point Hudson notably pursues with reference to, heavily influenced by a language more familiar to Americans than others, the FIRE acronym (Finance, Insurance and Real Estate sector, 2017: p. 103). The FIRE sector receives transfer payments and yet has become a core aspect of modern economies whose real role and consequences (see below) are not widely understood, as Hudson states in his introduction:

> "The following A-to-Z guide aims at providing the vocabulary and concepts for a more effective diagnosis of today's economic (and by extension, psychological) depression, by thinking in terms of compound interest, debt peonage, *rentier* economies, unearned income, zero-sum activities and economic parasitism. Without such concepts in the forefront of one's mind, today's neoliberalized economies are prone to succumb to the virus of Orwellian Doublespeak. Junk Economics and its euphemistic vocabulary aim to limit the tools of thought by distracting attention from the causes – and hence, the needed remedy – by trickle-down economics weaving a cloak of semantic invisibility around the phenomena of *rentier* parasitism" (p. 20).

An illustration of the main themes of *J is for Junk*

J is for Junk is an extended "thought crime" in Orwell's sense of dangerously transgressive. Its pithiness is also indignant and sometimes polemical but not in the pejorative sense of unreasoned. One gets a clear sense of this by chaining together a selection of entries. For example, from "As if argument" and "Asset-Price inflation":

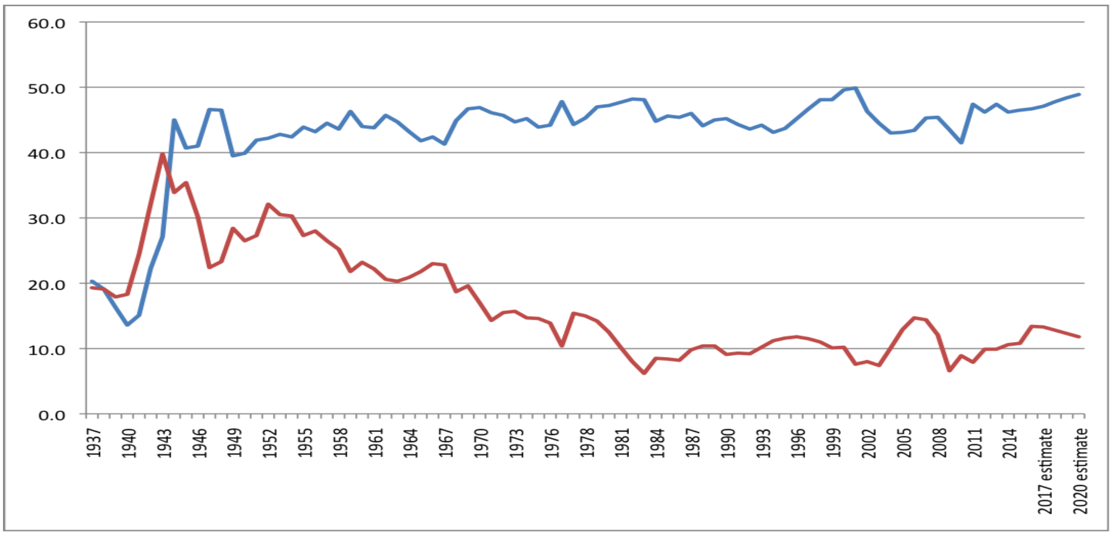
> "A parallel universe is presented as a set of assumptions. As in novels, the key is to get observers to suspend disbelief. Mainstream economics, for instance, reasons as if all wealthy individuals earn their income by playing a productive role and put their savings in banks or bond markets – which are assumed to increase prosperity by lending these savings to entrepreneurs to build factories and employ labor. *Rentier* income, junk mortgage lending and corporate takeover loans play no role in this 'as if' picture… The reality is that banks don't lend for new direct capital investment, and only a small

[1] *Inter alia* a whole range of mainstream theory (based on comparative advantage) exclusions are stated. For example, "Free trade theory leaves out of account structural problems leading to chronic trade deficits, food and trade dependency, non-cost related rake-offs such as economic rent, emigration as a result of poverty, war and the effects of financing trade deficits by running interest-bearing debt and losing domestic political autonomy to international financial institutions" (2017: p. 52). For an extended exploration of related issues see Wade (2017).

> proportion is lent for consumer goods. Banks lend mainly against assets in place… This credit for buyers of real estate, stocks and bonds inflates debt-leveraged windfall gains" (2017: p. 33).

For Hudson, a FIRE focus creates an emphasis on capital gains (2017: p. 50), which in turn creates motives to minimise taxation on such gains and to create preferential tax regulation (noting debt has various tax benefits including through real estate and fictive depreciation). This, as many have acknowledged (Piketty, Keen, Wray, Palley, Galbraith, Kelton, Tcherneva etc.), benefits those who own the vast majority of financial assets and thus creates a feedback loop for inequality. Inequality, meanwhile, is exacerbated by debt leveraging, creating a Minsky process of unstable financial expansion (2017: p. 154). The majority population are co-opted into a system of debt peonage (2017: p. 71) through a system that claims house "ownership" and small scale equity participation in stock markets is an entryway to real wealth, rather than a means to yoke the majority to long term debt; something that is further exacerbated as the state devolves pensions to private investment based on equity markets, and the wealthy lobby to reduce corporation tax, and top rate income tax whilst favouring the transfer of taxation from land, assets, and high incomes to the rest of labour and VAT. Consider how corporation tax and income tax have diverged in the US over the neoliberal period:

US corporation tax (red) and income tax (blue) as % of total tax receipts, 1937-



Source: Table 1: http://www.whitehouse.gov/omb/budget/Historicals

As Hudson notes, new obfuscations then become possible; Laffer curve claims (2017: p. 138), trickle down claims (2017: p. 231), and:

> "It is argued that hurting corporate profits would leave pension funds with lower gains, making it harder to pay retirees. Investing pension funds in the stock and bond market instead of financing direct investment leaves pensioners (along with middle-class savers) hostage to the financial sector. Its lobbyists claim that reforms to help consumers by regulating monopoly pricing and product safety, improving working conditions or paying better

> wages would hurt pension funds by eroding corporate profits and hence stock-price gains" (2017: p. 177)

As more of the system is diverted into financial activity less productive investment occurs, and so there is less in the way of actual returns on real productive investment to pay down debt; the system becomes more dependent on internal asset price inflation, debt accumulates, and diversifies – extending to student debt as a "necessary" investment in human capital to become employable, car loans, credit cards etc. An increasing proportion of current income of the majority is given over to servicing debt (so real income is not as it seems in much the way that national income accounts are also misleading, 2017, p. 165). Eventually, a point is reached where financial crisis manifests. These are *real* processes that mainstream economics does not appropriately describe or explain. This too becomes socio-politically useful.

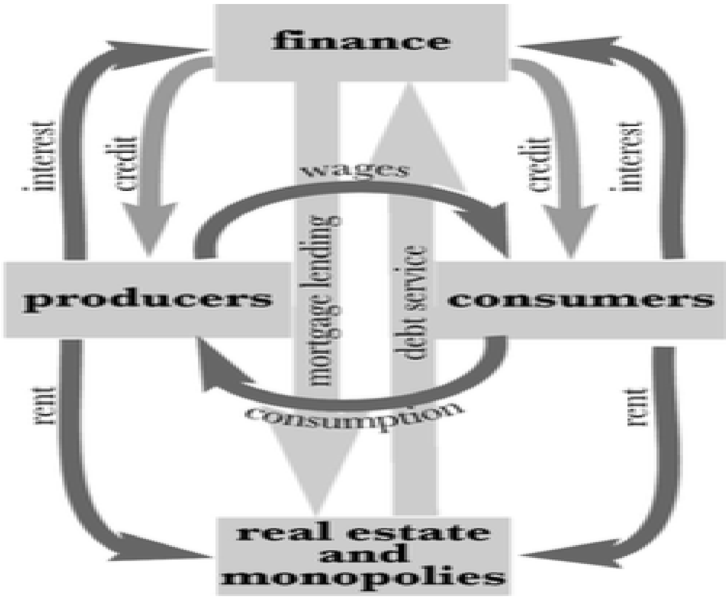
Based on the power of finance and the interests that arise precisely because of the instability of financial processes, banks and owners of large volumes of financial assets are preferentially positioned. They are bailed out and compensated, and are essentially treated as victims rather than victimisers (2017: p. 37). The majority, meanwhile, find that their debt carries over from one financial crisis to the next. This is personally problematic and also systemically problematic, since debt overhang affects the scope for economic activity in the next period, and leads also to further financialisation-related solutions (via QE and other means, which simply create renewed asset price inflation). As Hudson notes, in his entry on business cycle theory it:

> "Fails to explain the exponential build-up of debt from one recovery to the next, and hence fails to see the ultimate crisis. Anti-labour, anti-government neoliberals have hijacked 'business cycle' theory by depicting downturns as being caused by rising wages and raw-material prices as full-employment and full-capacity operations are reached, cutting into profits so that growth tapers off. But the key factor spanning business cycles is the growth of debt and rising interest charges that stifles profits. Debt service absorbs the income hitherto spent on new direct investment and consumption, so employment and production fall off" (2017: p. 46).

It follows within the core theme that pervades the entries in *J is for Junk* that a financial crisis can be one in a sequence of such crises, and also indicative of or constituted within a more basic structural problem with contemporary financialised economies as *political* economies. In his entry, the Two Economies, Hudson states:

> "Domestic private sectors are composed of two distinct systems. These are conflated to mean 'The Economy', but their dynamics are quite different. 1) The 'real economy' of current production and consumption, wages and industrial profits… 2) The FIRE sector consists of land, monopoly rights and financial claims that yield *rentier* returns in the form of interest, financial fees, economic rent (unearned income) and monopoly gains, plus asset-price gains ('capital gains')… Most of the FIRE sector's financialized wealth – the asset side of its balance sheet – is held by the *rentier* class… Its debt counterpart on the liabilities side of the balance sheet consists mainly of mortgage debt… Since World War II, the 'real economy' has spent more and

more income on real estate, insurance and payments to banks, pension funds and other financial transactions" (2017: p. 232).



THE TWO ECONOMIES
#1. "Real" Economy (producers and consumers)
#2. FIRE Sector (finance, real estate and monopolies.

One could go on but it should be clear that much of *J is For Junk* sets out a consistent theme. Thereafter, perhaps the other important point to highlight is the purpose to which Hudson directs his dictionary. In so far as debtors are the genuine victims of financial crises, and in so far as debt overhang from one crisis to another is a cumulative problem, then in conjunction with a more constructive role for the state, Hudson argues for debt forgiveness as a key constituent in the transformation of current problems of financialised economies (2017: pp. 59, 72 and 131). This, of course, contests the current positioning of victimisers as victims.

Some final comments

Whilst *J is for Junk* is an excellent work – eminently readable, nailing in a few brief sentences here and there some important insight that many have thought but few have articulated quite so well – it is also something of an oddity as a dictionary. I by no means intend to discourage any potential readers. I sat and read the whole work in two or three sittings, and not just because I was reading it to review it. Conversely, I wondered whether I would read it in any other way, by which I mean would I consult it as a dictionary is *ordinarily* consulted, rather than read it as a single extended work? Given that the point of a dictionary is typically to provide a clear statement of the *common usage* of terms, and often, if used in an academic context, to provide a quotable source of authority (in writing an essay etc.), a dictionary whose actual point is common misuse of language creates something of an odd status, at least as a point of reference in the instrumental sense.

Concomitantly, if I required a technical account of the concepts and terms Hudson criticises, the information contained in *J is for Junk* would likely be insufficient. If I required a significant substantive critique of those concepts and terms then the entries would still likely be insufficient. The entry on Efficient Market Hypothesis illustrates both these points (2017: p. 87). This sounds more critical than it is intended to be and should rather be taken as a reminder of what *J is For Junk* is intended to be. If you are looking for a general reminder of the underlying logic, absurdity, irrelevance or harm created by some important terms and concepts in relation to others, then reading *J is for Junk* is rewarding. That said, *J is for Junk* is, however, in so far as it works to a theme, also repetitive in places, somewhat under-developed in some of its historical points (why Margaret Thatcher supported policy that favoured financialisation in the long term is sociologically complex in a way that a brief dictionary entry cannot capture, if one is interested in the background to the UK's "Big Bang" of the mid-1980s, 2017: p. 223), and begs the odd question regarding who and what is omitted, given the selection of what is included (for example, if Larry Summers why not Frederic Mishkin?).

In the appropriate context, however, little of this matters. If you want to read something genuinely popularising rather than simplistically popularist then I would recommend *J is For Junk*. It is by no means intended to be derogatory to state this book is ideal bathroom literature. A great deal of economics may be fecal, but this is not. It is a reminder of what really matters for the many rather than the few.

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