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A post-Keynesian discussion of US economic hegemony: resilience or decline? (Part 2)

Alan Prout



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In Part 1 we listed some long-term factors that contribute to the erosion of trust in U.S. currency: deindustrialisation, financialisation, inequality and political gridlock.

Each of these betokens the failure of the neo-liberal agenda instituted by Reagan (and Thatcher) in the 1980's. Far from their vision of a perfectly functioning, equitable market system, these neoliberal fiascos tend to interact and over-determine each other. For example, continuing unequal distributional outcomes are liable to generate political uncertainty, instability and extremism. The recent rate hikes flowing from heightened Treasury bond yields, for example, have pushed US mortgage rates to more than 6.5%, straining household budgets and cooling the housing and labour markets – both important factors in the outcome

of the last US presidential election.

Trump's tariff policies further exemplify these problems and underline growing fragility of US economic hegemony. The Trump administration's 2025 tariff escalation - peaking at 145% on Chinese goods - was met with reciprocal measures that exposed US dependence on Chinese imports. The quiet exemption of consumer electronics from tariffs was a tacit admission that the US cannot easily decouple from China.

Powell argues that current US policies are not just economically flawed but strategically self-defeating. By weaponising trade, the US risks alienating allies and causing companies to find new trading partners and governments to develop novel strategic economic alliances that give them greater independence from the USA. Examples

abound. Canada, for instance, has developed the Trans Mountain Pipeline Expansion and, deeply unpopular with environmentalists as this is, it gives Canada greater independent access to non-US oil markets (The Financial Times, 2024). It is also developing a renewable energy scheme with Denmark, bringing together Canadian natural resources and Danish engineering know-how (Alberta Innovates, 2025).

By contrast, the prohibition or restriction of critical mineral exports from China to the US underscores the vulnerability of American supply chains. Similarly, there is longstanding and widespread scepticism that the US still has the manufacturing skills and the know-how, or even the educational and transport infrastructure, to support Trump's much vaunted reshoring of industrial production (Federation of American Scientists, 2024). In fact, the Atlas of Economic Complexity suggests that the US is losing its capacity for complex production whilst China's is increasing (Harvard Growth Lab, 2020).

At the same time, China's reliance on the US market is shifting. For over a decade it has been addressing its over-dependence, developing new trading relationships with countries of the Pacific Basin. China's trade is increasingly anchored in the broader Pacific region, with its largest partners being Asia-Pacific economies such as ASEAN, Japan, South Korea, and Australia, alongside the United States. In 2020, ASEAN overtook both the US and the EU to become China's single largest trading partner.

Finally, in the background is the slow

but steady rise of alternative economic blocs like BRICS – which is incrementally creating alternative financial institutions such as the BRICS Clear (Economic Times, 2024) and Pan African Payments and Settlement systems (FX Intelligence, 2025). China has also developed an alternative to the SWIFT bank clearing system, the Cross-border Interbank Payments System (CIPS), that uses the renminbi not the US dollar. It is used by 54% of Chinese firms, a larger proportion than using the dollar-based SWIFT system. These developments may be at the margin but incrementally and cumulatively over the long term, they can be the irresistible force that shifts the immovable object.

The Pattern of Hegemonic Ascent and Decline

Hegemony, both its acquisition and its loss, is complex. As historian Adam Tooze (2014) has shown of US hegemony in the twentieth century, its rise involved an intricate and unpredictable dance between economic change, geopolitical manoeuvre, the achievements and the failures of international organisations, as well as wildcards played in national and even local political rivalry. Now, in the twenty-first century, we would certainly have to add climate change, the environmental crisis, energy challenges and the risk of nuclear war as key factors, with which the ebbs and flows of hegemony are bound to be entangled.

But sometimes it is helpful to take a long view, at least as a thought experiment. According to the world systems theorist Immanuel Wallerstein (Halsall, 1997), there have been three hegemonic powers since the advent of mod-

ern capitalism in the post-feudal world of the fifteenth century. Spain and Portugal initially attempted (but failed) to achieve hegemony. The first to be successful was the Netherlands in the 17th to 18th centuries. The second was Britain from the 18th through the 19th and early 20th centuries. The third was the USA, more or less from 1914 onwards.

Each gained momentum in a similar way by gradually building productive and trading pre-eminence, accompanied by increasing political and military prowess. According to Giovanni Arrighi (1994) each hegemonic state eventually financialised its economy – a process that hollowed out its political and economic institutions, prefiguring its decline and replacement by a challenger. In this long view, the decline of US dominance seems clear. The structural foundations of US economic hegemony are eroding. Equally, the growing economic and geopolitical strength of China marks it as the prime challenger. However, though the trend seems clear, the distance travelled and the pace of the journey are not.

Dilemmas of Sub-imperial Nations

The USA is not at all fated to follow the same path as the UK, the hegemon it replaced by 1945 (or earlier according to Tooze). It is not even necessary that a new hegemon, say China, is bound to replace the USA. Perhaps we are entering a new phase, be it relatively long-lived or not, of a multi-polar world in which small and medium-sized nations have more sway and a louder voice. We can hope. It is also possible that the path of US decline might itself be moderated or even reversed, though that out-

come would need new domestic political forces and leaders to emerge and consolidate their power and influence. This has, arguably, happened before, notably in the 1930s and 40s with FDR and the New Deal. But equally there is a strong case, as Nick Bryant (2025), the former BBC correspondent in New York, has persuasively argued, that Trump is not an isolated or unusual figure in US politics. Rather he represents long-standing conflicts (inter alia over democracy, race and the role of government) in which Americans wage a 'forever war' on each other.

The position of medium-sized countries trying to find their way on this shifting terrain is difficult. Australia is a key case in point. It acts as a sub-imperial regional power by aligning itself closely with US strategic interests in the Indo-Pacific (as it once aligned itself with the UK). This boosts its security and influence but creates dilemmas. Economically, Australia depends on China, yet sometimes adopts a confrontational stance, risking trade fallout. Sovereignty is strained by deep US military integration, limiting independent policy choices. Regionally, Australia's interventions in Pacific nations can appear paternalistic, undermining trust. Balancing loyalty to allies, economic pragmatism, and regional diplomacy is increasingly complex. Navigating these tensions requires recalibrating its role, a task made more difficult and unpredictable when US hegemony itself seems to be weakening.

Whatever the path Australia follows, these are debates that will shape its future. For organisations like ERA the question is how to insert heterodox economic analysis into the discussion

and turn the nation away from the failed neoliberal agenda.

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a BA in sociology and history, MA in Russian history, PhD in medical anthropology and PhD (*causa honoris*) in the sociology of childhood. Twenty years ago, in the run up to the GFC, he developed an interest in economics and has been trying to educate himself in the field ever since. He recently migrated to Australia, and lives in Adelaide.

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It is a curious thought that the earliest description of the steam-engine in antiquity describes its use for the magic opening of the temple doors, when the priests lit the fires on the altars, to deceive the populace into ascribing to a deity what was the work of the engineer. In much the same way today, the almost boundless fecundity of the creative scientific discoveries and inventions of the age are being appropriated for the purpose of the mysterious opening of doors into the holy of holies of the temples of mammon by a hierarchy of imposters and humbugs, whom it is the first task of a sane civilization to expose and clear out.

— Frederick Soddy, *The Role of Money*

**Wealth taxes don't go far enough:
Let's transform our economy with public money**
Sheridan Kates



Photo by micheile henderson on Unsplash

Wealth taxes are crucial to build an economy that works for people and planet. However they are just one piece of the puzzle: there's also a need to make use of public money beyond taxes to rise to the urgency and scale of this challenge. Sheridan Kates shares proposals on how to make that happen.

Wealth taxes are firmly at the top of the wish list for progressives across the UK. People are fed up with the widespread inequality in our country, after decades of stagnant real wages and cruel austerity measures. Too many of us are stuck paying unaffordable rents and energy bills for cold, damp homes. We're struggling to afford the basics or to get appointments to see our dentists and GPs.

We need change, but we're told that if our government spends money to improve our public services and to put money in our pockets, then it has to show how it will get that money back from taxes. We're told that "unfunded" spending is what crashed the economy under Liz Truss. As a result, wealth taxes on the ultra-rich (people

with around £10M or more) are being hailed by left-wing politicians and some millionaires themselves as the way to make this happen.

However, the wealth tax proposals that are circulating aren't enough to cover the scale of the public spending that is needed, and as a result they're open to attack. The most expansive suites of wealth taxes would bring in annual revenues of between £50B to £70B. Studies like this one, however, suggest we need £142B extra in every year just to maintain public services at the levels they were at in 2023. And that doesn't even take into consideration the extra public spending we need on the renewable energy transition, social housing, protecting our communities from the more frequent

flooding and heatwaves that we're experiencing — the list goes on.

So if these wealth tax proposals aren't enough, then how can we meet the scale of what is necessary? By harnessing the power of our public money, and understanding that a "budget deficit" from the government is simply how we increase our collective wealth. We don't even rely on the "kindness of strangers" to facilitate those budget deficits through borrowing — in countries like the UK, the government isn't actually borrowing at all, as shown by a meticulous recent academic paper.

This is because all government spending creates new money: it results in an increase in bank reserves and corresponding new commercial bank deposits for the recipients of the spending. By using those extra reserves to buy government bonds, banks can lock in a higher overall interest rate than if they just held them as-is. There is, therefore, always guaranteed demand for our bonds. Our banks will always want them as they get better returns, and they get the means to buy them from the government spending itself. Selling bonds is never actually about funding government spending; it's a policy choice to provide banks and financial institutions with safe assets.

Of course, bonds are only valuable if the holders know they will actually get the interest promised, and can sell them on when needed. However, the government can literally never default on the interest or fail to return the money when the bonds are due for repayment — in fact, UK law would actually have to be changed for either of these things to happen. There's a reason why our government bonds are treated as some of the safest assets

out there.

And when you see the scary headlines saying that "the cost of borrowing is increasing", that too is something over which the government has ultimate control. It can instruct the Bank of England to announce that it will always buy bonds back at face value if desired — exactly what they did to halt the spike in interest rates after the Liz Truss budget (just too late for her to stay in power). They didn't even have to spend the money that they announced — the mere statement saying they would is what calmed the "markets". Truss didn't have the support of her government to make this happen, but it's an approach that other central banks like Japan's have been taking for years.

The last concern you'll hear is that if the debt continues to increase, the exchange rate will collapse, creating inflation risk due to our reliance on imports for energy and food. It's true that we must improve our self-sufficiency in these key areas, not least to better withstand shocks like the ones we've seen in recent years from "climateflation" and the war in Ukraine. It's not a given though that the exchange rates would depreciate. Targeted spending would put more money in people's pockets and lead to higher GDP through multiplier effects, which might attract more investors to hold money in sterling, leading to a currency appreciation.

But let's say for the sake of argument that public spending does cause the pound to depreciate. Even in that case, there's little empirical evidence to show that exchange rate depreciation translates into inflation in countries with advanced economies like the UK

— we saw the pound fall against the U.S. dollar by more than 30% in the years following the Global Financial Crisis of 2008, with no inflation associated with that. A sharp fall following the Brexit vote in 2016 resulted in only a 2% increase in inflation. A graph of exchange rates against inflation shows no predictable correlation, because businesses often choose not to pass on the higher cost of imports to consumers. The benefits of investing in our country are far likelier to outweigh relatively small shifts such as these.

It's still important that we have a robust tax system; without it, we're at risk of losing control over our currency. If you could earn and spend money in some other currency in the UK without paying taxes in pounds, then there would be nothing to stop the demand for our currency falling to zero and becoming useless. But it's absolutely not because that money is needed to fund our government spending.

Once we start thinking this way, we're liberated on so many fronts. For example, we can be so much more ambitious in the crucial fight against wealth inequality. A wealth tax of 1-2% does little to reduce overall inequality when the richest 250 families have seen their wealth grow on average by 9.1% per year. The ultra-rich will just keep getting richer regardless.

In a world where we're no longer scared of losing rich people's money, because we know it doesn't fund our public services, we can set up direct democratic institutions like People's Assemblies, and use them to decide as a society how much money we want to allow anyone to have for themselves. Then we can start taxing their wealth

at levels approaching 100% above that. We can make it impossible for billionaires to buy our politicians and essential services.

It's then up to all of us to democratically decide how we want to transform our economy. We don't need to chase growth by courting private businesses for investment and ensuring they get the returns they're looking for. We can direct public money to wherever there is a need, and the real resources (e.g. labour, materials or energy) are available to meet that need.

We can ensure that anyone looking for a job can be paid by their local council to do work that their community decides is important. We can decide that fundamental human needs like housing, education, transport and energy should be available as a human right, taking them out of the private market and delivering them free or at low cost to everyone. We can fund our farmers to move away from environmentally-damaging agricultural methods towards regenerative practices that set us up to withstand the climate crisis that is already upon us. We can tax and regulate the private sector if we need to get the real resources they're using, and train up well-paid workers in badly understaffed areas like the care economy and health services.

We need to show that we understand that we don't need rich people's money to fund our public services. Let's harness the power of our public money to build the society we deserve.

Source: Green House Think Tank, 22 Nov 2025. The web address is: <https://www.greenhousethinktank.org/wealth-taxes-dont-go-far-enough-lets-transform-our-economy-with-public-money/>



Sheridan Kates is a UK citizen, an economist and a former tech worker who has changed careers to work in UK economic policy. She has three master's degrees – in the fields of ecological economics, electrical engineering and computer science, and degrowth.

Kenneth Rogoff Is (almost) right about the importance of inflation -- but entirely wrong about its management

Susan Borden

America's debt problem is not what Foreign Affairs thinks it is.

The recent Kenneth Rogoff [1] Foreign Affairs essay will get a lot of attention and, for that reason alone, let's take it seriously. Unlike the Democratic deficit hawks of the 1990s and the Republican deficit alarmists of the 2010s, Rogoff does not argue that the United States is on the brink of financial insolvency. He correctly acknowledges that a country issuing debt in its own free-floating currency cannot be forced into default.

Rogoff's concern is inflation, and on that point he is right. Inflation is the real constraint on U.S. fiscal policy. But Rogoff is dead wrong in his analysis of why inflation arises, who bears responsibility for preventing it, and what institutional tools are available to manage it.

The result is an essay that warns of austerity, repression, or "partial default," but not because the United States lacks financial capacity.

Inflation is the constraint -- but not what Rogoff imagines

Rogoff describes inflation as a form of "partial default," a stealthy way governments reduce the real value of their obligations. In doing so, he makes the

problem one of creditor confidence rather than real economic capacity. (The same mistake was made more explicitly by Greg Ngarboonant in his recent New York times piece, "The Quiet, Fateful Shift in Who's Buying America's Debt", 26 Dec 2025).

But inflation does not constitute a failure to honour legal obligations. It is a signal that nominal spending is out-running the economy's ability to produce real goods and services. That can happen for many reasons, including: supply shocks, energy constraints, labour bottlenecks, market power, or poorly targeted fiscal expansion. None of these are addressed by reducing the outstanding stock of Treasury securities.

The United States does not need to "save up" fiscal credibility by running surpluses in placid times. What it needs is real readiness: the ability to mobilize under-deployed labour and production capacities. It needs resilient supply chains, first-rate public infrastructure, and automatic stabilizers that expand output rather than elevate prices when shocks inevitably hit. None of these are signified or

measured by debt-to-GDP ratios.

Bond markets are not the prime movers that Rogoff suggests

Rogoff insists that long-term interest rates are “set by vast global markets,” implying that the U.S. government is largely a price taker in its own currency. This is a familiar claim, but is far removed from what is really happening.

Treasury yields emerge from a jointly constructed institutional system: the Federal Reserve sets the policy rate; the Treasury chooses the maturity structure of its issuance; and the central bank can always act as a buyer or seller of last resort in secondary markets. Markets can matter — but they operate within a framework designed and maintained by the state.

This is an old, tired story. Mainstream economists pretend the U.S. government is financially constrained like a household or a eurozone member state (neither of which are currency issuers), imposing a sort of Calvinist ethic on government spending. Policy-makers of both major parties then mindlessly adopt this precept, landing on their only option — belt-tightening austerity.

“Fiscal ammunition” is not stored in the bond market

One of Rogoff’s most troubling claims is that high debt reduces the government’s ability to respond to future crises.

The government does not stockpile “ammunition” by paying down its own liabilities. It prepares for crises by ensuring that real resources will be available when needed. A nation with underemployed labour, unused industrial

capacity, and fragile supply chains is not fiscally strong, regardless of its debt-to-GDP ratio. Conversely, a nation with substantial liabilities but with ample food security, energy security, and public provisioning capacity has far more room to act without stimulating inflation.

The government’s fiscal response to COVID illustrated this clearly. Inflation did not arise because the U.S. “printed too much money.” It arose because demand was restored faster than production capacity, energy supply, and logistics could adjust, (after decades, it should be noted, of underinvestment).

The quiet admission

Late in the essay, Rogoff effectively concedes that the U.S. government possesses extraordinary monetary power, but then goes on to insist that it disguise or constrain that authority, no doubt to preserve a fictional narrative of market discipline. This is, of course, upside down. The problem is not that the state has too much power; the problem is that it declines to use that power transparently and democratically to manage inflation at its source.

Inflation control should focus on where spending enters the economy, what it mobilizes, and which constraints it tackles — not on reassuring the bond markets that the government knows and remembers its place in a nearly theocratic regime of market fundamentalism.

The real risk is political, not financial

Rogoff is correct about one thing: political misuse of authority, including fiscal authority, intentional or otherwise, is always a concern. But surely the man-

agement of that possibility is not prophylactic austerity. It is thoughtful institutional innovations such as automatic stabilizers, countercyclical taxes, job guarantees, buffer stocks, and investments aimed at increasing capacity that align and calibrate spending with real resources.

Treating public debt as a looming financial threat does not discipline politics. It distorts politics. It encourages underinvestment in the very capacities that would significantly dampen future inflation. And treating investor sentiment or market response as an external enforcer devolves into the dangerous practice of conflating creditor confidence with public purpose.

At bottom, Rogoff wants us to fear inflation because it erodes trust. That's fine, important even. But trust is not built by pretending the U.S. government is financially fragile. It is built by demonstrating that effective public spending can expand real capacity on

behalf of the population without jacking up prices. Until mainstream economic discourse abandons household analogies and creditor-centric framing, we will continue to mistake political failures for financial ones and respond to them with unproductive, self-defeating sacrifices by too many on behalf of too few.

Source: Susan Borden substack, 5 Jan 2026

<https://susanborden.substack.com/p/kenneth-rogoff-is-almost-right-about>

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1. Kenneth Rogoff is an American economist and chess Grandmaster. He occupies the Maurits C. Boas Chair of International Economics at Harvard University. During the Great Recession, Rogoff was an influential proponent of austerity.



Susan Borden is interested in the economics of sustainable prosperity, and is the U.S. Modern Money Lab Chairman.

Economics textbooks — scandalous intellectual dishonesty Lars Syll

It is well-known that Keynes frequently criticised more traditional economics for committing the 'fallacy of composition'. This fallacy essentially involves the mistaken belief that the whole is nothing more than the sum of its parts. Keynes argued that this is simply not the case in either society or the economy, and that, a fortiori, an adequate analysis of either cannot proceed by simply adding up the acts and decisions of individuals. The whole is greater than the sum of its parts.

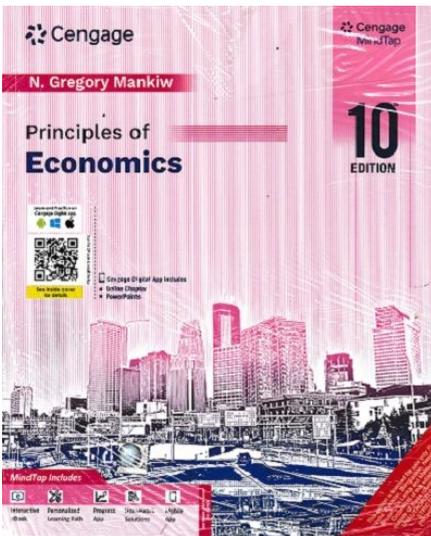
This issue is evident when mainstream economics attempts to argue for the existence of 'The Law of Demand' on

an aggregate level -- the idea that when the price of a commodity falls, the demand for it will increase. While one might succeed in establishing this law for single individuals, it was firmly demonstrated by the Sonnenschein-Mantel-Debreu theorem as early as 1976 that it is impossible to extend 'The Law of Demand' to the market level, unless one makes wildly unrealistic assumptions, such as all individuals having homothetic preferences - which effectively implies that everyone has identical preferences.

This would only be conceivable if

there were, in essence, only one actor - the (in)famous representative agent. So, yes, it was possible to generalise 'The Law of Demand,' provided we assumed that on the aggregate level there was only one commodity and one actor. What a glib generalisation! Does this sound reasonable? No, of course not. It is utter nonsense.

How has mainstream economics reacted to this devastating finding? Essentially by looking the other way, ignoring it, and hoping no one notices that the emperor has no clothes.



Credit: Source

Having reviewed a handful of the most frequently used economics textbooks at the undergraduate level today, I can only conclude that the models presented in these modern mainstream works attempt to describe and analyse complex, heterogeneous real economies that use a single rational-expectations-robot-imitation-representative-agent.

That is, with something that has absol-

utely nothing to do with reality. And — worse still — something that is not even amenable to the kind of general equilibrium analysis it is supposed to underpin, since Hugo Sonnenschein (1972), Rolf Mantel (1976), & Gerard Debreu (1974) unequivocally showed that no set of assumptions about individuals could guarantee either stability or uniqueness of the equilibrium solution.

Consequently, what our modern economics textbooks present to students are models built on the assumption that an entire economy can be modelled as a representative agent and that this is a valid procedure. But it is not, as the Sonnenschein-Mantel-Debreu theorem has irrefutably demonstrated. One could, of course, argue that it is too difficult at the undergraduate level to explain why the procedure is correct, and that this should be deferred to master's and doctoral courses. Such a justification would be reasonable — if what you were teaching your students were true, if The Law of Demand were generalisable to the market level and the representative agent were a valid modelling abstraction! But in this case, it is demonstrably false, and therefore, this is nothing short of scandalous intellectual dishonesty. It is like telling your students that $2 + 2 = 5$ and hoping they never encounter Peano's axioms of arithmetic.

For more than fifty years, mainstream economics has lived with a theorem that demonstrates the impossibility of extending the microanalysis of consumer behaviour to the macro level (unless one makes patently absurd assumptions). To pretend in their textbooks, after all this time, that this theorem does not exist — not one of the

textbooks yours truly investigated even mentions the Sonnenschein-Mantel-Debreu theorem — is outrageous.

Source: RWER blog, 25 Nov 2025
<https://rwer.wordpress.com/2025/11/25/economics-textbooks-scandalous-intellectual-dishonesty/#more-46936>

The Global Financial Crisis from a flawed neoclassical perspective

Steve Keen

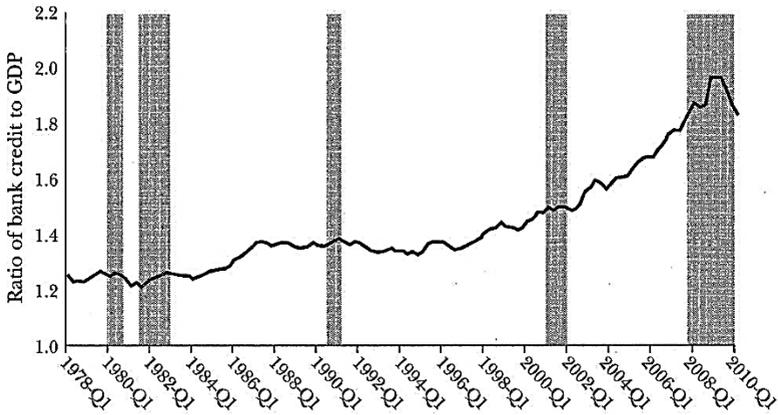
This is a critique by Steve Keen of Lee Ohanian's paper "The economic crisis from a neoclassical perspective" - which appeared in J. Economic Perspectives during 2010.

Ohanian dismisses any role for finance in the "Global Financial Crisis"— which probably explains why American neoclassical economists refer to it instead as "The Great Recession". But

Ohanian's way of dismissing it exposes how little neoclassical economists in general know about finance. He uses the following figure to reject the argument that the GFC was caused by the financial sector:

Figure 4

Ratio of Bank Credit to GDP, 1978-Q1 to 2010-Q1



Credit: Source The shaded zones are recession intervals

He comments that:

"The financial explanation also argues that the 2007-2009 recession became much worse because of a significant contraction of intermediation services. But some measures of intermediation have not declined substantially.

"Figure 4 ... shows that bank credit relative to nominal GDP rose at the

end of 2008 to an all-time high. And while this declined by the first quarter of 2010, bank credit was still at a higher level at this point than any time before 2008.6...

"These data suggest that aggregate quantities of intermediation volumes have not declined markedly."

This would just be funny, if mistakes like this by economists weren't so consequential. The chart is labelled "credit" in the source data (The Fed's H8 series), but even a cursory check of the data makes it obvious that this series shows you, not "credit", but "debt".

Ohanian's Figure 4 shows the amount of outstanding debt at any particular time, and not the change in the quantity of debt owed (which is how "credit" is properly defined). Blind Freddie would have noticed this, because, if the numbers in Ohanian's Figure 4 actually represented "Intermediation Services" — as he called bank lending — then private debt would by now be thousands of billions of times GDP.

Notice the numbers on the Y-axis of Figure 4: the smallest number is 1.0. That would mean that, at the minimum, the rate of growth of private debt was equal to GDP. Therefore, the private debt to GDP ratio would, at the minimum, double every year.

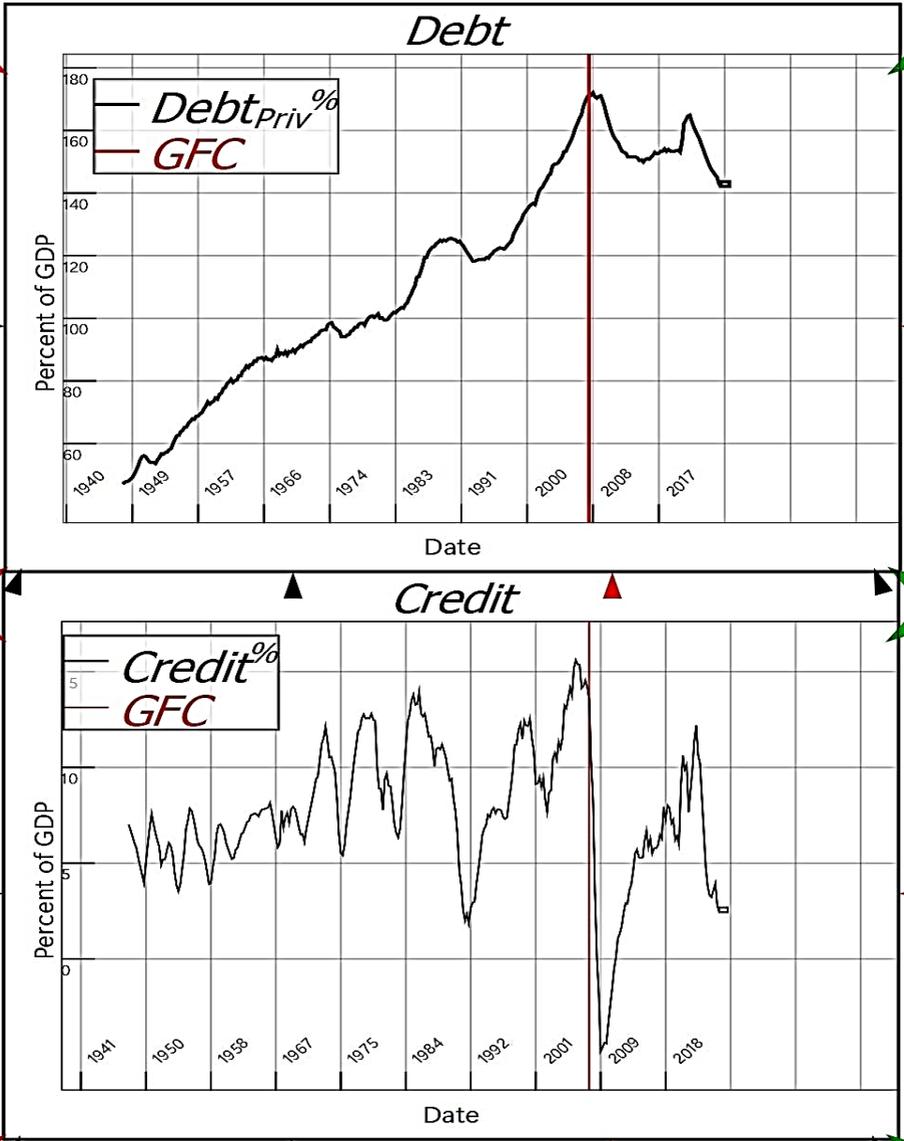
Ohanian's graph begins in 1978. In 1978, as it happens, the ratio of private debt to GDP (as recorded by the Bank of International Settlements) was roughly 100%. By 2010, if Ohanian's Figure 4 actually showed credit ("intermediation services" in his words), and "credit" flatlined at the lowest number

in his graph (1.0 times GDP), then by 2010, when his graph ends, private debt would have been more than 4 billion times GDP (2 to the power of 32 equals 4,294,967,296).

The fact that Ohanian did not even realise this error shows how little attention he and other neoclassical economists actually pay to financial data. The real numbers for "intermediation services" were not those given in his Figure 4, but the *rate of change* of those numbers. When the numbers are plotted, it becomes obvious that a collapse in "intermediation services" was responsible for the Global Financial Crisis. Debt peaked at 170% of GDP in 2008 (comparable to the different numbers Ohanian used from The Fed), but credit — the annual change in debt — went from plus 15% of GDP in 2007 to minus 5% in 2009.

It isn't just Ohanian who is an ignoramus here. This paper was passed for publication by the editors of the *Journal of Economic Perspectives*, and had at least two referees. Ohanian thanked 19 people for comments on the paper, and these include one "Nobel" prize winner (Ed Prescott). Neoclassical economists in general are ignorant in regard to the monetary system, and the economy in general, and it's time the whole world became aware of that.

The master-economist must possess a rare combination of gifts. He must reach a high standard in several different directions and must combine talents not often found together. He must be mathematician, historian, statesman, philosopher - in some degree. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician. — John Maynard Keynes



Credit: Source - Comparison of debt/GDP with credit/GDP over time. Note the profound difference between the two during the time of the GFC (2008-2009)

Source: Steve Keen's Substack
Steve Keen from Building a New
Economics
profstevekeen@substack.com



Prof Steve Keen is a well-known post-Keynesian economist and author, a distinguished research fellow at UCL, and an ERA patron.

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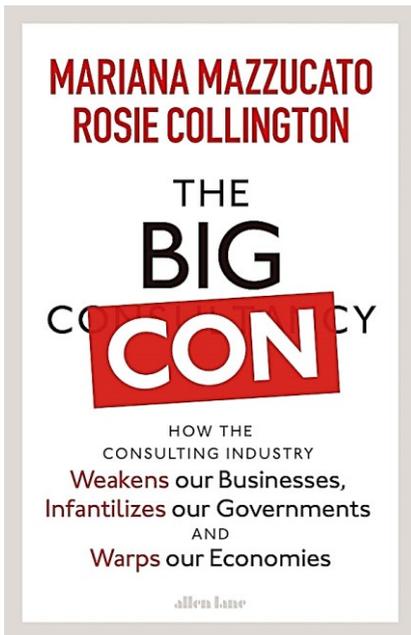
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Every week on live Mastermind Sessions, via <https://www.stevekeen.com> And as an additional bonus, those who qualify may download some of Steve's books for free.

Recommended Book: The Big Con -- How the consulting industry weakens our businesses, infantilises our governments and warps our economies, by Mariana Mazzucato and Rosie Collington



The Big Con is a 2023 nonfiction book by economists Mariana Mazzucato and Rosie Collington. It argues that over-reliance on consultancies erodes government capabilities, and that consultancies perform a "confidence trick", overselling their value to potential clients in the absence of specific expertise.

The book proposes three solutions: require consultancies to declare conflicts of interest, rebuild public sector capabilities to become less dependent on consultancies, and improve how the outcomes of contracts are evaluated.

"The Big Con of the book's title is not a crime; it's a confidence trick. Consultancies and outsourcers, Mazzucato argues, know less than they claim, cost more than they seem to, and — over the long term — prevent the public sector developing in-house capabilities." -- Henry Mance, *The Financial Times*

Equations that mask inequality

Barbara Williams

Students of economics learn obedience to equations that mask inequality.

That thought hit me while reading "*The Justice Lie*" by Otti Vogt

Because here's what neoclassical economics actually does: It takes political

choices and disguises them as natural law.

Wages aren't framed as decisions, but as "marginal productivity."

Inequality isn't framed as policy. It's framed as "scarcity."

Ecological collapse isn't framed as the consequence of extraction. It's framed as "externalities."

This is not neutrality. These are design flaws giving rise to ecocide and wealth inequality.

Vogt exposes the core move:

1. justice is removed from economics;
2. then quietly replaced with efficiency

Once that happens, wealth distribution stops being questioned. And wealth distribution gets treated as *deserved*. And the ecocide is an inevitable consequence of GDP growth (I=PAT).

This is why:

1. Unpaid care work doesn't count;
2. Forests have no value until cut;
3. GDP Growth is celebrated even as the planet overshoots.

A system that never asks "what is enough?" will always take more.

Degrowth is anti-denial.

It says:

1. value \neq price in a market where the consumers are all conned and coerced;
2. justice \neq business-as-usual; and
3. survival \neq GDP growth

The insights from I=PAT inform us that survival is inversely proportional to

GDP, and that the only sustainable justice will require global eco-equity.

If economics wants authority over our lives, it must answer this question wisely: Who benefits and who pays?

If it can't deliver wellbeing for all of Life on Earth, then it doesn't need more complex equations. It just needs some moral accountability.

Read *The Justice Lie* by Otti Vogt. Question the economics you were taught. Promote the mindset shift from 'Grab and Grow' to 'Shrink and Share' and push for a Global Aspiration for Eco-equity, aka the Charter for Ecological Justice. Consult the website - Poems for Parliament

Because, a global discipline that conceals inequality behind math should not be left unquestioned.

Source: LinkedIn, 25 Jan 2026

Barbara Williams advocates degrowth and eco-equity, and is founder of the website <https://PoemsForParliament.uk> (Poems for Parliament). Barbara specialises in lobbying the UK government to consider a paradigm shift to show humility and embrace degrowth objectives. Her self-published book appeared in 2020 – "Saving us from ourselves – can we repair 50 years of ecological overshoot?"

Uncertainty is central to Keynesian economics

Steven Hail

This item is extracted from Steven Hail's 2018 book *Economics for Sustainable Prosperity*. The discussion relates to the 2012 paper written by Paul Davidson "*Is economics a science? Should economics be rigorous?*" [1], as well as to a recent debate between Davidson and Lars Syll [2].

Paul Davidson would say the economy is a non-ergodic system. An ergodic

system is one governed by probability distributions which in principle are available to be discovered. Even if the cost or complexity of gathering the necessary information to estimate these probabilities is prohibitive, or beyond our cognitive capacities, so that the situation is uncertain in an epistemological sense (in terms of what

can be known), the environment could be described as ergodic if that information existed. In a non-ergodic system, the probabilities of future outcomes are unknowable because they do not and cannot exist. They remain to be created. George (G.L.S.) Shackle described a decision as 'a cut between past and future, an introduction of an essentially new strand into the emerging pattern of history'. As Shackle put it, 'the future, which will be partly created by this choice and a million similar contemporary ones made by other decision makers, does not yet exist'.

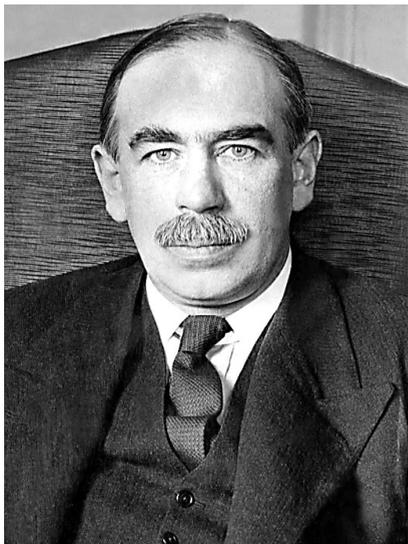
Non-ergodic systems are governed by processes which are uncertain, not due to human cognitive limitations and/or research costs, but in a more fundamental way - because of the current crucial, inter-connected and irreversible decisions of many individuals, who do not make decisions in a stable environment, but instead collectively create that environment by their decisions and actions. The billionaire George Soros has called this 'reflexivity'. Davidson has often compared the non-ergodic environment of Keynes to the approach taken to what can be known by Robert Lucas and all those building models based on rational expectations. For Davidson, rational expectations models assume objective probabilities, which can be learned based on the relative frequencies with which states of nature occur in a stationary environment. The agents in rational expectations models behave as though they are aware of how the economy functions, and they never make even theoretically predictable errors. All the available information which has relevance to forecasts of future values of economic variables is

taken into account whenever decision-makers form their expectations of those future values. It is assumed that they do not use heuristics or conventions - they optimise. This is built into orthodox dynamic stochastic general equilibrium models.

Davidson, Shackle, Soros and Keynes argue that there is insufficient 'available information' to allow for anyone to optimise in this way, where decisions with long-term consequences are concerned, and in highly volatile environments, such as a financial crisis, even for short-term decisions. What are the expected returns and risks of this long-term capital investment decision? We simply do not know. We are making decisions between an unchangeable past and an unknowable future. We don't know the circumstances that will arise, and as John Hicks put it in his *Causality* in Economics, 'people know that they just don't know'. By the late 1970s, Hicks, the co-founder of the first neoclassical synthesis, had gone a long way towards becoming Hicks, the Post-Keynesian - far closer to Davidson and Shackle in some of his views than to Samuelson and Tobin.

This means that the rational expectations of decision-makers in modern orthodox general equilibrium models are either infeasible, or have to be interpreted in such a way as to be tautological and essentially meaningless. In a similar context, and many years before any formal definition of rational expectations existed, Keynes had referred to the 'pseudo-rationalistic notions' of the 'extraordinary contraption of the Benthamite School'.

Uncertainty is central to the economics of Keynes. As Hyman Minsky put it,



J. Maynard Keynes, the famous economist pictured at his home in London in 1929 (this image is in the public domain)

'Keynes without uncertainty is something like Hamlet without the Prince'. A sophisticated understanding of the nature of uncertainty is a starting point for understanding the following:

(a) the importance of liquidity and the special role of money in an uncertain capitalist economy;

- (b) the reasons why money and finance can never be neutral;
- (c) the causes of path dependence in the economy, and of cumulative causation;
- (d) the inadequacy of the efficient markets hypothesis as compared to a liquidity preference theory as an explanation of the behaviour of financial markets over time;
- (e) the volatility of investment spending;
- (f) the operation of the economy as a complex social system; and
- (g) the tendency of the economy towards instability and disequilibrium as it evolves over time, as described by Minsky.

References:

1. Davidson, Paul; Is economics a science? Should economics be rigorous? RWER no 59
<https://www.paecon.net/PAEReview/issue59/Davidson59.pdf>
2. Syll, Lars; Paul Davidson and yours truly on uncertainty and ergodicity RWER Blog. 29 Jan 2026
<https://rwer.wordpress.com/2026/01/29/paul-davidson-and-yours-truly-on-uncertainty-and-ergodicity/>

Can MMT save AI from catastrophe?

John Alt

A chief criticism of Modern Monetary Theory (MMT) is that it is inherently inflationary. The simple logic goes like this: Issuing new fiat currency *ex nihilo* adds money to the market without necessarily adding new products and services for that money to buy. More money chasing the same products and services drives prices up — the definition of inflation. Thus, advocates for using the mechanisms of modern fiat

money to pay ourselves to provide goods and services for our collective well-being are shot down, out of hand, with a single *inflation phobia* laser bullet.

In contrast, it is telling that no one is talking about what is inherently *deflationary*. And not talking about it even though deflation - less money chasing the same products and services - is, in many ways, more terrifying and destr-



Credit: Source

active than its counterpart: A certain amount of inflation, in fact, is healthy - it has the market economy virtue of encouraging people to buy things now rather than wait until later when they might cost more. Even a whiff of deflation, however, leads to an economic death spiral that is difficult to pull out of. This is because deflation-conscious consumers stop buying now with the expectation that waiting will result in a lower price down the road - and this expectation slows consumer activity, causing businesses to fail, unemployment to skyrocket, and entrepreneurial investment to tank.

It is telling that no one is talking about this because the signature initiative being promoted by our current "masters of the economy" - artificial intelligence - is, in fact, inherently deflationary in its structure. As such, while AI promises trillions of dollars in profits to the titans of technology, it poses the real threat of a monetary death spiral far more insidious than anything MMT could possibly set in motion. Here's

why:

AI bots are Not Consumers

AI (and robotics) are deflationary for the simple reason that they stand to produce goods and services in great abundance without increasing the consumer wages that purchase the goods and services produced. Thus, available goods and services will increase while the human wage-earners holding the money to buy the goods and services will not - i.e. the same amount of consumer money chasing a vast increase in things to purchase, generating a deflationary fall in prices. This inversion will be turbo-charged by two additional factors:

First, in virtually every case the AI bot will replace a human wage-earner, so the number of employed humans available to buy goods and services actually *declines* while production increases. Or, alternately, the replaced humans are pushed into lower paying employment, or partial employments, reducing the number of dollars they

have to spend for consumption. Whichever way you calculate it, the rise of AI bots will result in fewer consumer-held dollars chasing ever more goods and services - the definition of deflation.

Second, the “wages” (purchasing power) that AI bots displace will be directed away from the great population of lower-middle class consumers to a small, elite population of AI technology owners who receive the subscriptions or lease payments for the AI bots. Not only are these subscription/lease payments less than the wages they replace (why else will businesses employ AI products?) they are now concentrated in the hands of a relatively small, super-wealthy class that, in aggregate, will purchase fewer goods and services than the human workforce displaced. This is a nose-dive of less money pursuing more goods on steroids.

It is a supreme irony, therefore, to consider that the only remedy to AI’s deflationary havoc will be - guess what? - Modern Money Theory! Specifically, the only way to maintain a human workforce capable of *buying* the goods and services the AI bots will produce is by using the mechanisms of modern fiat currency to create new employment and wages for the lower-middle class workers the AI bots will lay off. If, in so doing, MMT creates some inflationary pressures along the way, they will likely be seen as a godsend.

The revolutionary need for “intentionally created” employment

One of the founding propositions of early MMT advocates was, in fact, a national Job Guarantee program. And this was proposed with a strong rationale even before AI was a visible speck

on the horizon. Now that this “speck” is expanding to become the horizon itself, MMT’s Job Guarantee - framed as a temporary workforce “buffer-stock” that would grow in economic downturns and diminish in recoveries - seems almost quaint. Now, we face something that is not simply a “temporary economic downturn,” but a seismic shift in the structure of market society itself:

We are on the brink of producing much of what people need without the input of human toil. Ironically, however, for people to earn the money to *buy* the needed things AI produces, human toil must somehow be reinvented, “intentionally” created, employed, and *compensated*. And this is precisely what MMT’s monetary perspective is uniquely structured to accomplish.

It is Modern Monetary Theory, then, that gives us hope: While AI steals our profit-making employment and wages, *new* employments, “intentionally created” and compensated by the mechanisms of modern fiat money can enable lower-middle class families to buy the goods and services AI produces. Even more important, however, the “intentionally created” employments can be marshalled to produce the *not*-profit-making goods and services that will maximize - and equitably distribute - our collective well-being. In many ways, it could be an astonishing improvement to the status-quo.

What we decide to do with the wealth-saturated AI oligarchs is another topic. The important thing to focus on now is what the “intentionally created” employments will be, and the process by which they will be established and compensated. Time has never been more of the essence.

Source: John Alt, Paying for it, 7 Jan 2026
[https://johnalt.substack.com/p/can-mm-
save-ai-from-catastrophe](https://johnalt.substack.com/p/can-mm-
save-ai-from-catastrophe)

John Alt is an architect-writer working to devise ways of explaining and visualizing Modern Money Theory for laypersons,

Renewables over 50%, wholesale prices down – is the energy transition ... succeeding?

Tony Wood

Ten years ago, if a heatwave as intense as January's record-breaker had hit the east coast, Australia's power supply may well have buckled. But on this occasion, the system largely operated as we needed, despite some outages.

On Australia's main grid last quarter, renewables and energy storage contributed more than 50% of supplied electricity for the first time, while the prices of wholesale power were more than 40% lower than a year earlier.

Australia's long, difficult and complicated energy transition is finally working. As our recent research suggests, if these trends continue – and nothing new goes wrong – we should begin to see lower retail electricity bills by mid-2026. As more coal plants close and new transmission and storage infrastructure is delivered, electricity prices could rise again. But overall, shifting demand from gas and coal for power and petrol for cars is likely to deliver significantly lower energy bills for households.

It's not yet job done and challenges remain, but the immediate trends are positive.

Renewables and batteries up, wholesale prices down

Last quarter, wind generation was up almost 30%, grid solar 15%, and grid-scale batteries almost tripled their output. Gas generation fell 27% to its lowest level for a quarter century,

while coal fell 4.6% to its lowest quarterly level ever.

Gas has long been the most expensive way to produce power. Gas peaking plants tend to fire up only when supply struggles to meet demand and power prices soar. Less demand for gas has flowed through to lower wholesale prices.

That doesn't mean consumers will see immediate benefit, as wholesale prices are only about 40% of a power bill and most retailers move prices annually.. But if lower wholesale prices are sustained, it should begin to bring relief to consumers.

Power system holding up under strain

Last quarter was unusually good for the system. In recent years, many ageing coal plants have become less reliable. But the old plants held up at critical times. Rain filled the Snowy Hydro reservoirs, giving hydro power a boost, while solar and wind produced well.

In early January, intense bushfires ripped through grasslands, forests and several Victorian towns. Some areas lost power when timber power poles burned or when trees fell onto transmission lines. Sustained heat stress can cause power substations or transformers to fail more often. But these issues were mostly localised.

Until recently, summer heatwaves put



Solar and wind farm power output jumped noticeably in the last quarter of 2025.
“Solar panel farm” by Benoit Deschasaux for Unsplash

real strain on the power grid, as millions of people fired up their air conditioners at once. But this summer, the system largely dealt fine. Not only were most fossil generators available most of the time, but high output from rooftop solar pairs exceptionally well with demand for air-conditioning.

Electricity storage expanding

Until very recently, electricity had to be made immediately before use. Storing it was only possible in expensive and uncommon pumped hydro facilities. This is why batteries are proving revolutionary. For the first time, power can be made and easily stored for later use.

Plummeting battery prices have led to a surge in installations in Australia. Since 2024, close to 4,000 megawatts of grid storage has come online. Until recently, grid batteries found more use stabilising the grid than powering it. But the growing fleet of grid-scale

batteries is now beginning to outcompete gas by soaking up surplus solar and wind and releasing it during evening peaks.

At smaller scale, the government's home battery rebate has been hugely popular, leading to cost blowouts and very rapid uptake. Many householders have found them a lifeline during power outages.

In the future, medium-scale community batteries able to power towns or suburbs could help boost grid resilience.

Transmission delays mean coal is needed longer

Hitting higher levels of renewables will require new transmission lines. Some of these are on track, but others are well behind.

This is one reason why NSW's Eraring coal plant will sensibly keep running until 2029. Delays completing the new

NSW-SA transmission line, Energy-Connect, also pushed back the planned closure of the Torrens Island gas power plant near Adelaide.

Gas plays an important role

Gas will be needed for a longer time-span than coal, given it can fire up quickly and fill gaps when wind and sun aren't abundant. It won't be used much, but will be an essential backup.

The role of gas is changing, but the gas market has its own challenges. Governments are trying to address longstanding gas market problems. Late last year, the federal government flagged a mandatory east coast gas reservation scheme.

Victoria at the pointy end

There are problems looming for Victoria, Australia's most gas-dependent state. Bass Strait wells are running dry and most of QLD and WA gas is exported in the form of liquefied natural gas (LNG). The Victorian government recently opened up new areas

for gas exploration after previously rejecting the idea.

A new plan by federal, state and territory energy ministers may see the Australian Energy Market Operator gain more power to intervene in the gas market, potentially through contracting for new infrastructure such as pipelines and import terminals.

The state government is trying to shift away from gas, but it's a slow process.

The Victorian government has high hopes for offshore wind farms to take advantage of the stronger and more reliable winds whipping across Bass Strait. But progress towards the goal of 2 gigawatts by 2032 has been slow and no turbines have yet been installed. Some developers have withdrawn applications amid global uncertainty and delays to the auction process. Last week, Victoria announced the process would finally begin in August. The question is whether enough time is left to replace retiring coal plants with new offshore wind.



Victoria is pinning its hopes on Bass Strait's strong, reliable winds.
Mitchell Luo/Pexels,- licenced by CC BY-NC-ND

Yes, it's progress

It wasn't so long ago it was popular to claim Australia's grid could never accommodate more than 20% renewables. Now we're at 50%.

That's not to say it will be smooth sailing. The government's goal of 82% renewables in four years looks to be a stretch. But it's clear real progress is being made – not a moment too soon.

Source: The Conversation, 3 Feb 2026
<https://theconversation.com/renewables-over-50-wholesale-prices-down-is-the-energy-transition-succeeding-274616>



Tony Wood is Senior Fellow in Energy and Climate Change at the Grattan Institute.

Empathy, morality, civilisation and resisting tyrants

Geoff Davies

Are we just selfish brutes who need to be civilised into social, moral behaviour? If not, where do our decency and altruism come from? Can we resist the tides of fear and control rolling over us and cultivate more compassionate and peaceable societies?



Credit: Source

Elon Musk reckons “the fundamental weakness of Western civilisation is empathy” according to Anna Funder in the July 2025 issue of *The Monthly*. Though it is not usually stated so baldly, this seems to be a widely held view, judging by the policies and presumptions of the past few decades. Not to mention war fought and atrocities committed.

Funder knew she disagreed, but it took her a while to find an understanding of her feeling that satisfied her. Such confusion seems to be a common experience. A low view of human behaviour is widespread, but at the same time many of us feel that people are really better than that.

The neoliberal ideology is a recent

expression of the low view. It is based on the presumption that we are, and should be, selfish competitors, but a negative view of ourselves goes back much further. Thomas Hobbes assured us in 1651 that without civilisation our lives would be “solitary, poor, nasty, brutish and short”, and one religious attitude is that even a newborn is a sinner whose primitive destructive urges must be suppressed by fear of hellfire.

Funder has written books about people who defied tyranny, in communist East Germany, in Hitler’s Germany, and from the patriarchy, and who risked or lost their lives as a result. By their own testimony they felt they had no option but to resist. This puzzled Funder, to whom it seemed “so anti-Darwinian”, so against the idea of survival of the fittest. Indeed, many philosophers have struggled to explain altruism. Funder offers some resolutioin, but there is even more to say.

Funder was struck by a story of a “Crow” Native American who risked his life to stake out temporary hunting grounds so his group could obtain enough food. You can frame such selfless behaviour as arising from conscience and morality, but underneath is a simple, practical truth: unless the individual is prepared sometimes to put the group interest first, the group might perish, and the individual with it.

It turns out that co-operative groups are pervasive in the living world, evidently because being part of a co-operative group enhances your chances of survival. This is a more sophisticated strategy than individuals being “red in tooth and claw”, but it is still quite consistent with Darwin’s thinking.

Human beings were never solitary. We evolved living in small groups. Survival is better assured if the group is cohesive, co-operative and functioning well. Psychological research, described by Joshua Greene in *Moral Tribes*, has shown that we are innately co-operative among people we regard as part of our community. People will even punish selfish behaviour at some short-term cost to themselves. Such altruism makes sense in a longer view, if it promotes a more cohesive group. Yet people’s motivation for such altruism was not a calculation of longer-term benefit but simple indignation. We react emotionally to selfish behaviour without thinking, which indicates the response is hard-wired into our behaviour and has been part of us for a very long time.

Greene cites a surprisingly long list of common social behaviours that work to promote cohesion within small social groups: groups small enough that people can make eye contact. We can recognise this suite of behaviours as our innate morality, and empathy is its foundation.

Rutger Bregman, in *Humankind*, argues from diverse evidence that we are innately kind. He debunks many of the popular stories that supposedly demonstrate our selfishness. For example, unlike the savagery depicted in William Golding’s novel *Lord of the Flies*, in a real case of boys stranded for a year on an island they co-operated and survived quite well, until eventually noticed and rescued.

So why is the world so riven with conflict and violence? Robin Grille, in *Partenting for a Peaceful World*, argues at length that people who have been

traumatised can be triggered to react violently. Violence causes more trauma which begets more violence, so violence is propagated through society, between societies and down generations. Grille argues that a child raised in love and without trauma will be incapable of harming another human being.

There is an important qualification: although we are innate co-operators with people we regard as part of our group, we are indifferent to people we regard as strangers. With strangers, we might be induced to be friendly if we approach non-threateningly, or we might be fearful, defensive and thus potentially violent.

Within larger societies, we cannot make eye contact with everyone. Rulers lose social contact with the people. Indifference, defensiveness, fear and conflict may then proliferate. Conflict with neighbouring cities or nations may develop, unless trusting relationships are carefully cultivated. Our sick societies are the opposite: the cultivation of fear is a profitable business model and a path to political power.

Funder cites anthropologist Frans de Waal, who claims we tend innately to conform to hierarchies because our ancestors lived that way, but this needs qualification. Our ape relatives are hierarchical yet, for example, Australia's First People and the !Kung of Africa punish people who think they are better than their fellows. Bregman recounts evidence that human males have been "tamed", and are less inclined to physically dominate than our more distant ancestors. Evidently this tendency to dominate has not been entirely expunged, as it has re-emerg-

ed in our traumatised societies, but it is not inevitable.

Human beings are highly social. If we were not, we would not need language, and language in turn is one of the most powerful social binders.

Language can tell us more: the large diversity of languages among First Australians implies they did not invade each other's country, otherwise the diversity would not have persisted. First Australians had elaborate protocols for managing relationships with neighbouring groups, to ensure hostile feelings were contained. Our indifference to strangers can be overcome. Peace is possible.

We commonly react with empathy and compassion when others are suffering, even complete strangers, yet we can also be indifferent to suffering, or even hostile. Our innate empathy fails in large, *citified*, civilised societies, for want of direct eye contact. After 6000 years of living in large societies, we have yet to organise ourselves so that our innate social responses can exert their influence at that scale. *Sociocracy* is a promising option.

The neoliberal claim that we should be selfish and competitive goes against core qualities of human beings: we are highly social, empathetic and compassionate. As Funder observes, it is the current oligarchs who are aberrant. They are the emotional cripples.

If we want to save humanity, we need to save our humanity.

Source:

Pearls & Irritations, 10 Jul 2025
<https://johnmenadue.com/post/2025/07/empathy-morality-civilisation-and-resisting-tyrants/>

When ecosystems fail, civilisation follows

Julian Cribb



“La Push, WA, USA” by Ashlynn Murphy is under an Unsplash licence

A new UK security assessment warns that ecosystem collapse is no longer an environmental issue alone – it is a direct threat to global security, prosperity and human survival. Without urgent action, the consequences will intensify well beyond climate change.

Worldwide, nature is collapsing and – according to the UK Government – will take human civilisation with it when it goes.

A new report from the UK states baldly what many countries’ governments and politicians are desperately trying to hide from their people: that environmental decline and collapse will hit all humans as hard as the animals and plants it is wiping out, as hard as global heating, nuclear war or any other catastrophic threat.

Worldwide ecosystem degradation and collapse threaten both national and global security and prosperity, says the British Government’s latest Security Assessment.

“The world is already experiencing impacts including crop failures, intensified natural disasters and infectious disease outbreaks. Threats will increase with degradation and intensify with collapse,” the report states. It warns that, without global

action, the trend will continue beyond 2050.

“Cascading risks of ecosystem degradation are likely to include geopolitical instability, economic insecurity, conflict, migration and increased interstate competition for resources,” the report says, hinting at wars to come.

The UK’s findings strongly echo those of the UN’s Global Environment Outlook 7, issued in September 2025.

This stated that, “humanity now faces perhaps the biggest choice it will ever make: continue down the road to a future devastated by climate change, dwindling nature, degraded land, and polluted air, land and water, or change direction to secure a healthy planet, healthy people and prosperity for all.”

“If we choose to stay on the current path – powering our economies with fossil fuels, extracting virgin resources, destroying nature, polluting the environment – the damages will stack up”,



“Hikers walking over a dry river bed in Brazil” by Vitor Paladini, licenced by Unsplash

warned the UN Environment Program (UNEP) chief Inger Andersen. Climate change will slash 4 per cent a year off world GDP, food supplies will fail, millions will die from pollution, and Earth will become “a toxic garbage dump”.

The British Government adds that critical ecosystems that support major global food production and impact global climate, water and weather cycles will affect national security for most, if not all, countries.

“Severe degradation or collapse of these would highly likely result in water insecurity, severely reduced crop yields, a global reduction in arable land, fisheries collapse, changes to global weather patterns, release of trapped carbon exacerbating climate change, novel zoonotic diseases and loss of pharmaceutical resources.

“All countries are exposed to the risks

of ecosystem collapse within and beyond their borders. Some will be exposed sooner than others and are likely to act to secure their interests, particularly water and food security.”

The UK highlights the following national security risks from ecosystem collapse:

- (a) Migration will rise sharply as more people are pushed into poverty, food and water insecurity.
- (b) Organised Crime will exploit scarcity and suffering leading to an increase in black-market trade in scarce food, drugs and strategic metals, human trafficking and slavery.
- (c) Terrorist groups will discover fresh opportunities in political instability and may seek to control scarce resources.
- (d) Internal threats will grow as individual countries face greater food and water threats.

(e) Pandemic risks will rise with the collapse of nature, due to mass migration, travel and new diseases passing between humans and animals.

(f) Economic insecurity is much more likely. Nature is a finite asset, whereas human demands now exceed the Earth's ability to supply.

(g) Geopolitical tensions will rise as countries compete over scarce resources including land, water, safe transit routes and strategic minerals.

(h) Political polarisation and instability will grow in regions subject to food and water insecurity or natural disasters.

(i) Disinformation will increase.

(j) More wars will break out within and between states, as groups and nations compete fiercely over dwindling food, land and water. Existing conflicts will get worse.

The headlines in the UK report were also underscored in Australia's first national Climate Risk Assessment, and in two recent reports by the Australian Security Leaders Climate Group. Though these deal specifically with climate rather than the wider environment, the warnings about rising threats to national security and national sovereignty are identical

At the back of this mounting menace to the human future is the issue that no politician dares to speak: the collapse of the environment, and of human civilisation, is driven at root by overpopulation and overconsumption.

Global population is now approaching 8.3 billion people, who together consume 105 billion tonnes of mater-

ials a year – almost twice what the Earth can sustainably supply. That's 13 tonnes of materials for every human - four times more than in the past.

Population growth is slowing somewhat, and is not expected to reach its peak (10.3 billion) until the 2080s, at which time it will be 5 times the Earth's carrying capacity. Meanwhile materials consumption is forecast to reach 160 billion tonnes per year by the 2060s.

The global environmental crisis that is now engulfing all nature as well as civilisation stems directly from the human 'industrial metabolism', a number of scientific groups have pointed out. As we rip apart the biosphere in a furious search for ever-more materials, minerals, food, water and energy, the environment that cradles all life is disintegrating.

"These changes are mostly driven by social and economic systems run on unsustainable resource extraction and consumption," warned Rockstrom and colleagues in 2024.

This brutal truth lies at the core of the British Government's warning of impending global instability, collapse and mass migration. Even the most thick-skinned and ill-informed in society are beginning to sense there is something seriously amiss with the world. Though they often strike out at the wrong targets, their apprehensions are not wrong.

If we destroy the cradle of life on our planet, we will knowingly destroy ourselves.

Environmental degradation is an iatrogenic disease induced by economic physicians who treat the basic malady of unlimited wants by prescribing unlimited growth.... Yet one certainly does not cure a treatment-induced disease by increasing the treatment dosage.

— Herman Daly



Uncontrolled forest fire - "Wildfire in Chaco, Argentina" by Fachy Marín / Unsplash licence

Source: Pearls & Irritations, 6 Feb 2026
<https://johnmenadue.com/post/2026/02/the-collapse-of-nature-and-what-it-means-for-us/>

Julian Cribb AM is an Australian science writer and author of 6 books on the human existential emergency, including "How to Fix a Broken Planet" (CUP 2023).

Recommended book: US Business Cycles 1954-2020: Sources, Symptoms, Solutions, by John T. Harvey (CUP). Comments by Steven Hail.

John Harvey explains that capitalist economies are not equilibrium-seeking systems, but instead complex evolving systems. Fundamental uncertainty leads to internally-generated cycles, caused more than anything else by fluctuations in capital investment, driven by what Keynes referred to as the 'animal spirits' of the business community. Their incentive to invest depends on expected profits and in the early stages of a cycle investment demand creates an economy with rising profit income, but it also adds to the productive capacity of the economy. The increase in productive capacity eventually undermines the anticipated return on further investment, causing an endogenously-created downturn without any external shock being needed.

The contributions of the institutional economist Wesley Claire Mitchell, and Post-Keynesians including John Maynard Keynes himself (obviously) and Michel Kalecki, Paul Davidson and Hyman Minsky, to a realistic explanation of business cycles in capitalist economies are described masterfully by Harvey. His analysis of the drivers of inflation and the appropriate policy responses to different forms of inflation is essential reading for any aspiring policymaker. His description of a federal job guarantee as an equitable and ecologically sustainable cyclical stabiliser will delight scholars of modern monetary theory.

The above is applied to the test bed of the US economy in Harvey's usual engaging and logical style.



ECONOMIC REFORM AUSTRALIA (ERA) INC

Economic Reform Australia is an organisation which was established to offer a broader understanding of how economics affects the lives of Australians. Its purpose includes education and research as well as advocacy for a fairer and more sustainable society.

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