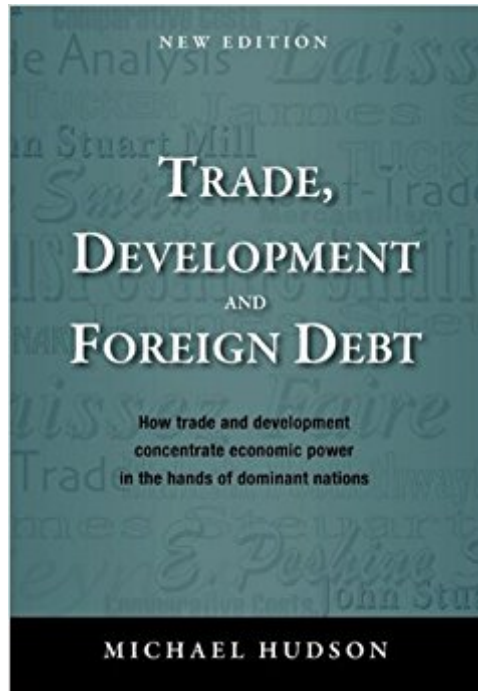




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Trade, Development And Foreign Debt



Synopsis

In this survey of international economic thought, Michael Hudson rewrites the history of trade, development and debt theorizing. He shows that mainstream free-trade surveys are censorial in excluding the protectionist logic that has guided the trade policy of Europe and the United States, especially by leaving out discussion of the transfer problem and payment of international debts. He points out that most economists throughout history have focused as much on war financing as on trade and development. Free-trade ideology and IMF-style financial austerity under today's rules, rather than benefiting all parties and maximizing welfare, leave "client" nations severely indebted. By excluding dynamics that used to be central to trade theory such as emigration and technology transfer, today's global production and financial policies tend to concentrate economic and political power in the hands of dominant nations. Prof. Michael Hudson (Economics Department, University of Missouri, Kansas City) is a frequent contributor to The Financial Times, Counterpunch, and Global Research.

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Customer Reviews

The world economy relies on trade. To a large extent, production and consumption in the various countries are dictated to by the terms of international trade. Today, the oceans are dotted with supertankers filled with consumable commodities and capital goods. And as Michael Hudson tells it, the history of economic thought has been a reaction to the effects of international trade upon domestic economies. When trade advantages one party over another, hard currency tends to flow from the disadvantaged to the advantaged. Economists then come onto the scene to explain or

explain away this and related phenomena. Much of economic thought that gets filtered into the modern political debates focuses on the vertically oriented class struggle between the capitalists and socialists. But Hudson, in his *Trade, Development, and Foreign Debt*, details for us the impact international trade has had on the world economy. Should the world have spurned international trade, and should each nation or region have relied on its own self-sufficiency, then a science of economics may not have been necessary. Furthermore, if international trade had truly been fair and of benefit to all parties, then the benefits would have been readily apparent to all observers, and again a science of economics may not have been necessary, or at least it would have had a much more narrow focus. But there are problems that result from trade and international finance. Some nations develop and flourish while others seem forever mired in stagnation. Laissez faire economists tend to attribute these differences to the natural proclivities of the environs and the people of a region. But for others, from the so-named Mercantilists of the 18th century, the Protectionists of the 19th century, and the Structuralists of the 20th century, fundamental factors involved international trade and the finance that chased after it. In the 21st century, as nations are ever more encouraged to gear their economies exclusively to export, vulnerability to world market prices and world financial markets is exacerbated. The battle lines that are drawn between economists are between those who support the status quo and those who look for solutions to economic inequality. The 19th century free-trade liberals and subsequent neoliberals are the traditional defenders of the status quo, denying that anything can be done to alter the course of events, including intervention by governments. Michael Hudson counters this by arguing that all markets are managed - that there has never been a time when government wasn't involved in formulating economic policy. Indeed, governments must intervene, says Hudson, if those individuals and those nations are to be protected from economic and financial practices that exploit the vulnerable and ignorant. His goal is for a more enlightened populace, academe, and legislature which will lead to an enlightened and rationally managed economy.

Industry As Hudson recounts the debate as it has evolved over recent centuries, certain undeniable elements are revealed as fundamental to the understanding of economics. The first of these is the profound influence the Industrial Revolution had on international trade. The various inventions, like the steam engine and the spinning ginny to name just two among many, allowed the production of manufactured goods with a small fraction of the manpower needed formerly. With this kind of leverage goods could be manufactured much more cheaply than before. Or, goods could be manufactured in much greater quantities than before, and, as it happened, production quickly outpaced that which was needed for the domestic market. The resultant surplus production was then earmarked for export, and sales to

foreign buyers proved quite profitable. As the Industrial Revolution happened in England, it was England who benefited by the sale of manufactured goods. But there was one thing industrialized England needed - raw materials for its manufacturing plants. The great worry here was that of becoming dependent on a foreign source for raw materials, and so the English made use of its colonies to supply it with cheap and plentiful raw materials. In this way England wanted to maintain its virtual monopoly on manufactured goods, while preventing others from monopolizing the supply of raw materials. The result was a tremendous economic advantage for England. Because the cost of labor was so reduced in manufacturing it had a tremendous advantage in trade. Gold and silver flowed towards England, and away from the colonies and other trading partners. As early as 1729 Benjamin Franklin witnessed the fact that hard currency tended to leave Pennsylvania for England, and saw the devastating affect it had on the local economy. That is why he advocated for paper currency backed by land instead of gold.

Money This brings us to the second fundamental economic principle - that money is needed for a thriving economy. And fundamental to this need for money is the fact that investment capital is needed to establish productive enterprises, to expand these enterprises, and to develop the infrastructure needed to support business. As America saw the advantage in manufacturing it aspired to establish its own. It used tariffs and subsidies to support its own fledgling industry. It invested in canals, roads, seaports, and, eventually, railroads. England had a big head start. It had been investing in its infrastructure and manufacturing for a long time. Protectionist measures were needed against England's advantage. Only in this way could America counteract England's advantage in trade. In time, Germany and Japan also adopted protectionist measures to establish their own manufacturing base as well.

Free Trade and Free Markets Free Trade theory was anticipated by Adam Smith, but really hit its stride with David Ricardo in the early 19th century. Ricardo argued against government intervention, including measures like tariffs and subsidies. This school of thought was self-serving from the standpoint of the English, since their manufacturing advantages in trade were already well established. Ricardo represents the start of a long tradition of economic thought and practice which discouraged other nations from taking protectionist measures or diversifying their economy. Rather, foreign countries are encouraged to gear their economies for export, especially that of raw materials, supplemented by labor-intensive production which really cannot compete with high-end manufacture. But it is part of free trade theory to deny that technologically advanced manufacturing has an advantage over other types of exported goods. Along with free trade comes an advocacy of free markets. As money capital accumulates in industrialized countries, thanks to their advantage in trade, surplus investment capital looks for foreign investment opportunities. Industrialized countries then, proselytizing free trade, also preach

open markets. This means that foreign countries, especially undeveloped countries, should allow foreign investment. Such investment, it is argued, allows for the development of so-called third world countries which otherwise do not have the means to modernize. But foreign investment also means foreign ownership, and when enterprises are foreign owned, profits from these enterprises go abroad. The advantage industrialized countries have in trade is thus exacerbated by foreign ownership in the disadvantaged countries. And the propensity is, of course, for foreign investors to want to invest in raw materials production. What little advantage raw materials producing nations have is thus usurped. Capital continues to flow away from the disadvantaged nations to the advantaged. Backwards conditions persist in the non-industrialized nations.

Debt and Austerity

Today third world countries are encouraged to gear their entire economy for export. Rather than working towards self-sufficiency, they are made import dependent. To make investment - foreign investment - attractive, they must raise interest rates which further tighten the money supply. As capital flight continues they must borrow from abroad. But due to deteriorating terms of trade they earn ever less for their exports and imports become ever more expensive. Money is then borrowed from cash-rich industrialized nations, but often at interest rates greater than the nation's economic growth rate. The downward spiral results in massive unemployment and a dispossessed populace as uneducated labor becomes ever more obsolete. The impact debt can have on trade and the international economy was first seen in the first half of the 20th century when the repercussions caused by reparations payments and allied war debts were felt across Europe in the aftermath of World War I. During that period, the interest payments and currency devaluations led to a tightening of credit and a depreciation of purchasing power. Once again tight money meant low investment in economic enterprise and its supporting infrastructure. The lessons of those times have been forgotten by now, it would seem. Today the IMF and World Bank are among the financial forces which promote austerity measures. Their policy is one of balanced budgets, reduced social programs, reduced regulations, open markets, and privatization of the commons. This is a program demonstrated to be a failure over and over again, yet ideologues at every level persist in declaring its efficacy. Especially as one considers the predatory nature in international investment and finance, all nations, third world and otherwise, need to insulate themselves in one way or another from the world economy. Local economies should be diverse and self-sufficient to the extent possible. Tariffs and other measures should be taken by governments to guard against unfairly subsidized products, and to protect local agriculture and industry. And measures should be taken to increase the money supply, not to shrink it. If a country is really to grow and develop it needs investment - investment in the local infrastructure as well as in the people, which means an

investment in education. Conclusion This is my recounting of Michael Hudson's Trade, Development, and Foreign Debt. In a short review, one can only paint with a very broad brush. But Hudson's book is both broad and deep in scope, and therefore it is a very dense four-hundred pages. He details the arguments of the free-traders and their adversaries from a historical perspective, always with an eye to the effects of trade and the all-too-common imperial relationships of trading partners. His arguments are compelling and persuasive.

Must read. This, Super Imperialism, and Bubble and Beyond I think are Michael Hudson's most important works. I found myself quoting from here numerous times.

(From [...]) Those who regularly read my writings (both of you) will think this a very strange stance for me to take. Yet it is entirely true: the current woeful state of the world economy can be traced back to Karl Marx. This is because the predominance of neoclassical economics in the academy - and, from there, its dominance in public policy circles in the world's rich countries - originated as a reaction to Marx. Marx stained classical economics by powerfully arguing that capitalism would inevitably evolve into socialism. Hence, the entire edifice of classical economics was abandoned, and the neoclassical (also known as "theoclassical" for the nearly religious fervor its adherents have for it, even in the face of mountains of contrary evidence) school was born. As Hudson puts it, "[s]o inextricably had Marx identified the evolution of capitalism with the emergence of socialist institutions that the minds of orthodox economists snapped shut." Marx had taken the dominant contemporary economics of Adam Smith and David Ricardo, and so convincingly argued that the inevitable end result of the capitalist world system they described was socialism, that subsequent economists (or at least those derided by Marx as "sycophants of capital") were forced to retreat to a fantasy realm constructed entirely of mathematical models that only purportedly described the real world. "The use to which Marx put Ricardo's labor theory of value rendered it anathema [...]. An alternative body of economics was developed, a theory of marginal psychological utility rather than focusing on production functions and active government policy. [...] According to laissez faire ideology a country's first objective should be to maximize consumer utility at any given moment of time, as evaluated by current (rather than potential) market prices. There was no concept of losses suffered through trade, such as mineral depletion or forgone opportunities to develop. ... [Neoclassical economists] down to the present day ignored the widening of international productivity differentials." Marx scared later economists both into the clouds and into a microscope, so to speak. By focusing on individual preferences on the micro scale, and on an aggregate of hypothetical

individual preferences on the macro scale, economists abandoned protectionism's pragmatic focus on how to develop a national economy's productive potential. The result was an abandonment of earlier theories that actually dealt with the effect of trade policy on technological development, and explained how differential development between countries would allow those in the lead to grow exponentially faster than those without a productivity edge. Replacing these realistic theories were quasi-religious theories that posited, a priori, natural endowments that determined what were supposedly the most profitable economic endeavors for any given country - as if Britain had been endowed at some point with cutting-edge steel-making technology, while Ireland had been endowed (by God?) with great soil for growing potatoes. Part of the blame for economics' flight into vested-interest-serving, fanciful irrelevance belongs on the shoulders of Thomas Malthus. Other than the authors of holy books, it would be hard to find an author whose ideas have been more soundly trounced by a trip through the gauntlet of reality, while at the same time being widely believed to be true. (Freud and Ayn Rand might come in a close second.) Since he published his theories about the essential character of economics being determined to a large extent by the exponential growth of population and the linear growth of agricultural production, the world has seen - in the rich countries at least - a marked reduction in population growth and a nearly exponential growth in agricultural production. In other words, nearly the exact opposite of what Malthus predicted. Malthusian armchair theorizing could be what inspired neoclassical economists to assume diminishing returns in all industrial enterprises, as if the world were inherently as fatalist as one deficient product of the Victorian age believed it to be. Hudson goes beyond affinity to Malthus' delusions to explain how this devolution in economic theory occurred: "The reason for assuming diminishing returns was not because this characterized economic reality. Rather, it was logically necessary to 'close' heuristic economic models so as to mathematically determine a single optimum mix of labor, capital and land for each commodity and an optimum specialization of production for each country. The new academic vogue of scientific economics was to translate arguments into mathematical terms, in ways that suggested neat equilibrium solutions to each hypothetical problem. The real world was in no such equilibrium. ...[Early economists] perceived that as England gained a world monopoly position by virtue of its self-reinforcing head start, economies of scale and financial efficiency, less active government diplomacy was needed - as long as other countries refrained from subsidizing their own industrial development. (A few gunboats often were all that was needed, not formal imperialism.) The industrial and agricultural revolutions implied government policies to coordinate the training and education of labor and other infrastructure spending. But free traders excluded the analysis and consequences of increasing returns from the realm of

international economics, and from that of domestic economics as well. Its dynamics were beyond the ability of simple arithmetic formulas to handle, at a time when mathematical treatment of subject matter had become the very symbol of scientific method. Increasing returns implied a plethora of choices in an explosive world, not a single stable solution in an entropic world. It implied a focus on change, not preservation of the status quo. It suggested inherent tendencies toward monopolization of production, both for nations enjoying a head start and within each country. [...] Despite these realities, free traders claimed an unwarranted generality for their conclusions by limiting the number of factors considered in describing economic development. Stripping economics of its classical political, social and technological concerns, they narrowed economic methodology[...] The assertion that free trade results in an optimum development policy for all countries, irrespective of their level of development and productivity differences, can be defended only by dropping the technological, historical and institutional aspects of trade theory."And to paraphrase (as Hudson does, in a slightly different form) R. L. Nettleship, "...the most fatally unpractical thing in the world is to go on using methods which take every factor into account except the one upon which the whole result ultimately depends."But economics' break with reality was not a development initiated by Marx. Throughout its history, economics has been particularly susceptible to corruption by political developments. For instance, in pushing for laissez faire against the protectionist/mercantilist orthodoxy of the time, Adam Smith was producing an economic theory that would be opportunistically championed by those segments of the British economy that would benefit from them. And this pressure - whether consciously or unconsciously - led him to avoid addressing the most cogent points of his economist opponents: "... realism was not the objective of free traders. [Adam] Smith and his followers were not merely being naive in ignoring the mercantilist points. Their abandonment of the most sophisticated mercantilist analysis served politically to avoid discussion of assumptions that would produce protectionist rather than free-trade policy conclusions for poorer countries. For the past two centuries, free traders have shied away from introducing productivity analysis or realistic capital-transfer theorizing into their discussions, or acknowledging international movements of skilled and unskilled labor and capital. ... The growing inequality among nations ... suggested that if poor countries refrained from protecting and actively steering their economic development, they would suffer a growing dependency and consequent loss of economic options - exactly what has happened in practice. To avoid coming to this conclusion, free-trade theory ever since has narrowed its scope to become a caricature of global reality."At a certain stage in a country's economic development, protectionism becomes outmoded. Once a country's means of economic production are advanced enough, it benefits that country more to advance a global economic regime of free

trade, so its more advanced, more cheaply produced products can compete with other countries' less advanced, more expensive products without any foreign state intervention aimed at leveling the playing field. Latter day advocates of free trade did not arrive at their position from adherence to a sense of cosmopolitanism; rather, they advocated free trade out of a sense of nationalism, out of a belief that global adoption of free trade policies would benefit their own country disproportionately. This may come as a shock to many a self-styled adherent of Adam Smith's ideas today; so too nearly a century ago. Hudson quotes John Shield Nicholson writing in 1918: "...the present-day Free Trader will find in his Adam Smith a series of shocks and surprises. Instead of being cosmopolitan, Adam Smith was intensely nationalist, or rather Imperialist." Supporting the idea that the "free trade" orthodoxy that supplanted mercantilism in England was motivated by nationalist concerns was the fact that the "free trade" policies implemented by the British empire did not undermine its profitability. Rather the opposite. By freeing up funds that might otherwise be spent on the military, "free trade" policies allowed for even greater profitability for the private sector, hence greater national economic power. Replacing direct military force, "free market" forces were employed to garner the same benefit from Britain's colonies: "Under freer market relations, trade was conducted along basically the same lines of specialization that the old colonial systems had brought into being. Market forces induced citizens in the liberated colonies to produce the foodstuffs and materials they had been led to produce under England's trade and navigation acts. The legacy of colonial regulations, in conjunction with the sparsely populated condition of Europe's white colonies and the squalid plantation organization of its colored colonies, had nurtured a specialization of world labor and dependency that henceforth was maintained by market incentives alone. The New World, Africa and Asia became thriving agricultural or mining regions rather than industrial rivals to Europe - until the United States adopted protectionist policies after its Civil War." The United States' turn toward protectionism is covered in greater detail in Hudson's *America's Protectionist Takeoff, 1815-1914*. Just like Britain's adoption of "free trade", the United States' adoption of protectionist policies was due to nationalistic concerns. And just as today's United Statesian economists are ignorant of their country's protectionist economists and the protectionist policies they advocated (successfully, to the great benefit of the U.S. in the mid to late 19th century and early 20th), Britain too fell victim to the same sort of directed amnesia. "The nationalistic ideal of British free trade, like that of earlier mercantilism, held that strong economies would grow stronger while poor countries would become more dependent. [...] This is the kind of admission - almost a secret knowledge - that subsequent free traders have been eager to forget." Likewise, today's neoclassical (or theoclassical) economists have either been quite eager to forget the successes of the United States' early protectionism, or

have never learned about it in the first place. But back to Britain's transition from mercantilism and protectionism to laissez faire. Hudson explains how parliamentary debates were won by the free traders through their use of nationalist and imperialist arguments that a global free trade regime would benefit Britain above all. But after the free traders had won in the British Parliament, there was still the rest of the world to convince. And arguments based on English superiority were not likely to win many adherents outside of the British Isles. So the free traders argued instead that each country had been endowed (again, presumably by God) with certain unique advantages, or "factor proportions", that should be exploited to their fullest by focusing exclusively on producing them. In David Ricardo's words, whatever a given country has a "comparative advantage" in producing should be produced to the exclusion of everything else. Then, the products in which a given country has a comparative should then be traded within an international free market for all other needed products. Therefore, if Cuba "just so happened" to be better at producing sugar than England was, Cuba should focus entirely on sugar production, and trade its sugar for everything else it might want or need. After all, its "factor proportions" were better suited to sugar production, because it had good soil, a warm climate, and no steel industry (and a colonial history that turned it into a sugar producer). But factor proportions are not endowed by the Almighty. They are the result of geographical accident in the case of climate and soil, and the result of conscious human planning, and government intervention, in the case of industry. Hudson strikes at the core of factor proportion nonsense with a sliver of biting wit: "[t]he system of European land grants in the North and South American (and later African) colonies established local oligarchies that sponsored a centralized economic and political dirigisme in the context of latifundia/microfundia systems which still persist today. When the Native Americans refused to submit to the plantations system and its personal servitude, armed appropriation of their land drastically reduced their 'factor proportions.'" Elsewhere, in revealing Ricardo's theory of comparative advantage to be seriously deficient due to its ignorance of history and politics, Hudson quips: "England prohibited India from rivaling the mother country in any commodity that its own producers desired to export. But gunboats do not appear in Ricardian trade theory." In two sentences each, Hudson strips the arguments of the free traders bare. Factor proportions, or that which countries have a comparative advantage in producing, have been determined not only by geography, but by political, economic, cultural and military history. In other words, "natural endowments" are far from natural. South Korea has a comparative advantage in producing kimchi thanks to a cultural endowment, but it has a comparative advantage in shipbuilding thanks to the "endowments" of heavy state intervention in the economy, a history of economic aid and military protection from the United States, and its

location near a number of Communist countries during the Cold War. Which are not "endowments" at all. Such real-world considerations were not for the early free-traders, however. Once they had won over the British Parliament, their goalposts were shifted from convincing nationals of a country at the vanguard of economic and technological development, to convincing nationals of the rest of the world's countries, which were economic stragglers. Therefore, they made an amnesiac turn away from their country's own history of economic development, towards an abstract realm of reasoning with little basis in actual historical experience, to which they gave the euphemism "economic science." In this fantasy realm, ideas, theories and mathematical models ruled supreme, towering above the hoi polloi of actual history and pragmatism. "Having established free trade at home over the course of a century, England's strategic problem became one of how to export laissez faire ideology as a means to deter foreign protectionism and thereby keep foreign markets open to English industrial exports. The last thing called for in this ideological initiative was to repeat the arguments that had won over England's own Parliament, namely that free trade would uniquely benefit England as the leading industrial power at the expense of poorer economies. Henceforth free trade was supposed to make countries more equal and, in the process, to increase the resources of all trading 'partners.' But once hitherto protectionist countries opt for free trade, it usually is to close off advantageous lines of investment for less developed countries." For instance, the free traders denigrated the use of tariffs - which Britain had used to its great advantage when its industries were still infants - by creating mathematical constructs in which tariffs were simply excess costs that consumers had to pay. By this logic, the tariffs that Britain had levied against foreign textiles while its textile industry was in its infancy only served to impoverish British consumers while doing absolutely nothing else. Not expanding the domestic market for British textile manufacturers, or financing infrastructure built by the British state. "By treating tariffs as a pure cost borne by the nation's consumers, the free trade model of comparative costs has nothing to say about social utility as such, dismissing it as an 'externality,' that is, of little importance to private-sector balance sheets. Tariff revenues are treated as if the money simply was extinguished, not to finance internal improvements and related economic infrastructure." As it happened - in the real world, if not in theoclassical economists' fantasies - tariffs proved quite effective in protecting infant industries in countries that are now rich, and in financing infrastructural improvements that facilitated economic development. To be fair, yesterday's theoclassical economists were not wrong only about tariffs. They were wrong about many other things besides. For instance, they thought that rising labor costs - in other words, higher wages for the masses of a country's workers that would allow them a higher standard of living - would destroy competitiveness. (The more things change, the more they stay the

same.) English theoclassical economists of the late 19th century preached that countries needed to keep their wages low, or else they would be destroyed by competition from poorer countries. In opposition to this idea, American protectionists argued that well-paid labor would always beat out what they called "pauper labor". This was because well-paid labor was well-educated, highly-skilled labor, of the sort that could operate the most sophisticated labor-saving machinery of the day. So well-paid labor could actually out-compete pauper labor because the unit cost of the products made by the former would be, despite higher labor costs, lower than the products made by pauper labor, which would be unable to operate high-tech machinery. Hudson quotes the late 19th-century United Statesian economist Francis Amasa Walker: "In the contests of industry the civilized, organized, disciplined and highly-equipped nations may safely entertain much the same contempt for barbarous antagonists as in the contests of war." And as history would have it, Walker was right: countries with well-paid, highly-trained and educated labor out-competed those countries whose "factor proportions" or "natural endowments" included uneducated, easily-exploited pauper labor. But there is method to the theoclassical economists' madness. Political expediency favors the economic theory that serves to further enrich wealthy countries, at the expense of all others: "...the breadth and scope [of mainstream economics] widens as we look further back in time. Early observers perceived with remarkable clarity the political context and positive feedback character of England's industrial head start, as did subsequent protectionists in America and continental Europe in mapping out their own long-term national strategy. From the outset, English mercantilism and subsequent protectionism, traced the positive feedback and obsolescence processes that shape market relations, and extended the analysis of trade and development into the political and social sphere. Most of these perceptions were voiced by men well placed in the political leadership of their times. The subsequent narrowing of scope - away from long-term development to short-term market analysis, away from the monetary and financial context of trade to a 'barter' theory, and away from a government policy-oriented focus to one of laissez faire - has been politically dictated by the success of England, the United States and subsequent lead nations in achieving dominant intellectual as well as economic status. It seems ironic that the more successful a nation becomes, the narrower and more short-term tends to be the scope of its international economic theorizing - almost as if it would pull up the policy ladder behind it. The aim is to impose a superficial trade theory and financial austerity on the less developed periphery, treating their resources as 'endowments' dealt out by nature rather than fostered actively by national policy." Economic power has been exerted most clearly in the field of economics itself. It is not only the case that economists departments in most of the world are completely dominated by the theoclassical paradigm; in

addition to this, in the few departments to offer a course in economic history, economic history is severely censored: "Free-trade histories of international economics reflect the degree to which manipulating the history of ideas may become a ploy to maintain the status quo. As George Orwell observed, whoever controls the past controls the present, and hence the future. The history of international trade and financial theory has fallen prey to the censorial spirit of free-trade ideology blocking knowledge of the development of rival theories. Protectionism for its part has relied more on political lobbying than on academic theorizing, leaving the field of international economics as a preserve for laissez faire advocates who brand alternative views as lying outside the subject matter of the discipline they have narrowly re-defined. ... A large part of the problem stems from trying to make economics a 'natural science,' treating society in much the same way one might view physical nature. We must beware of writers who use the term 'nature' (as in natural endowments) as a code word for the status quo. To follow nature has meant to acquiesce in the existing division of labor between lead nations and poor countries. This commitment to defend the status quo has led free-trade theory to treat international trade in isolation from finance, technology, demography, ecology, politics and the military dimension."This isolation allows theoclassical economists to advocate policies that inhibit broad-based economic growth that would benefit the masses, and only serve to further enrich the already rich. It is no accident that the greatest economic success story of the past half-century, China, has achieved its success by ignoring the theoclassical economic orthodoxy, and following a state-directed economic policy. Nor is it an accident that most of the rest of the world, when following policies advocated by theoclassical economists, has seen a widening of the wealth gap and continued pain for the growing ranks of the poor. "Whenever we find so great a degree of unreality to characterize a theory that backs an economic doctrine and its applied models, we should suspect special interests to be at work. It hardly is surprising that the ideology of today's global orthodoxy reflects the self-interest of the industrial creditor nations."This helps to explain how an economic theory that recently led the world to the brink of global economic collapse is still placed on a pedestal. Although its models and predictions are demonstrably - manifestly - wrong, it nonetheless serves the interests of the world's powerful. Hence, its staying power. "If insanity is doing the same thing over and over again in the expectation of a different result, then neoliberal trade theorists are at best useful lunatics for international predators. The usual term is 'useful idiots,' but it takes great intelligence to persist in wrong-headed, counter-productive policies in the face of consistent failure. The problem is learned ignorance, which typically goes hand in hand with an almost religious faith in ideological labels. 'Nothing is so passionate as a vested interest disguised as an intellectual conviction,' explained the main character in Sean O'Casey's play *The White*

Plague."Hudson concludes his book with a summary which should be tattooed on the foreheads of all graduate students in economics: "All economies are planned, and all markets are structured. The key to understanding their dynamics is to ask who is doing the planning and structuring, and in whose interest countries will place decision-making. Will it be in the hands of elected officials with a clear empirical knowledge of reality to guide their national economic laws, or in those of academics serving special interests as they turn theories of international trade, lending and debt into a disinformation system?"

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