

China's Fortune Cookie Crumbles....

Ross Welcome to Renegade Inc. With China's increasing wealth, Western investors want some of the action. One of those investors is a bullish gentleman called George Soros. However, the Chinese are acutely aware that with Western investment comes inequality. So as Beijing begins to rethink how to do proper economic growth, we ask, will China learn from Western mistakes?

Ross Michael Hudson, always great to have you back on Renegade Inc.

Michael Hudson It's good to be back here. Thanks for having me.

Ross Michael, we join you at a time where a lot of people think the unipolar world could have maintained its supremacy. Turns out it hasn't. Multipolar world is here to stay. You of late have been quite vocal about George Soros, no less. Mr. Soros has been casting aspersions about various things, but one of them is talking about the Chinese economy and why Black Rock, amongst others, should be allowed to invest there, because ultimately it's going to undo American interests. Can you unpack that for us because it seems very complicated?

Michael Hudson Well, George Soros' dream is that China would do what Yeltsin did to Russia - that it would privatise the economy, that it would basically carve it up and let US investors buy control of the most profitable heights. And in that way, the foreign investors would be able to sort of get all of the profits of Chinese industry, Chinese labour, and it would become the darling stock market of the world, just like Russia's stock market was the leading booming stock market of 1994-96 and that China, essentially, would be run to benefit US investment bankers. And Soros is furious that China is not following the neoliberal policy that the United States is following. It's following a socialist policy wanting to keep its economic surplus at home to benefit its own citizens, not American financial investors. And so this, for Soros, is a clash of civilisations. And he said somehow we've got to stifle the Chinese economy. We've got to put sanctions against it. We've got to stop investing in it to force it to do to its country what Yeltsin did to Russia.

Ross Let's hear it in his words. He says: 'The Black Rock initiative imperils the national security interests of the US and other democracies because the money invested in China will help prop up President Xis regime, which is repressive at home and aggressive abroad. Congress should pass legislation empowering the Securities and Exchange Commission to limit the flow of funds to China. The effort ought to enjoy bipartisan support'. He's not mincing his words, is he?

Michael Hudson Well, he's a comedian. What's wrong with that statement? He thinks that China actually needs American dollars to build its factories and invest. He thinks that somehow China's balance of payments is going to fall apart without the US market, without US investors telling President Xi what to do. The Chinese government won't have a clue as to what to invest in and how to let the 'free market', meaning George Soros and Black Rock and other companies, operate. So he's living in a dream world where other people need us. It's like a guy who doesn't realise his girlfriend doesn't need him anymore.

Ross There seems to me to be a distinction here that the Chinese are acutely aware of, and it's between the classical economists and the neoclassical economists. The classical economists have understood the idea of unearned wealth, unearned income. The neoclassical economists actively chase unearned wealth, unearned income, because that is central to their playbook. Can you just expand on those two ideas? And is it the case that that's why you talk about a clash of civilisations?

Michael Hudson Well, you put your finger on it, Ross. Well, people think that China's advantage is its abundant, low priced labour force or the government building infrastructure. But what's guiding this all is an understanding of the kind of economics that actually goes back even beyond Marx, Adam Smith and John Stuart Mill and the other economists. They realise there's a difference between earning and creating wealth by employing labour to produce goods, to sell at a profit and then reinvesting the profits and more capital formation, or simply buying a rent yielding property, buying land and letting it rise in price without the landlord doing anything, buying a monopoly and just raising the price and charging monopoly prices like the US pharmaceutical companies are doing. China understands the difference between earned income and unearned income, between productive investment and unproductive investment. And in the United States, if they do recognise this difference, they realise that unearned income you can make wealth by parasitically much quicker than you can actually create wealth. It's cheaper to be a parasite than a host. And so most of the financial strategy of Wall Street thinks, how can we get something for nothing? How can we get a free lunch? Well, let's begin by telling people, having Milton Friedman as a kind of sock puppet saying there is no such thing as a free lunch, when the whole of Wall Street is looking for a free lunch. They're looking to grab Chinese assets on the cheap, like Soros is grabbing post-Soviet assets. They're looking for monopoly rights. They're looking for lending money and let China do the work, just pay the interest to the Americans that are going to be providing it with money that the Federal Reserve ends up creating on its computers or that George Soros already has saved largely by how he got the free lunch from the Bank of England betting against that and driving Sterling down.

Ross Some people call it the free world. Others call it a democracy. Others, for America, call it an advanced oligarchy. Do you think that the Chinese have looked at America and the wider West, understood that privatising all that rent has ultimately led to societal decline?

Michael Hudson They're beginning to look at it that way. Most Chinese Marxists focused on Volume 1 of Capital, which is all about employers hiring workers and putting them to work and making a profit off the mark-up. Only in the last couple of years has Volume 2 and Volume 3 of Capital moved into central discussion in China. And it's Volume 2 and 3 that talk about economic rent. And so China has come to realise that, wait a minute, the United States is not an industrial economy. We're not going to understand what's happening in the United States, in England, in Europe, by looking at what Marx wrote in Volume 1 of Capital, because they're not making money industrially anymore. They're making money by being a rentier economy, by landlordism, by monopolies and by bank credit, which Marx discussed in Volume 2 and 3. So they're now broadening the discussion. And for the first time, you're having, especially in the last few weeks, last month, really, China is talking about, wait a minute, do we want to let Chinese investors make money, financially, by buying housing, becoming absentee landlords and hoping that there is going to be a housing price inflation like you have in the United States, or do we want to keep housing low priced and not to bid it

up by credit creation and finance? So they're now realising that if you want to keep China's cost of living low, you have to keep the price of housing low. And that means that you don't want housing to become a commodity, an investment vehicle for absentee owners and landlords to make money, you want housing to be for Chinese people to live in, actually. And that means you want low priced housing, not debt-leveraged housing, as they're seeing in the United States.

Ross I know somebody who works on the life boat on the Thames and they get a view each night that no one else would ever get. And they go up and down the Thames and they see all these high rises, which are oversupply of property, real estate. And there isn't one light on in any of them. The reason, foreign investors, predominately the Chinese, have come bought them, clungfilmed the whole place, locked the door and then they chip off back to China - sit and wait, basically allow that land value to go up and cash out 10 years later. You can see what that does to local communities, schools, shops, infrastructure, services and all the rest of it - this absenteeism. Do you think that those foreign investors, the leadership in Beijing, has seen this model around the world and thought, yep, fine, we can do it over there, and yet we need to repatriate some money because of some of the liquidity issues that we've got over here. But we're not having that as a central business model or a central economic model to our economies? Do you think that that light has gone on?

Michael Hudson Well, they've been discussing this regarding Hong Kong for the last 10 years. And Hong Kong is the typical example of multi, multi-billionaires in real estate. And they thought a socialist economy is not the economy that gets rich by creating absentee landlords. The fact is that there's been a very large outflow of Chinese investment to the West. You have it in New York City on the west side, all very dark apartments that no lights are on at night because they're absentee-owned. Thorstein Veblen in 1923 wrote a book, *Absentee Ownership*, saying that housing should really be for living, not as a speculative vehicle. But in America, real estate is all about a civic development. It's all about how to increase real estate prices and create a bubble for speculators to find someone to flip the property to. And that that's happening. I'm not sure it's going to happen much longer and in London now that Brexit has occurred. But I think that what China is trying to do is saying how do we create a domestic economy where Chinese people make money. They can not only afford a house of their own, but if they invest, they can invest in making China richer, not in buying income-yielding, rent-yielding, assets in America, England or Europe.

Ross Do you think that the pictures that we've recently seen on social media of the huge tower blocks that haven't been finished, residential, that haven't been finished for eight years and now they've just put semtex under them and raised the whole thing to the ground? Do you think that's a real world example of the scar tissue, if you like, that private debt creates and in another sense, a Minsky moment? Blowing all these things up means that you get rid of all of that oversupply, which means that that inventory isn't in the market and isn't there to be flipped and speculated on.

Michael Hudson These are buildings where they wanted to pre-plan for what they thought was going to be a rural exodus and the rural exodus didn't occur into these cities. Right now, China is focusing, I think for the first time in quite a few years of focusing much more on rural development. China is primarily a still a rural economy, a village economy. And people don't realise that. When you think of China, you think of Shanghai and Shenzhen and Beijing

and even Wuhan. But the fact is that much of China's rural and there can't really be a rural exodus to the cities because you have a kind of passport plan in China. In order to live in Beijing, you have to have a permit to live in Beijing so the city won't become even more overcrowded than it is now. They're having to re-focus development much more on the rural areas that have not kept pace with the heavy industrial factory areas that have occurred. So they wanted to do a lot of building, not only to employ labour and to do construction, but to think just in case they needed this housing for the rural exodus, they needed it in place. Now they realise, OK, we're not following that particular central planning idea. Central planning really is very hard. It's very hard to build whole small cities in advance with nobody there. It's much easier to wait until they're actually economic forces leading you to develop. So in that sense, China's becoming more market oriented in the sense of its planning. But at the same time, it shapes the market, increasingly, to create domestic prosperity and earning opportunities, not unearned rent-extracting opportunities, but earning opportunities. So this is a sort of ongoing process of re-evaluating, restructuring, fixing- up and improving the economy.

Ross Michael Hudson, welcome back. Great to have you for the second half.

Michael Hudson Thanks.

Ross Michael, we said right at the top of this programme that there is, let's say, a tug of war between the unipolar and the multipolar. China have looked at the West and they must conclude now, the Russians also, must conclude, that the Western economic model is fatally flawed. In many ways, what you've got in America is an advanced oligarchy. Across Europe, you've got a zombie banking system. And basically the model for the last certainly 30, 40 years has been to extract as much rent as possible and pass it off as an economic miracle. To avoid all that, this fork in the road has crystallised. What do you think will be the decisions coming out of Beijing when they look at the economy in a more holistic way and they realise that they want to better the lot of the average Chinese citizen?

Michael Hudson Well, as I pointed out, their concept of the economy realises the distinction between earned income and unearned income, between rent and profits. It wants to make profits, not economic rents. And it also sees that the United States is trying to prevent it from going along this socialist road and that that's really the new Cold War. You mentioned unipolar versus multipolar. It's actually not so much that China, Russia and the Shanghai Cooperation Organisation, along with Kazakhstan and Iran and now the other groups are pulling away, it's the United States trying to force them to follow the US neoliberal model by imposing sanctions and special penalties and military threats, not to mention ISIS terrorism. And so the United States is driving Europe, Asia and now Africa as well, into a unified, consolidated unit outside of itself. It's very self-destructive. It thinks like George Soros, that only if we stop investing in Asia and other countries that that will force them to knuckle under to the US. But what it's doing is it's driving them altogether into the Belt and Road Initiative. And so what China's doing is extending a precondition for creating a profitable industrial economy over a large area that we can benefit from. Its participants are going to need transportation. You're going to need ports. You're going to need roads. You're going to need pipelines and is focusing on the interconnections, on the infrastructure. America doesn't build infrastructure unless it's monopolised. And this is the political fight going on in the United States now. President Biden has a infrastructure plan that he's scaled down from six

and a half trillion to three and a half trillion. And essentially the bulk of the Democratic and Republican Party said if we can't privatise infrastructure and make it a rent extracting monopoly, we're not going to do it or we're going to block the government from doing it. So in the United States, they're going to have high priced infrastructure, high priced health care, high priced education and China is going to have low-priced transportation, low-cost infrastructure, free education, public health care. And you're going to have a very, very high cost United States really unable to compete with the rest of the economy. And all it can do is make military threats or financial threats. And if it tries to impose sanctions as it's imposed on Russia, China and other countries, these sanctions are going to serve as protective tariffs for their country. When President Trump put sanctions on agricultural exports to Russia, it was a windfall for Russia. They develop their own agriculture and Russia is now the largest grain exporter in the world. So what Senator McCain in America characterised Russia as a gas station of atom bombs, meaning it's a gas station with the largest farm sector in the world developing an industrial integration with China and the rest of Asia. And it's a Eurasian world island as Mackinder called it a century ago that is becoming the economic focus of the world leaving the United States as the high cost economy with no visible means of support because we're not doing our own industry anymore. We're not competing with China. We're letting China do all of the industry, but all of a sudden we're completely dependent on it. This does not bode good for prosperity in the United States or Europe and other areas that are satellites of the US economy.

Ross What is the probability of the West going, hang on, we have taken a detour here, we need to do something differently?

Michael Hudson I'd say maybe between one and two percent. In order to understand that you're taking a wrong detour, you have to understand what the right path is, why China's doing it right? And they can't acknowledge that because that's called socialism. And when everyone says, wait a minute, instead of having health care absorb 18 percent of the American GDP, if you would provide public health care, all of a sudden you'll lower the cost of living by the United States. And that's a precondition for making labour more competitive. Well, the employers are going to say, wait a minute, if you make public health care, then you're going to lose the locking-in of Labour to its employers. Right now in the United States, especially during the pandemic, if you work for an employer for a living, you're afraid of being fired because you lose your health insurance and that is a threat of bankruptcy. If you complain about your job, you might be fired. That's a danger. So having private health care paid for by the employers, locks labour into dependency on their employers. They're afraid to ask for higher wages. They're afraid to ask for pensions. It's turned into the class war here that is ending up impoverishing labour. Same thing with education costs. President Biden wanted to wipe out - or at least he promised - that he was going to wipe out, student debt. If you have students paying 40 to 50 thousand dollars a year to have a college education and a college diploma is a precondition for getting a job like a union card used to be, then you're going to have that added to the cost of living. Well, when you have all of these privatised - education, health care, not to mention housing and other factors - when you have all these rent-extracting exploitative economies, you cannot be a competitive economy. You can only get money by conquering and exploiting other countries. But there's no one to conquer anymore. America couldn't even conquer Afghanistan. Every economy for the last 5,000 years has two parts. There's the real economy of producing and consuming and paying taxes and government services. And then there's the credit connections. All economies

operate on credit, basically. And the problem is that this credit cost money, compound interest. And if you look at compound interest of anybody's savings, take the wealth of the one percent and all of the trillions of dollars they have. If you leave your money in compound interest, it grows exponentially. But economies don't grow exponentially. They grow on an s curve and sometimes there's an interruption. Sometimes there's a disease like Covid.

Sometimes there's bad weather and a environmental disaster or there's a war. And once there's an interruption, what do you do with the fact that the finance sector grows faster?

Well, this goes way back to Babylonia. It occurred in Greece and Rome. And ultimately the tendency is for the financial sector to take over and to use the financial returns to take over real estate. And so there's a symbiosis between real estate and finance. And that's occurred in every economy for the last 2,000 years since Greece and Rome. And it certainly characterises where most money and most wealth is made today. And in the universities, you take a course and they say, well, you accumulate wealth by saving up the wages and saving up the profits you made. But that's not how the wealthy classes got money. That's not how the one percent have made money. They have made money either by taking property from the public domain by privatisation, or it's made today by the central banks, lowering interest rates, flooding the market with credit, enough credit to push up real estate prices 20 percent in the United States in the last year. Housing prices have gone way up unaffordable levels, pushing up education prices and education is whatever a bank will lend you to pay a student loan for. It's all financialization. And it turns out that what people thought was industrial capitalism has turned out to be finance capitalism instead. And so what China is doing is saying is well, we're not going to let our industrial capitalism evolve into finance capitalism, it's going to evolve into socialism because we're a socialist government.

Ross Just say the Chinese, the penny's dropped and they've understood how badly wrong the West got it. What does the Chinese economy, and as importantly, society look like 10, 20 years from today?

Michael Hudson It'll be a more balanced, less polarised economy. It will still let people make fortunes, but not gigantic fortunes large enough for an independent oligarchy to develop, to become a rival to government and try to replace government. In the West, you've had a financial oligarchy evolve and take over planning from elected government. So we don't have democracy now. It means a free market where you leave everything to Wall Street as your central planner. So China is going to leave its planning spontaneously to individuals to innovate, to develop, where America is becoming, and England, are centrally planned economies planned by Wall Street, not to create prosperity, but to create rent-extracting opportunities for Wall Street stocks and bonds and absentee real estate. So you're going to have a rentier economy - let's call it neo feudalism - while the rest of the world goes forward into what industrial capitalism was meant to be a century ago and was sidetracked in the West, but is actually evolving into socialism, as everybody expected in China and the Shanghai Cooperation Organisation.

Ross You talk about super decadence. Is the irony lost on you that one of your politicians recently attended a 35,000 dollar gala event dressed in an expensive dress with the words 'tax the rich' embroidered all over the back of it?

Michael Hudson That's become almost so popular you can almost make fun of it it's so popular. There's something called neo linguistic programming that if you have a problem and

you have a headache or something, if you can imagine your headache or your problem being very far away and then expanding and expanding and finally, poof, it all dissolves and goes away. They think that they can say tax the rich and just make it into a phrase that's so popular, it doesn't really mean tax the rich. It means wouldn't it be nice if there were a parallel universe in which we tax the rich. But of course, that's just a nice fantasy.

Ross Michael, always entertaining. Always a pleasure. Thank you so much for your time.

Michael Hudson It's wonderful to be here, Ross. Thanks for having me on your show.