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Trump and the One Percent: Making the Super-Rich Even Richer

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PERIES: Michael, we have spoken recently in more general terms of how people are misled through our policy makers in Washington, in particular. But give us some specific examples of some of the terms used to mislead us.

HUDSON: Well take the word capital gains. When most people think about capital gains, they have an image of industry growing and innovation taking place. There's an indication as if somehow when real estate and housing prices go up, everybody's getting richer. When stock prices go up, the economies got richer. So Hillary Clinton was able to say, look at how the stock market soared in the last 8 years thanks to Mr. Obama.

Well the stock market has soared, but not the employees working for these companies. Most of the capital gains don't reflect what the textbooks say. The textbooks say that a company is worth whatever it's expected future earnings are. So the reason stocks are going up and bonds are going up and real estate prices are rising again is that rents are going up, profits are going up and the economy is expanding. It's as if and everybody is getting richer. But thay's not why the stock market has gone up.

The stock market has gone up since 2008 in America, Europe and all over the world because central banks have flooded the economy with new money. They didn't create this money to hire workers. They didn't create it to build infrastructure, they didn't create money to invest in the economy. They didn't create the money to pay off the mortgages of people who had junk mortgages and were exploited. They didn't create the money to write of student loans. All the money that was created, every penny, was created to give to the banks – to the Wall Street banks at 0.1% interests to create reserves at the Federal Reserve so that the banks could then lend out money. And what did they do? Who did they lend it to?

For one thing, they lent to corporate raiders. So part of the reason the stock market has gone up is that corporate raiders have borrowed very inexpensively, at say 1% or a bit more from a bank, and bought companies whose dividend rates are 3% or 4 or 5%. They're after what's called the arbitrage, the difference in the two rates. So you take over a company with borrowed money. As a result of paying interest to the banks and this borrowed money, you don't have to pay income tax on it because this is counted as a cost of doing business, not as a cost of takeover.

The first thing they do is tighten working conditions. They work labor harder. They let the labor force go. When people retire, they don't hire new workers. They just work the remaining workers all the more. So, what's happened isn't a new investment. It's just the opposite. It's disinvestment. It's asset stripping. What creates the stock market going up is not capital formation. It's asset stripping. When Donald Trump calls that wealth creation, it means his wealth – meaning the money he's been able to make. But that money has been made by making the economy poorer.

So, when people talk about the economy, they have to realize that it's actually money layers. Not everybody is a millionaire working on Wall Street. Some people actually have to work for paychecks and out of their paychecks they have to pay rising healthcare costs, rising money to the banks, rising debt service. They have to borrow more money just to break even. Their rents are going way up to larger portions of their income.

So, what people are actually left with to spend is maybe 25 to 30% of their income on goods and services, after paying taxes and after paying the FIRE sector (Finance, Insurance, Real Estate). Whether it's housing insurance or mortgage insurance. So there's an idea of distracting people. Don't think of your condition. Think of how the overall economy is doing. But don't think of the economy as an overall unit. Think of the stock market as the economy. Think of the rich people as the economy. Look at the yachts that are made. Somebody's living a lot better. Couldn't it be you?

Well what they don't explain is why it's not you. The reason "they" are living better is what used to be called a transfer payment. Something that is not really earned, but is just a transfer of income, like from a rent when a landlord raises the rent, all of a sudden for the same house. Nobody's invested more. Nobody's saying "Oh, your rent's going up by about $50 a month this month. No that's a transfer payment." But you just have to pay more. The landlord didn't do anything to earn that more money. He just found that he's able to squeeze more money out of you.

Squeezing money out of you to pay a rentier class – that was a word that used to be used 100 years ago. The rentiers were people who lived on rents. They were coupon clippers, they were landlords, they were the idle rich who inherited money. Somehow you have even the words widows and orphans. People say you have to provide large capital gains, meaning debt financed asset price inflation, so that the widows and orphans can survive. The widows and orphans that are referred to are wealthy people living on trust funds. Or they're living on alimony. Or they're living on inherited wealth. People forget that before 1900, widows and orphans used to be poor people. We're talking Charles Dickens type novels. Widows and orphans were the people who needed welfare. They weren't the millionaires.

So today when people talk about widows and orphans, they mean millionaires. When they talk about the low interest rates that capitalists aren't making to get rich enough, that's really hurting the pension funds. Our hearts bleed for the workers. But their hearts aren't really bleeding for the workers. They're trotting out pension funds as their factotums to say, "Make the pension funds richer." And behind them is the fact that 75% of all the stocks and bonds are really owned by just a small percentage of the American population they're really talking about themselves.

So, you have the economic vocabulary turning into vocabulary of deception. So, I go over what this vocabulary is and what the concepts are and I also talk about what the original concepts were in classical economics. Everyone from Adam Smith, John Stewart Mill, they were all reforms. What they wanted to reform was getting rid of this parasitic landlord class that had conquered England in 1066 and it's the heirs of the military warlords who ended up taking the land and making everybody pay them and all of their descendants just for having been conquered.

You can see the carry-over of this today. The rent that people have to pay, the money they have to pay the banks instead of having a public option. That's the price they still have to pay for being conquered. The group that I'm working with is trying to promote a public option. We're trying to promote public banking that would provide credit cards, banking services, basic vanilla services at a fraction of the price that Chase Manhattan or Citibank or Bank of America charge.

Most of these charges that people pay are economically unnecessary. There's no real cost behind them. There's no real value behind them. So, they're what the classical economist called empty pricing. Prices with no real cost value. What they called rent and fictitious capital. Capital claims on junk mortgage borrowers. The pretense is that all these debts can be paid but it's all fictitious, because everybody knows – at least on Wall Street everybody knows – that many debts can't be paid. Somebody has to default, and Wall Street's plan is to make the government reimburse the banks, like the bailouts that happened in 2008, so that they don't lose. "Let's pass all of the loss onto the tax payers without changing the banks, without throwing our guys in jail even though these were fraudulent mortgages."

PERIES: And the government itself doesn't pay its debt.

HUDSON: That's right. The whole idea is that it doesn't. At least if it does pay the debt, it only pays the wealthy bondholders, not Social Security recipients or pensioners.

There are two kinds of debts that governments have. They have a debt to the bondholders and they do pay that. They have a debt to Social Security recipients. Hillary promised her Wall Street backers that she was going to cut back Social Security. She was going to cut back social spending, Social Security and medical care, so that the government would have enough money to pay her backers on Wall Street. So she was indeed Obama's legacy, standing for Wall Street.

A stand in is a politician who can deliver her constituency to her Wall Street backers. That's what a politician does in America. You get a constituency; you make them believe your promises, and then you turn them over to your financial campaign backers. That's what politics has become and that's as much an art of deception as economics is.

PERIES: Now Donald Trump is proposing to spend trillions of dollars on infrastructure development. That sounds very good. Of course, in the immediate future that means jobs for people. But what is the problem with that kind of infrastructure development in the long term and what kind of plan is he thinking of when he's talking about infrastructure development?

HUDSON: There are many ways of building infrastructure. The way Donald Trump would like, would be to spend a hundred million dollars building a new bridge in the highway. Then he would like to sell it, privatize it to a private buyer like himself, for 10 million dollars. So the government would spend a huge amount of money that could've been used for a free bridge or a free road. He'll then sell it for 10 million dollars to a private owner, who will put up a toll booth and charge money for coming across, and make a mint.

This is what happened in England under Margaret Thatcher. This is called Thatcherism and it's what destroyed the English economy. It's what's destroying the European economy and turning Europe into a dead zone. Alternatively, you could do infrastructure in the way of a subsidy to the economy at large instead of to a special interest. A classical infrastructure program would be for the government to indeed pay for rebuilding this. But the whole idea of what made America rich in the 19th century was the government developed infrastructure and provided its services freely to the population. If you begin to charge people for bridges, for roads and for parking meters as in Chicago, and for everything else that's being privatized, you're going to have even higher costs of living. Wages will have to keep going up, and it will be even harder to compete with foreign countries and to make exports, because nobody can afford to pay the prices that the American workers have to pay in export competition with Asia or even Europe or Germany.

Germany doesn't have all of these costs. It has very low rental charges, at least in the East. Maybe 10-15% of their income – higher in Western Germany, but not 40% as we have here. Low-priced public health, a free autobahn to drive on. Donald Trump wants essentially to raise the cost of living for everybody and give the public domain away to his Republican backers, and essentially leave the whole country unemployed – but the 1% is going to be very, very rich.

PERIES: Right. Now let's go back to some specific examples in terms of the kind of infrastructure Donald Trump wants to build. He wants to build new airports. He says our airports are outdated. He wants to build new roads and new bridges, and build a wall over the US-Mexico border. All of these are considered infrastructure. In the past we've been told that public-private partnerships are a good thing. It even sounds good, public-private partnerships for the betterment of society. But it really isn't. In terms of myth making, where does this take us?

HUDSON: What's called a public partnership is really a one-way partnership. The private sector tells the government what to do. The costs are born by the government, which bears all the risks. The profits go to the private sector. It really means we're creating an opportunity for banks to make a killing on making loans. All this will be financed by bank credit. Banks or bond holders are going to be paid high interest rates.

The government could create this money the same way banks do. The government has computer keyboards, which is how a bank creates money. They could create their own money without having to pay interest to anyone. They could charge the airlines for the cost, or they could provide the airports more freely. But public partnerships are designed to quadruple or quintuple the actual costs of doing business, and pretend that this is in the public interest instead of just in that of the banks and the corporate insiders the banks are willing to lend money to.

Investigative journalists looked at just one horror story after another of private public partnerships in London's railroads. Look at what England did with water. Public Private partnership for water make people now pay huge amounts just to get it, which used to be free. The transportation quality goes down, while the price goes way up. So the partnership is a very exploitative. We're not talking about an equal partnership. We're talking about a dominant/submissive sadomasochistic partnership.

PERIES: Then the point you were making is the government can print all the money they want if they want to invest it in infrastructure and own that infrastructure. It can make money to then pay back the treasury if it needs to. But instead they're going to borrow from these banks and bondholders, and then be indebted. So is this kind of debt a bad thing?

HUDSON: Well the debt is bad when you have to repay it. All new money is a kind of debt. All money is created on a computer nowadays. You can look at it in terms of a balance sheet. When you go into a bank and want a loan, the bank will give you a bank deposit and you'll sign a promissory note. The bank has an asset and you have a debt to the bank. You can spend your deposit any way you want, but the bank charges money for this.

The government can do the same thing. The Treasury can just mint a 1 trillion dollar platinum coin, for instance. Give it to the Federal Reserve and the Fed can issue notes against it. You could call it whatever you want. It's all constitutional because you can assign any price level you want to a coin. All such money is just created artificially.

So, it's a monopoly, it's a legal privilege. For thousands of years, from Mesopotamia through Greece and Rome, money was created by the temples to make sure that it was honest money. But it was privatized after over thousands of years, and now banks charge for something that the government can do for free.

PERIES: Michael, for Donald Trump and the Republicans, they are against creating debt aren't they?

HUDSON: No. They know that most people are afraid of going into debt. Because if you go into debt, you actually have to repay it. Government debt doesn't have to be repaid. If you repaid government debt, there wouldn't be any more money. What they're really looking for is that the way to cut debt their way is by cutting the deficit – and what they want to cut above all is Social Security. They want to a sort of downsize it. Hillary wanted to put FICA wage withholding into the stock market, and to pay less social spending. Her backers wanted less medical care. They want to spend less money on the 95% of the population so that all the money gets spent on the top 5%.

So, they're really against what debt is spent for. They're against democratic debt. They're against democracy. What they really want is oligarchic debt which used to be state socialism. Government will only give money to the banks. They're all for the kind of debt that is the bank bailout in 2008. They're all for giving money to Wall Street. They're all for giving subsidies to Donald Trump for building his buildings in New York and enabling him to make a killing. They're just against giving debt to the workers or to the middle class or to the cities or to anyone who's not one of the 5%.