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For a just and sustainable society

Capitalism's slow-burn energy collapse, and why the struggle for a new economic paradigm is about to get real

Editor

The following commentary is extracted from a longer article by Nafeez Ahmed [1]

Source: art by Isaac Cordal

New scientific research is quietly rewriting the fundamentals of economics. The new economic science shows decisively that the age of endlessly growing industrial capitalism, premised on abundant fossil fuel supplies, is over. The long-decline of capitalism-as-we-know-it, the new science shows, began some decades ago, and is on track to accelerate well before the end of the 21st century.

With capitalism-as-we-know-it in inexorable decline, the urgent task ahead is to rewrite economics to fit the real-world: and, accordingly, to redesign concepts of value and prosperity, precisely to rebuild our societies with a view to adapting to this extraordinary age of transition.

A groundbreaking study appearing in Elsevier's Ecological Economics journal by two French economists, for the first time proves the world has passed a point-of-no-return in its capacity to extract fossil fuel energy: with massive implications for the long-term future of global economic growth.

The study, 'Long-Term Estimates of the Energy-Return-on-Investment (EROI) of Coal, Oil, and Gas Global Productions', homes in on the EROI concept - which measures the energy supplied by an energy resource, compared to the quantity of energy consumed to gather that resource. In simple terms, if a single barrel of oil is used to extract the energy equivalent of 50 barrels of oil, then that's an acceptable outcome. And the less energy one can extract using that single barrel, the less efficient and more expensive (in terms of energy and money) the process will be.

Recent studies suggest that the EROI of fossil fuels has steadily declined since the early 20th century, meaning that - as we're depleting higher quality resources - we're using more and more energy just to extract the new energy. This means that the costs of energy production are increasing while the quality of the energy being produced is declining.

But unlike previous studies, the authors of the latest paper - Victor Court and Florian Fizaine - have removed any remaining uncertainty about the matter.

Point of no return

Court and Fizaine find that the EROI values of global oil and gas production reached their maximum peaks in the 1930s and 40s. Global oil production hit peak EROI at 50:1; while global gas production hit peak EROI at 150:1. Since then, the EROI values of oil and gas - the overall energy we're able to extract from these resources for every unit of energy we put in - is inexorably declining.

Even coal, the only fossil fuel resource whose EROI has not yet maxed out, is forecast to undergo an EROI peak sometime between 2020 and 2045. This means that while coal might still have significant production potential in some parts of the world, rising costs of production are making it increasingly uneconomical.

Axiom: Aggregating this data together reveals that the world's fossil fuels overall experienced their maximum cumulative EROI of approximately 44:1 in the early 1960s.

Since then, the total value of energy we're able to extract from the world's fossil fuel resource base has undergone a protracted, continuous and irreversible decline.

Insight: At this rate of decline, by 2100, we are projected to extract the same value of EROI from fossil fuels as we were in the 1800s.

Several other studies suggest that this ongoing decline in the overall value of the energy extracted from global fossil fuels has played a fundamental role in the slowdown of global economic growth in recent years.

In this sense, the 2008 financial crash did not represent a singular event, but rather one key event in an unfolding process.

The economy-energy nexus

This is because economic growth remains ultimately dependent on "growth in material and energy use" as a study in the journal PLOS One found last October. That study, lead authored by James D. Ward of the School of Natural and Built Environments, Univ of South Australia, challenged the idea that GDP growth can be "decoupled" from environmental impacts.

The "illusion of decoupling", Ward and his colleagues argued, has been maintained through the following misleading techniques:

(a) substituting one resource for another;

(b) financialization of GDP, such as through increasing "monetary flows" through creation of new debt, without however increasing material or energy throughput (think quantitative easing);

(c) exporting environmental impacts to other nations or regions, so that the realities of increasing material throughput can be suppressed from data calculations.

(d) growing inequality of income and wealth, which allows GDP to grow for the benefit of a few, while the majority of workers see decreases in their real income -- in other words, a wealthy minority monopolises the largest fraction of GDP growth, but does not increase their level of consumption with as much demand for energy and materials.

Ward and his co-authors sought to test these factors by creating a new economic model to see how well it stacks up against the data.

Insight: They found that the continued economic growth in GDP "cannot plausibly be decoupled from growth in material and energy use, demonstrating categorically that GDP growth cannot be sustained indefinitely."

Other recent scientific research has further fine-tuned this relationship between energy and prosperity.

1. Source: https://medium.com/insurge-intelligence/the-new-economic-science-of-capitalisms-slow-burn-energy-collapse-d07344fab6be

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Dr Nafeez Ahmed is an award-winning investigative journalist. His latest book titled "Failing States, Collapsing Systems: Bio-Physical Triggers of Political Violence" (Springer, 2017) is a scientific study of how climate, energy, food and economic crises are driving state failures around the world.

The design flaw at the core of humanity's malaise

Judith Schwartz

Human and ecological wellbeing requires a new design framework.

Many of us—read: anyone paying attention—are worried about problems like climate disruption, biodiversity loss, toxins in our foods, income inequality and the hollowing out of towns. Such troubles seem impossible to solve, hopeless to untangle. But maybe our woes are not so complicated. Perhaps these interrelated challenges stem from a basic design flaw. And we can fix it.

I contend this messy moment reflects the fact that our "operating system" is outdated and not suited to our current circumstances. I'm talking about the economy: the system that runs our society's conceptual software. For the way that we produce, trade, value and distribute goods and wealth interferes with our ability to address the major trials of our time. We have come to accept the present framework as inevitable, but that's far from the case. The rules our economy plays by are not natural law, like gravity or the properties of the Periodic Table. Rather, they are the result of human decisions, the consequences of which were not apparent at the time.

There is stark irony in the fact that the stock market has soared while large chunks of the country have been covered by water from hurricanes or ash from wildfire. This suggests the gaping disconnect between finance and reality. There's something screwy with the books when economic indicators rise in tandem with environmental calamity and loss of life and property. It's reminiscent of the "big short", when financiers bet and made money on failure in the housing market. If Wall Street's got its numbers right, Earth futures are not looking so good right now.

One defect in our economic model is its dependence on growth. We know that resource and ecological limits dictate that we can't grow indefinitely. And yet, because money is created by debt that must eventually be paid, the growth imperative is baked into the system.

Economists have evaded the social and environmental costs associated with relentless growth by choosing not to count them. In a deft accounting trick, the negatives linked with profitable enterprise (like water and air pollution, landscape degradation, blighted down-towns) are deemed “externalities”. Again, this is a design flaw, which can be mended by internalizing such costs so that they are borne by the entity that creates the problem instead of by the public.

Understanding faulty design at the root of our economy can help clarify certain kinds of conflicts that frequently arise. Let’s take a scenario where an energy company wants to drill in a pristine area - which will harm vulnerable species, increase greenhouse gases and disrupt local communities. The company claims the environmental damage is a small trade-off for boosting the economy and creating jobs. A functioning system wouldn’t require people to give up their assets and autonomy in order to be economically viable; indeed, those assets and agency are their basis of wealth. It has become standard to see such scenarios through a political lens - a matter about which “liberals” and “conservatives” hold different views. Instead, we can regard the fact that companies profit amidst human and environmental exploitation as a glitch in the system that could bring the whole thing down, like a kind of malware.

If we’re going to grow, let it be natural wealth. Conventional economics is fuelled by scarcity; too much productivity drives down prices and therefore competition. We’ve been mining our natural capital for so long - and with bigger and more destructive technologies - that we have forgotten how productive healthy ecosystems can be. We can think of the scarcity premise as being part of an obsolete operating system. An upgrade dedicated to building our resources will bolster security and create the conditions for abundance. In agriculture, for example, there is evidence that farm subsidies support outmoded practices and discourage innovation. Not what one wants in an operating system. Our upgrade corrects that little hiccup so that farmers are rewarded for enhancing soil health, which in turn enhances water retention, biodiversity, and all-around resilience.

Once you’re attuned to the fundamental design errors, you’ll find evidence all over. For instance, we now have youth un- and under-employment (and resulting despair) and, at the same time, the depletion of vast areas of the country. This is a major bug in the software. Fix it, and there could be incentives to learn and apply regenerative agriculture to degraded landscapes and languishing rural communities. You’ll notice also that underlying flaws trigger errors in related systems, such as politics, education and law. The legal system, for example, provides recourse for infringements on private property -- but not necessarily for resources that we all share, like air, water, forests and soil. Talk about hacking the vulnerabilities in the system. It may seem risky to modify programming at this scale. But recall the Y2K bug everyone was worried about, and how the rollover went smoothly.

In an interview, author Raj Patel, who most recently co-wrote “A History of the World in Seven Cheap Things: A Guide to Capitalism, Nature, and the Future of the Planet,” said that many people find it easier to imagine the end of the world than the end of capitalism. We need to appreciate the difference between human-devised systems - which, by definition, are negotiable - and the exigencies of nature, which are not. We need to understand that society's working "software" was developed during a unique time of geographical expansion and rapid technological change, and that its algorithms neglected human, cultural and environmental costs.

We can choose to tweak or outright transform this model. Among several options: bring externalities into pricing and incorporate the value of ecosystems, as in The Economics of Ecosystems & Biodiversity initiative, which seeks to make nature's values visible; an emphasis on the Global Commons, as articulated by Johann Rockström of the Stockholm Resilience Centre; and recognition of the Rights of Nature, as has been instituted in Ecuador and Bolivia and applied to rivers in India and New Zealand.

Here's a bold statement: If we place value on ecosystem function, we could turn around our environmental, social and economic problems and inequities right now. Businesses and policymakers would be motivated to preserve and enhance environmental conditions, rather than be heedless. Indigenous people would be respected for their ecological knowledge and practices. Entrepreneurial energy would shift away from the making and marketing of products no one really needs and toward creative ways of regenerating ecosystems: which, in turn, restore nature's climate-regulating processes. An industrial agricultural model that wreaks havoc on landscapes and communities would give way to agro-ecological approaches like Permaculture, Holistic Management and agro-forestry that rebuild natural and social wealth. What we need is the intention - and a design framework - that supports human and ecological wellbeing.

Recognizing the design flaws in our default programming is the first step to envisioning what is possible. Let's not forego the chance due to a failure of imagination. Or of courage.

Source: Alternet headlines, 19 Nov 2017
https://www.alternet.org/personal-health/design-flaw-core-humanitys-malaise?

Judith Schwartz (BA Brown Univ, MSJ Columbia Univ, MA Northwestern Univ) is a lifelong member of the American Society of Journalists and Authors, and a member of the Society of Environmental Journalists.

Advice to aspiring economists

Lars Syll

" Submission to observed or experimental data is the golden rule which dominates any scientific discipline. Any theory whatever, if it is not verified by empirical evidence, has no scientific value and should be rejected." - Maurice Allais

Maurice Allais

Formalistic deductive “Glasperlenspiel” can be very impressive and seductive. But in the realm of science it ought to be considered of little or no value to simply make claims about a model and lose sight of reality.

Mainstream - neoclassical - economics has since long given up on the real world and contents itself with proving things about made up worlds. Empirical evidence only plays a minor role in economic theory, where models largely function as a substitute for empirical evidence. Hopefully humbled by the manifest failure of its theoretical pretences, the one-sided, almost religious, insistence on axiomatic-deductivist modeling as the only scientific activity worthy of pursuing in economics will give way to methodological pluralism based on ontological considerations rather than formalistic tractability.

What the discipline of economics needs is sound evidence. Why? Because the premises of a valid argument do not have to be true, but a sound argument, on the other hand, is not only valid, but builds on premises that are true. Aiming only for validity, without soundness, is setting the aspiration level too low for economics to develop as a realistic and relevant science.

Source: Real World Econ Rev, 28 Sep 2016 https://rwer.wordpress.com/2016/09/28/good-advice-to-aspiring-economists/

Keynes on employment

Editor

" The Conservative belief that there is some law of nature which prevents men from being employed, that it is 'rash' to employ men, and that it is financially ‘sound’ to maintain a tenth of the population in idleness for an indefinite period, is crazily improbable – the sort of thing which no man could believe who had not had his head fuddled with nonsense for years and years …

" Our main task, therefore, will be to confirm the reader’s instinct that what seems sensible is sensible, and what seems nonsense is nonsense. We shall try to show him that the conclusion, that if new forms of employment are offered more men will be employed, is as obvious as it sounds and contains no hidden snags; that to set unemployed men to work on useful tasks does what it appears to do, namely, increases the national wealth; and that the notion, that we shall, for intricate reasons, ruin ourselves financially if we use this means to increase our well-being, is what it looks like – a bogy. "

- John Maynard Keynes (1929)

Source: RWER blog by Lars Syll, 29 Oct 2017
https://rwer.wordpress.com/2017/10/29/chicago-economists-people-who-have-their-heads-fuddled-with-nonsense/

Big banks are committing major crimes against our climate

Runaway climate change can't be stopped if the financial industry isn't on board

Alison Kirsch

Source: Flickr cc

In November 2017 the United Nations Framework Convention on Climate Change, the U.N.'s negotiating body on climate change, met in Germany to discuss next steps after the historic agreement by 195 countries to curb global climate change to 1.5° Celsius, or 2° at most - an agreement whose only logical conclusion is that the world cannot afford expansion of the fossil fuel industry.

Various financial industry players have talked a big game on their commitments to the Paris Agreement. But their business practices prove otherwise.

According to the new report "Funding Tar Sands: Private Banks vs the Paris Climate Agreement", in the first three quarters of 2017, major international banks have financed the extraction and transportation of tar sands at levels one and a half times higher than in the whole of 2016.

How can it be that in the last 9 months, $32 billion has gone to an extreme fossil fuel whose development is flatly incompatible with meeting the goals of the Paris Agreement?

Moreover, banks continue to stand behind their clients whose proposed tar sands projects, from Teck Resources' Frontier open-pit mine, to Enbridge's

Line 3 pipeline, would further damn our climate and infringe upon Indigenous rights.

When President Trump announced he would pull the U.S. out of the Paris Agreement, he drew a line: the Paris Agreement's goal of limiting climate change to 1.5°C on one side, and his administration on the other.

On what side of the line do banks fall? Jamie Dimon, CEO of JPMorgan Chase, said, "I absolutely disagree with the administration on this issue." And yet, JPMorgan Chase has increased its financing for tar sands this year, banking on major companies as they acquire new tar sands assets. Meanwhile, the bank's policy grade comes in at a disappointing D+. JPMorgan Chase's actions declare its support not for the Paris Agreement and the world's desperate need to stymie climate change, but rather for the Trump administration's pro-fossil fuel agenda.

Financial institutions have shown that they are able to make significant steps toward aligning their businesses with the goals of the Paris Agreement. Three weeks ago, BNP Paribas published a new policy restricting its financing for tar sands oil, among other extreme fossil fuels, in a move that the Wall Street Journal called "one of the clearest signs yet the banking industry is re-evaluating its relationship with the oil sector."

It's a relationship that direly needs re-evaluation. Banks can't keep funding business as usual expansion of fossil fuels, especially when it comes to the carbon bomb that is the tar sands.

Like it or not, we can't meet the goals of the Paris Agreement without the financial industry on board, especially as governments like Trump's loosen the reins on the fossil fuel industry. Banks must take the immediate step of exiting the tar sands sector. Independent of governments, these major multinational institutions must say they're on board with the Paris Agreement—and then prove it.

Source: Alternet, 2 November 2017
https://www.alternet.org/environment/major-banks-are-failing-paris-agreement-continuing -fund-extreme-fossil-fuel-projects?

Why we need a federal job guarantee

Mark Paul, William Darity Jr and Darrick Hamilton

Giving everyone a job is the best way to democratize the economy and give workers leverage in the workplace.

A scheme known as Universal basic income (UBI), which provides an annual government-sponsored payment to all citizens, has been gaining traction across the US political landscape. Andy Stern, the former Service Employees International Union president, believes the program will counteract the "acceleration of technology" that he thinks will likely create "work but not reliable jobs or incomes". On the political Right, the American Enterprise Institute's Charles Murray argues that we should replace the "entire bureaucratic apparatus of government social workers" with a UBI.

Other heavy-hitters agree that it's worth discussing. Robert Reich's recent [1] video calls on the government to provide a minimum payment for every citizen. President Obama told Wired [2] that the United States will have to debate UBI and similar programs "over the next ten or twenty years".

The renewed attention makes sense: UBI would cover workers who, thanks to technological progress, have lost their jobs. One often-cited report [3] tells us that 47 percent of all jobs are at risk of being automated. Yet existing social insurance programs are insufficient. The current array of programs — such as unemployment insurance, the earned income tax credit, and the Supplemental Nutrition Assistance Program — help many Americans, but over forty-three million people are still living below the poverty line. Children are among the most vulnerable, with nearly half living at or near poverty.

The UBI represents one way to fight increasing deprivation. But another potential intervention — the federal job guarantee (FJG) — might be a far more promising demand.

A job guarantee is not a new idea. It has been part of the American conversation at least since populist governor Huey Long put forth his Share Our Wealth Plan [4]. In 1934, he argued that the United States should use public works to ensure "everybody [is] employed." These calls were echoed by politicians from Roosevelt in his Economic Bill of Rights to George McGovern during his 1972 presidential bid. Martin Luther King also stumped for a job guarantee [5], demanding immediate "employment for everyone in need of a job." He saw "a guaranteed annual income at levels that sustain life and decent circumstances" as the second-best option.

Here are five reasons to agree with him.

1. A job guarantee means fewer poor citizens

A job guarantee would reduce poverty more quickly and provide more benefits than a UBI. To ensure sufficient income we argue for a FJG paying a minimum annual wage of at least $23,000 (the poverty line for a family of four), rising to a mean of $32,500.

Women march for jobs in New York, 1933. Library of Congress

This would eliminate the “working poor” for full-time working households. In addition to the wage, workers in the FJG program would receive health insurance and pension benefits in line with those that all civil servants and elected federal officials receive.

In comparison, many of the UBI proposals promise around $10,000 annually to every citizen. On the one hand, this plan would break the link between employment and money. But it does so at half the rate that would be available under the FJG, not even considering lifesaving benefits like health insurance.

2. Robots haven't taken over yet. We still need workers

The dangers of imminent full automation are often overstated: there is little evidence that companies are largely replacing human workers with robots. As Dean Baker explains [6]:

" If technology were rapidly displacing workers then productivity growth — the rate of increase in the value of goods and services produced in an hour of work — should be very high, because machines are more efficient. In the last decade, however, productivity growth has risen at a sluggish 1.4 percent annual rate. In the last two years it has limped along at a pace of less than 1 percent annually. By comparison, in the post–World War II “Golden Age” from 1947 to 1973, productivity grew at an annual rate of almost 3 percent. "

No doubt, stable and high-paid employment opportunities are dwindling, but we shouldn’t blame the robots. Workers aren’t being replaced by automatons; they are being replaced with other workers — ones lower-paid and more precariously employed. Nevertheless, technology, and globalization, have struck fear into American workers. Not because they are by nature a raw deal, but because the balance of forces over the last few decades has been skewed so dramatically in the favor of capital. Technology, nor globalization, need have negative employment effects on workers — but they certainly can. It’s time to get the rules right, and ensure workers are provided the dignity of a job. A federal job program would solve the real problem, while UBI would simply treat a side effect.

3. A FJG could build an inclusive economy

Conventional wisdom holds that people dislike work. Introductory economics classes will explain the disutility of labour, which is a direct trade-off with leisure. Granted, employment isn’t always fun, and many forms of employment are dangerous and exploitative. But the UBI misses the way in which employment structurally empowers workers at the point of production and has by its own merits positive dimensions [7].

This touches on a heated debate on the Left. But for now, there is no doubt that people want jobs, but they want good jobs that provide flexibility and opportunity [8]. They want to contribute, to have a purpose, to participate in the economy and, most importantly, in society. Nevertheless, the private sector continues to leave millions without work, even during supposed “strong” economic times.

The workplace is social, a place where we spend a great deal of our time interacting with others. In addition to the stress associated with limited resources, the loneliness that plagues many unemployed workers can exacerbate mental health problems. Employment — especially employment that provides added social benefits like communal coffee breaks [9] — adds to workers' well-being and productivity. A federal job guarantee can provide workers with socially beneficial employment — providing the dignity of a job to all that seek it.

The FJG would also act as a de facto wage floor — private employers will have to offer wages and benefits at least as enticing as the federal government to attract workers. There has been extensive public support for recent increases in the minimum wage, such as the Fight for $15 campaign, demonstrating that most Americans believe workers deserve a living wage. Fighting for a higher minimum wage is an important step to ensure that workers are compensated a living wage rather than a poverty wage, yet let us not forget that the effective minimum wage in this country without a UBI or a job guarantee is $0. This must change.

Finally, some argue that a "skills mismatch" [10] explains why some workers remain unemployed. While we reject that narrative, a well-designed FJG will nevertheless include a training element to build workers' skills and a jobs ladder to create upward mobility in the workplace.

All of these elements will build an inclusive economy that provides good jobs for all. The UBI, in contrast, could subsidize bad jobs — allowing low minimum wages and lack of benefits to persist.

4. Federal jobs can provide socially useful goods and services

During the 1930s Great Depression, the Works Progress Administration (WPA) and Civilian Conservation Corps (CCC) were public employment programs designed to put Americans back to work after the national unemployment rate reached 25 percent. These programs, implemented under the Roosevelt administration, provided socially beneficial goods and services that benefited all Americans. Some of our national parks — Zion, Glacier, and Shenandoah — received substantial work contributions from employees of the federal jobs programs. The Blue Ridge Parkway was a federally funded and staffed infrastructure program.

A new federal job guarantee could undertake similarly bold and much-needed public-works projects.

The American Society of Civil Engineers gave the United States a D+ in infrastructure and prices necessary repairs at $3.6 trillion. This lack of investment has lowered employment rates, cost businesses sales, and reduced incomes for American families. Make no mistake, these are government choices. They could choose instead to hire unemployed workers to repair bridges, maintain roadways, and update power grids.

Likewise, Bill McKibben just called for us to "declare war" against climate change. With climate change being perhaps the largest threat to our well-being, bold action is needed. The job guarantee program would create the capacity to do just that. Prof Robert Pollin, of the Political Economy Research Institute, calls for scaling up the transition to a green economy, which would create millions of new jobs along the way. He and his colleagues estimate what a Green New Deal would look like, and find that a transition to a green economy would amount to an estimated $200 billion investment annually, resulting in a drop in "US emission by 40 percent within 20 years, while creating a net increase of 2.7 million jobs”. In part, this is due to the labour-intensive nature of energy efficiency and other “green” investments.

Additional services, when combined with a FJG, would save average US households thousands, if not tens of thousands, of dollars a year. According to the Economic Policy Institute, for example, tuition-free and universal child care and education — staffed by FJG workers — would trim an average of $22,631 annually from families’ budgets in expensive places such as DC while saving families in places like Arkansas more modest $5,995 on average.

To be sure, a UBI would free up time to volunteer, to care for sick relatives, or to start small businesses. Additionally, the UBI would finally provide greater financial freedom to those that choose to stay at home and engage in care work - disproportionately provided by women. However, the FJG has the ability to provide high quality services, such as child care and elder care, that would greatly reduce the care burden, providing more choice while building on the current social safety net.

5. It will stabilize the economy

A FJG would bring us much closer to actual full employment, not the neoclassical full employment that subjectively allows for some optimal frictional unemployment. Most contemporary economists rely on the non-accelerating inflation rate of unemployment (NAIRU) to calculate this less-than-full full employment artificial statistic which functions as a disciplinary tool of the bourgeoisie, but this, according to Roger Farmer is “an idea past its sell-by date.”

By full employment, we mean simply that everyone seeking a job gets one. We’d wager that if you asked the average American what full employment means to them, they would give you a similar answer — a job for all. Indeed, a plurality of Americans will also tell you they support a FJG.

The UBI would likely leave a substantial segment of the population in poverty. As Belgian philosopher Philippe Van Parijs, one of the most prominent UBI advocates, acknowledged, even a large payment through the UBI won’t necessarily secure a comfortable living for all citizens. How about those without jobs, or those who earn below subsistence wages? Of course, a UBI coupled with a non-poverty wage option and strong unionization could seriously combat poverty. The UBI would eliminate the effective minimum wage of $0 currently offered in the United States, though it would fail to provide adequate employment for all that demanded it — a crucial shortfall of such a program.

A FJG is a sounder mechanism for combating structural inequalities, for instance through closing the persistent unemployment gap experienced by stigmatized groups who face continued discrimination. (Note that since 1972 unemployment has average double digits for black workers and has never fallen below 7 percent — a level that is only reached during times of economic crisis — for white workers).

Further, the FJG will have a strong macroeconomic stabilization effect. During economic downturns, it would expand and hire more people; it would then shrink during economic boom periods as people move from public to better-paying private employment. Pavlina Tcherneva, a leading voice on the FJG’s macroeconomic effects, argues that policies like the UBI have no counter-cyclical features. Thus, when the economy takes a downturn — say as it did in 2007 — basic incomes provide no automatic stabilizers to right the sinking ship.

This is good for the whole economy. Rather than expanding the unemployment insurance rolls during economic busts, the FJG would put folks to work and moderate the business cycle. The federal workers' income will increase demand, which will increase economic growth. Many economists agree that today's secular stagnation - insufficient demand - is contributing to continued "lackluster" growth in the wake of the Great Recession. Only modest upticks in growth for the foreseeable future will come if we continue the status quo.

Finally, as a less costly program a FJG might be easier for a future left government to enact. Some estimate that a basic income could easily cost more than $3 trillion each year, while others say it will only come to $2.7 trillion. The FJG, on the other hand, will cost orders of magnitude less. Even if we conservatively guess that 15 million unemployed workers need jobs, funding the FJG would take about $750 billion.

We want to build an inclusive economy. The FJG will build an economy that serves the working class more efficiently and effectively than the UBI.

The benefits will be immediately and broadly distributed. The FJG will directly target the unemployed — remedying a key predictor of poverty. By providing universal employment, it will counteract employers' systematic discrimination against ex-offenders, recent military veterans, and certain racial groups. Furthermore, by being provided with a guaranteed job, workers will be emboldened to take new actions in the private sector. This could be just the policy to reinvigorate the labor movement, spurring unionization drives to improve working conditions. These benefits will result in the federal jobs raising beneficiaries and their families above the poverty line. The UBI can make no such guarantee.

Not only would a federal job guarantee bring justice to the millions who desire work, but it would also address the long-standing unjust barriers that keep large segments of stigmatized populations out of the labour force. Finally, it would reverse the rising tide of inequality for all workers, strengthening their bargaining power and eliminating the threat of unemployment once and for all. A federal job guarantee would bring power back to the workers.

Source: Jacobin magazine, no 2, 2017 (republished with permission) https://www.jacobinmag.com/2017/02/federal-job-guarantee-universal-basic-income-investment-jobs-unemployment/

Editorial comment: A JG may be opposed by some corporations, who would see it as interfering with their recruitment programs.

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Letters

From Doris Phelps
Interesting book

I have recently read an interesting book, "Utopia for Realists" by a Dutch author, Rutger Bregman, who has collected many examples of experiments in which poor people have been provided with a basic regular income, and what the results have been.

I quote from the cover, "Every milestone of civilization - from the end of slavery to the beginning of democracy - was once considered a utopian fantasy. New utopian ideas such as universal basic income and a 15-hour work week can become reality in our lifetime."

Other readers of the Review may be interested in having a look at this.

Editorial commentary: One advantage of a universal basic income scheme is the implied termination of welfare payments operated via bureaucratic structures that are insensitive to the needs of people and removal of the stigma and embarrassment attached to government welfare payments. However it should be recognised that a UBI is far from being a panacea for all of society's ills, and that it has some downsides (as mentioned in the previous article within this issue on a federal job guarantee scheme). Arguably a UBI should be regarded as a survival income - not what most people would desire for a decent standard of living for themselves and their family, however there is no obvious reason why it could not operate in conjunction with a guaranteed job scheme. Issues relating to UBI's economic viability will require economic modelling.

From Dr Ted Trainer
The global oil supply situation

The link below [1] is to a summary that I have put together from information that I encountered recently on the global oil supply situation. It indicates that we will probably run into very serious problems within a decade at most. The main points are:

(a) The energy cost of obtaining oil is rising.
(b) The dollar costs of discovery and production per barrel supplied have trebled in a decade.
(c) In 2016 discovery was about 10% of consumption.
(d) The oil producing companies have maintained supply by going into enormous debt.
(e) Unconventional oil, e.g. via fracking, appears to have limited potential.
(f) If oil price rises above c. $50/barrel the economy will suffer, but c. $100/barrel is needed for producers to break even now.
(g) Ahmed's book *Failing States* documents rapidly increasing problems in oil producing countries, likely to more or less terminate exports in a decade.

The mainstream is totally unaware of the situation. Global debt is much greater than before the GFC. When the banks realize that their loans will not be repaid they will suddenly cease lending and call in loans, crashing the global financial system. How soon will depend on how long unconventional oil and gas supply can stave off what seems inevitable. There appears to be little time left for building sufficient understanding that we must work hard to build local economies based on simpler way principles.

1. Reference

http://thesimplerway.info/OilSituation.htm

From John Rawson (NZ)

Economics ruled by ideology

As a scientist, I am appalled at the way in which economists refer to science in astoundingly weird ways.

I am a biologist and a retired practical "dirt forester". Biologists have reacted to their discipline being despised by some physical scientists as a "soft science" by very scrupulously defining scientific method and adhering to it. If anyone wishes to get hold of an excellent explanation of it - far too long to repeat here - they should obtain a now fairly old text put out by the *USA Biological Science Curriculum Studies group*, its "blue" version - *Molecules to Man*. For a very brief but mainly correct outline, go to Wikipedia.

The bottom line is that economics is not a science and never will be until it adopts Baconian inductive reasoning. That is, by discarding any hypothesis which can be disproved. A hypothesis is an idea put up for testing against reality or further experimentation. If enough people support it, then it becomes a theory. In a scientific exercise, the easily disproved Say's "law" should never have gotten past the hypothetical stage in economics.

With due deference to our editor, whose knowledge exceeds mine in many ways, ideology and science are so different that one could never "triumph over" the other. Perhaps "reason" or "logic" should have replaced the word "science". Ideology should set the aims, and science should be the tool that provides for their achievement. If our aim is, for example, a fair economic deal for all men and women, then a scientific approach is necessary to achieve that.

Economists definitely should be querying which ideology is behind the present *results o*f their theorising, which appear always to promote the benefits of the financial institutions and other big business concerns at the expense of the public.

Could it be connected with the absolute monopoly that corporate banking has over the right to create money used in the economy other than paper and coin currency? And, in the USA, with the replacement of Treasury issued "Greenbacks" by US Federal Reserve notes? Might it have something to do with persisting in the story that normal income is - and must be - linked to employment, whether that employment is useful or not? Or how easily "intellectual capture" is facilitated when so many of today's schools of economics receive funding from powerful vested interests? Not to mention the downright untruths presented in orthodox macroeconomics texts? Or the bank-funded imitation of "Nobel" prizes?

Economics seems to have had an obsession to be identified as a science. If so, that was done by people for whom the kindest possible description would be that they had no clue whatever about what they were promoting.

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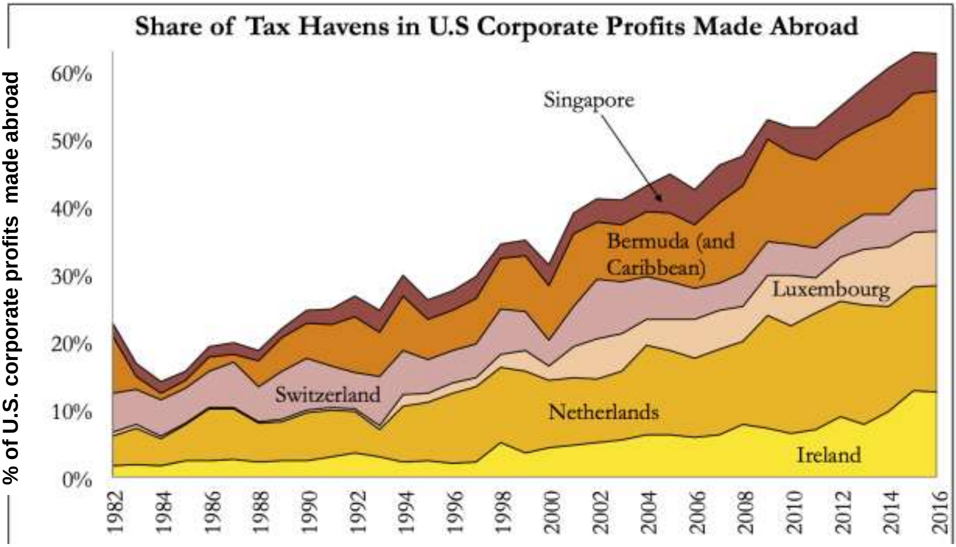
The study of money, above all other fields in economics, is one in which complexity is used to disguise truth or to evade truth, not to reveal it. The process by which banks create money is so simple the mind is repelled. With something so important, a deeper mystery seems only decent. -- John Kenneth Galbraith

The conventional view serves to protect us from the painful job of thinking.
-- John Kenneth Galbraith

Where has all the surplus gone?

David F. Ruccio



Notes: This figure charts the share of income on U.S. direct investment abroad made in the main tax havens. In 2016, total income on U.S. direct investment abroad was about $450 billion. Source: Zucman (2014), updated.

Thanks to the release of the so-called Paradise Papers, and to the research conducted by Gabriel Zucman, Thomas Tørsløv, and Ludvig Wier [1], we know that a large share of the surplus that is captured by corporations is artificially shifted to tax havens all over the world. This is on top of the conspicuous tax evasion practiced by the individual holders of a large portion of the world's wealth.

Thus, for example, U.S. multinational corporations claim to generate 63% of their foreign profits in six tax havens, the most prominent of which are the Netherlands, Bermuda and the Caribbean, and Ireland. This is 20% more than in 2006.*

What this means is that, within the tax havens themselves, low tax rates can generate large tax revenues relative to the size of their economies. But it also means large multinational corporations can play off one tax haven against the others, and shift their profits to those with the most generous laws and regulations — as Apple has recently done, by relocating tens of billions of dollars from Ireland to the small island of Jersey (which typically does not tax corporate income and is largely exempt from European Union tax regulations).

It also means that the putative home countries of the multinational corporations lose potential tax revenues from those corporations, which is another way of saying that these tax evaders become wealthier while the other tax payers in those countries become poorer in terms of net income.

In the case of the U.S., Zucman and his colleagues estimate that the U.S. loses almost 60 billion euros to tax havens (about three quarters from European Union tax havens and the rest from tax havens elsewhere), which amounts to about 25% of the corporate tax revenue it currently collects.

As Zucman explains,

Tax havens are a key driver of global inequality, because the main beneficiaries are the shareholders of the companies using them to dodge taxes. Clearly, the existing rules are such that large multinational corporations win twice: first, by capturing more and more surplus from their workers, whose wages have barely budged in recent decades; and second, by using tax havens to avoid paying taxes on a large portion of that surplus, thus shifting the tax burden onto workers at home.

* The chart is based on data made publicly available by Zucman, Tørsløv, and Wier

1. http://gabriel-zucman.eu/
Source Real World Econ Rev, 15 Nov 2017 https://rwer.wordpress.com/2017/11/15/where-has-all-the-surplus-gone-4/

General thinking about government deficits is mostly wrong

Darian Hiles

The following is an abbreviated version of an article in the context of the current US federal government budget deficit by Stephanie Kelton, former chief economist for the US Senate Budget Committee Democratic staff and professor of public policy and economics at Stony Brook University, and published in the New York Times on 5 October 2017. [1]

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Donald Trump has promised to deliver “the biggest tax cut in the history of our country” and both the Republicans and Democrats worry about the plan’s potential to increase the deficit. Senator Bob Corker, Republican of Tennessee, said, “If I think it adds one penny to the deficit, I’m not going to vote for it”.

But it would be unwise to oppose tax cuts or any other federal legislation simply because they add to the deficit. Bigger deficits won’t wreck the nation’s finances. This fear is almost Pavlovian and it’s also holding us back. Politicians of both parties should stop using the deficit as a guide to public policy. Instead, they should be advancing legislation aimed at raising living standards and delivering the public investments in education, technology and infrastructure that are critical for long-term prosperity.

Right now, anything ambitious requires a score from the Congressional Budget Office. A “bad” score - one that adds to projected budget deficits - can easily doom good legislation because lawmakers are told that their math doesn’t add up.

But actually it always adds up because Government spending adds new money to the economy and taxes take some of that money out again. It’s a constant churning of pluses and minuses; the Government's minuses become the real economy's pluses.

When the government spends more than it gets in taxes, a “deficit” is recorded on the government’s books. But suppose the government spends $100 into the economy and collects just $90 in taxes, leaving behind an extra $10 for someone to hold. That extra $10 gets recorded as a surplus on someone else’s books. That means that the government’s --$10 is always matched by +$10 in some other part of the economy. There is no mismatch and no problem with things adding up.

The problem is that policy makers are looking at this picture with one eye shut. They see the budget deficit, but they're missing the matching surplus on the other side. And since many citizens are missing it, too, they end up applauding efforts to balance the budget, even though it would mean removing the surplus in the private sector.

When there's a Government deficit, some of that new money can be traded in for a government bond. What's often missed in the public debate is the fact that the money to buy the bond comes from the deficit spending itself.

What isn't missed is the fact that the government pays interest on those bonds. Lawmakers are obsessed with this line item in the budget, as if it's akin to a cable bill that keeps taking a bigger and bigger bite out of your household budget. It isn't. Unlike a household, the government doesn't have to trim parts of its budget to make ends meet. The Congress can always create more room in the budget by adding rows or widening the columns to put more resources into education, infrastructure, defence and so on. It is a political decision.

Of course, there are real limits to what can be done. No country can commit to large-scale infrastructure investment unless it has available labour, machinery, concrete and steel.

Trying to spend too much will cause an inflation prob-lem. The trick is to adjust the budget to make efficient use of the people, factories and raw materials we have.

In a rational world, lawmakers would abandon the crude Congressional Budget Office scoring model and recognize that the risk of overspending is inflation, not bankruptcy. They would avoid fruitless battles over the debt ceiling, and they would acknowledge that the deficit itself could be deployed as a potent weapon in the fights against inequality, poverty and economic stagnation

1. Stephanie Kelton, "How we think about the deficit is mostly wrong" https://www.nytimes.com/2017/10/05/opinion/deficit-tax-cuts-trump.html

The public bank option - safer, local, and half the cost

Ellen Brown

Phil Murphy, a former banker with a double-digit lead in New Jersey's race for governor, has made a state-owned bank a centerpiece of his platform. If he wins, the nation's second state-owned bank in a century could follow.

A U.K. study published in October 27 2017 reported that the majority of politicians do not know where money comes from.

According to City A.M. (London): "More than 3/4 of the MPs surveyed incorrectly believed that only the government has the ability to create new money..."

The Bank of England has previously intervened to point out that most money in the UK begins as a bank loan. In a 2014 article the Bank pointed out that "whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money."

The Bank of England researchers said that 97% of the U.K. money supply is created in this way. In the U.S., the figure is about 95%.

Phil Murphy is a rare politician who knows how banking works (being a

Public sector banks, while rare in the US, are common in other countries; and recent studies have shown that they are actually more profitable, safer, less corrupt, and more accountable overall than private banks. (Photo: Gyver Chang/Flickr/cc)

former Wall Street banker himself) and has a double-digit lead in New Jersey's race for governor. That helps explain why he boldly made a state-owned bank a centerpiece of his platform. He maintains that New Jersey's billions in tax dollars should be kept in the state's own bank, where it can leverage its capital to fund local infrastructure, small businesses, affordable housing, student loans, and other state needs.

That means New Jersey could soon have the second publicly-owned depository bank in the country, following the very successful century-old Bank of North Dakota (BND). Some other likely contenders among about twenty U.S. public banking initiatives now underway include Washington State, which has approved a feasibility study for a state bank; and the cities of Santa Fe in New Mexico and Los Angeles and Oakland in California, which are exploring the feasibility of city-owned banks.

A bank Is not simply an intermediary

An article in City Watch LA critical of the idea of a city-owned bank observed that Los Angeles formerly had a bank that failed, closing its doors in 2003 due to insolvency. The argument illustrates the confusion over what a bank is and what it can do for the local government and local communities.

The Los Angeles Community Development Bank was not a bank. It was a loan fund, and it was designed to fail. It was not chartered to take deposits or to create deposits as loans, and it was only allowed to lend to businesses that had been turned down by other banks; in other words, they were bad credit risks.

With a loan fund, a dollar invested is a dollar lent, which must return to the bank before it can be lent again. By contrast, as the Bank of England acknowledged in its 2014 paper, "banks do not act simply as intermediaries, lending out deposits that savers place with them." A chartered depository bank can turn one dollar of capital into ten dollars in bank credit, something it does simply by creating a deposit in the account of the borrower. If the bank's books don't balance at the end of the day, it borrows very cheaply from other banks, the Federal Home Loan Banks, or the repo market. It borrows at the bankers' rates rather than retail rates, and that is one of the many perks that a publicly-owned bank can recapture for local governments.

Compelling precedents

Public sector banks, while rare in the US, are common in other countries; and recent studies have shown that they are actually more profitable, safer, less corrupt, and more accountable overall than private banks.

This is particularly true of the Bank of North Dakota, currently the only publicly-owned depository bank in the US. According to the Wall Street Journal, it is more profitable than Goldman Sachs or JPMorgan Chase. The BND is risk-averse, lends conservatively, does not gamble in derivatives or put deposits at risk. It is able to lend at lower than market rates because its costs are very low.

The BND holds all of its home state's revenues as deposits by law, acting as a sort of "mini-Fed" for North Dakota. It has seen record profits for almost 15 years. It continued to report record profits after two years of oil bust in the state, showing that it is highly profitable on its own merits because of its business model. It does not pay bonuses, fees, or commissions; has no high paid executives; does not have multiple branches; does not need to advertise; and does not have private shareholders seeking short-term profits. The profits return to the bank, which either distributes them as dividends to the state or uses them to build up its capital base in order to expand its loan portfolio.

The BND does not compete with, but partners with local banks, which act as the front office dealing with customers. It does make loans that community banks are unable to service, but this is not because the borrowers are bad credit risks. It is because either the loans are too big for the smaller banks to handle by themselves or the smaller banks cannot afford the regulatory burden of lending in rural communities where they get only a few loans a year.

Among other cost savings, the BND is able to make 2% loans to North Dakota communities for local infrastructure — half or less the rate paid by local governments in other states. The BND also lends to state agencies. For example, in 2016 it extended a $200,000 letter of credit to the State Water Commission at 1.75% and a $56,000 loan to the Water Commission to pay off its bond issues. Since 50% of the cost of infrastructure is financing, the state can cut infrastructure costs nearly in half by financing through its own bank, which can return the interest to the state.

If Phil Murphy wins the New Jersey governorship and succeeds in establishing a New Jersey state-owned bank, expect a wave of public banks to follow, as more and more elected officials come to understand how banking works and to see the obvious benefits of establishing their own.

Source: Common Dreams, 5 Nov 2017
https://www.commondreams.org/views/2017/11/05/public-bank-option-safer-local-and-half-cost

Ellen Brown is an attorney and founder of the Public Banking Institute. She is author of 12 books, including *The Web of Debt*, and her latest book, *The Public Bank Solution*, which explores public banking models.

Governments haven't always shirked responsibility for our low wages

Warwick Smith

Post-war Australia experienced a boom with full employment and falling inequality

For the last four years or so average wages in Australia have barely kept pace with inflation, meaning no real pay rises. And all the while, the government has been betting on the market to improve things.

Treasurer Scott Morrison stated:

As the labour market tightens, that's obviously going to lead over time to a boost in wages.

As the Treasurer asserted, economic theory says these conditions should lead to rising wages, but they aren't. The country continues its record run of 26 years of economic growth and the banks and other big corporations continue to post record profits.

The Reserve Bank of Australia is at a bit of a loss, speculating at its latest meeting that maybe globalisation and technology are to blame.

However, to understand what's really going on it's helpful to look at something most economists and politicians ignore: history.

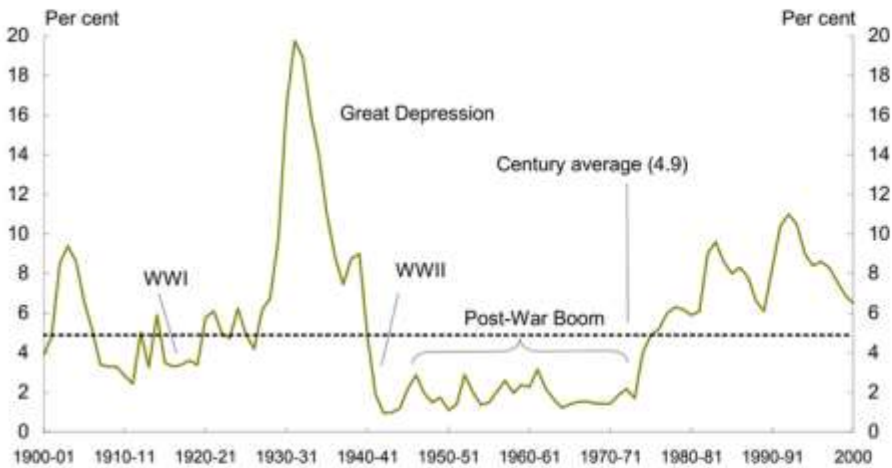
How past governments have dealt with low wages

There was a period in Australia, and much of the rest of the developed world, from the end of the second world war to the early 1970s, that is often referred to as the "post-war boom". During this roughly 25-year period, unemployment averaged 2%, inequality fell steadily and economic growth was strong.

This economic outcome didn't happen by accident. Towards the end of the war, policymakers and economists began planning for the post-war period.

They had lived through the Great Depression with unemployment averaging 20% and then through the war, where the war effort resulted in full employment. They asked the obvious question: " If we could achieve full

Australia's unemployment rate, 1901 - 2001



employment through government spending during the war, then why not during peace time? ”

That question and the resulting policy answer, outlined in the Curtin government's 1945 white paper *Full Employment in Australia*, resulted in the post-war boom with full employment and falling inequality for the next 25 years.

The 1945 white paper (a remarkable political document by today's standards) tackled the complex questions of inflation, unemployment, wages and economic growth with mature nuance. Policy proposals weren't made to appear win-win but weighed up costs and benefits, accepting that we must take responsibility for the costs.

One of the costs of a capitalist, market based system is unemployment. In this context, unemployment was not seen as an individual failing but as a collective responsibility. The paper stated the government should accept responsibility for stimulating spending on goods as needed to sustain full employment.

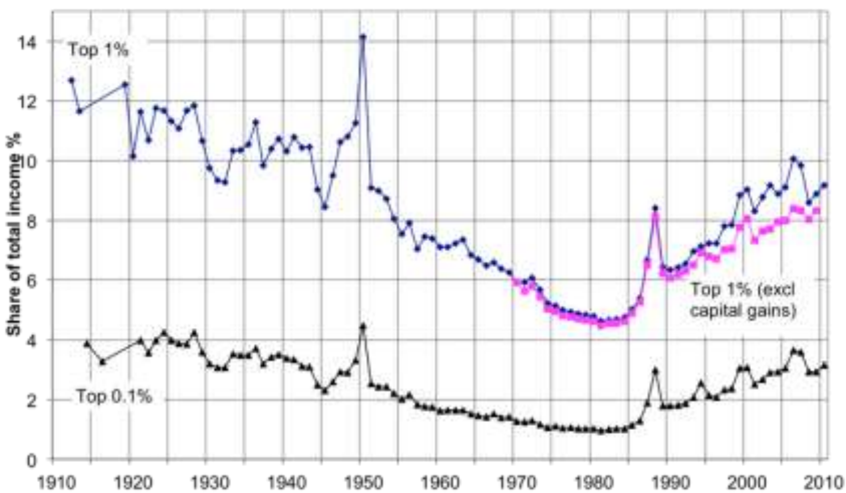
How far we have come from 1945. Today we blame and demonise the unemployed for not being in work, even though there are many more unemployed people than there are available jobs.

Rather than governments taking responsibility for full employment, they set up punitive “employment services” regimes that require the unemployed to jump through meaningless and often demoralising bureaucratic hoops or face financial penalties.

So, what happened in the 1970s to change our attitude to full employment so radically? During the post-war boom, inequality had been steadily falling. That is, for 25 years, the proportion of the country's output that was going to the rich was steadily falling. Unsurprisingly, the rich fought back.

Skyrocketing inflation combined with high unemployment (stagflation), caused by the oil shocks of the 1970s, allowed business representatives to claim that Keynesianism that had given us the post-war boom was a failure.

A Century of Top Incomes



Enter the age of individualism. Neo-classical economics and its political counterpart neoliberalism were all about individual choice and accountability.

To use the words of US billionaire Warren Buffett:

There's a class war, all right, but it's my class, the rich class, that's making war, and we're winning.

The current stagnation of wages we are seeing in Australia is no accident and no mystery. It's the result of the intentional erosion of worker power (largely due to the successful campaign to demonise unions) and the end of the bipartisan federal government commitment to full employment.

The impact of full employment upon wages is profound. That is because the greatest bargaining chip workers have is to withdraw their labour.

When it's difficult to get a new job, unemployment benefits are well below the poverty line and the unemployed are demonised by politicians and the media alike, workers are much less inclined to push hard for improved wages or conditions.

I'm not arguing that we could simply adopt the policies of 1945 and magically return to the golden years of the 50s and 60s; Australia is a very different country and too much has changed. However, we can learn a great deal from the 1945 white paper in terms of ambition, commitment, and the embrace of complexity and nuance.

The federal government could restore its commitment to creating full employment in Australia, using its spending power to make up for any shortfall in private jobs as it did during the post-war boom. History demonstrates that the careful and coordinated use of both fiscal policy and monetary policy to manage the economy can create a more prosperous and egalitarian Australia.

It's well past time for a 21st century update to the 1945 white paper on full employment.

Source: The Conversation, 30 Nov 2017
https://theconversation.com/governments-havent-always-shirked-responsibility-for-our-low-wages-88304?

Warwick Smith is a research economist at the University of Melbourne

Why the big four asked for a parliamentary inquiry into banking

George Rennie

The major Australian banks are following familiar public relations tactics in requesting a parliamentary commission of inquiry into banking and financial services.

When the public mood is against an industry, it will try to win the public over, while getting the politicians to ignore the public mood. If that fails, the industry gradually concedes ground until attention goes elsewhere.

For this reason, the banks went from being steadfastly against a commission, to offering the option of self-regulation, to proposing a new "banking tribunal", to eventually conceding, after the battle was lost, to a parliamentary inquiry.

The big problem for the banks, and a big part of the reason that their previous lobbying failed, is that their popularity with the Australian public is very low. This allowed, or pressured, politicians to call for the commission, and presents significant problems for the banks going forward, especially if they wish to avoid tougher regulation.

The banks have themselves called for an inquiry into banking and financial services

The banks capitulated only once it became “all but inevitable” that an inquiry of some sort would be held.

Due to the recent citizenship saga, it was looking likely that a coalition of crossbench, Labor, Greens and some Nationals MPs would pass a bill for a commission of inquiry into the banks and other financial institutions. Labor had already promised to set up a royal commission into the banking and financial services industry if it won the next election.

Concede ground only when it’s already lost

A royal commission will almost certainly bring many months of bad press for the banks.

As the industry has repeatedly made clear, it never wanted a royal commission. The banks claimed they had corrected the mistakes of the past and that a commission was “unwarranted”.

So the banking industry’s public and private lobbying efforts were geared towards convincing politicians to resist calls for the commission, while trying to boost public opinion by highlighting their corporate social responsibility.

This involved sacking executives over this scandal or that, removing certain ATM fees, and cutting bonuses and director pay.

The banks have also launched advertising campaigns, such as one highlighting that many Australians own bank shares through their superannuation.

Concurrently, the banks hoped that threatening to launch a “mining tax”-style ad campaign might scare politicians away from seeking a commission.

These campaigns have become a common threat since the success of the 2010 mining tax campaign opened corporate Australia’s eyes to the potential effectiveness of advocacy ads.

Tactics similar to those the banks are employing now have been used to varying degrees of success in the United States by the tobacco industry and the gun, finance and healthcare lobbies.

In 1998 the American tobacco industry agreed to make payments of over US$200 billion to dozens of states. But this happened only after decades of public education and campaigning against smoking.

Similarly, the U.S. healthcare lobby successfully fought off several attempts to reform healthcare. And Obamacare managed to pass in 2010 only after the industry got to substantively write it.

The public relations game

Appearing to co-operate and atone is the best way to try to influence the terms of an inquiry. It also helps to mitigate the worst of any bad press to come. This reflects a wider, pragmatic strategy of lobbying and public relations employed by the banks and other industries.

The focus for the banks will now shift towards damage control, along with heavy promotion of the banks “doing the right thing” by Australia. To that end, expect to see even more banners proclaiming a bank’s sponsor-ship of the local footy team, and ads promoting the good work done in your local community.

These, along with an insistence that the commission is a witch hunt, that its findings are “old news”, that the banks have already taken steps to deal with the issue, will underpin the industry’s public relations battle while the royal commission takes place.

Source: The Conversation, 30 Nov 2017
https://theconversation.com/why-the-big-four-asked-for-a-parliamentary-inquiry-into-banking-88387?

George Rennie is Lecturer in American Politics and Lobbying Strategies, University of Melbourne

Latest financial inquiry will fall short of what is needed

John Hermann

Judging by recent comments made by prime minister Turnbull, the terms of reference of the forthcoming Royal Commission into the operation of the Australian financial system, forced upon the federal government by the actions of some disaffected backbenchers, will fall far short of what is required. It is unlikely to adequately investigate the extent and prevalence of the scandals and misdemeanours that have plagued the big four banks in recent years, given the decision to limit the inquiry's time-frame to one year.

I strongly suspect that this inquiry will be an expensive whitewash and that the extension of the inquiry to include superannuation is little more than a diversion designed to obfuscate, and to direct attention away from the behaviour of the major banks.

ERA made a submission to a previous Financial System Inquiry held in 2014, which inquiry unfortunately achieved little in terms of useful outcomes. It is worth reviewing some of the points made in that submission:

1. Too big to be allowed to fail

The "too-big-to-be-allowed-to-fail" aspect of modern banking megacorporations, and the non-prosecution of banking executives for their white collar crimes because they are considered "too-big-to-be-allowed-to-jail", are well recognised by well informed economic opinion to constitute a threat to democratic institutions and good government. We share this view. There were other options than bailing out the private

Occupy Citibank demonstration (Flickr cc)

banks who failed at the time of the global financial crisis, owing to their irresponsible behaviour in lending to those in the high risk category and in taking on excessively risky investments. Arguably governments would have done better to have declared the failed banks insolvent, wiped out their boards and shareholders, and immediately taken those banks into public ownership for at least as long as it would have taken to recoup (in an accounting sense) the outlays of public money used for repairing their equity losses and stabilising their balance sheets.

2. The case for public sector banking

The only valid argument for maintaining a private commercial banking sector is that it might be able to do a better job than would a state-owned one in identifying good credit risk for borrowers. If this advantage cannot be demonstrated to be the case, then what is essentially a public service offered by institutions which cannot be allowed to fail arguably should be in the public sector.

3. Bail in

We regard recent "bail in" proposals, which are a blatant attempt by banks to grab the savings of the public in any possible crisis scenario and currently being lobbied for by powerful banking interests, as an unacceptable practice and breach of trust for bank customers and depositors, who are entitled to expect that their money will be secure. If governments were foolish enough to allow banks the privilege of commandeering any part of their retail customers' holdings of bank bonds, term deposits or transaction deposits, then they would expose the banking system to great additional risk and eventual collapse, and also ensure abandonment of the conventional banking system by the public in droves, with a strong likelihood of alternative depository systems being set up. In other words, we would lose the banking system, as it is currently constituted.

4. Separating commercial and investment banking

It is important for the sake of financial stability to maintain a firm demarcation between retail commercial banking operations and investment banking practices. And although we support the reasoning which underpins recent proposals for ‘ring-fencing’ of the trading operations of banks from their retail banking operations we prefer to go further than this. Simple ring fencing allows inventive financial manipulations under the cover of the financial institution’s operations. Thus regulatory oversight would be limited to the capability of the regulators and their capacity for over-sight - i.e. their ability to access all relevant information, which in reality is not possible. It is much better to fully separate the two functions, along the lines of the original U.S. Glass-Steagall Act (implemented under U.S. president Roosevelt in 1933).

5. Other proposals

As a matter of interest, the following are some recent banking reform proposals made by Mitchell and Fazi [1]:

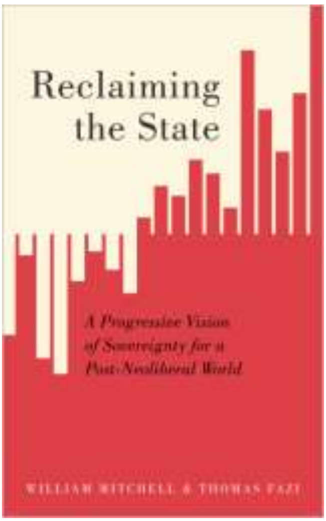
“ banks should only be permitted to lend directly to borrowers … all loans should be kept on banks’ balance sheets … banks should not be allowed to accept any financial asset as collateral to support loans … banks should never be allowed to trade in credit default insurance … banks should not be allowed to underwrite contracts in foreign interest rates nor issue foreign-currency denominated loans … banks should not engage in any other commercial activity ”

1. William Mitchell and Thomas Fazi, Reclaiming the State (Pluto Press 2017, pp 257-258)

I am grateful to Dr Steven Hail for drawing the existence of this book to my attention.

Recommended Book

Reclaiming the State: a progressive vision of sovereignty for a post-neoliberal world   by William Mitchell and Thomas Fazi (Pluto Press 2017)



The crisis of the neoliberal order has resuscitated a political idea widely believed to be consigned to the dustbin of history. Brexit, Donald Trump's election, and the neo-nationalist, anti-globalisation and anti-establishment backlash all involve a yearning for a relic of the past: national sovereignty.

In response to these challenging times, the authors reconceptualise the nation state as a vehicle for progressive change. They show how despite the ravages of neoliberalism, the state still contains resources for democratic control of a nation's economy and finances. The populist turn provides an opening to develop a feasible political strategy.

This book offers an urgent and prescient political analysis of our current predicament, and lays out a comprehensive strategy for revitalising progressive economics in the 21st century.

What happened in the mid 1970s?

Editor

We thank Stephen Tardrew for providing the graph below. So what happened in the mid 1970s? In a nutshell, neoliberalism began to take hold.

This graph shows the point in recent U.S. history where, after the post War period where social equity was high, a growing disparity of wealth and income began. It is the point where people in the U.S. accepted the 'greed is good ethos' that flows from Milton Friedman's reworking of economic models after the economic mainstream, in the wake of the oil shock and stagflation, concluded that Keynesianism does not work.

This false economic analysis was accepted by president Ronald Reagan and entrenched into what is now called neoliberalism. Which incidentally has nothing to do with liberalism as a social philosophy. The move to neoliberalism also occurred in the United Kingdom under PM Margaret Thatcher.

Australia retained a more progressive economic model until the Keating era, And now Paul Keating himself has said that Australia's turning in the direction of neoliberalism (which he enthusiastically supported at the time he was Treasurer and PM) in hindsight was a mistake.

The problem with gross domestic product is the gross bit. There are no deductions involved -- all economic activity is accounted as if it were of positive value. Social harm is added to, not subtracted from, social good. Thus a train crash which generates £1bn worth of track repairs, medical bills and funeral costs is deemed by this measure as beneficial as an uninterrupted service which generates £1bn in ticket sales. -- George Monbiot

ERA membership 2018

If you are not a subscribed ERA member, or have not yet resubscribed for 2018, please consider doing so now. We rely on members' subscriptions and donations in order to cover the costs of our activities, including the printing and posting of the ERA Review to those who require a hard copy, and organising of public events. The cost is $20 per calendar year for regular members, $15 concession (pensioners and students), with $10 for each additional family member, forwarded by post as a cheque or as a money order made out to ERA, or as a credit transfer between accounts. The ERA account details are provided on page 32.

ERA Annual General Meeting 2017

The 2017 AGM was held on Saturday 28th October at the CCSA Boardroom, the Joinery (111 Franklin St. Adelaide SA). Reports and other relevant information were received, and these officers were appointed for the following 12 months:

President: Darian Hiles; Secretary: John Hermann; Treasurer: Leona Hermann; Assistant Treasurer: Liz Gates; Membership Officer: Hugh Wigg; Public Officer: Dick Clifford; Minutes Secretary: Michael Plowright; Minutes Editor: Elinor Hurst; ERAR Editor: John Hermann; Research Officer: Kuntal Goswami. No changes were made to the ERAR editorial committee.

President's report

The ERA Review continued to be the highlight this year, with excellent editorship by John Hermann. It is well respected by those who understand or are receptive to the basic issues and deserves a much wider audience. The new website and a recent seminar by Assoc Prof Phil Lawn are both attempts at this wider audience. The website is in place but needs further focused and targeted attention and development Currently it's managed by John however the physical separation of other members is a major inhibitor to participation and development. The current proposal to form a website team may resolve this problem if the members can find a way to communicate in person effectively, as this type of work requires them to sit together at a screen to discuss various aspects. As in any design studio or group endeavour, this is a completely different requirement to typical academic research.   DH

Secretary's report

The last twelve months has witnessed the appearance of new ERA members, some of whom registered online using the new payment facility available on the recently constructed ERA website. The latter experienced some teething problems which were eventually sorted out satisfactorily (with the assistance of Jordan Graetz). A number of presentations were held within monthly meetings including the end of year meeting in December, including talks from Elinor Hurst, Andrew Kitto, Richard Corin, Ali Valamanesh, Steven Hail, Philip Lawn, Darian Hiles and myself. And ERA shared a meeting with local SPA members involving a video presentation on neo-liberalism featuring Noam Chomsky. ERA also hosted (in cooperation with the Adelaide University Economics Club) an evening presentation (with Q&A) at the university by Assoc Prof Phil Lawn, entitled *Why we benefit from a government budget deficit*. This event attracted an enthusiastic audience.   JH

ERA Review

It was agreed that the new position of Research Officer will be created for the purpose of assisting ERA, and the editor in particular, with a range of important activities. It is also pleasing to report that a considerable number of letters from members have been published in ERA Review during the past year. And a big thank you is in order for the members of the editorial committee. Their efforts and critiques have helped us in keeping proposed articles on the right tracks in terms of their relevance, clarity and freedom from technical errors. We would especially like to thank Steven Hail from Adelaide University, who contributed many excellent and informative articles to successive issues.

ERA website subcommittee

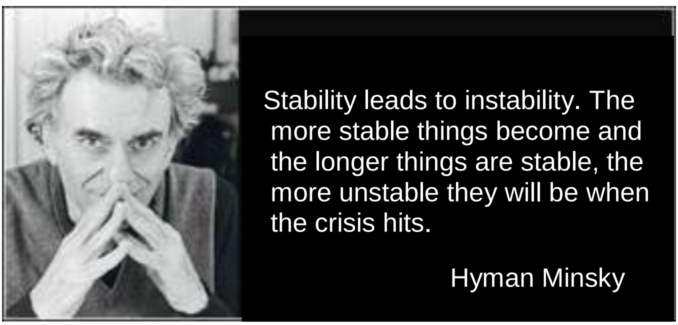
As indicated in the president's report, a website subcommittee has been formed, and its first meeting occurred at the SA state library on Wednesday 6th December. Although there exists an ERA email network, the subcommittee recognises that it would be more than desirable to set up an interactive forum via the website, in which members may initiate new threads and easily respond to existing threads. Presumably there would need to be a minimal level of moderation. The mechanics of setting up such a facility is being investigated as a matter of priority.

ERA End-of-Year Dinner 2017

ERA is organizing an End of Year Dinner, to be held at the King's Head Hotel in Adelaide on Wednesday 27 December 2017, beginning at 6.00pm. We propose to have four speakers at this event, with each presentation scheduled for 30 minutes. Each attendee should make their dinner order prior to the start of the event (at the ordering counter in the front room) and pay for their meals in advance, mentioning that they are associated with the ERA event in the ballroom.

Venue: The Kings Head Hotel (ballroom), 357 King William Street, Adelaide.
Time: 6.00pm until at least 9.00pm. If you are coming, please RSVP.

Agenda:
1. Job Guarantees in Theory and Practice (Steven Hail)
2. The Genuine Progress Indicator - what it is and why we need it (Peter Martin)
3. Dinner
4. Holistic Sustainability Policies in Three Australian States (Kuntal Goswami)
5. Some Common Misconceptions about Money (John Hermann)



ECONOMIC REFORM AUSTRALIA (ERA) INC

Economic Reform Australia (ERA) is a not-for-profit, non-political organisation established in 1993 to offer a broader understanding of how economics affects the lives of Australians. ERA educates and advises decision-makers and the wider community about the economic foundations of a society characterised by social justice and ecological sustainability.

ERA's Patrons

Prof Stuart Rees, Prof Frank Stilwell, Prof Michael Pusey, Dr Evan Jones, Prof Steve Keen, Prof David Shearman, Dr Ted Trainer, Dr Shann Turnbull

Further information

era.org.au

Ph: (+61 8) 8264 4282

facebook.com/
EconomicReformAustralia

E: hermann@chariot.net.au
Member queries: 08 8344 2350

PO Box 505, Modbury,
SA 5092, Australia

Beyond Bank Australia,
BSB 805-022, A/C No 02228579
Payment queries: 08 8264 4282

Membership of ERA is open to all who agree with its objectives and overall philosophy. Forward A$20.00 per annum (A$15 concession) plus A$10 extra for each additional family member, with the new member's address, telephone and fax numbers, plus email address to The Treasurer, P.O. Box 505, Modbury, SA 5092, Australia

New members may calculate the part of the year remaining, remit the appropriate pro-rata amount and also consider the option of paying for the following year. All cheques to be payable to Economic Reform Australia or one can pay by direct credit transfer with the payee's name added to the payment information. ERA's account details are: Beyond Bank Australia, BSB 805-022, A/C No 02228579).

Members are entitled to receive the regular ERA publication *ERA Review*, to vote at ERA meetings and participate in organized activities. Meetings are held at 2pm on the last Saturday of each month at 111 Franklin Street Adelaide SA. Submissions to *ERA Review* should possess relevance, accuracy and a good literary standard.

Disclaimer: The views expressed in these articles are the sole responsibility of their authors and do not necessarily reflect those of Economic Reform Australia