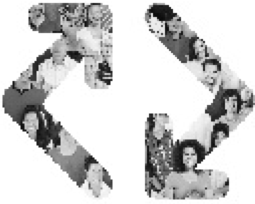

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BHP's offloading of oil and gas assets shows the global market has turned on fossil fuels

John Quiggin

"Fossil Fool - Climate Emergency Bushfires rally Melbourne 10 Jan 2019 - IMG_4905" by John Englart is licenced under CC BY-SA 2.0

The announcement by BHP, which is the world's second-largest mining company, that it will shift its oil and gas assets into a joint venture with the Australian outfit Woodside is a clear indication that the "Big Australian" is getting out of the carbon-based fuel industry.

BHP has also been offloading thermal coal assets. In June it sold its share in the Cerrejon coal mine in Columbia to Glencore (the world's biggest mining company). It has also written down the value of its Mt Arthur coal mine in Australia's Hunter Valley while it looks for a buyer.

But if the oil wells, gas fields and coal mines are still there, what difference do these asset sales make? To answer this question, it is necessary to understand the broader logic of divestment, as championed by the divestment movement.

The divestment agenda

The immediate aim of the divestment movement is to end new investment in oil, gas and coal, with the ultimate aim of decarbonising the economy.

Over the past few years, with much prodding, financial institutions around the world have adopted divestment

policies aiming to end or reduce their involvement in the carbon economy.

The initial focus has been on thermal coal, which is used in the generation of electricity. Coal mines as well as coal-fired power stations have been excluded almost entirely from the global financial market. New developments now rely almost exclusively on finance gained from China, largely through the Belt and Road Initiative (and even this source is drying up).

In Australia, all the major banks and insurers, along with many superannuation funds, have adopted policies to end their involvement with thermal coal. Now attention is turning to oil and gas.

Divestment policies, like those of Westpac and the Commonwealth Bank, now commonly exclude new oil and gas projects (though there are often escape clauses designed for companies with policies "aligned with the Paris climate goals").

The recognition that oil and gas has a limited future is clearly reflected in the massive drop in "upstream" capital expenditure on exploration and development. This capital expenditure in 2020 fell below half the peak level of 2014, and only a modest recovery is expected following the pandemic.

BHP's choice

BHP and other mining companies now face a choice. They can join the divestment movement by selling their carbon assets and focusing on other mining activities or on renewable energy. Or alternatively, they can become "pure play" coal, oil and gas businesses, profitable in the short run but increasingly excluded from investment portfolios and, ultimately, from normal financial transactions like banking and insurance.

This is the likely fate of the Woodside-BHP joint venture. The effect is similar to the "bad bank" structures created in the wake of the Global Financial Crisis to acquire non-performing loans and other dubious financial assets built up during the pre-2008 boom.

By offloading these assets, and taking some losses in the process, the major global banks were able to recapitalise and to resume their customary place at the centre of the financial universe.

Keeping institutions happy

The result will leave BHP shareholders with two separate holdings — one in BHP and one in the joint venture. The institutional shareholders who pushed for the divestment will now be able to dump these joint-venture shares and retain their holdings in BHP, which will (once the remaining coal assets have been sold) now be safe from pressure for divestment.

Pressure didn't come only from shareholders. Banks and other key institutional players were also key players. Reports indicate that the "all-stock" deal with Woodside was chosen precisely because it would have been impossible to arrange bank financing for the new venture.

Banks will now be free to continue their dealing with BHP, one of their biggest customers, while leaving the oil and gas venture to lower-tier lenders willing to take the financial and reputational risk.

A justifiable exit strategy

It is arguable that, rather than disposing of its oil and gas assets, BHP should have taken action to shut them

down.

This argument has been put forward by environmentalists as well as by Ivan Glasenberg, chief executive of Glencore, the only major global mining company to have chosen to stay in the coal business. Glasenberg has argued that fossil fuel divestment is pointless because it simply makes fossil fuel assets "someone else's issue". Better to retain the ownership of coal mines and to phase them out gradually, he says.

Whether Glencore ever delivers on this strategy remains to be seen. But in light of the global divestment agenda, BHP's move is clearly more than a portfolio rearrangement.

For now, "pure play" oil, gas and coal companies can continue to generate profits. As global corporations, banks and insurers withdraw from the sector, however, the capacity of the remaining firms to resist regulatory and legal pressures to shut down will diminish.

Sooner or later, for example, it's likely courts will find those responsible for carbon emissions liable for the damage caused by fires, sea level rise and other effects of climate change.

Without backing from the banks and insurers, the costs of this litigation will fall directly on carbon-based corporations and their shareholders.

BHP, which was founded in 1885 and plans to be around for the long term, has seen the writing on the wall. It is getting out while it can.

Source: The Conversation, 18 Aug 2021
https://theconversation.com/bhps-offloading-of-oil-and-gas-assets-shows-the-global-market-has-turned-on-fossil-fuels-166336

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When will America declare war on climate change?

A "war structure" mobilization is required, which Australia could emulate

J.D. Alt

A declaration of war is a legal framework that sets in motion a process of "mobilization" in which the national government directs real resources — engineering expertise, material, technology, labour — toward the goal of defeating an enemy threat. Typically, we can imagine that for "war" to be declared, the enemy must be another nation state that substantially threatens the continued existence of our society. But requiring that a "state of war" can only exist in confrontation with another nation-state puts the cart before the horse, does it not?

The United States, in 1941, did not declare war on Japan and Germany because they were nations; it did so because they presented conditions that were an existential threat — conditions that had to be confronted and overcome. Today, as we live through the extreme weather events and catastrophic wild-fires of 2021, it is becoming clear that climate-change is presenting America now with conditions that, if allowed to continue and grow, will pose an existential threat to U.S. society. The question, then, is when will the United States declare

Climate change is an existential threat to our society. Credit: original article

war on climate-change?

I am not talking here about a semantic slogan, like the "war on drugs." A formal declaration of war, as stated above, sets in motion a process of "mobilization" which requires — and authorizes — certain things that are outside the ordinary business-as-usual of market society. Mobilization creates a "war-structure" within which crucial components of market society are asked to operate. The most important characteristic of this "war-structure" of mobilization, however, is its understanding of money.

Specifically, the money for mobilization of this sort is not created from bank loans (a la business-as-usual in the market economy). Instead, the money for mobilization is issued by the federal government, as necessary, in order to purchase, direct, and manage the real resources necessary to over-come the existential threat-conditions the nation confronts. There is no debate as to whether the government "has enough money," or whether it can "increase tax revenues" to generate the necessary money, or whether it should "borrow" the money that mobilization requires. As exemplified by the U.S. mobilization for World War Two, within a "war-structure," the only debate is about what real resources are available and how they should be mobilized.

It may come as a big shock to many people to discover that this "war structure" operation of money is even possible. Today's debate in congress over President Biden's $4 trillion spending budget certainly encourages the public to believe it is not possible. Republicans wave the flag of "unsustainable deficits" in the air as the direst warnings of catastrophe, while Democrats scramble to find tax revenues or "wasteful spending" that can be eliminated to avoid that "catastrophe." The daily, drumbeat-message is clear: that the U.S. government does not have enough money to do the things that need to be done — and can't get the money it needs without reckless, and

dangerous, disregard for the principles of sound finance.

However a "war-structure" mobilization has no money "deficits." It is not even a calculation. The calculations carried out are about things and conditions. If something that no one knows for sure is even possible — a nuclear bomb, for example — is required to overwhelm a condition that is an existential threat, the debate is not about how much it will "cost" or where to find the money to cover that cost. The debate is about what resources are necessary in order to design, build, test, and deploy the bomb — where to get those resources, and how to manage them to achieve the goal.

Part of the reason for the existence of this altered "understanding" of war-structure money is that the concept of "cost" is a bookkeeping entry invented and used for the calculation of "profit" in the everyday business of market society. And the calculation, or calculated prediction, of "profit" is the crucial pre-condition for the creation of money by banks - money that enables market society to hire its labour, buy its materials, package its goods, and realize its profits. Since a nuclear bomb was never going to be sold in a market for a profit, it was not possible to pay for the making of it with bank-financing. In fact, after spending nearly $29 billion (in today's dollars) to produce the Hiroshima bomb, what was done with it? It was destroyed! From a bookkeeping perspective, it made no sense to calculate the "costs" of the bomb. The only calculation to be made was how to enrich either enough uranium or plutonium to the point that a bomb was feasible. The fact that it turned out to "cost" $29 billion was inconsequential.

"Principles of sound finance," then, apply to profit-making businesses in a market society — but they do not apply to the undertaking of a mobilization to confront a condition that poses an existential threat to collective society — especially when the things that need to be undertaken and accomplished are not things that will generate financial profits. In the war against climate-change, the not-profit-making challenge of sequestering carbon is comparable to the not-profit-making challenge of mastering nuclear fission. Trying to package that challenge in a way that can only be accomplished with "markets" — i.e. carbon taxes and cap-and-trade systems — is like trying to defeat Imperial Japan by creating a "market" for naval flotillas.

What I am advocating here should not be taken as: "Do what's necessary now and figure out how to pay for it later". The Manhattan project was paid for in real time, with real dollars. The fact that those dollars simply did not exist before Robert Oppenheimer arrived at Los Alamos is the whole point. Nor were they "borrowed" dollars that Oppenheimer's grandchildren ever had to figure out how to "pay back". They were dollars created "out of thin air" by the sovereign U.S. government to pay its citizens and businesses to do something that had to be done.

The interesting "collateral discovery" about this war-structure money was that the spending of it — to develop and build a nuclear bomb for example — did not "cost" the American people anything at all. To the contrary, the American people — or at least those who, in our example, worked on the

task of creating the bomb (130,000 of them) — got paid $29 billion (an average of $223,076 each) for their efforts.

This strange, counter-intuitive “bookkeeping” is what modern money theory (MMT) is all about. It is easiest to “see” in the context of mobilizing for, and executing, a war. What is startling, however, is realizing that it holds true for any “deficit spending” by a sovereign government which issues its own fiat money: Sovereign bookkeeping deficits don’t “cost” the citizens anything. Instead, they are fiat money the citizens will have earned by providing goods and services for the collective well-being. It may well be, then, that declaring war on climate-change will do more than set the stage for the United States.(along with the rest of the world) to actually begin the work necessary to keep the mean global temperature rise below 2 deg C.

It may be that establishing a “war-structure” understanding of money will, this time around, change how market society understands what is, ultimately, in its own profit-making interest — the long-term well-being of collective society and the ecological health of nature.

Source: Real Progressives,14 Aug 2021
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Equality and fairness: vaccines against this pandemic of mistrust

Tony Ward

The COVID crisis has laid bare a crisis of trust.

In many Western nations there’s a small but significant minority refusing to follow distancing guidelines, wear masks or get a vaccination. Protests in recent weeks have demonstrated just how much they mistrust politicians, scientists, bureaucrats, “mainstream media” and many of their fellow citizens.

And that’s a problem - because higher trust levels have been shown to be associated with markedly better outcomes in handling the virus. As the World Happiness Report 2021 published in March concluded, generally the higher the level of social trust, the lower the nation’s COVID death rate.

So what can be done to combat this pandemic of mistrust?

Using data on national trust levels published over the past few years, my analysis suggests more than 80% of differences in trust levels between nations can be explained by just two factors: economic inequality and, to a lesser extent, perceptions of corruption.

This calculation underlines the importance of tackling issues relating to the conditions in which misinformation thrives.

Censorship and other blunt instruments have their place, but only treat the symptoms. To treat the cause requires promoting equality and fairness.

What ‘lost wallets’ reveal about trust

The World Happiness Report’s conclusions about the correlation between effective COVID responses and level of social trust drew on past research, including evidence from the 2019 World Risk Poll (sponsored by Lloyd’s Register Foundation).

"No New Normal, Vancouver Freedom Rally, Nov 15, 2020"
by GoToVan is licenced under CC BY 2.0

That poll surveyed more than 150,000 people in 142 nations. One crucial question asked them to imagine losing a small bag of financial value and then say how likely it was that a stranger would return that bag. This question is a staple item of social trust research, known as the "lost wallet test".

For my analysis of the relationship between trust, inequality and corruption, I've mainly used another "lost wallet" study published in 2019, by University of Michigan behavioural economist Alain Cohn and colleagues in Switzerland. Their study went one better than asking people about their expectations; it actually tested levels of trustworthiness by "losing" 17,000 wallets in 355 cities across 40 nations and measuring how many came back to their "owners".

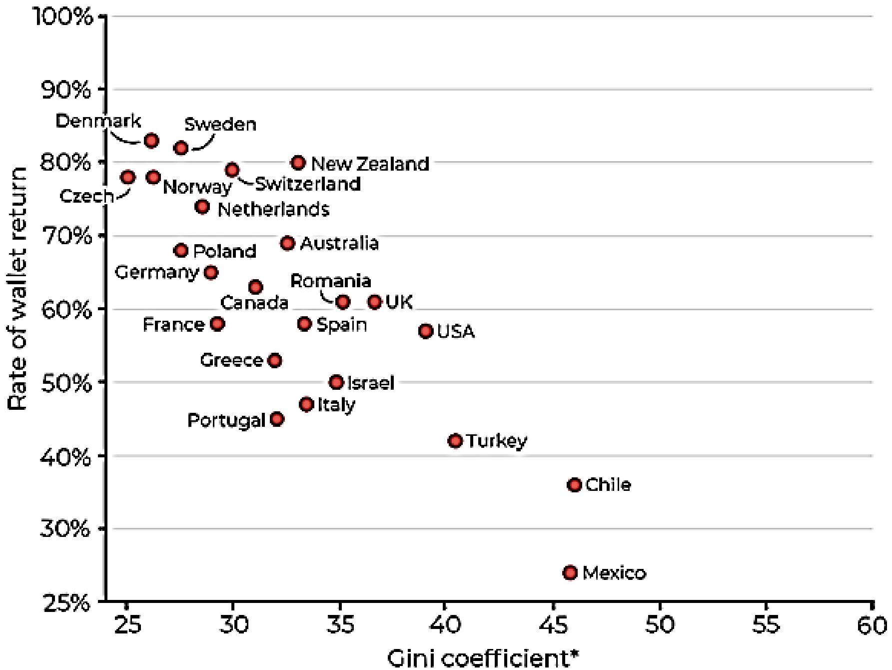
This study broadly found the actual returns to be slightly higher than expectations in the World Risk Poll. But both found consistent differences in social trust (and trustworthiness) between nations, in line with other survey results. The results from the Cohn study are therefore a good measure of both trust and trustworthiness in different countries.

Measuring the impact of inequality

According to my calculations, inequality explains over two-thirds (68%) of the differences between countries in social trust levels.

This is shown in the graph below. It uses only the 23 countries in the Cohn study that are members of OECD, because these have the most robust data measuring inequality.

The left Y axis shows the percentages of wallets returned. The bottom X axis shows the Gini coefficient: the standard measure of economic inequality, with the nations closer to 0 being more equal.



Data cited by Tony Ward - Cohn et al (science.org/doi/10.1126/science.aau8712)
Civic honesty around the globe, and OECD source, licenced by CC BY-ND 2.0

One sees a strong correlation between equality and levels of social trust, but clearly other factors are involved as well.

For example, consider the return rate for New Zealand (one of the highest in world), and then Australia, to the lower rates in Spain and Italy (less than 50%), despite all four countries having similar levels of economic inequality.

I calculate close to half of this difference can be attributed to perceptions of corruption. I did this using data from anti-corruption organisation Transparency International, which publishes an annual survey of the perceptions of corruption across the world and scores countries on a 100-point scale (the closer to 100 being better).

In 2020, New Zealand equal topped the list with a score of 88, compared with Australia on 77, Spain on 62, and Italy 53. (Australia has seen the biggest recent drop of any of these

OECD countries, slipping from a score of 85 in 2012).

All up, equality and corruption perceptions appear to explain 82% of the differences in trust and trustworthiness between nations.

Promoting equality and fairness

Correlation doesn't necessarily mean one factor causes the other. But in this case, there is strong supporting evidence to suggest inequality and perceptions of unfairness fuel mistrust.

As this year's World Happiness Report noted, higher social and institutional trust levels are associated both with greater community resilience to natural disasters and individual resilience to ill health, unemployment and discrimination. More trusting societies and individuals are also happier.

If this wasn't strong enough incentive for policies that promote fairness and equality, the epidemic of misinformation and mistrust exposed by COVID-19 should be. As psychologist John Ehrenreich has written in Slate:

Conspiracy theories arise within the context of fear, anxiety, mistrust, uncertainty and feelings of powerlessness.

At the American Economics Association's annual conference in January, a number of speakers focused their attention on the importance of trust. The Economist magazine summarised their conclusions: higher levels of trust and social responsibility were associated with less scepticism of media reporting on COVID-19 and greater willingness to accept stringent lockdown measures.

Mistrust has been a major barrier in combating the Covid 19 pandemic - and will present more challenges in the aftermath. Policies to enhance equality and fairness, and to reduce corruption, are potent vaccines in these tasks.

Source: The Conversation, 3 Aug 2021 https://theconversation.com/equality-and-fairness-vaccines-against-this-pandemic-of-mistrust-160100

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Rethinking Capitalism Summer School in Melbourne, February 2022

Economics as if people and the environment matter

This is a two-day seminar/workshop covering the most pressing economic issues facing Australia today: inequality, insecurity, climate change, grey corruption, the federal budget and a campaign for a fairer and more sustainable economy, drawn largely from modern monetary theory and ecological economics. Three of the first summer schools occurred in Adelaide in January, February and April 2021, attended by over 200 participants.

Please contact the Sustainable Prosperity Action Group (https://sustainable-prosperity.net.au/summer-school/) to find out about the future program. The sessions will all be held in Melbourne (Williamstown Town Hall) on Saturday 6th and Sunday 7th February 2022 (book online at https://www.trybooking.com/events/landing?eid=777806). Also check for updates on the latest offerings. It is hoped to have events in Hobart and Brisbane next year.

Evil Doers: The Pharmaceutical Industry and the Pandemic

Dean Baker

Now that George W. Bush is back in the news with his attacks on the Trumpist insurrectionists, it might be worth reviving one of the great lines of his presidency. After the September 11th attack, when Bush decided to go after not just terrorists who planned the hijackings, but all sorts of people around the world he didn't like, he lumped them together as "evil-doers." That may not be the most eloquent phrase, but it works well as a description of the modern pharmaceutical industry.

Some may find this description of the pharmaceutical industry abhorrent. After all, they develop life-saving drugs and vaccines, most recently the vaccines against the coronavirus which have saved millions of lives. But the industry's storyline gives us a very incomplete picture of what it does and how.

Probably the best way to think about the pharmaceutical industry is to imagine an incredibly corrupt fire department. Most of the money that the fire department gets to buy new trucks and other equipment goes right into the pockets of the department's commissioner and his closest friends. The department may still do its job in the sense that they rush to fires and rescue people trapped by flames, but it costs way more than it should.

The fire department may even occasionally start fires itself so that they can be heroes in putting them out and rescuing potential victims. And if that sounds like an over-the-top accusation against the pharmaceutical industry, then you didn't pay attention to the opioid scandal. Several major drug companies have paid out billions of dollars in settlements over the accusation that they deliberately misled doctors about the addictiveness of the new generation of opioids.

Note that the accusation was not that the industry mistakenly failed to recognize how addictive their drugs were. The accusation was that they knew they were highly addictive, but lied to doctors so that they could sell more prescriptions. This is not very different from deliberating starting fires to drum up business.

Now suppose that there was growing political pressure to cut back the fire

department's budget and clean up its practices. Naturally, it's not going to just sit back and let someone take away the trough. Our corrupt fire department will do everything in its power to continue the practices that are allowing its top officials to get rich.

In the case of the corrupt fire department, we can anticipate big public relations campaigns where they highlight the fires they have extinguished and the lives they have saved. We can expect to see pictures of adorable children who were saved from burning blazes by the fire department. This of course has nothing to do with the effort to eliminate corruption, but it makes great material for advertisements on the major news shows. And, who knows, maybe these expensive ads will even influence their reporting on the first department's corruption.

This corresponds to the pharmaceutical industry's campaign to beat back congressional efforts to lower prescription drug prices and weaken the protection the industry now enjoys with government-granted patent monopolies. Just as the corrupt fire department actually save kids' lives, the pharmaceutical industry does produce drugs and vaccines that are hugely important for people's lives and health.

But that is not the issue, the question is whether there are better ways to get these drugs and vaccines. There is good reason for thinking there is.

Direct public funding, an Alternative to government-granted patent monopolies

The obvious alternative to having drug companies pay for their research costs is through the direct public funding of research. Direct public funding can take different forms. We can have a prize system, where the government gives out prizes and then takes ownership of new drugs or vaccines. These items may then be placed in the public domain so that they may be sold as cheap generic pharmaceuticals.

My preferred route is a system of long-term contracts, similar to the way the Pentagon pays for the development of new weapons systems, planes and submarines. This has the big advantage that it can require that all research be fully public all along the way. This means that research findings, as well as results from clinical trials, are posted on the web as soon as practical. This means that researchers all over the country, and in fact all over the world, can quickly benefit from each other's successes and failures. (this system is outlined in more detail in chapter 5 of *Rigged*).

To my view, this shift to direct public funding has the important result of changing the incentives of the pharmaceutical industry. Under the patent monopoly system, drug companies try to figure out how they can maximize the profits they obtain as a result of the monopolies the government has given them. This may mean developing drugs that offer little benefit over existing drugs, but which they think they can market effectively.

It can mean finding ways to extend their monopolies, which may be dubious from a legal perspective, but with high-priced lawyers, may buy them another year or two on their patents. And, it may mean lying about the safety and effectiveness of a drug in order to maximize the amount they can sell at patent-protected prices.

These are the incentives provided by the patent monopoly system of finan-

cing drug development. If we instead relied on direct public funding there would undoubtedly be under-performing companies and some money would end up being wasted on dead ends. But all drugs and vaccines that were developed would be cheap (they are almost always cheap to manufacture and distribute) and no one would have the incentive to lie to us about their safety and effectiveness.

“Medicine Drugs” by The Focal Project is licenced under CC BY-NC 2.0

TRIPS * and the Fugitive Slave Act

For those not familiar with US history, the Fugitive Slave Act usually refers to the 1850 bill passed by Congress, which made it easier for bounty hunters to track people who had escaped from slavery in the South into Northern states that had banned slavery. These bounty hunters could bring the people who had escaped slavery back to the South. The Act imposed serious penalties on anyone who tried to assist people in escaping slavery or blocked the efforts of bounty hunters. Its provisions were considerably stronger than an earlier Fugitive Slave Act passed in 1793, making it even more difficult for people escaping slavery to live freely in the North. It was an important factor in the tensions that led to the Civil War a decade later.

I don’t compare TRIPS agreements to the barbarism of a system of slavery that imprisoned tens of millions of people for centuries, but the Fugitive Slave Act provides an example of a truly barbaric law that ostensibly decent people could consider reasonable.

We should understand TRIPS also as a horrific provision of an international trade deal, the Uruguay Round of General Agreement on Tariffs and Trade, that was designed to bottle up technology to reduce access in the developing world, even when the issue is access to life-saving medicines or vaccines.

The issue of bottling up technology is

central to the story of the massive and unnecessary loss of life in the pandemic. The official death toll worldwide is already over 4.7 million, but we now know this is a gross understatement. To take one of the hardest-hit countries, India now officially reports that there are 445,000 deaths from the pandemic, but a study by the Center for Global Development put the number of excess deaths in India, as of July 2021, at 3.4 million and possibly over 4 million. In Mexico, the number of excess deaths is more than 240,000 higher than the official death toll from COVID-19, and in South Africa the gap is 150,000. Clearly, the death toll from this pandemic is several million higher than the already horrific official number.

But the question here is how much did the drug industry's bottling up of technology contribute to this disaster. The provisions of TRIPS require countries throughout the world to have US-type patent laws. This means that countries like South Africa, Brazil, and India (the world's largest manufacturer of pharmaceuticals), that might have had the technical expertise to produce the COVID-19 vaccines, as well as treatments and tests, could not simply start shifting production to pandemic related items. They needed to have the authorization of manufacturers who had patent rights.

This requirement applied to manufacturers in wealthy countries as well. For example, Teva, a huge Israeli pharmaceutical company, was interested in producing the Pfizer vaccine by converting existing facilities but was unable to come to an agreement.

The problems with increasing production of vaccines, treatments, and tests go beyond just patents. A couple of months ago, I was on a panel with an industry representative who was anxious to boast that much of the technology needed to produce the mRNA vaccines does not depend on patent monopolies, but is instead held as industrial secrets. He said that he didn't see how companies could be forced to disclose secret information.

Of course, no company is obliged to disclose secret information, we can just have their top engineers share the expertise they have gained while at Pfizer, AstraZeneca, or Moderna. Surely, for pay-checks of millions of dollars per month, many of the most knowledgeable engineers at these companies could be persuaded to share their know-how with pharmaceutical manufacturers in the developing world. The fact that they could also be helping to save millions of lives might also make this work attractive.

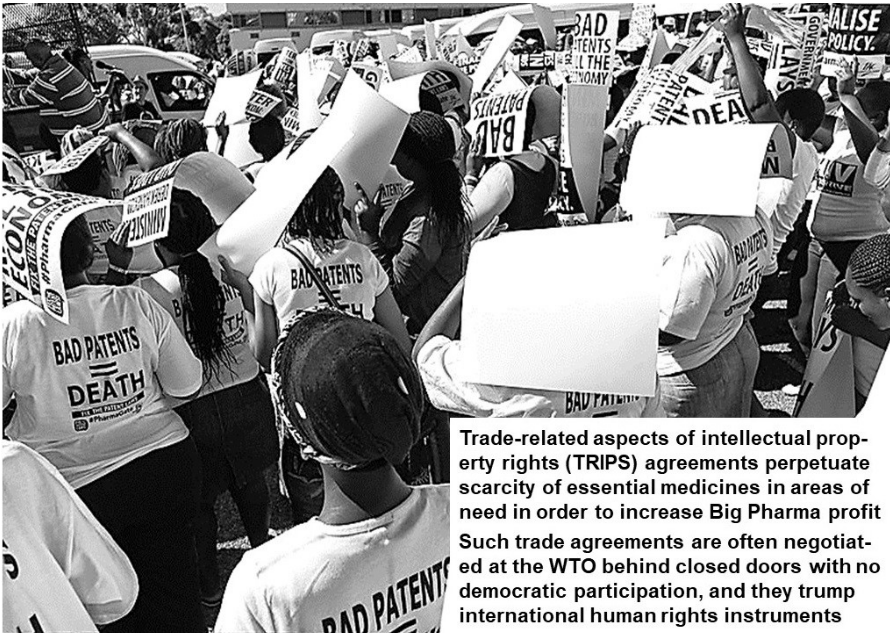
The reason this technology transfer is not happening now is that all these companies have nondisclosure agreements with the employees who would have access to this knowledge. If any of them were to begin sharing information with another pharmaceutical company, they would certainly face a large lawsuit from their former employer, who may also be able to get an injunction prohibiting this engineer from providing further assistance.

If an engineer were to act in violation of an injunction, they could face imprisonment. In short, the laws on nondisclosure agreements can be used by pharmaceutical companies to block the transfer of the technologies needed to effectively combat the pandemic.

Governments do not have to make nondisclosure agreements enforceable contracts, especially when so much of the underlying technology, as in the case of mRNA vaccines, was developed with public funds. Nondisclosure agreements are quite explicitly designed to limit competition. Other contracts designed to restrict competition are not enforceable by the courts. For example, if Apple were to pay Samsung $1 billion in exchange for a commitment not to charge less than $800 for its newest smartphone, no court would sanction Samsung if it violated this agreement. Since the purpose is clearly to limit competition, in direct violation of anti-trust laws, this sort of contract would be unenforcedable.

In the same vein, we can think of the laws on nondisclosure agreements as efforts to limit competition, that have no place in a free market. Again, the case for this view is strongest when much of the funding for the development of technology comes from the government, as is the case with the COVID-19 vaccines and most innovations in the biomedical sector.

The proponents of the WTO often talk about it as promoting free trade, but in fact, the TRIPS accord went in the opposite direction. TRIPS is about bottling up technology. A WTO that was actually designed to promote free trade and the transfer of technology would, instead of protecting patent monopolies, would be banning, or at least severely restricting, nondisclosure agreements. Don't look for that one any time soon.



"Bad patents kill – fix the big pharma patent laws" by Louis Reynolds
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"Free trade" has always been a flexible concept that the wealthy and powerful have interpreted in ways that advance their interests at the expense of everyone else. The Opium Wars fought between China and the United Kingdom were justified on the basis of free trade. The UK was insisting that people in China had the right to buy opium, which was the one product that it could sell to China in large quantities in order to pay for all the items it wanted to buy from China.

We should think about current rules on intellectual property in the same way. They have no moral or economic rationale. (Yes, I know we can tell stories about how they are needed for innovation, but they aren't true.) The laws on intellectual property are designed to make a relatively small number of people very rich. In doing so, they not only make everyone else poorer, but they also cost millions or even tens of millions of lives.

***TRIPS** stands for "trade-related aspects of intellectual property rights"

Source: CEPR, 20 Sep 2021
https://cepr.net/evil-doers-the-pharmaceutical-industry-and-the-pandemic/

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Dean Baker is a U.S. economist and is a cofounder of the Center for Economic & Policy Research, Washington DC.

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I reluctantly adopted an MMT frame for thinking about macroeconomics more than one decade ago. Reluctantly, because it caused me to question much that I had been taught, accepted as useful, and had taught to others about economics during the previous twenty years or so.

On a less significant level, I had gone through a similar experience with behavioural finance and the orthodox approach to financial economics about 10 years earlier.

Always be a cynic. I recommend an MMT frame to people now because it is technically correct and because it has important implications for economic management in general and the fiscal space available to monetary sovereign governments in particular.

The last thing MMT is, or should be, is a cult, or something people accept because it fits their wishful thinking.

Remember that it doesn't imply additional spending - government or private sector, doesn't carry an inflation risk, doesn't replace the real constraints we face due to a limited productive capacity, and doesn't provide an easy resolution to our ecological problems.

What it does tell us is that anything which is possible, given our real resources, is affordable. What it does tell us is that we can afford full employment. What it does tell us is that there is no financial constraint in the way of investments in clean energy and ecological repair or in the way of a more even distribution of income and wealth, sustainable prosperity, and a decent and dignified life for all.

For years now, I have received regular (evangelical) emails from well-meaning people who are emotionally highly committed to either/both a stand-alone universal basic income and positive money (PM) / AMI proposals to eliminate debt money creation by banks.

The reason I have not accepted either of these proposals as useful is that I put them through the same scepticism I applied years ago to MMT. They did not pass the test.

A stand-alone UBI will be set at too low a level to raise people out of poverty; it will divide the population (as they are now) into the 'haves' with secure jobs and the 'have nots' who are left on the scrap heap; it will not be inclusive; it will not act as an anchor for inflation; it will not stabilise an unstable economy by expanding in a downturn and contracting during an upswing in the economy.

There is no reason you cannot have an unconditional basic income for people who choose not to participate in a job guarantee. But a job guarantee will provide people with a higher income; it will be socially inclusive; it will be a far more effective way of delivering a more even distribution of income over time; it will drive up wages and conditions of work for the low paid and those who are insecurely employed, it will stabilise the economy; and it will act as an anchor for inflation.

The proposed job guarantee can be used to transform what is deemed to be activity worthy of recognition by remuneration.

It just makes more sense. Remember, I am not saying you can't have an unconditional income for people who don't want to participate although they are able to do so, but a UBI on its own is not in my view a path to sustainable prosperity.

I base this view on a great deal of thought and reading a lot of research. I did not start off wanting to take one viewpoint over another. I started off as a sceptic.

PM proposals which place money issuance in the hands of a panel of

experts, and which no longer allow for an elastic supply of credit to business by deposit creating institutions, supervised by a central bank (or other banking supervisor), lack the flexibility to meet the needs of a complex economy, and in any case PM proposals are entirely unnecessary.

The assets private banks are allowed to hold, and the activities they are permitted to engage in, should be tightly restricted, and that is not the case at the moment. There should also be a public interest bank, owned by the central government, which people can bank with, if they choose. I do not disagree with Bill Mitchell's view that the entire banking system may be better nationalised.

Banks provide a public service, and bank employees - particularly in banks which are too big to fail - are basically public servants. Like Bill, I would leave only the small mutual banks, credit unions and building societies in the private sector. But this is not the only option.

Private banks, and the financial system as a whole, can be regulated and supervised to ensure they act in the public interest, which is more or less how things worked between the 1930s and the 1970s - an era when there were no major banking crises.

Whether you are in favour of nationalising the banking system or not, the Positive Money proposals, to end commercial banking as we have known it for generations, in favour of an approach to lending and borrowing apparently inspired by neoclassical loanable funds theory, are unnecessary. In my view, they are also unworkable, in anything beyond a very small economy. But that is irrelevant, really. We just don't need them. There is nothing fundamentally wrong with our monetary system today, which we cannot fix through regulation and/or nationalisation.

There are good reasons to maintain an elastic supply of lending to business and endogenous money. You want democratic control of the process? Nationalise the banks: don't blow up the banking system.

Again, I did not start off with an emotional opposition to PM. I hope I looked at what was suggested, thought about the proposals based on 30 years of teaching financial economics, and found them wanting.

Of course, you don't have to agree with me. I just ask people to avoid an emotional commitment to an idea, or set of ideas and proposals, at least until you have first been a complete sceptic and tried to demolish the logic behind them, and subsequently found this impossible.

If I disagree with you, it won't be because I think you are a fool, it won't be because I am a capitalist bighead,

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it won't be (I hope) because I am a fool, it won't be because I am part of a cult, and it won't be because I haven't spent a lot of time thinking about what you have written to me about. There is no need to take it as an insult.

It is just my view that MMT is technically correct, in the sense that it is completely realistic, that a well-designed JG is essential for a sustainable, equitable inclusive future economy, that an unconditional BI can at most be a supportive measure for a JG, that the PM proposals make no sense, and that it is difficult to imagine how those proposals could be amended in such a way as to make them useful.

That doesn't mean we can't nationalise the banks, and perhaps we should do that very thing.

Evolution of Global Finance

Asad Zaman

Developments in money and finance are absent from conventional macroeconomic textbooks.

In previous posts regarding the “New Directions in Macroeconomics“, I have discussed many dimensions missing from Modern Macroeconomics texts which should be incorporated, in order to create a Macroeconomics for the 21st Century. My previous posts were about Post-Keynesianism, Modern Monetary Theory (MMT), and Political Economy. In this post, I provide a brief summary of developments in money and finance which are completely absent from the conventional Macroeconomics textbooks.

Somebody aptly quipped that ‘Trying to understand the economy without understanding money and finance is like trying to understand how birds fly, without taking the wings into account” [Ed: this quote has been attributed to Steve Keen].

The Hegelian antithesis of the orthodox economic position that money is neutral, is the idea that “money is everything”. According to this view, economics is just the analysis of monetary flows, both within a society, and globally. Karl Marx has described the change in perspective via the formulae C-M-C’ versus M-C-M’. In the first paradigm, commodities C are sold to get money M, in order to buy another set of commodities C’. This picture of a barter economy, in which money just facilitates exchange, is at the heart of modern economics; and this is why money does not matter. However, in a capitalist economy, M(oney) is used to produce commodities C, and these are sold for more money M’. Money is the goal of production and sales, not an instrument for exchange of commodities. An economy where the drive for profits is the main motivation for productions and purchases, requires an entirely different analysis.

In his classic 1994 work “The Long Twentieth Century: Money, Power and the Origins of Our Times”, Giovanni (1994) describes how the accumulation of capital (wealth) has been the central driver of history over the past several centuries. Giovanni provides a wealth of historical details and a global context to support this thesis, based on a world-systems perspective. Many other authors, writing from different money perspectives, have document-

ed how “money makes the world go around”.

In particular, Hyman Minsky’s (1986) analyses of this phenomena are of special importance from the economic point of view. Minsky studies the evolution of finance (and financial capitalism) over the 20th Century. The creation of Central Banking led to a wild expansion of credit in the roaring 20’s, and the resulting collapse leading to the Great Depression. This resulted in strong regulations on banking, as well as the emergence of a welfare state. Big government for counter-cyclical budgets and the Central Bank to regulate finance led to a stable capitalist system which worked for decades. As per the financial fragility hypothesis of Minsky, economic stability generated large savings aggregates, along with the creation of competitive pressure to earn high returns by taking ever larger risks. Large investments in pension funds and hedge funds created what has been termed “Money Manager Capitalism”, where the managers of massive monetary investments have high incentives to take risks, because their interests as managers are not aligned with those of the owners of the assets. Managers of capital were able to change the rules towards increasing deregulation, and to privatize gains, while distributing losses to the general public sector. This increasing fragility has led to crises of increasing severity, culminating with the Global Financial Crisis.

Minsky’s theories are in radical conflict with orthodoxy in modern macroeconomics in many respects. In particular, Minsky argues (1986) that manager finance is inherently unstable. As the economy grows, this creates increasing incentives for risk-taking and leads routinely to crisis. This is the opposite of the orthodox view that economies tend towards stable equilibria.

Minsky’s views are far better aligned with the data on hundreds of financial crises in the past few decades.

Source:
https://weapedagogy.wordpress.com/2020/10/31/evolution-of-global-finance/

Hyman Minsky (credit: Wikipedia entry)

Consumerism and the denial of values in economics

Neva Goodwin

“Amazon UK warehouse” by D K is licenced under CC BY-NC 2.0

Extracts from a paper by Neva Goodwin [1] were recently reported in Real World Economic Review blogs on 31 July 2021 [2]. These are the six extracts:

1. “Twentieth-century economics pretended to be a value-free science. Among the values in fact adhered to and promulgated are two that turn out to be especially problematic: the goal of economic growth, and the elevation of consumerism. Growth is a macroeconomic issue, while consumerism plays out on the micro scale of individual motives, choices, and actions. Mediating between these are business enterprises, especially corporations. These are the actors whose interests are served by promotion of consumerism and a belief that economic growth is good – and indeed necessary – for everyone.”

2. “A culture of consumerism is one in which individual identity, self-respect and social position are strongly tied to the purchase of marketed goods; having spending money is viewed as a pleasurable and desirable end in itself; and there is encouragement for the belief that the purchase and use of high-end goods, in particular, will bring happiness. In the modern culture of consumerism, emanating from the United States but spreading widely throughout the world, the motivation for firms to sell what they produce has become a – perhaps the – great driver of economic behaviour. There are two major problems with a culture of consumerism. One is that such a culture appears to detract from overall well-being. The other is that it is hard to restrict growth in a culture oriented toward purchasing.”

3. “Economists often say – and the rest of the world has believed them – that the only alternative to economic growth is economic collapse. As an example, growth was seen as so essential that, in order to sustain the consumption bubble of the 1990s and the early 21st century, the US Federal Reserve Chairman Alan Greenspan felt it necessary to lower federal interest rates nearly to zero. Consumers were encouraged to borrow money on the basis of inflated house values, so

as to be able to spend beyond their incomes. It became evident that the consumption bubble was unsustainable when it turned out that the value of many capital assets was to a large extent fictional."

4. "In contrast to the economic assumptions and promotion of ever-increasing growth and consumption, another discipline – ecology – teaches us that, in a contest between finite nature and endless economic expansion, humanity will inevitably be the loser. And the reality of climate change is beginning to force a recognition that many of the aspects of existing economic systems are unsustainable."

5. "Economists may point out that the literature in 20th-century economics includes many refinements – that the summary of the values embedded in 20th century economics just offered is far too simplistic. I would respond that the values cited here are, in fact, the ones that have been absorbed and carried away from high school classes, as well as higher education courses in economics, and they are the values that are often applied by decision makers, whether for personal or business decisions, or in public policy. These values are not only promulgated in classrooms; they have sunk deep and wide into a global culture to which very few global societies are immune."

6. "Contemporary media, operating largely in the interests of business, have taken off from economic theory to promote a set of ideas about what is desirable and admirable. From the sales point of view, the self-interest of business is served by a culture of instant gratification and simplified thinking that urges material purchase as the answer to any discomfort. This is not the culture needed for the twenty first century, when it is more than ever important that citizens and politicians care about the long run, and are able and willing to address intelligently the myriad highly complex issues that face modern societies."

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Dr Neva Goodwin was from 1995-2020 co-director of the Global Development And Environment Institute at Tufts University, and is now also associated with Boston University.

Recommended Book

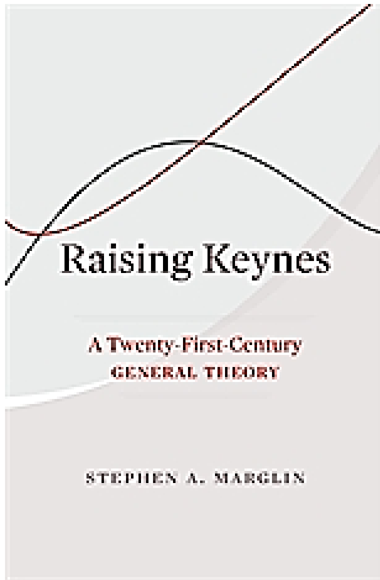
Raising Keynes: A Twenty-First-Century General Theory

by Stephen A. Marglin (Harvard University Press, 2021)

The following extract from a book review by James Galbraith entitled *Dismal Economics* [1] relate to Stephen A. Marglin's book *Raising Keynes: A Twenty-First-Century General Theory* (Harvard University Press, 2021), and formed part of the article by Lars Syll "Raising Keynes" which appeared in Real World Economic Review blogs [2].

" The defeat and suppression of the classical perspective - with its evolutionary, institutionalist, and developmental descendants - cleared the way for a dogmatic economics that exalted self-regulating competitive markets …

" As we have seen, this perspective soon ran into serious - but temporary - difficulties with the Great Depression, mass unemployment, and the rise of Keynes, whose theory is revived in Harvard University economist Stephen



A. Marglin's Raising Keynes

" Marglin's basic argument is stated in two parts. First, he focuses on the "Keynesian first-pass model" in the context of the static, general equilibrium framework favored by John Hicks (this is known in textbooks as the IS-LM model). He concludes that within that framework, Keynes's theory is reduced to dealing with "frictions and rigidities," implying that "if only" the markets were competitive in the neoclassical mode, mass unemployment could not exist …

" In his "second-pass model," Marglin resets Keynes in a dynamic frame, dealing with events and changes that occur through time … Like Keynes, Marglin argues, correctly, that in this world, persistent involuntary unemployment cannot be resolved by cutting wages and breaking unions, even if you can get away with doing these things. Here, Marglin is in effect restating what Keynes's closest collaborators always argued. My first encounter with [Joan] Robinson came in a University of Cambridge lecture hall in 1974. She had been sitting in to heckle Frank Hahn, one of the leading neoclassicists there at the time. As undergraduates fled the scene, I introduced myself and she invited me to lunch. Once seated in the buttery of the University Library, she started in: "You can't put time onto the IS-LM diagram. Time comes out of the blackboard." I had no idea what she was talking about, but she certainly did (and now so do I) …

" Marglin has taken 80 years of neoclassical distortions of Keynes, presented them with great clarity in their own language, and then pounded them into dust, pushing the detritus back into the faces of the high priests of the neoclassical synthesis, the New Keynesians, and the New Classical Economists. Raising Keynes issues a challenge that they would be cowardly to refuse – which is not to suggest that they won't do their best to ignore it. "

James K. Galbraith

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1. https://www.project-syndicate.org/onpoint/economics-captured-by-neoclassical-magical-thinking-by-james-k-galbraith-2021-07

2. https://rwer.wordpress.com/2021/10/10/raising-keynes/

Practical men who believe themselves to be quite exempt from any intellectual influence are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. – John Maynard Keynes

ERA's new patron Prof Philip Lawn

Based in Adelaide, Philip is an evidence-based economist and an Adjunct Professor at Torrens University. He is also a research fellow with the Global Institute for Sustainable Prosperity and a member of the Wakefield Futures Group (SA).

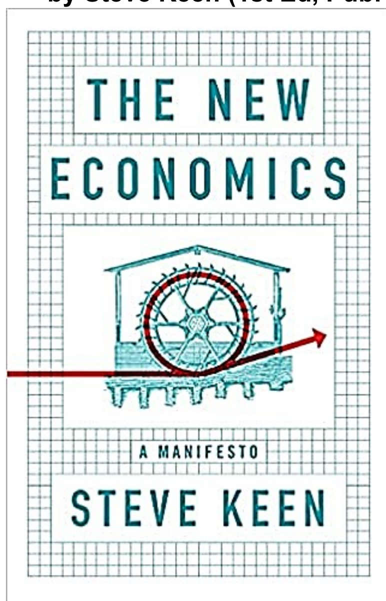
He has authored a large number of journal articles and book chapters, and is the author and editor of eight books on sustainable development, climate change, and the steady-state economy,

Philip has an international reputation in the field of ecological economics and is regularly invited to deliver keynote and plenary presentations at academic conferences. He also appears as a speaker at public events and debates.

Recommended Book

The New Economics: A Manifesto

by Steve Keen (1st Ed, Publ Date 18 Oct 2021, ISBN 9781509545285)



In 1517, Martin Luther nailed 95 theses to the wall of Wittenberg church. He argued in them that the Church's internally consistent but absurd doctrines had pickled into a dogmatic structure of untruth. It was time for a Reformation.

Half a millennium later, Steve Keen argues that economics needs its own Reformation. In *Debunking Economics*, he eviscerated an intellectual church – neoclassical economics – that systematically ignores its own empirical untruths and logical fallacies, and yet is still mysteriously worshipped by its scholarly high priests.

In this book, he presents his Reformation: a *New Economics*, which tackles serious issues that today's economic priesthood ignores, such as money, energy and ecological sustainability. It gives us hope that we can save our economies from collapse and the planet from ecological catastrophe.

Performing this task with his usual wit and panache, Steve Keen's new book is unmissable to anyone who has noticed that the economics Emperor is naked and would like him to put on some clothes.

How we are trying to buy an identity in capitalist economies

Molly Richardson

The end result of fast fashion (image via YouTube)

Trade deals are not really about trade

This is a realisation that has made me rethink the role that we as consumers play within the game of international trade. Trade deals are a tool with which developed countries create a position of superiority on the global economic stage. And this position is disguised as global efficiency.

Neoclassical economists suggest that valuable trade deals maximise utility and minimise opportunity cost. This is the principle of comparative advantage. Hence, global efficiency is synonymous with maximalism in terms of quantity of output. Put simply, value is equal to more.

Yanis Varoufakis said that 'we produce value collectively, but then smart privateers tax it and it becomes the oligarchs'. Only a few players reap the rewards despite their reliance on us, the consumers, who make their product useful. However, Varoufakis failed to mention how the intricacies of trade deals, backed by monopoly capitalism, influence the behaviour of everyday Australians.

Capitalism is no longer about fulfilling needs or improving competition; it is about conditioning society to view material things as synonymous with success, wellbeing, and identity. Capitalists need us to uphold their idea of global efficiency; they want us to need and desire their products.

This level of dependence is a two-way street, with modern international trade trapping developing countries into export-led growth. They are lost in a specialised system of low value-added manufacturing and importing high value-added goods such as oil and fossil fuels for electricity.

Maximalism is a part of our identity, which makes sense considering our opinions are entrenched in the

narratives that surround us since birth. We have formed competitive markets within the way that we compete individually for value.

The term *value* has many meanings, but a common definition is the flow of wealth, a cynical but simple explanation. This definition is not contemporary but serves me well in illustrating the following point and how it links to trade deals. I believe that we attempt to reflect our value to the world and develop a sense of personal value by creating the illusion of wealth relative to our neighbours'.

A simple example of this is fashion. Clothing mirrors how we want to be perceived and is a tool with which we explore our own individuality by experimenting with different person-as. This sounds quite pure, but it forms the basis of an environmentally and ethically exploitative industry that we import conveniently to our doorstep.

Fast fashion is rooted in neoclassical trade theory with retailers in developed countries producing apparel in developing countries where it is less costly to do so.

Economists argue that developing countries have a comparative adventage in their abundance of low wage labour. Developed economies have an abundance of capital-intensive resources such as technology and will therefore exchange higher value-added goods with apparel produced in low wage countries to maximise economic efficiency.

Fast fashion has exacerbated economic and operational demands for suppliers and heightened competition amongst manufacturers to obtain orders. Firms absorb these pressures by cutting costs and lowering wages.

Concurrently, we are accustomed to cheap, trendy clothing and have an insatiable appetite for fashionable goods which abuses a system that was established to maximise efficiency but now exploits changing trade regimes. This makes sense considering fashion trends are a reflection of the economic climate.

Take the rise and fall of the clothing brand Juicy Couture as an example. The brand opened in 1995 while the economy was recovering from the 1990-91 recess-ion. The consumers were hungry for luxury which reflected their purchasing behaviour.

Juicy Couture's iconic 2000s velour track-suits were heavily branded and with a $155 price point bridged the gap between affordability and luxury perfectly. Fast forward to the 2008 Global Financial Crisis (GFC), Juicy Couture's garish branding no longer resonated with customers as the recession inspired a movement toward minimalism.

Capitalism is not just a master manipulator; we as consumers are chameleons, favouring styles of clothing that reflect our surrounding environment. The economy is driven by growth and maximising resources by cutting corners and making selfish trade deals and so are we. We reflect personal growth in our changing wardrobe and maximise the value of our dollar by investing in fast fashion, favouring what the clothing can represent instead of the garment itself.

The solution requires significant structural change, with the goal of enabling economic and monetary sovereignty in developing countries. In her 2017 TEDx presentation, Haley Edwards,

editor at Time magazine, suggested that trade is about setting the standards that we would like to live by.

The way forward involves our moving away from temporary solutions of debt repayment such as the privatisation of state-owned enterprises, debt restructuring and labour market flexibility.

Instead, it focuses on creating a standard of global prosperity through food and energy sovereignty and transitioning labour away from fast fashion and toward value-added driven industrial policies. It encompasses taking what developing countries already have and making it more efficient.

A movement toward eco-sustainability would influence how the everyday consumer understands value. By reducing the amount of fashion that is outsourced, the price of clothing would increase, causing a decrease in demand. The global north would produce clothing at home and face the environmental /ethical impacts of fast fashion or implement a sustainable production framework.

Trade deals will not be considered valuable if it encourages maximalism exclusively, they must require eco-maximalism which considers people and the planet instead of quantity and price.

If we continue to be trade tyrants, the economic possibilities of the future are quite bleak. Visualise The Hunger Games with the Global North as The Capital and the Global South as the impoverished districts.

Or consider the film The Lorax. The Global North is the Once-ler who let his greed for the thneed dominate his respect for nature. His environmental destruction and hunger for power ultimately created a mythical utopia called Thneedville, built upon artificial vegetation and the privatisation of air. This may no longer be a work of fiction if we continue down the path of global efficiency.

After all, fiction is only a version of reality that is deemed too farfetched for the norm. However, it still resides in our consciousness and manifests itself in palatable art such as film. Sounds like everyone already knows what is going on, we are just too material to see value if it is not in our hands or up for sale.

Source: Independent Australia, 14/10/21 https://independentaustralia.net/politics/politics-display/how-we-are-trying-to-buy-an-identity-in-capitalist-economies,15629

Molly Richardson is a student at the University of Adelaide

The dangers of exalting GDP and its associated economic paradigm

Extracted from “The World After GDP” by Lorenzo Fioramonti (2017)

Elinor Hurst

The following passage that I have extracted from Prof Fioramonti’s book on post-GDP societies is reproduced with his permission. I recommend this piece as a cautionary tale on the dangers of exalting GDP and its associated economic paradigm. There are cogent lessons therein for all nations.

Nauru is a tiny island in Micronesia, the smallest nation in the Pacific. With 21 square kilometres of surface, it is the third-tiniest state in the world, behind only the Vatican and Monaco. It is completely surrounded by coral reefs, which emerge out of the ocean to seamlessly erect steep cliffs reach-

Nauru's exports: "Phosphate loaders"" by Sean Kelleher is licenced under CC BY-SA 2.0

ing over 70 metres above sea level. The island is immersed in a hot and humid climate, due to its proximity to the equator. Its name derives from the Nauruan word *anáoero,* which means 'Let's go to the beach'[1].When Captain John Fearn of the British whaling ship *Hunter* reported the presence of Nauru to the outside world in 1798, the place was so pretty that he called it 'Pleasant Island'.

Until the mid-twentieth century, Nauru was a remote outpost of colonial empires, first German and then British with a short period of Japanese control during the Second World War, and later it became a protectorate of Australia and New Zealand. Unknown till then, what eventually catapulted Nauru onto the global scene was its unparalleled trajectory of development. Why? Because this island nation boasted the highest gross domestic product per capita in the world between the 1970s and the mid-1980s, overtaking financial paradises like Luxembourg and Lichtenstein and oil-rich Arab states [2]. Its economic 'boom' was due to the exploitation of one of the world's purest and most extensive reserves of phosphate, a key ingredient for the industrial production of fertilisers.

When the country acquired independence in 1968, the New Nauru Phosphate Corporation intensified extraction and introduced innovative chemical treatments, with the support of foreign experts. With an unprecedented 91% of purity, Nauru's phosphate exports travelled beyond the conventional Australian and New Zealand markets to reach several Asian economies, from Indonesia, to Japan, the Philippines, South Korea and Taiwan. As of the early 1980s, the peak of extraction was around two million tonnes a year, at a market price of about US$60 per tonne. Unable to construct a deep

water harbour because of its coral reef surroundings, the government built gigantic cantilevers sticking out of the mines, transporting the brown powder for hundreds of metres through conveyor belts connected to ships stationed offshore. From the overall proceeds less than US$3 per tonne would go to the landowners' fund, with another US$12 destined for long-term investments, including purchasing a fleet of Boeing aeroplanes and commercial ships, a chain of international hotels and a 52-storey skyscraper in central Melbourne, the tallest building in that city. After some spending on a host of social programs, the remaining profits would stay with the local council that controlled the phosphate industry. Landowners shared in about US$1.4 million every three months, with the sums paid to each individual owner reaching as much as US$360,000. This meant an astonishingly high income by the standards of the Pacific atolls 'where most people exist on subsistence agriculture and fishing, seldom seeing more than a few hundred dollars in cash in a year's time'.[3]

Then things began to fall apart. In its rush to 'development', the Nauruan government over-exploited the phosphate mines, destroying the natural habitat supporting indigenous flora and fauna. Revenues plummeted in the late 1980s when most of the mines became unusable, and the Nauruan government defaulted repeatedly on international payments.[4] In a scramble to keep generating revenues, the Nauruan government turned into a tax haven in the 1990s and was included in the list of 'non-cooperative' nations by the Financial Action Task Force on Money Laundering. For some time, the government adopted a number of questionable policies, including issuing passports to foreign nationals in exchange for a fee. With no arable land left and no other source of income, the country eventually accepted aid from Australia in 2001 in exchange for hosting the Nauru Regional Processing Centre, a de facto detention camp for asylum seekers, widely deplored for harsh conditions and ill-treatment of residents.[5]

As reported by Nauru's former president Hammer DeRoburt, the strategy of digging into debt to fund the extractive infrastructure was 'advised by economists', despite some locals raising objections about the extravagant expenditures.[6] When the president reached out to the Asian Development Bank in the 1980s to seek support for his industrial project, the request was turned down, 'declaring that Nauru's high per capita income made their government ineligible for assistance' [7]. In a report to the United Nations (UN), Nauru's leaders recognised that phosphate mining resulted in 'drastic land degradation', 'removal of natural vegetation' and 'the almost total modification of the landscape of the topside' of the island. The report concluded: 'This is by far the most widespread and visible environmental concern in the country – an impact that has had a direct and/or indirect influence on all other environmental impacts and cultural change over the past 90 or so years.'[8]

Even the weather pattern has drastically deteriorated, so much so that the present-day Nauru suffers from continuous heat rising from the mined-out plateau, which drives away rain clouds and leaves the sun-baked island plagued by constant drought. Water is so

scarce that the whole island runs dry for most of the day, with households relying on a desalinisation plant to satisfy their needs. When, in the late 1980s, the government won a case before the International Court of Justice against Australia's mining operations, it invested some of the US$75 million of the settlement to restore some of the lost ecosystems 'in hopes of coaxing pandanus, mango and breadfruit trees to grow again'.[9] But to no avail.

With no viable economic opportunities, broken infrastructure, ecological mayhem and a dishevelled education system, mass emigration is the only long-term option for Nauruans, most of whom have sought better economic opportunities in New Zealand and Australia. As a traditional culture of fishing and garden plots was replaced by imports of western-processed foodstuffs, the dietary profile of Nauruans has also worsened to unparalleled levels worldwide, leading to a widespread health-care crisis. According to body mass index statistics published by the World Health Organisation, Nauruans are the most overweight people in the world, with 97% of men and 93% of women being obese as of mid-2000 data.[10] From 'Pleasant Island', Nauru has become one of the world's capitals of cardiovascular diseases, kidney failure and type-2 diabetes, a diet-related chronic illness that has affected 40% of inhabitants since the 1990s and has also claimed the life of former President DeRoburt.[11]

According to a 1995 report about the island published in *New York Times*: 'While Nauruans may be among the world's most affluent people, they are also amongst the most sickly, racked by diabetes, high blood pressure and obesity brought on by a diet of fatty, imported food. Few Nauruans live much past the age of 60.'[12] Nauru's vicissitude is arguably an extreme case, yet it is coherent with the rules and the underlying contemporary approaches to economic prosperity as a function of the Gross Domestic Product (GDP).

Source: Fioramonti, L., The World After GDP: Politics, Business and Society in the Post Growth Era (Publisher Wiley, 2017).

Lorenzo Fioramonti is a political scientist and professor of political economy at the University of Pretoria, South Africa.

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David Card and the minimum wage myth

Lars Syll

Back in 1992, the U.S. state of New Jersey raised the minimum wage by 18% while Pennsylvania, its neighbour state, left its minimum wage unchang-ed. The level of unemployment in New Jersey should - according to the main-stream economic theory’s competitive model - have increased relative to Pennsylvania.

However, when ‘Nobel prize’ winning economist David Card [professor of economics at the University California, Berkeley - Ed] and his colleague Alan Krueger gathered information on fast food restaurants in the two states to check what employment effects the minimum wage really have (using a difference-in-differences approach) it turned out that unemployment had actually decreased in New Jersey relative to that in Pennsylvania. So, counter to the mainstream theory, we had an anomalous case of a back-ward-sloping supply curve.

Lo and behold! But of course - when facts and theory don’t agree, it’s the facts that have to be wrong.

Prof David Card (credit: source article)

[Lars Syll then provides a quote from a well-known neoclassical economist and “zealous advocate of the market order”, whose remarks below charact-erize the current parlous state of main-stream economics, and whose views fly in the face of the empirical findings of economist David Card and others – Ed]

According to James Buchanan (Wall Street Journal, 25 April 1996):

“ The inverse relationship between quantity demanded and price is the core proposition in economic science, which embodies the pre-supposition that human choice behaviour is suffic-iently rational to allow predictions to be made.

“ Just as no physicist would claim that “water runs uphill,” no self-respecting economist would claim that increases in the minimum wage could increase employment. Such a claim, if seriously advanced, becomes equivalent to a denial that there is even a minimal scientific content in economics, and that, in consequence, economists can do nothing but write as advocates for ideological interests.

“ Fortunately, only a handful of econ-omists are willing to throw over the teaching of two centuries; we have not yet become a bevy of camp-following whores. “

Source: Real World Econ Rev, 19 Oct 21
https://rwer.wordpress.com/2021/10/19/david-card-and-the-minimum-wage-myth/

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