

## Autobiography CHINA VERSION

I was born in Minneapolis, which is the only city in the world that was a Trotskyist city. During the 1930s it was a center of Trotskyism and my parents worked with Leon Trotsky in Mexico. When I was 3 years old my father was put in jail under the Smith Act as a political prisoner for having the works of Lenin and Marx on his shelves and for being one of the leaders of the Minneapolis general strikes from 1934 to 1936. So I grew up knowing many members of the Russian Revolution, members of the Central Committee when Lenin was in power.

When my father got out of jail we moved to Chicago and where he got a job editing Traffic World and Traffic Supply News. He had graduated from the University of Minnesota with a Master of Business in 1929 and the depression came. He had wanted to go to Latin America to become a millionaire and when the Depression came he thought that capitalism wasn't fair and that's what made him a Trotskyist and he became editor of the Northwest Organizer which was the labor newspaper. So when I grew up I had the old German Communist Party members, Americans, they would all come to the house and tell me the stories of the revolution so that when I grew up I was supposed, expected to lead a revolution if conditions were right. So down through my teens we discussed what are the right revolutionary conditions. But I was not that interested at the time in politics, I was fascinated with physics, with chemistry and more and more with music.

When I went to the University of Chicago which was a grade school and high school for gifted children. My father had the highest IQ in the federal penitentiary system, I'm told, and so they thought his kid must be smart and they gave me a test and put me in a very good school. My formative year was really the tenth grade I think when I was 14 years old. We had a right wing teacher Curtis Edgett in social science. He kept calling me a commie. He had a sign over his blackboard in the room, "Give them all with the Rosenberg's got." The Rosenbergs were the Stalinist spies, but when I asked, "What do you mean – the Communists?" he said, "No, I mean the Jews."

Well, he would call me a Stalinist, a communist. But we also had a Stalinist classmate, Danny Landau. He called me a fascist, because I was a Trotskyist. So in the high school I was the reasonable voice in the middle. "It's the only time in my life I had been in the middle. My friends and I would come into the classroom, my fellow students would carry the works of Lenin and put them on our adjoining desks, to quote from.

When my father was in jail, one of the things he did was to compile a dictionary of all the things Lenin and Trotsky had said about various subjects. I would raise my hand and the other professor would say where did Lenin say that and I'd say in volume 6 page 322 and my student yes yes here it is. I like being hated by the right wing because it made me a lot of friends and so while the Stalinist called me a fascist and the fascists called me a communist I recruited many members into the socialist youth groups in Chicago.

My parents had worked with Leon Trotsky in Mexico as did many Minneapolis people, so I was very happy being in an adversarial position and somehow being in an adversarial position never hurt at all. My interest was music at that time and I studied piano and basically studied to be a conductor.

When I graduated in 1959 from the University of Chicago where my degree was in Germanic philology and history of culture but while I was there I was also studying full-time music primarily the series of Heinrich Schenker the German music theorist. In 1960 when Leon Trotsky's widow Natalia died, the executor of his estate Max

Schachtman assigned me the copyrights, saying that since I was Trotsky's godson, I should do a publishing company. So I wrote. I'd had a correspondence with György Lukács, the Hungarian literary critic and he gave me his copyrights and I came to New York, thinking that I would start a publishing company while I studied conducting with Dimitri Mitropoulos, who was the conductor of the New York Philharmonic.

Well I couldn't get anybody to publish these or other works. Lukács insisted that I have a student of his, Arthur Kahn, do the translation of his work. It was an awful translation. I wanted to edit it and he wouldn't let any editing be done, so I sort of gave up doing that.

Then, an event happened that changed my life. My best friend growing up was Gavin MacFadyen. You may know him as a famous documentary film maker and founder in London of the Centre for Investigative Journalism. He had introduced me to Terence McCarthy who was an Irish communist and was the translator of Marx's *Theories of Surplus Value*. In one evening we talked about changes in the water level in America. The sunspot cycle and the water level would go up and down, causing a crop failure that would lead to an autumnal drain of money from the stock and bond market, causing a periodic financial crisis. To me, that was so beautiful, so aesthetic, that I decided on the spot to become an economist and Terence said that he would become my mentor if I would read all of the bibliography of Marx's *Theories of Surplus Value*.

So that's how I came to meet most of the rare economics book dealers in New York City. I ended up working for Augustus Kelley part time as an editor and writing introductions to some of the reprints of economic classics that he published. In exchange for writing introductions, he would give me books. I had a very large library of books, including many American protectionist writers, many economists that are missing from the normal history of economic thought.

Meanwhile, I had to go and make a living. I got to New York with only \$15 in my pocket and in 1959 \$15, you know, I could buy a little bit. I spent maybe a little bit in a dirty hotel in Greenwich Village. Then I took a walk and there was a folk music bar and I thought, "oh nice folk music, let me go in." I went into the bar to listen to a guitar.

Somebody came up to me and said, "Ah, Huck Hudson." When I grew up my name was Huck because my father's favorite book was Mark Twain's *Huckleberry Finn*. It was John Herold, who had stayed at my house in Chicago when he was going to the University of Wisconsin and visiting my friend Gavin. He had become a folk singer. He offered to let me stay with him until I could get a job and find a place to rent. So I moved out of the hotel into his house after just one night, and got a job as a French typist for Wonder Bread. That was when I went to an employment agency, and the only thing I could do that most other people couldn't do was to type fast and in French and German. So I did that for a little bit and then I decided to enroll in an economics course and get a master's degree at New York University.

The advantage of New York University was the teachers were all part-time, they didn't want my mind, all they wanted was my money. That was fine with me. I got to keep my mind and not be brainwashed. They said, "do you have any background in economics?" I said, "No, my background's in music and cultural history. My mentor at Chicago in cultural history was Eugen Jolles, and he introduced me to the work of Spengler and Egon Friedell, Nietzsche and other writers. So that was my literary background.

I registered at NYU and got a job with the Savings Banks Trust Company, which was the one commercial bank that all the savings banks put their own reserves in. There were 135 savings banks in New York and there are none anymore, they've all been cannibalized, they've been bought out by the commercial banks. But my job was to trace the savings in New York, how it grew exponentially and compare this to how it was lent out for mortgages. The chart of these deposits was like a heartbeat. The deposits in savings banks would grow every quarter when the dividends were paid. So I saw basically that people left their savings in the bank to grow automatically, exponentially by interest. I saw that this recycling of interest-bearing debt was pushed back into the housing market to bid up housing prices.

Real estate is something that is not taught in any course in the United States economics. 80 percent of bank loans in America, England and much of Europe are real estate loans, but in the textbooks that students learn economics from, it is as if banks lend money to industry. Banks don't lend a penny to industry to invest in capital goods and hire people. They lend money to buy out industry, to take it over, to cannibalize it and to strip assets, but not to create capital. They lend it as mortgages, they basically lend against assets, against homes, commercial real estate, stocks or bonds or some assets. So that I realized that in the textbooks, picture of how finance works were completely different from what I was taught at NYU. I had to take a money and banking course taught by an ideological Greek professor Stephen Rousseas, who had never worked in a bank in his life -- none of my professors had ever worked in a bank, everything they know from the textbooks -- and he had an article by a man who subsequently became a friend of mine, Hyman Minsky, who thought that the business cycle could be explained by savings banks putting their reserves in the commercial banking system that would be lent out to the economy. I said, "Look, what you called a commercial banking system is one bank, the bank I work for and we don't make any loans at all to the economy. We buy bonds."

So I got a C-plus in the course, he said I didn't understand textbook economics. I realized that there was an absolute contradiction between how the real economy worked and what was in the textbooks. After I worked for the Savings Banks Trust for three years, in December 1964, I finished all my coursework and went to work as a balance of payments economist for the Chase Manhattan Bank. That was the most formative employment I ever had, because the balance of payments is also a topic that is not taught in any university. I taught it at the New School later, but universities don't teach about the balance of payments. It's all a simplistic monetary theory.

What I had to do, after I finished my coursework, was writing the dissertation. Terence McCarthy suggested I write on concepts of productivity, because there are many different -- what is productive, what's unproductive. There was a professor at the New York University, Solomon Fabricant, as in the word "fabricate." He was the head of the National Bureau of Economic Research. I went into his office he said, "The first thing I want you to do, I want you to join the CIA. I'm recruiting." He showed me a copy of the CIA's first published report in America, when the CIA first went public. It was on Russia's gold stock, saying that it didn't have enough native gold in its rivers or mines to be credit-worthy. I looked at it and said, "You must know that this is all a lie. I work for the Chase Manhattan Bank. Our customer is Anaconda Copper Co. Anaconda has bought gold bars from the Soviet Union and the gold bars are not made from gold they pan out of the river. They're made as an electrolytic by-product of copper refining. What

you should do is forecast the copper output of Russia, when you electrolytically refine copper, gold and silver fall to the bottom and it's the residue that is responsible for most of the gold stock, not only of Russia but for other copper producers such as Chile."

He said, "well okay you're not good at joining the CIA". I couldn't believe he didn't know about my background, but that didn't matter. I told him I wanted to write my dissertation about concepts of productivity, as I was interested in classical economics. As a Marxist I'd seen how Marxism grew out of classical economics, grew out of the economics of the French Physiocrats, Adam Smith, John Stuart Mill and so forth. The concept of circular flow was always critical to me, the concept of economics is a systems and systems analysis, which was just becoming popular in the 1960s. Fabricant said, "These theories are worthless. If these theories would have been relevant, then they would have been successful and remained in the textbooks. If a theory is no longer held it's because it's died out in a Darwinian struggle for existence and is irrelevant." So I talked to a professor who had become a friend, a former communist who was a business cycle professor, Gerhart Bry. He was a refugee from Germany. We had a discussion about some of the books that I was buying from other book dealers and I wrote my dissertation on Erasmus Peshine Smith, who wrote the Manual of Political Economy that became the Republican Party doctrine in 1853. I decided to write about the American protectionists with Prof. Bry and had no problem at all getting the PhD until I had my orals. And again, NYU didn't have anyone teaching money and banking on a full-time basis at Washington Square which is the center of NYU. So I thought there's a money and banking professor uptown, Walter Haines, who wrote a textbook. He must know about banking. I passed all the orals of all the professors I'd studied with, economic history, third world development, but the money and banking man said I knew nothing about banking, that my idea of how banking worked was not at all what was in the textbooks and I had to retake the orals after reading about a fictitious world. So I became aware of the fact that academic economics is very fictitious. It has nothing to do about the real world. It was really a parallel universe theory, to say that *if* the world worked this way, then the existing distribution of income would be fair, everybody would get what they deserve, there's no income that's unearned, everything is fair, and you have to accept the world the way it is. And I never accepted the way the world as it was, because of the way I grew up. As I mentioned, when I grew up in Chicago I thought that the years of World War Two were when everybody was drafted into jail because everybody who would be at the house was in jail during the war for trying to lead strikes or being political or being left-wing, and only later did I realize there was actual fighting going on and they weren't just putting in people who read Marx and radical leadership there.

I worked at Chase Manhattan until 1967, then finally I had to quit to finish the dissertation. I spent a year on that. At Chase I had become the specialist in the oil industry's balance of payments. When the Vietnam War began and escalated, President Johnson in January 1965, right after I joined the bank in December 1964, passed the voluntary – in reality, compulsory – foreign investment rules blocking American companies from investing more than 5% of the growth of the previous year's investment. The oil industry objected to that. They came to David Rockefeller and said we've got to convince the government that we're ripping off other countries so fast, we're able to exploit them so rapidly, that it really helps the US balance of payments to let us continue investing more abroad. Can you help us show this statistically?

So David Rockefeller asked me to do a study of the balance of payments of the oil industry. Rockefeller said, "We don't want to have Chase's oil and gas department do it, because they would be thought of as lobbyists. Nobody knows who you are, so you're neutral. We want to know what the real facts are, and if they're what we think they are, we'll publish what you write; if we don't like it we'll keep it to ourselves, but please just give us the facts." He said, "You can ask the oil companies all the questions you want. They will fill out the forms you design for a statistical accounting format. We'll give you a year to write it all up." To me this was wonderful. Oil was the key sector internationally. It turned out I found out that the average dollar that actually was invested abroad by oil companies was recaptured by the US economy within 18 months. The payback period was that fast. [NOTE: I shifted around the paragraphs here.]

The report that I wrote was put on the desk of every senator and every representative in the United States and I was celebrated for being the economist of the oil industry. So this taught me everything about the balance of payments which, as I said, is a topic that's not taught in any university. So I finished that, finished the dissertation, and then I developed a methodology for the overall US balance of payments. Most of the balance of payment statistics were changed when they designed the gross national product accounts. The accounts now treat exports and imports as if they were paid for fully for cash. So if you make a million dollars worth of grain exports, you are assumed to bring a million dollars into the economy. And if you export a million dollars of arms, of military, it all comes back.

What I found out is that only a portion actually of exports actually comes back. And imports have an even lower balance-of-payment costs as compared to their nominal valuation. For instance, all of America's oil imports are from American oil companies, so if you pay a hundred dollars for oil, maybe thirty dollars of that is profit, thirty dollars is compensation to American management, thirty dollars is the use of American exports to physical equipment, oil drilling equipment and others to produce the oil.

The closest people that I worked with for the study were at the Standard Oil Company, which was always very close to the Rockefellers, as you know. So I went over the statistics and I said, "In the balance of payments, I can't find where Standard Oil makes the profit. Does it make the profit by producing oil at the production end? Or does it make it selling it at the gas stations, at the retail sales end?" The treasurer of Standard Oil said, "Ah I can tell you where we make them. We make them right here in my office." I asked how. "What countries could I find this in? I don't find it in Europe, I don't find it in Asia, I don't find it in Latin America or Africa." He said, "Ah, do you see at the very end of the geography headings for international earnings, there's something called international?"

I said, "Yes that always confused me. Where is it? I thought all these foreign countries were international." He explained that "international" means countries that are not really countries. They're Liberia and Panama, countries that only use the US dollar, not their own currency. So the oil industry doesn't have a currency risk. They are flags of convenience and they don't have any income tax. He explained to me that Standard Oil sold its oil at a very low price from the Near East to Liberia or Panama or Lagos, or wherever they have a flag of convenience and no income tax. Then they would sell it at a very high price to its refineries in Europe and America, at such a high price that these "downstream" affiliates don't make any income. So there's no tax to pay. For all US oil investment in Europe, there's no tax to pay because the oil companies' accountants price

it so high, and pay so little per barrel to third world countries such as Saudi Arabia, that they only get a royalty. Standard Oil and other U.S. oil companies – and also mining companies – don't earn an income there, because they sell it so low, all the profits are reported to be taken in Liberia or Panama. These are non-countries.

That gave me the clue about what people these days talk about money laundering. In the last few months that I worked for Chase Manhattan in 1967, I was going up to my office on the ninth floor and a man got on the elevator and said, "I was just coming to your office, Michael. Here is a report. I'm from the State Department (I assumed that this meant CIA). "We want to calculate how much money the US could get if we set up bank branches and became the bank for all the criminal capital in the world." He said, "We figured out we can finance, (and he said this in an elevator), we can finance the Vietnam War with all the drug money coming into America, all of the criminal money. Can you make a calculation of how much that might be?"

So I spent three months figuring out how much money goes to Switzerland, from drug dealings, what's the dollar volume of drug dealings. They helped me with all sorts of statistics on that, and said, "We can become the criminal capital of the world and it'll finance the dollar and this will enable us to afford the spending to defeat communism in Vietnam and elsewhere. If we don't do that, the bomb throwers will come to New York."

So I became a specialist in money laundering! Nothing could have better prepared me to understand how the global economy works! I had all the statistics, I had the help of the government people explaining to me how the CIA worked with drug dealing and other criminals and kidnappers to raise the money so it would be off the balance sheet funding and Congress didn't have to approve it when they would kill people and sponsor revolutions. They were completely open with me about this. I realized they'd never done a security check on me.

So I wanted to do a study of the balance of payments of the whole United States. I went to work for Arthur Andersen, which was at that time was one of the Big Five accounting firms in the United States. Later it was convicted of fraud when it got involved in the Enron scandal and was closed down. But I was working before the other people went to jail, before they closed down Arthur Andersen. So I spent a year applying my balance of payments analysis to the US balance of payments. When I finally finished, I found that the entire US balance of payments deficit in the 1960s, since the Vietnam War, the entire balance of payments deficit was military spending abroad. The private sector's trade and investment was exactly in balance; tourism, trade and investment were exactly in balance. All the deficit was military.

So I turned in my statistics. My boss Mr. Barsanti, came in to me three days later and he said, "I'm afraid we have to fire you." I asked, "What happened?" He said, "Well, we sent it to Robert McNamara." (who was the Secretary of Defense and then became an even more dangerous person with the World Bank, which probably is more dangerous to the world than the American military. But that's another story). Mr. Barsanti said that McNamara said that Arthur Andersen would never get another government contract if it published my report.

In all of the Pentagon Papers that later came out of McNamara's regime, there's no discussion at all of the balance-of-payments cost of the Vietnam War. This is what was driving America off gold. At Chase Manhattan from 1964 until I left, every Friday the Federal Reserve would come out with its goal, its weekly statistics. We could trace

the gold stock. Everybody was talking about General de Gaulle cashing in the gold, because Vietnam was a French colony and the American soldiers and army would have to use French banks, the dollars would go to France and de Gaulle would cash it in for gold.

Well, Germany actually was cashing in more gold than de Gaulle, but they didn't make speeches about it. So I could see that the war spending was going to drive America off gold. There were three people, known as the Columbia Group, saying the Vietnam War was going to destroy the American monetary system as we know it. The group was composed of Terence McCarthy, my mentor; Seymour Melman, a professor at Columbia University's School of Industrial Engineering where Terence also taught; and myself. We would basically go around the New York City giving speeches.

My first article that I wrote for publish was at Ramparts Magazine, called "The Sieve of Gold," about how the Vietnam War was going to force America off gold, which it did, of course, in 1971 when President Nixon in August stopped the gold. Meanwhile, I took my balance of payments study to New York University's Business School and they said, "Oh this is great! We'll publish it." So I was able to immediately get it published.

That led me to be invited to give a lecture at the Graduate Faculty of the New School for Social Research in New York. At the time I was analyzing the Vietnam War, I had to analyze copper prices. Every soldier in Vietnam used one ton of copper per year, I think that it's as if they were fighting each other with ingots of copper. So I was forecasting copper prices by looking at the troop build-up, one ton of copper per army person, and forecasting that the price of copper would go up. So I was known for a while as Mr. Copper. As I said, Anaconda was Chase's main client, and Kennecott was the client of Citibank, and they're a group of commodity people in Wall Street that just love copper. I love copper and when one head of the group said, "Aluminum is a shit metal," I felt the same way that copper is nice.

By 1968 the largest item of theft in the United States was copper, people were stripping the copper drainpipes off churches, as well as the wires that go into houses. Thieves would pull every copper scrap as prices were going up, so I became aware of the recycling phenomenon and the degree to which the sources of metal were not just mining the earth but the recycling of various things.

I ended up working for a while for Continental Oil as their economist, and then while I was doing it, they bought the Baghdad copper company at my recommendation because I could see the war was going to go on for a while. They also got into real estate. Well then they moved up to Connecticut and I decided to become a professor at the New School, because I never had a course in trade theory and the only way to learn about a topic is to teach it. So I gave the course in trade theory, and then was hired as a full-time faculty member in 1970 and taught national income analysis, using Marx's *Theory of Surplus Value* as my textbook. This infuriated the department head, Robert Heilbroner, whose idea of Marx was what he had for breakfast and how he felt later, and did he really have an affair with his maid. There was not much economic analysis, and he was furious that I would teach a national income course. He said, "You're a Wall Street thug! You know only one third of the economics students are from business, one third are foreign students from the UN, and one third sort of radicals who are left-wing." He just assumed that I was there for the business school students. I never once discussed politics at the New School. I realized that Heilbroner's idea of Marxism was Stalinism, as a very crude

idea. He brought in a Stalinist, Steve Hymer, ostensibly to teach trade theory, and I said, "That's fine, I'll teach monetary theory and banking theory.

Hymer was a proselytizer for LSD. He would tell the students to take LSD and then listen to his course. About a year after he joined, he went to the American Economic Association meeting in Montreal, had students take LSD and stand on their head. On the way back to New York he drove his car into a truck his group died. It's really dangerous to take LSD when you're driving.

The foreign students were coming into my office and saying, "Is this man CIA? Why would he want us to take LSD unless he wants to, you know, deport us or arrest us or make us into a spy?" So I was the guy they would come to and that made Heilbroner think all the more that I must be a Wall Street plant.

Finally, the dollar went off gold in 1971. I took a number of articles that I'd written and wrote my first book, *Super Imperialism: The Economic Strategy of American Empire*. It came out in September, 1972. Well just at that time I was invited almost every year to give a lecture at the annual meeting of Drexel Burnham. Like Arthur Andersen, they also were deemed a criminal enterprise whose leaders ended up having to go to jail for fraud. They joked that I was their token Shabbat goyim. My friend Andre Sharon there also was a protege of Terence McCarthy said, "We're going to have an annual meeting, we're going to introduce you to Herman Kahn," who was a brilliant military theorist. Andre said, "He's going to talk to you, he talks very fast, he's a brilliant guy. After he hears you speak, he's going to offer you a job. You probably can't understand what he's saying, but just say yes. You've got to get out of academia, you don't belong there."

So I gave the speech about the oil industry and how America was exploiting the world and how going off gold meant that there was only one thing that foreign countries could do with their balance-of-payments surpluses. These dollars were being thrown off by the US balance-of-payments deficit for military spending. Foreign central banks henceforth would have to buy Treasury bonds. So the military would spend dollars abroad, pump the dollars into the European and Asian economies, which then would lend the money back to the United States government by buying bonds, to finance the war and their own military encirclement.

After I told that to the Wall Street meeting, Herman Kahn said, "This is brilliant. We've run rings around the British imperialists. This is a great story. Leave academia, I will triple your salary if you'll come to work for me."

I said, "Well, I was hoping my students will go on and spread my ideas." He said, "Look, you're hoping that someday one of your students will be a senator, may be president. You join the Hudson Institute." (It was named after the river not after me, but my ancestor discovered the river). He added, "I'll take you to the White House next month. It doesn't matter who's president. Wouldn't you rather wait until somebody becomes elected president, and then you become their advisor, instead of hoping that one of your students from the New School might get elected?"

So I immediately joined the Hudson Institute, and was paid the same salary he was. I was the number two man and we disagreed on everything. He was a right-winger, a Zionist and I was a left-winger. We had the big study that the Institute did, the corporate environment study, telling corporations what's happening in the world. It ended up I got most of the clients.

One day right after my book came out in September, I was buying Tibetan art at that time, *and* Chinese art, I was a specialist in Asian art as a hobby, and I got a call. I woke up in the morning and I had written a note about the \$3,500 that I owed art dealers, and I wondered what I was going to do. I got a call from I think the Royal Bank of Canada saying, "We've just made 20 million dollars by reading your book and the last paragraph on how prices were going to go up. What do you charge to come and give a lecture for us?" I said, "Oh, \$3,500", and they said okay. So I thought this was wonderful.

They organized my lecture through a stock brokerage company, Molson Rouseau, in Montreal. Everybody who came to listen to me would have to generate stock trading fees of \$3,500 and they would give me the envelope with cash.

Everybody loved it, so they invited me back two months later. Apparently they did not know that I worked at the Hudson Institute at that time. (I worked at home most of each month.) They called Herman Kahn and asked him. They just told him, "The last person we paid is \$3,500." He said, "Well you know I'm a famous author, you have to pay me \$4,000." So they paid him \$4,000. That went over very nicely.

Then I got a call: "People really like this series we're doing. Will you come back again?" I said, "What are you going to pay?" They said, \$3,500." I said, "Well, I understand you paid Herman Kahn \$4,000. I'll have to charge \$4,500." "Okay, we'll get more people." They came, I gave the speech.

Then they called Herman the next month. He said, "I understand you're paying Michael \$4,500. I'm his boss. You'll have to pay me \$5,000." We ultimately got them up to \$6,500 and they said, "I think you guys are playing a game with us." And so \$6,500 a month supplemented my \$45,000 a year from the Hudson Institute.

I went all around the world with Herman. We went to Korea, Japan and France, basically talking about the balance of payments. Herman weighed over 400 pounds. One day, we were in France, we were packing at the hotel, and he asked me to hand him his pants from the closet. As far as my arms would reach, it wasn't big enough for what went around his waist. One day after we came back, we had to go to the White House for a meeting on oil and the balance of payments. And who should be the Undersecretary of the Treasury but my old mentor from Standard Oil who had explained to me how offshore banking centers worked. He explained to Herman and me that he told the Saudi Arabians, "You can charge whatever you want for oil." This was right after America quadrupled the price of grain to finance the Vietnam War in 1972-73, and OPEC responded by quadrupling the price of oil. The Undersecretary of the Treasury explained to me that they could charge whatever they wanted for oil. He knew that the higher they charged, the more the American companies would be able to charge on domestic oil. But the Saudis had to recycle all of their dollars into the United States, into Treasury bonds or the stock market. "You can't buy American companies, you can only buy stocks or bonds, and you have to price your oil in dollars. If you don't, we'll consider that an act of war."

So here I was right in the middle of understanding how imperialism really worked. This was not what is in most textbooks. Most don't talk about the balance of payments, but the key to financial imperialism is the balance of payments. The United States fights to prevent other countries from going back to the gold standard, because at the time America went off gold in August 1971, every American dollar bill was backed 25% by gold at \$35 an ounce. Well, finally there was no more surplus gold, and that's what forced America off gold. Its price immediately went way up. As an American citizen, I wasn't

allowed to buy gold. So I knew it was coming but I couldn't make any money off it. Instead I bought Tibetan and Indian art, Asian art primarily.

To make a long story short, I became a financial advisor to the Canadian government as a result of the stock brokerage work in Montreal. They said, "We need somebody who knows the American stock and bond market". I was at that time the highest paid economist per diem in the United States for financial analysis. So I got a call saying, "They're going to want to hire you but there's only one way in which they can tell how intelligent you are. Do you know about wine?"

When I grew up at the University of Chicago, the university paid its professors so badly that to make more money, their ideal was to be a wine steward at the Pump Room, which was the fancy restaurant in Chicago. It was featured in the Blues Brothers comedy with John Belushi. Anyway, I took a sommelier course, got a license, and brought two bottles, one Richebourg and one La Tâche that I bought in the remainder carton at an uptown store. I gave them to my host in Ottawa and the government guys said, "That's the guy we want."

So I wrote a study that Canada didn't have to borrow money abroad for the provinces to invest domestically. They could create their own money. Basically, what I wrote was the first example of what's now called Modern Monetary Theory, that governments can create their own money, their own credit. They don't need a foreign-currency backing for it, and so all basically the same circular flow analysis that I'd developed from my history of thought. a Physiocratic analysis.

One of the top investment analysts for the Royal Bank decided to become the head of personnel. He said he thought that it's a personality problem that economists can't understand how the world works, that there's a particular kind of dumb person that becomes an economist. It's a kind of autism, of thinking abstractly without a sense of economic reality. So he got me an appointment with the Secretary of State of Canada. In Canada the Secretary of State is in charge of education, films and culture. So I became Canada's cultural adviser, which is what I thought was fine all along, and I wrote a report.

Around that time I also was an economic adviser to the United Nations Institute for Training and Research, UNITAR, writing their reports on North/South debt, the foreign debt of third world countries, denominated in dollars, and how this was deranging their economies. They had a meeting in Mexico financed by the Mexican president and I was invited down there. I gave a report saying that there was no way that the third-world debts can be paid.

My first job I worked on at Chase Manhattan was to estimate how much export revenue Argentina, Brazil and Chile could make. The idea was that all of their export earnings could enable them to pay interest on money borrowed from US banks. The idea was that the entire trade surplus should be pledged as debt service to the American banks. My job was to think how much that was, and what should Chase's share be. So, at the Mexican UNITAR conference, I said that these debts cannot be paid, therefore they should not be paid, they should be canceled.

There was quite a stir over that. Well at the end of the conference they had the rapporteurs summarizing the papers. The US rapporteur said that Dr. Hudson has given a report saying that third-world countries *should* export more in order to pay their debts. I stood up slowly and said, "I must insist that the President of Mexico offer a public explanation, apology to me and the conference. This rapporteur has inverted and reversed

everything I said. I believe he has a covert purpose. I'm pulling out the American delegation and I'm pulling out the Canadian delegation too. We cannot be a part of this travesty."

Then I walked out, wondering what's gonna happen! The Russian delegate came out laughing and said, "Ah! You've dominated the whole conference. You've made chaos out of it. You've embarrassed the CIA. This is fantastic. Here's my card in New York."

Later that evening I was told, "You know, they're looking for you to beat you up." Well as it happened an old girlfriend of mine was in a group [who] were in Mexico for an art exhibition. They were surrealist artists from Amherst, and they were also doing a surrealist ballet. So I went to the ballet with them and they said, "Look! The thugs are there." So I hid out with them on the stage in their ballet. The goons were looking in the audience and I was on the stage and we were all just surrealistic. Nobody knew how to dance or anything, it was all just surrealistic. And they, you know, the goons all went home. I learned that if they can't find you, they usually give up and leave you alone.

I went back to New York, but I realized that the debt issue was so controversial – the idea that debt couldn't be paid. I spent about a year and I'd got through medieval period, Europe, World War One, and then even Greece and Rome. But then I found — it was about 1980, 1981, at that time I sold my house on the Lower Side and moved into a loft near Wall Street which was very low price there at that time. (I bought it for \$20,000. Later I sold it for \$580,000 but that's another story, it shows you the real estate in New York, but at that time nobody wanted to live in lofts, and I wanted a big loft because I had a big library at that time and a lot of art that I wanted to keep.

So basically I stopped working. I realized that in the Bible there was the Jubilee Year and there were references to Sumer and Babylonia and that there was a background of the biblical debt cancellations, almost the same word for *deror* in Hebrew is *andurarum* in Babylonian. I found that there was all this material and that had never been written in anywhere outside of the field of assyriology. There was no economic history of the ancient Near East, no economic history of Sumer and Babylonia. It was all about religion and some culture, Gilgamesh and all that, but not what I was most interested in, which was the debt cancellations. So I wrote a draft of what I could find by 1984. And one of my friends was the Ice Age archaeologist Alex Marshak. Although he lived in New York, he was connected to Harvard's Peabody Museum. He showed it to the head of the Peabody, Karl Lamberg-Karlovsky, who told me, "This is great! Nobody else is working on it." He appointed me a fellow of the Peabody Museum in Babylonian economic archeology.

I thought, "This is wonderful, this is really what I want to do." So I spent the next maybe three years writing the first draft of what became the book that's being published in a few months, "... *and forgive them their debts*": *Credit and Redemption from Bronze Age Finance to the Jubilee Year*. I submitted it to the University of California Press. They sent it to scholars to referee, who said that it was impossible that debts could be cancelled. Their argument was that if debts were cancelled, who would lend money? That's what Rabbi Hillel argued in the Judaic tradition. I said, "Most debts were not the result of loans. Most debts were when the crops would fail and the cultivators could not pay the palace for the fees they'd run up, the rental fees for the land, the fees for the water, for the draught animals, or the beer lady for the beer that they'd drunk.

So every ruler, when they would take the throne in Sumer and Babylonia, for a thousand years, would start their rule by cancelling the debts with a clean slate, an

amnesty. It's the same amnesty of the kind that Egypt's Rosetta Stone commemorates. Everybody knows that the Rosetta Stone has trilingual inscriptions of Greek, Egyptian and Coptic. But few know that it's a fiscal debt cancellation.

That's what we call cognitive dissonance, people can't imagine that the debts were cancelled. I realized that this was very controversial, and so my Harvard colleague, Karl Lamberg-Karlovsky, suggested that we hold a series of meetings, and asked me to organize them. He said that we would hold a colloquium for each controversial chapter of my book. We decided to have a meeting every two years, and invite every major specialist from early Sumer, the Neo-Sumerian period, Babylonia, other Near Eastern realms, and Egypt. Their role was to collect everything they had on whatever the meetings' topic would be.

Since I was in New York, I worked with the leading Hebraic linguist Baruch Levine at NYU. I needed someone who was respected in the linguistic field to invite people, because most Sumerologists, readers of cuneiform, stayed away from economics, because the mainstream economic idea of how society developed is as if Margaret Thatcher would have created civilization. How would she have done it, or Milton Friedman, or what we call vulgar Marxists who think that it was the idea that seemed plausible to Engels when he wrote *The Origin of the Family, Private Property and the State*. That's not how early history actually occurred.

So the Sumerologists wouldn't talk to economists. But because I was now an archaeologist with Harvard in the anthropology department, they agreed to come to the conference. The first meeting, in 1994, was on privatization in the ancient Near East and classical antiquity. Harvard published that. Two years later, we moved on to the second volume, which was on land use and real estate ownership: How did property ownership come into being.

Then, we had planned from the very beginning for the third colloquium volume. That was on debt and economic renewal in the ancient Near East. I asked for everything that people could find about debt cancellations. We found that these occurred all the way through the first millennium. Herodotus talked about debt cancellations in Babylonia. It was a tradition remaining in the Near East for new rulers taking the throne to cancel agrarian debts, to start their reign with the economy in balance. Already in Hammurabi's time 1750 BC, scribes would calculate the growth of compound interest, and at that time it was 20% interest. This growth diagram is the same exponential chart that I'd drawn up in the savings banks in the 1960s to trace the growth of American debt. So they were quite aware of the fact that debts couldn't be paid and that, if you insisted on them be paid, you would have debtors falling into bondage. So they freed the bond servants, or for debtors had sold their means of self-support, the land, they returned the land that had been sold under economic distress. The word "distress" means the collateral that you've pledged to a creditor. It's an Irish term basically. So we published that volume. By that time I'd got the people Baruch and Karl and I had invited – the leaders of their fields – agreeing with my interpretation. We then followed it up with another meeting at the British Museum on the origins of money and accounting, and the idea that money was created not for barter, not for trade in goods and services, but to denominate debts. If a cultivator owed a debt, how did he get money?

So we did the history of money. Then, the one thing we hadn't done finally was the origins of labor and what it was paid. That took ten years to complete, and we found that the origins of labor was organized basically in the palace economy, the palaces and temples. The main use of such organized labor from the Neolithic and Bronze Age to classical antiquity was to fight in the army and to work as *corvée* labor to build public infrastructure.

So how do you get a supply of labor? You assign it land tenure. Land rights were created to assign families enough to support themselves so that they could perform *corvée* labor and fight in the army. So taxes came first, then came land tenure, based on what labor you had to supply. Attempts to substitute someone to work on the *corvée* became the basis for paying labor.

So all of the payments came from what today would be called the public sector. That's not really a very good term. It was really the palatial sector, the palace and the temples, as opposed to the community-based family on the land.

So we had a new analysis of the origins of property, not just individuals grabbing, as Engels had thought. Property was created by the public sector, by the palaces, as assignment of land as needed. How much land area is needed in order to supply the labor for the public infrastructure, *corvée* work and service in the army? This was the reverse of what's taught in economic textbooks today, which is, as I said, how Margaret Thatcher and right-wingers and Donald Trump would have designed an economy if they went back in a time machine.

So after organizing and editing these five volumes, I'm now writing my own popular version, starting with a history of debt. Then will come *Temples of Enterprise*, a series of books on classical antiquity. I'm now following up with Greece and Rome. Throughout early Greece and Rome, the main fight was between creditors and debtors. Creditors ended up grabbing the land. The same fight occurred all the way down through the Byzantine Empire. The most divisive tension throughout history, from 3<sup>rd</sup>-millennium Sumer to 2<sup>nd</sup>-millennium Babylonia to the 9<sup>th</sup> and 10<sup>th</sup> century in the Byzantine Empire is between the palace wanting to collect taxes and have labor for the army, and creditors wanting this land and labor for themselves.

This way of getting the economic surplus is not the way that Marx described it as being obtained under capitalism, by employing labor to produce goods to sell at a profit. It was by debt and taking interest in ultimately foreclosing in land, which was the real objective.

In the 9<sup>th</sup> century there was a big fight against strong royal power. It was sort of like Donald Trump and the Tea Party Republicans are fighting against the state, like the privatization in the Soviet Union fighting against the state. The Byzantine emperor invited general Bardas to a big meal. The general said, "There's only one thing that you should do if you want to end the warfare. You have to tax the wealthy families so that they don't have any surplus at all. You have to give them so much burden that they can't fight against you. You have to prevent the polarization of wealth, because if you let the private sector make an enormous amount of wealth, they're going to try to fight against you and keep all the wealth for themselves that you and the palace are now getting."

This idea was expressed all the way back in the 7<sup>th</sup> century 6<sup>th</sup> century BC with Thrasybulus and Periander of Corinth. When Thrasybulus took Periander's herald to a field of grain and said, "Here's what you should do." The land was a field of grain and he

took a scythe and he cut off the tops, to make all the grain of equal height. So Periander went back and exiled the wealthy families, seized their property.

There was probably a bit of fighting there, and that is basically the fight throughout history. So that's what I've been working on for the last 20 years.

Question: How did you take up the interest in Chinese economy?)

Hudson: As Samir Amin said at the meeting yesterday, China is the economy that is trying to be the exception to the Western economic model. That model is forcing a choice between civilization and barbarism. The West is moving rapidly into economic barbarism and militarism. As you can see, the austerity program of the Euro is destroying the economy there. The United States is cutting taxes on the rich, while indebting the working class very highly. The one country that is independent and not taking the advice of the World Bank and the International Monetary Fund is China.

So we're hoping to do what we can to make the Chinese economy successfully resistant. What that means is how is China going to handle its real estate, how is it going to handle its debt, how is it going to handle its tax system.

What I'm trying to do is what David Harvey was trying to do in the speech he gave yesterday: getting Chinese Marxists to read volume 2 and especially volume 3 of *Capital*, where Marx discusses the dynamics of finance.

Marxism is much more than volume 1 of *Capital*. You have to read volumes 2 and 3, and especially the elaboration that Marx wrote in the drafts that he left for volumes 2 and 3, his *Theories of Surplus Value* where he discusses the history of economic thought leading up to him. You realize how Marx was the last great economist in the classical tradition. He showed that capitalism itself is revolutionary, capitalism itself is driving forward, and of course he expected it to lead toward socialism, as indeed it seemed to be doing in the nineteenth century.

But it's not working out that way. Everything changed in World War One. Afterward you had an anti-classical economics, which really was an anti-Marxist economics. The fight for marginalist theory, for Austrian theory, the fight for junk economics that we have today, is basically a fight against Marxism, because Marx showed the logical conclusion to which the Physiocrats, Adam Smith, John Stuart Mill, Ricardo and Malthus, the conclusion it was all leading was the synthesis that he made. It was later developed by people like Thorstein Veblen and Simon Patten in the United States. So I'm hoping that I can contribute what I can to help China's economy to avoid the financialization process and dynamic that is destroying the West.