ERA Review

Journal of Economic Reform Australia

Vol 10 No4, ISSN 2202-0934 (Print), 2202-0942 (Online)

For a just and sustainable society

July-August 2018

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The irresponsibility of (so-called) fiscal responsibility

Dean Baker

It's official: New York Times columnist David Leonhardt has pronounced the US Democrats to be the party of fiscal responsibility. In contrast to three of the last four Republican presidents who raised deficits with big tax cuts for the rich and increases in military spending, the last Democratic presidents sharply reduced the budget deficit during their term in office.

Leonhardt obviously intends the designation to be praise for the party, but it really shows his confusion about budget deficits and their impact on the economy. Unfortunately, this confusion is widely shared.

Contrary to what Leonhardt seems to think, the economy doesn't get a gold star for a balanced budget or lower deficit. In fact, lower deficits can inflict devastating damage on the economy by reducing demand, leading to millions of workers needlessly unemployed.

This has a permanent cost as many of the long-term unemployed may lose their attachment to the labor market and never work again. Their children will also pay a big price because children of unemployed parent(s) tend to fare worse in life by a wide variety of measures, especially when unemployment is associated with family breakup, frequent moves, and possible evictions. Also, lower levels of output will mean less investment, making the economy less productive in the future.

We actually have some basis for estimating the cost of long periods where the economy suffers from insufficient demand. If we compare the Congressional Budget Office's (CBO) projections for potential GDP in 2018 made before the Great Recession, with their current projections, the gap is more than $2 trillion, or 10 percent of GDP.

That loss comes to more than $15,000 a year for every household in the country. In other words, the CBO's projections imply that if we had managed to sustain high levels of demand in 2008 and subsequent years, rather than falling into a severe recession with a weak recovery, the annual income of the average household would be about $15,000 a year higher.

Perhaps the CBO didn't know what it was talking about when it made these projections back in 2008. (Of course,

we are now supposed to take the CBO's projections of deficits and interest burdens as sanctified, but maybe they have gotten much smarter in the last decade.) Let's suppose that if we had managed to avoid the recession and maintain high levels of output, potential GDP would be just 5 percent higher today, half as much as the CBO had projected back in 2008.

In that case, the loss from too much fiscal responsibility (deficits that were too small) would be $1 trillion a year or $7,500 per household. That dwarfs the amount at stake in most of the policies we debate. For example, the International Trade Commission projected that the Trans-Pacific Partnership would generate gains of just 0.23 percent of GDP after 15 years, when its benefits were fully realized.

It would be difficult to get an accurate measure of the full costs caused by the weak recovery from the recession; both in terms of lost output at the time, and the permanent damage to the economy and people's lives, but there can be little doubt that it is enormous. Nonetheless, the proponents of fiscal responsibility, who are largely responsible for these costs, continue to be treated as paragons of virtue. After all, we are supposed to want balanced budgets or at least small deficits, right?

Economic policy will continue to suffer as long as the loudest voices in the debate have no understanding of how the economy works. Deficits undoubtedly have the potential to be harmful. When the economy reaches its limits, as indicated by a shortage of workers or other inputs and rapidly rising wages and prices, a higher deficit will make this problem worse.

But we have not reached this point, and honest people who understand the economy will acknowledge that we don't know how close we are to this point. In that context, why should we think there is any big problem with a larger deficit. This does not mean we want to give more tax breaks to rich people and have useless or even harmful military spending.

Regarding the level of interest charged on the debt, it remains well below the 1990s level when measured as a share of GDP. That is likely to be so for many years to come under all plausible scenarios.

Source: Real World Econ Rev, 30 Apr 2018
https://rwer.wordpress.com/2018/04/30/the-irresponsibility-of-fiscal-responsibility/

Editor's comment: Although we endorse the preceding commentary of Dean Baker, made within the context of the US economy, it may be noted that his analysis is not fully in accord with the principles of functional finance. In particular, we maintain that for a monetary sovereign government the interest charged on its public debt can always be serviced without any difficulty whatsoever and is in no sense a burden on the nation's citizens. This is because the government has an unlimited ability to create net financial assets independently of any tax receipts.

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In economics, it is often professionally better to be associated with highly respectable error than uncertainly established truth. — John Kenneth Galbraith, The Affluent Society

There is tons of work to be done, and lots of people who would like to do the work. It's just that the economic system is such a grotesque catastrophe that it can't even put together idle hands and needed work, which would be satisfying to the people and which would be beneficial to all of us. That's just the mark of a failed system. The most dramatic mark of it.
— Noam Chomsky, Class Warfare: Interviews with David Barsamian

Busting the NAIRU myth

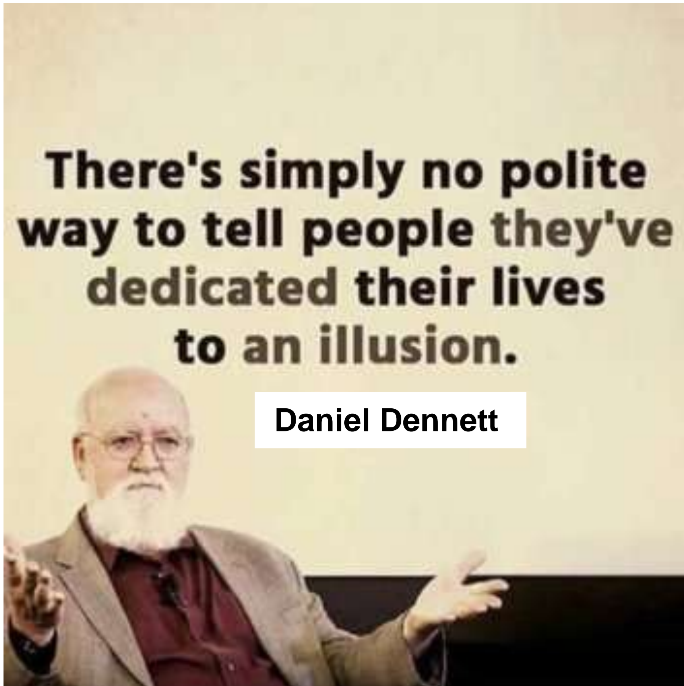
Lars Syll

The non-accelerating inflation rate of unemployment (NAIRU) - also sometimes referred to as the long-run Phillips curve - is supposed by many orthodox economists to be the specific level of unemployment that is evident in an economy that does not cause inflation to rise up. The following extract is from a recent article about NAIRU by Mike Konczal [1]:

" Even as it became conventional wisdom, the supposed relationship between unemployment and increasing or decreasing rates of inflation was breaking down — notably in the 1990s. Unemployment got below 4 percent in 2000 without inflation taking off. Since the onset of Great Recession, the gap between theory and reality has only grown …

" Once we see how weak the foundations for the natural rate of unemployment are, other arguments for pursuing rates of unemployment economists once thought impossible become more clear. Wages can increase at the expense of corporate profits without causing inflation. Indeed, since 2014 we are seeing an increase in the share of the economy that goes to labour.

" Even better, lower unemployment doesn’t just help workers: It can spur overall growth. As the economist J.W. Mason argues, as we approach full employment incentives emerge for greater investment in labor-saving productivity, as companies seek to keep labor costs in check as workers demand more. This productivity increase stimulates yet more growth.



" The harder we push on improving output and employment, the more we learn how much we can achieve on those two fronts. That hopeful idea is the polar opposite of a natural, unalterable rate of unemployment. And it's an idea and attitude that we need to embrace if we're to have a shot at fully recovering from the wreckage of the Great Recession."

NAIRU does not hold water simply because it has not existed for the last 50 years. But still today 'New Keynesian' macroeconomists use it - and its cousin the Phillips curve - as a fundamental building block in their models. Why? Because without it 'New Keynesians' have to give up their - again and again empirically falsified - neoclassical view of the long-run neutrality of money and the simplistic idea of inflation as an excess-demand phenomenon.

The NAIRU approach is not only of theoretical interest. Far from it.

The real damage done is that policymakers that take decisions based on NAIRU models systematically implement austerity measures and kill off economic development. Peddling this flawed illusion only gives rise to unnecessary and costly stagnation and unemployment.

According to Roger Farmer [2]:

" Defenders of the [NAIRU theory] might choose to respond to these empirical findings by arguing that the natural rate of unemployment is time varying. But I am unaware of any theory that provides us, in advance, with an explanation of how the natural rate of unemployment varies over time. In the absence of such a theory the [NAIRU theory] has no predictive content. A theory like this, which cannot be falsified by any set of observations, is closer to religion than science. "

Source:
https://rwer.wordpress.com/2018/05/14/busting-the-nairu-myth/

1. **Mike Konczal** (Roosevelt Institute), "How low can unemployment go? Economists keep getting the answer wrong"
https://www.vox.com/the-big-idea/2018/5/4/17320188/jobs-report-natural-rate-unemployment-inflation-economics-april

2. **Roger Farmer** is an American economist at the University of California, LA, known for his work on self-fulfilling prophecies.

Stark contrast between U.S. and French inequality

Editor

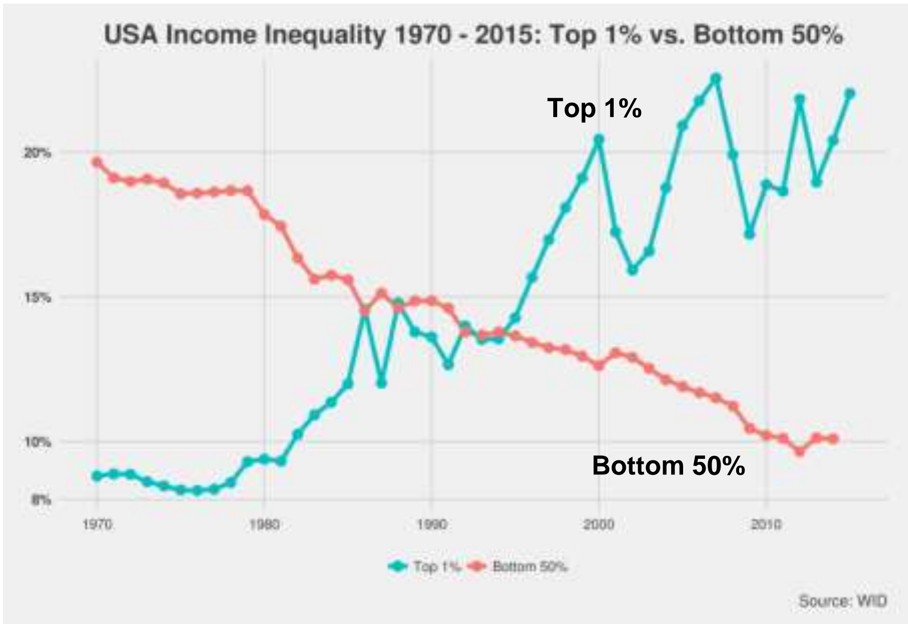
A 2017 report by Raul Zambrano [1] discussing data from the World Wealth and Income Inequality database, has compared the income of different social strata (fraction of all income) for the US with that of France over a 45-year time-span (see the diagrams below).

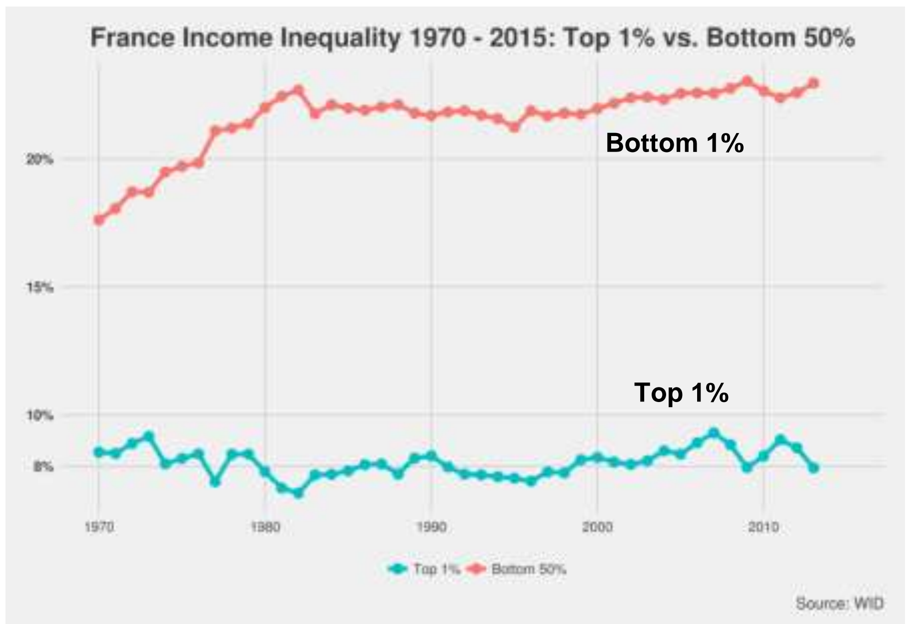
Note the steep U.S. decline over 45 years and the post 2012 situation with the bottom 50% stagnating - hovering at around 10% of all income. While the top 1% have steadily increased and are at now at the pre-2008 global crisis level.

However little variation seems to exist in the French data when we look at the income trends for the two groups. The top 1% has had less than a 10% share of total national income in the period under consideration. And the bottom 50% have indeed been slowing gaining since 1985, ignoring the dip due to the global crisis. The overall contrast with U.S. income inequality is indeed stark.

Maybe this is one of the reasons why France is the land of "liberté, égalité et fraternité".

1. Source: Raul Zambrano, 15 March 2017 "Wealth and income inequality data". https://blog.raulza.me/wealth-and-income- inequality-data/





Book recommendation

Seeds of Destruction: Hijacking of the World's Food System, by F. William Engdahl

Published by Global Research, available in paperback and PDF format

As F. William Engdahl wrote in "Death of the Birds and the Bees Across America":

Birds and bees are something most of us take for granted as part of nature. The expression "teaching about the birds and the bees" to explain the process of human reproduction to young people is not an accidental expression. Bees and birds contribute to the essence of life on our planet. A study by the US Department of Agriculture estimated that "…perhaps one-third of our total diet is dependent, directly or indirectly, upon insect-pollinated plants."

The honey bee, Apis mellifera, is the most important pollinator of agricultural crops. Honey bees pollinate over 70 out of 100 crops that in turn provide 90% of the world's food. They pollinate most fruits and vegetables - including apples, oranges, strawberries, onions and carrots. But while managed honey bee populations have increased over the last 50 years, bee colony populations have decreased significantly in many European and North American nations. Simultaneously, crops that are dependent on insects for pollination have increased.

The phenomenon has received the curious designation of Colony Collapse Disorder (CCD), implying it could be caused by any number of factors. Serious recent scientific studies however point to a major cause: use of new highly toxic systemic pesticides in agriculture since about 2004.

If governments in the EU, USA and other countries fail to impose a total ban on certain chemical insecticides, not only could bees become a thing of the past. The human species could face staggering new challenges merely to survive.

The immediate threat comes from the widespread proliferation of commercial insecticides containing the highly toxic chemical with the improbable name, neonicotinoids. Neonicotinoids are a group of insecticides chemically similar to nicotine. They act on the central nervous system of insects. But also on bees and small song birds. Recent evidence suggests they could also affect human brain development in newborn.

Some five to six years back, reports began to circulate from around the world, especially out of the U.S., and then increasingly from around the EU, especially in the U.K., that entire bee colonies were disappearing. Since 2004 over a million beehives have died across the United States and beekeepers in 25 states report what is called

Colony Collapse Disorder. In winter of 2009 an estimated one fifth of bee hives in the U.K. were lost, double the natural rate. Government authorities claimed it was a mystery. Read “Death of the Birds and the Bees Across America” [1] by F. William Engdahl

Today more than ever, the world’s food resources are being hijacked by giant corporations that are turning farms into factories and replacing our natural resources with genetically modified “food-like” substances.

1. https://www.globalresearch.ca/death-of-the-birds-and-the-bees-across-america/31699

F. William Engdahl is a leading researcher on the destruction of the planet’s food system and the profit-driven enterprises that are driving this devastating process.

How are you going to pay for it?

Editor

The following statement by Warren Mosler appeared on the Facebook page of the group MMT for the Progressives in the USA on 24 December, 2015 [1].

Warren Mosler: "So how do you like this unsolicited speech I drafted for Bernie Sanders":

HOW ARE YOU GOING TO PAY FOR IT?

I've proposed a lot of initiatives from Medicare for all to desperately needed infrastructure.

And in all cases the Federal Government will be paying for it. And each time the question that immediately explodes is "So how are you going to pay for it?"

I'm going to answer that question directly and definitively and in a way that everyone can understand.

And before I begin, I'd like to thank my chief economist, Professor Stephanie Kelton, a specialist in economic policy as well as in Federal Reserve Bank monetary operations, for educating me on this critical question.

And I'll tell you right now that what was once cloudy and shrouded in myth and mystery is now absolutely crystal clear.

So first let's talk about how your government makes ANY and ALL payments.

Whenever the Treasury spends, it instructs the Federal Reserve Bank to add those dollars to the bank account of whoever is getting paid.

So, for example, if you are getting a $1000 payment from the Federal Government, the Treasury instructs the Federal Reserve Bank to cause the number of dollars in your bank account to be $1,000 higher.

In other words, if you had $2,000 in your bank account, and then got $1,000 from the government, your bank account would then show $3,000 in it.

More specifically, when the government spends, all it does is act to change the numbers in your bank account to higher numbers. As the former Fed Chairman Ben Bernanke testified:

'We just use the computer to mark up the numbers in the account"

Now this is not some new idea, or proposal. It's how ALL government spending has always been done.

That's all there is to it and there is no other way to do it. And everyone in the Treasury and the Fed, including the chairman, knows it.

There is no dispute whatsoever that whenever federal government spends,

yesterday, today, and tomorrow, it's just about changing numbers in bank accounts.

And the government can just as easily spend $1 billion as it can spend $1, since all it has to do is change a number on its own books.

So how will we pay for medicare and all the infrastructure we need? The exact same way we are paying for everything today, yesterday, and tomorrow:

We spend by changing numbers in bank accounts to higher numbers.

This is not to say spending doesn't have consequences, which it does.

What it does mean is there is no such thing as the government running out of dollars to spend, because all it does is change numbers in bank accounts. The government can't run out of dollars it adds to bank accounts any more than the football stadium can run out of points it shows on the scoreboard.

And if you don't want to believe me, I have this gentlemen from the Federal Reserve Bank standing next to me along with another from the federal Treasury, to answer your questions.

So let me continue with this question. Since the government can't run out of money, and can make any payment when it needs to, like it's always done, what possible problem can there be if it spends too much?

The answer to that is inflation. Too much spending can cause too much inflation. So how do we know if that's going to happen? How about looking at the inflation forecasts?

And it just so happens that the Federal Reserve Bank and the Congressional Budget Office already are spending a lot of money doing inflation forecasting.

So here's how it works.

We propose a program, like Medicare for all, or my trillion dollar 10 year infrastructure proposal, and then we ask the Fed and the CBO how much inflation, if any, it will cause.

And if they say those proposals won't cause inflation, then we're free to act without increasing anyone's taxes.

But what if they say they will cause too much inflation?

Well, in that case we have to raise taxes. Why? Because taxing takes money out of the economy.

So if the Fed and the CBO say the new spending will cause too much inflation, we can take some of that money out of the economy by taxing.

And, again, how do we know how much to tax? It's the same answer - the inflation forecast.

The important point is that the inflation forecast is what tells us how much to tax, not the size of the deficit.

And so what is this thing called the public debt? Listen carefully:

The public debt is nothing more than all the dollars spent by the government that haven't yet been used to pay taxes.

Let me repeat:

The public debt is nothing more than all the dollars spent by the government that haven't yet been used to pay taxes.

And those dollars stay in the economy as someone's savings until they get used to pay taxes.

Think of it this way - when the government spends a dollar, someone has to have it.

And if it also taxes away that dollar, that dollar is gone from the economy.

But if the government spends a dollar and doesn't tax it away, it stays in the economy as someone's savings.

And most all of that savings is right there at the Federal Reserve Bank in bank accounts that they call Treasury bonds, notes, and bills. Yes, all those Treasury's are just dollars in savings accounts at the Federal Reserve Bank with fancy names.

Yes, the Treasury has spent some $18 trillion more than it's taxed, and that $18 trillion is the savings of people and businesses in the economy that's in bank accounts at the Federal Reserve Bank called Treasury securities and also called the public debt.

This means the government doesn't owe any dollars to anyone, because it's already given them the dollars when it spent them. Someone already has them, and the dollars are already are sitting there in bank accounts at the Fed.

And this explains why paying off the debt has never developed into a problem. If it was going to cause a problem, don't you think it would have happened long before it got to $18 trillion?

Yes, all savings accounts are called 'bank debt' by the accountants, but in this case it's highly misleading, and it's been driving some very bad policy decisions.

Now let me quickly review the three points I've just made:

1. How do we pay for Medicare and infrastructure? The same way we always pay for everything. We instruct the Federal Reserve Bank to enter the dollars into the appropriate bank accounts.

2. How do we know how much to tax? We give our proposals to the Federal Reserve Bank and the Congressional Budget Office to determine how much tax is necessary to keep inflation low.

3. The results are world class health-care and infrastructure for all, millions of new jobs, and an increase in total dollar savings for the economy, with taxation at the right level to prevent unwanted inflationary pressures.

Well, I'm pretty sure you've never heard anything like this before. And until not long ago, I hadn't heard it either.

And yes, I'm mad as hell! I used to think the government had run out of money, and had to borrow from lenders like China demanding high rates to be able to spend more than it taxed, and all the rest of that nonsense that's been keeping us down.

And everyone in Congress still probably thinks that way. And they're all wrong. And every insider in the Fed and the Treasury knows they're all wrong, and word is just now getting out.

After all these years of hearing it wrong, we're only now hearing the truth.

And let me finish by saying that's it's not about adding any kind of stimulus, but about removing a restriction. Think of the national economy as a champion runner, ready for the Olympics. But then we put a plastic bag over his head and he can't breathe and he can't run.

What I'm proposing is to remove the plastic bag - remove the restriction - and let him run again. It's not about giving him drugs. And so it's about removing the artificial financial restrictions on the economy and letting it run to its potential.

Source:

1. https://www.facebook.com/groups/495835247249857/

Comments from Elinor Hurst

It's a good description generally, however I have concerns about the arm waving around inflation. Warren says the Fed and the Budget Office can determine whether measures are inflationary or not, but gives no hint as to how this can be done. If those bodies are fiscally conservative, who's to say they won't overestimate the inflationary potential? And the sceptic may well suggest that their criteria could be levels of public debt and deficit (which as we know, are not the issue).

The point is that the level of employment and underemployment are key factors in determining whether increasing the deficit will be inflationary or not, but as to the exact amount of spending that can be done, this was an issue I tried to grapple with a while back. My understanding is that it involves modeling the "structural deficit", which is a bit of a black art, and is vulnerable to neoliberal assumptions.

Comments from Darian Hiles

Not a bad description. However "The public debt is nothing more than all the dollars spent by the government that have not yet been used to pay taxes" is a strangely written statement. It could be misconstrued to read like the government is paying taxes.

Also I think the description should clearly distinguish between the federal government and all other levels of government.

Federal Treasury recognises the 'benefits' of breaking up banks

Editor

Glass-Steagall petitioners (source: Flickr cc)

This article is based on information provided in a recent media release of the Citizens Electoral Council (CEC) on 15 May 2018. ERA Review does not usually draw attention to material put out by political parties, however the statement seems well researched and is in alignment with ERA's concerns about banking malfeasance in Australia and New Zealand.

According to that statement:

" In its last day of hearings on 27 April the banking royal commission asked

Treasury, the regulators and the banks to justify so-called vertical integration, i.e. banks owning the businesses that create the financial products that the banks advise their customers to buy. In response, Treasury has done a backflip of sorts from its years of defending vertical integration, to concede that there will be benefits from a structural separation of banking. For their part, each of the big banks forcefully opposed structural separation. If anything, this is the best argument for it - if the self-serving banks don't want to be broken up, it must be right! "

Rowena Orr, the Counsel Assisting, in her summary of the previous fortnight of royal commission hearings (which provided examples of how the financial advice operations of AMP and CBA had exploited their customers) asked for submissions to answer the question: "Does vertical integration … serve the interests of clients? If so, how?"

The explanation given by CEC is that:

" Treasury's submission demonstrates the impact of the royal commission. Treasury boffins—many of whom are past and/or future bankers by virtue of the revolving door between banks and the department—know that they can no longer defend the status quo, as they have for years in response to calls for a Glass-Steagall separation of commercial banks from all of the other financial services. For instance, in a 28 April 2016 letter for a constituent of the then-Member for Longman Wyatt Roy, Treasurer Scott Morrison claimed that "the Australian financial system already exhibits a high degree of structural separation".

The Federal Treasury's submission states that "consideration of options for structural separation requires weighing costs and benefits". The main "cost" that Treasury cites is the loss of economies of scale; if you are a customer of a mega-bank it is cheaper for the bank to provide you its various services. However, the royal commission has shown that in practice that has meant it is cheaper for the banks to fleece you and countless others on an industrial scale. Thus:

" Treasury concedes that the benefits of structural separation include: the removal of conflicts of interest which tempt banks to lure their customers into risky financial products for the bank's, not the customer's, profit; and a higher price for other financial products, which 'would not be a negative outcome', Treasury notes, because it would make customers realise that in many cases they don't need those extra products at all!

" In other words, if bank tellers were not pressured into coaxing customers into some other product such as insurance or financial advice, most customers wouldn't seek them out because they don't need them in the first place.

" Treasury suggested the Commission could first consider how to mitigate conflicts of interest without breaking up the banks, and then compare that approach to any additional benefits from structural separation. However, before making that suggestion, the Treasury admitted that steps have already been taken in recent years to mitigate conflicts of interest, but they haven't worked. 'The hearings have provided evidence that conflicts of interest continue to lead to poor consumer outcomes, and have contributed to poor firm culture' Treasury's submission stated, 'notwithstanding a number of reforms in recent years that have sought to eliminate or mitigate such risks'. "

The ‘ring-fencing’ fraud

It seems that the Australian Treasury, in conceding to the benefits of breaking up the banks, has been attempting to steer the discussion in the direction of the debate about ring-fencing vs Glass-Steagall-type separation that raged in the UK in 2013. Attention has already been drawn to the inadequacy of ring-fencing proposals, for example in ERA's submission to the 2014 Australian Financial System Inquiry, as reported in previous issues of ERA Review, including the Jan-Feb 2018 issue [1]. And in this context, the CEC statement continued with some historical background:

" This was in the wake of the global financial crisis when the U.K. government spent hundreds of billions of pounds propping the banks up, including through emergency nationalisations. Ring-fencing was the recommendation of Sir John Vickers, the former Bank of England chief economist who chaired the 2011 Independent Commission on Banking that inquired into the banking practices that led to the crisis. With no good argument against the principle of separating traditional banking from other financial services, Vickers and the private banks - which were desperate not to be broken up - resorted to the argument that the same effect could be achieved without a full Glass-Steagall separation, by requiring the banks to ring-fence their retail divisions from their other divisions, but allowing them to stay under the same roof. Unconvinced, 445 members of the Commons and Lords voted for an amendment to the 2013 ring-fence legislation to turn it into full-scale Glass-Steagall, which was only narrowly defeated. In the debate, one former banker, Lord Forsyth of Drumlean, warned that ring-fencing wouldn’t protect depositors from predatory bankers, as 'investment bankers are extremely adept at getting between the wallpaper and the wall'.

" Five years after ring-fencing was legislated, Vickers now admits that the UK’s banks are still not prepared for another financial crisis. Speaking at a Financial Times/Fitch global banking conference in London on 2 May, Vickers warned that British banks are still undercapitalised and vulnerable to the impact of a new financial crisis. He said that leverage in the British banking system was 'dangerously high' as regulators 'fell short' of what was required to crisis-proof the system. Vickers didn’t say it, but these ongoing risks in the UK’s banks can be blamed on the Parliament not legislating a full-scale Glass-Steagall in 2013. "

The largest banks within Australia are unwilling to be broken up, which would seem to have a bearing on why they have suddenly expressed concern for the best interest of their customers. It is noteworthy that CBA, in its submission to the royal commission, said that such separation 'would significantly erode the benefits that customers currently enjoy'. Perhaps these are the same 'benefits' exposed by the royal commission? And both NAB and ANZ have promised that vertical integration can work if conflicts of interests are 'managed'. Likewise Westpac, 'provided appropriate protections are maintained'.

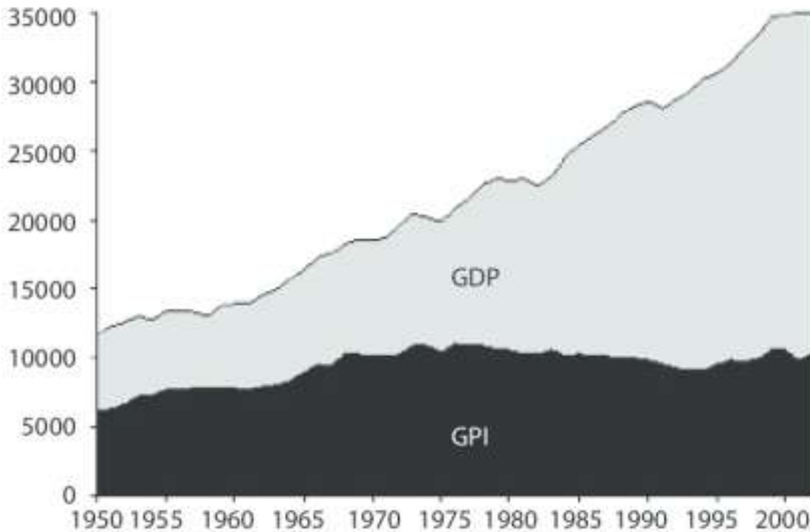
Concluding, the statement dismisses all of the bank claims as obfuscation and humbug: "The banks don’t suddenly care about their customers - they are desperate not to be cut off from fleecing depositors and gambling with their deposits. Their desperation demonstrates that they must be broken up. "

1. Hermann, J., "Latest financial inquiry will fall short of what is needed", ERA Review, v10, n1 (Jan-Feb 2018), p26

Achieving genuine progress in Australia

Robert Costanza, Philip Lawn, Ian Lowe and Peter Martin

There is a better way forward than misusing GDP. A project in South Australia shows there is a better way to measure net positive economic activity, if not societal wellbeing.



Gross Domestic Product (GDP) helped the allies win the Second World War by better understanding production and consumption in an economy. But it was never designed as a national policy goal. As Simon Kuznets, the main architect of GDP warned: "The welfare of a nation can scarcely be inferred from a measurement of national income as defined by GDP…Goals for 'more' growth should specify of what and for what."

Despite growing recognition of the salience of Kuznets' initial warning, most nations and states still misuse GDP growth as a major policy goal, without adequate understanding of what is growing and why they would want it to grow.

GDP counts only marketed economic activity. Some of that activity can be considered a benefit, but some should be considered a cost to be avoided. GDP conflates the two. More crime requires more police and more security devices that add to GDP, but it's not something we want more of. Likewise for air and water pollution, serious illness, divorce, inequality, and a range of other factors.

More on this:

One measure that has been designed to separate the two is the Genuine Progress Indicator (GPI). GPI starts with Personal Consumption Expenditures (a major component of GDP indicative of discretionary spending) but weights it by income distribution. That's because a dollar's worth of income to a poor person creates more welfare than a dollar's worth to a rich person.

As far as GDP is concerned, inequality does not matter and the fact that most of the income gains over the last

several decades have gone to the top one per cent is just fine. Then GPI adds a few things that are left out of GDP because they are not marketed (like household labour and volunteer work) and subtracts a bunch of things that should be considered costs rather than benefits, including the costs of crime, family breakdown, pollution, resource depletion, and ecological damage.

There are 26 elements of GPI - all denominated in dollars - that can be summed to estimate the *net* contribution of economic activity to wellbeing.

Mind you, GPI is still not a measure of overall societal wellbeing. It misses several things, including the positive contributions of social and natural capital to wellbeing that would need to be included to create an overall Sustainable Wellbeing Index.

But GPI does estimate net positive economic activity and that should be a more important guide to policy than the gross economic activity that GDP measures. Remember Kuznets' warning that "goals for 'more' growth should specify of what and for what."

The advantages of GPI over the many other alternatives to GDP that have been suggested include firstly that it is relatively easy to estimate using available data; secondly it can be estimated for historical periods giving time trends; and finally, since it is denominated in dollars, it is easy to compare with GDP.

GPI has been estimated for more than 17 countries and many states and territories, including a recent study of all 50 U.S. states. The U.S. states of of Marylandand Vermont have adopted GPI as a policy tool and several other states are considering doing the same.

A recent study we've been involved with through the Wakefield Futures Group compared the GPI of South Australia for the period 1986-2016 with the rest of Australia. It found that while South Australia lagged the rest of the country in terms of GDP growth, it did much better in terms of the GPI.

For example, the GPI showed that the average South Australian is $3,000 per year better off than five years ago, albeit this is less than the increase in its per capita GDP. But more importantly, they are around $2,000 per year better off than the average person living elsewhere in Australia. This superior performance was due to improvements in the state's distribution of income, a steep rise in private-sector and public-sector consumption, an increase in the services generated by the infrastructural assets provided by governments, and the containment of environmental costs.

The purpose of the economy, economics, and policy should be the improvement of societal wellbeing.

GDP does not measure societal wellbeing and continuing to misuse it as a proxy for this at a time when the negative side effects are growing is leading us down the wrong path.

You get what you measure, and, while GPI is not the comprehensive indicator of societal wellbeing we ultimately seek, it at least accounts for the costs of economic activity. No business in its right mind would try to maximise revenues and ignore costs, or, even worse, conflate costs as revenues. GPI allows us to separate benefits and costs at the state and national level and we should be using that information to make better policy.

South Australia, with its progressive tradition, could take a national lead in instituting the GPI as a routine part of

economic reporting and join the innovative vanguard of jurisdictions around the world charting this necessary new course. If that happened, it really would be genuine progress.

Source: Policy Forum, Asia & Pacific Policy Society, 14 March 2018

https://www.policyforum.net/achieving-genuine-progress-australia/

Consult the source for author information.

Funding infrastructure: why China Is running circles around America

Ellen Brown

Shanghai City at dusk (source: flickr cc)

“One Belt, One Road” is China’s $1 trillion infrastructure initiative, and is a massive undertaking of highways, pipelines, transmission lines, ports, power stations, fiber optics, and railroads connecting China to Central Asia, Europe and Africa.

According to Dan Slane, a former advisor in President Trump’s transition team, “It is the largest infrastructure project initiated by one nation in the history of the world and is designed to enable China to become the dominant economic power in the world.” In a January 29th article titled “Trump’s Plan a Recipe for Failure, Former Infrastructure Advisor Says”, he added “If we don’t get our act together very soon, we should all be brushing up on Mandarin”.

On Monday, February 12th, President Trump’s own infrastructure initiative was finally unveiled. Perhaps to trump China’s $1 trillion mega-project, the Administration has now upped the ante from $1 trillion to $1.5 trillion, or at least so the initiative is billed. But as Donald Cohen observes in The American Prospect, it’s really only $200 billion, the sole sum that is to come from federal funding; and it’s not even that after factoring in the billions in tax cuts in infrastructure-related projects. The rest of the $1.5 trillion is to come from cities, states, and private investors; and since city and state coffers are depleted, that chiefly means private investors.

The focus of the Administration’s plan is on public-private partnerships, which as Slane notes are not suitable for many of the most critical infrastructure projects, since they lack the sort of ongoing funding stream such as a toll or fee that would attract private investors. Public-private partnerships also drive up costs compared to financing with municipal bonds.

In any case, as Yves Smith observes, private equity firms are not much interested in public assets; and to the extent that they are, they are more interested in privatizing existing infrastructure than in funding the new development that is at the heart of the president's plan. Moreover, local officials and local businessmen are now leery of privatization deals. They know the price of quick cash is to be bled dry with user charges and profit guarantees.

The White House says its initiative is not a take-it-or-leave-it proposal but is the start of a negotiation, and that the president is "open to new sources of funding." But no one in Congress seems to have a viable proposal. Perhaps it is time to look more closely at how China does it.

The deep pocket of China's state-owned banks

While American politicians seem to argue endlessly about where to find the money, China has been forging full steam ahead with its mega-projects. A case in point is its 12,000 miles of high-speed rail, built in a mere decade while American politicians were still trying to fund much more modest rail projects. The money largely came from loans from China's state-owned banks. The country's five largest banks are majority-owned by the central government, and they lend principally to the large, state-owned enterprises.

Where do the banks get the money? Basically, they print it. Not directly. Not obviously. But as the Bank of England has acknowledged, banks do not merely recycle existing deposits but actually create the money they lend by writing it into their borrowers' deposit accounts. China's central bank, the People's Bank of China, issues money for infrastructure in an even more direct way. It has turned to an innovative form of quantitative easing in which liquidity is directed not at propping up the biggest banks but at "surgical strikes" into the most productive sectors of the economy. Citigroup chief economist Willem Buiter calls this "qualitative easing" to distinguish it from the quantitative easing engaged in by Western central banks. According to a 2014 Wall Street Journal article:

" In China's context, such so-called qualitative easing happens when the People's Bank of China adds riskier assets to its balance sheet – such as by lending to the agriculture sector and small businesses and offering cheap loans for low-return infrastructure projects.

" The purpose of China's qualitative easing is to provide affordable financing to select sectors, and it reflects Beijing's intention to dictate interest rates for some sectors, Citigroup's economists said. They added that while such a policy might put inflationary pressure on the economy, the overall impact is less pronounced than U.S.-style quantitative easing."

Among the targets of these surgical strikes with central bank financing is the One Belt, One Road initiative. According to a May 2015 article in Bloomberg:

" Instead of turning the liquidity sprinkler on full-throttle for the whole garden, the PBOC is aiming its hose at specific parts. The latest innovations include plans to bolster the market for local government bonds and the recapitalisation of policy banks so they can boost lending to government-favoured projects.

" Policymakers have sought to bolster credit for small and medium-sized enterprises, and borrowers supporting the goals of the communist leadership,

such as the One Belt, One Road initiative developing infrastructure along China's old Silk Road trade routes. "

Money that need not be repaid

Critics say China has a dangerously high debt-to-GDP ratio and a "bad debt" problem, meaning its banks have too many "non-performing" loans. But according to financial research strategist Chen Zhao in a Harvard review called "China: A Bullish Case," these factors are being misinterpreted and need not be cause for alarm. China has a high debt to GDP ratio because most Chinese businesses are funded through loans rather than through the stock market, as in the US; and China's banks are able to engage in massive lending because the Chinese chiefly save their money in banks rather than investing it in the stock market, providing the deposit base to back this extensive lending. As for China's public "debt," most of it is money created on bank balance sheets for economic stimulus. Zhao writes:

" During the 2008-09 financial crisis, the U.S. government deficit shot up to about 10 percent of GDP due to bail-out programs like the TARP. In contrast, the Chinese government deficit during that period didn't change much. However, Chinese bank loan growth shot up to 40 percent while loan growth in the U.S. collapsed. These contrasting pictures suggest that most of China's four trillion RMB stimulus package was carried out by its state-owned banks. The so-called "bad debt problem" is effectively a consequence of Beijing's fiscal projects and thus should be treated as such. "

China calls this government bank financing "lending" rather than "money printing," but the effect is very similar to what European central bankers are calling "helicopter money" for infrastructure – central bank-generated money that does not need to be repaid. If the Chinese loans get repaid, great; but if they don't, it's not considered a problem. Like helicopter money, the non-performing loans merely leave extra money circulating in the marketplace, creating the extra "demand" needed to fill the gap between GDP and consumer purchasing power, something that is particularly necessary in an economy that is contracting due to shrinking global markets following the 2008-09 crisis.

In a December 2017 article in the Financial Times called "Stop Worrying about Chinese Debt, a Crisis Is Not Brewing", Zhao expanded on these concepts, writing:

" [S]o-called credit risk in China is, in fact, sovereign risk. The Chinese government often relies on bank credit to finance government stimulus programmes .... China's sovereign risk is extremely low. Importantly, the balance sheets of the Chinese state-owned banks, the government and the PBC (People's Bank of China) are all interconnected. Under these circumstances, a debt crisis in China is almost impossible. "

Chinese state-owned banks are not going to need a Wall Street-style bailout from the government. They are the government, and the Chinese government has a massive global account surplus. It is not going bankrupt any time soon.

What about the risk of inflation? As noted by the Citigroup economists, Chinese-style "qualitative easing" is actually less inflationary than the bank-focused "quantitative easing" engaged in by Western central banks. And Western-style QE has barely succeed-

Shanghai highway system (source: Political Film Blog - WordPress.com)

ed in reaching the Fed's 2 percent inflation target. For 2017, the Chinese inflation rate was a modest 1.8 percent.

What to do when Congress won't act

Rather than regarding China as a national security threat and putting our resources into rebuilding our military defenses, we might be further ahead studying its successful economic policies and adapting them to rebuilding our own crumbling roads and bridges before it is too late. The US government could set up a national infrastructure bank that lends just as China's big public banks do, or the Federal Reserve could do qualitative easing for infrastructure as the PBOC does. The main roadblock to those solutions seems to be political. They would kill the privatization cash cow of the vested interests calling the shots behind the scenes.

What alternatives are left for cash-strapped state and local governments? Unlike the Fed, they cannot issue money directly; but they can establish their own banks. Fifty percent of the cost of infrastructure is financing, so having their own banks would allow them to cut the cost of infrastructure nearly in half. The savings on infrastructure projects having an income stream could then be used to fund those critically necessary projects that lack an income stream.

For a model, they could look to the century-old Bank of North Dakota (BND), currently the nation's only publicly-owned depository bank. The BND makes 2% loans to local communities for infrastructure, far below the 12% average sought by private equity firms. Yet as noted in a November 2014 Wall Street Journal article, the BND is more profitable than Goldman Sachs and JPMorgan Chase. Before submitting to exploitation by public-private partnerships, state and local governments should give the BND model further study.

Ellen Brown is an attorney, chairman of the Public Banking Institute, and author of twelve books including Web of Debt and The Public Bank Solution. Her 300+ blog articles are posted at EllenBrown.com. This article was originally published on Truthdig.com
Source: Ellen Brown's blog site https://ellenbrown.com/2018/02/27/funding-infrastructure-why-china-is-running-circles-around-america/

The Italian economic crisis: why the euro must be abandoned

Lars Syll

Italian parliament building (source: Flickr cc)

" Investors had until recently been widely expected the European Central Bank to signal at its next meeting in two weeks' time that it would wind down QE later in the year. Now, questions are growing about how feasible it will be to withdraw the ECB's buying power at a time when investors are already driving Italian debt costs higher. Nearly half a decade ago, the Greek debt crisis turned into a crunch point for the bloc as a whole. The sheer scale of both the Italian economy and its bond market make it much more of a systemic challenge to the bloc than Greece was. Some commentators have dubbed Italy "too big to fail and too big to bail". "On a number of levels — by challenging political cohesion, by raising public and private borrowing costs, and ultimately, through growing eurosystem imbalances - events in Italy could destabilise the euro area," said Marchel Alexandrovich, senior European financial economist at Jefferies." -- Financial Times

The euro has taken away the possibility for national governments to manage their economies in a meaningful way — and in Italy, just as in Greece a couple of years ago, the people have had to pay the true costs of its concomitant misguided austerity policies.

The unfolding of the repeated economic crises in euroland during the last decade has shown beyond any doubt that the euro is not only an economic project but just as much a political one.

What the neoliberal revolution during 1980-2000 didn't manage to accomplish, the euro shall now force upon us.

But do the peoples of Europe really want to deprive themselves of economic autonomy, enforce lower wages and slash social welfare at the slightest sign of economic distress? Is increasing income inequality and a federal über-state really the stuff that our dreams are made of? I doubt it.

History ought to act as a deterrent. During the 1930s our economies didn't come out of the depression until the folly of that time — the gold standard — was thrown on the dustbin of history. The euro will hopefully soon join it.

Economists have a tendency to get enthralled by their theories and model and forget that behind the figures and abstractions there is a real world with real people. Real people that have to pay dearly for fundamentally flawed doctrines and recommendations.

" The 'European idea'—or better: ideology—notwithstanding, the euro has split Europe in two. As the engine of an ever-closer union the currency's balance sheet has been disastrous. Norway and Switzerland will not be joining the eu any time soon; Britain is actively considering leaving it altogether. Sweden and Denmark were supposed to adopt the euro at some point; that is now off the table. The Eurozone itself is split between surplus and deficit countries, North and South, Germany and the rest. At no point since the end of World War Two have its nation-states confronted each other with so much hostility; the historic achievements of European unification have never been so threatened …

" Anyone wishing to understand how an institution such as the single currency can wreak such havoc needs a concept of money that goes beyond that of the liberal economic tradition and the sociological theory informed by it. The conflicts in the Eurozone can only be decoded with the aid of an economic theory that can conceive of money not merely as a system of signs that symbolize claims and contractual obligations, but also, in tune with Weber's view, as the product of a ruling organization, and hence as a contentious and contested institution with distributive consequences full of potential for conflict …

" Now more than ever there is a grotesque gap between capitalism's intensifying reproduction problems and the collective energy needed to resolve them … This may mean that there is no guarantee that the people who have been so kind as to present us with the euro will be able to protect us from its consequences, or will even make a serious attempt to do so. The sorcerer's apprentices will be unable to let go of the broom with which they aimed to cleanse Europe of its pre-modern social and anti-capitalist foibles, for the sake of a neoliberal transformation of its capitalism. The most plausible scenario for Europe in the near and not-so-near future is one of growing economic disparities - and of growing political and cultural hostility between its peoples, as they find themselves flanked by technocratic attempts to undermine democracy on the one side, and the rise of new nationalist parties on the other. These will seize the opportunity to declare themselves the authentic champions of the growing number of so-called losers of modernization, who feel they have been abandoned by a democracy that embraced the market and globalization." -- Wolfgang Streec

Source: https://rwer.wordpress.com/ 2018/05 / 31/ italy-shows-why-the-euro-has-to-be-abandoned-if-europe-is-to-be-saved/

Australia's 'electric car revolution' won't happen automatically

Graciela Metternicht and Gail Broadbent

Electric car charging, Nice (France) (source: Flickr cc)

Electric cars might finally be having their moment in Australia, after British billionaire Sanjeev Gupta approached the South Australian government about retooling Adelaide's defunct Holden factories into a new manufacturing hub.

Recently the federal energy minister Josh Frydenberg wrote that as costs fall, Australia will "inevitably" see an electric car revolution. He cited surveys showing up to half of Australian motorists would consider going electric the next time they buy a car.

But falling costs alone won't convert consumer sentiment into actual sales. Our research – partly covered in a previous article on *The Conversation* – examines how different countries handle the three major issues: vehicle cost, recharger availability, and demystifying the public.

Recharge network

Our research shows that the most important factor that affects consumers' decision to buy an electric car is the availability of a fast recharging network, especially on long trips away from home.

This was far more important than the availability of cheaper vehicles, the second most cited barrier to uptake.

Even if people can afford the available electric car models, they also need to be assured that they can recharge conveniently and quickly on those long journeys they occasionally make during the year. We need to be ready for this transition.

While there have been commendable efforts to build infrastructure, including by Queensland's Labor government and the NRMA, there needs to be some federal coordination, for several reasons.

Firstly, standards are needed for the recharging plug; there are quite a few

types out there, and to avoid having some very unhappy investors this issue needs to be urgently addressed.

Secondly, not all electric models can accept superfast direct current charge in addition to the usual alternating current used in household electricity supplies.

Thirdly, having cars with a bigger range does not mean that you can do without rechargers on major intercity roads and in country towns.

Australia needs a comprehensive network. This means fast chargers with standardised fittings available every 50-100km on highways and in country towns. An app to help motorists find their nearest recharger - without locking them into membership of any particular company – are essential.

What about charging at home?

While a nationwide network of chargers is important, most people will wish to recharge their cars overnight. This raises another question: how many people have access to a power point within a few metres of where they park?

For people with garages, it is unlikely to be an issue. But apartment living is increasing every year in our big cities, and there are plenty of suburbs where off-street parking is not the norm.

Ideally, federal regulations would step in to ensure that apartment-dwellers don't end up having to be electric car have-nots. We can look to California for an example of legislation that can inspire Australia.

Making it easy for people to recharge at night could also allay fears about increasing demand on the electricity grid. If the cost of off-peak power at night is lower than during the peak, people will get into the habit of flicking the recharger switch on when they go to bed.

It would make sense to ensure that everybody has access to off-peak pricing; people will then act in their own financial self-interest and recharge at night if they are given the opportunity.

In fact getting everyone to go electric as quickly as possible will save us billions of dollars in imported oil. During 2016 Australia imported almost A$15 billion worth of refined petroleum, much of it for road transport. We could fund a lot of infrastructure with the money saved.

Dropping cost

As Frydenberg pointed out, electric cars are getting cheaper. The cost of a car's batteries, the biggest single factor in its overall price, is falling. It is reasonable to predict that electric cars will cost the same as their conventional combustion counterparts within a few years.

Charging with electricity is also cheaper than filling up with petrol or diesel, and especially once home solar is taken into account.

There are other hidden costs to conventional cars that need to be taken into account. For example, the burning of fossil fuels is known to cause cancer and asthma. And Australia is currently one of the only developed countries in the world without minimum fuel efficiency standards. This is an astonishing state of affairs.

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Source: The Conversation, 23 Jan 2018
https://theconversation.com/australias-electric-car-revolution-wont-happen -automatically-90442

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Global investment in renewable energy Is outshining fossil fuels

Editor

In 2016, about $297 billion was spent on renewables - compared with $143 billion on new nuclear, coal, gas and fuel-oil power plants.

Solar panels (source: Flickr cc)

A recent article in Wall Street Journal by Russell Gold [1] has reported that global spending on renewable energy is outpacing investment in electricity from coal, natural gas and nuclear power plants, driven by falling costs of producing wind and solar power.

More than half of the power-generating capacity added around the world in recent years has been in renewable sources like wind and solar, according to the International Energy Agency.

1. Wall Street Journal, 11 June 2018 https://www.wsj.com/articles/global-investment-in-wind-and-solar-energy-is-outshining-fossil-fuels-1528718400

Kate Raworth on economics for the 21st century

Editor

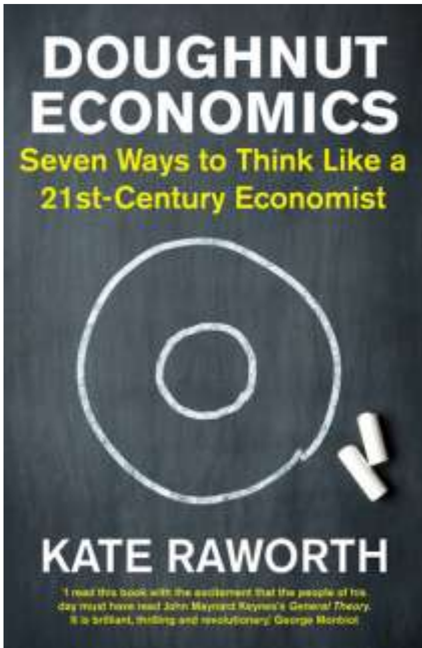
The following seven observations about the operation of modern economies and suggestions for action appear in Kate Raworth's well known book *Doughnut Economics* [see Lars Syll blog,1]:

" **1. Change the goal: from GDP growth to the Doughnut**

For over half a century, economists have fixated on GDP as the first measure of economic progress, but GDP is a false goal waiting to be ousted. The 21st century calls for a far more ambitious and global economic goal: meeting the needs of all within the means of the planet. Draw that goal on the page and – odd though it sounds – it comes out looking like a doughnut ...

" **2. See the big picture: from self-contained market to embedded economy**

Exactly 70 years ago in April 1947, an ambitious band of economists crafted a



neoliberal story of the economy and, since Thatcher and Reagan came to power in the 1980s, it has dominated the international stage. Its narrative about the efficiency of the market, the incompetence of the state, the domesticity of the household and the tragedy of the commons, has helped to push many societies towards social and ecological collapse. It's time to write a new economic story fit for this century – one that sees the economy's dependence upon society and the living world …

" **3. Nurture human nature: from rational economic man to social adaptable humans**

The character at the heart of 20th century economics -- 'rational economic man' -- presents a pitiful portrait of humanity: he stands alone, with money in his hand, a calculator in his head, ego in his heart, and nature at his feet. Worse, when we are told that he is like us, we actually start to become more like him, to the detriment of communities and the planet. But human nature is far richer than this, as the emerging sketches of our new self-portrait reveal: we are reciprocating, interdependent, approximating people deeply embedded within the living world …

" **4. Get savvy with systems: from mechanical equilibrium to dynamic complexity**

Economics has long suffered from physics envy: awed by the genius of Isaac Newton and his insights into the physical laws of motion, 19th century economists became fixated on discovering economic laws of motion. But these simply don't exist: they are mere models, just like the theory of market equilibrium which blinded economists to the looming financial crash of 2008. That's why 21st-century economists embrace complexity and evolutionary thinking instead …

" **5. Design to distribute: from 'growth will even it up again' to distributive by design**

In the 20th century economic theory whispered a powerful message when it comes to inequality: it has to get worse before it can get better, and growth will eventually even things up. But extreme inequality, as it turns out, is not an economic law or necessity: it is a design failure. Twenty-first century economists recognize that there are many ways to design economies to be far more distributive of value among those who help to generate it …

" **6. Create to regenerate: from 'growth will clean it up again' to regenerative by design**

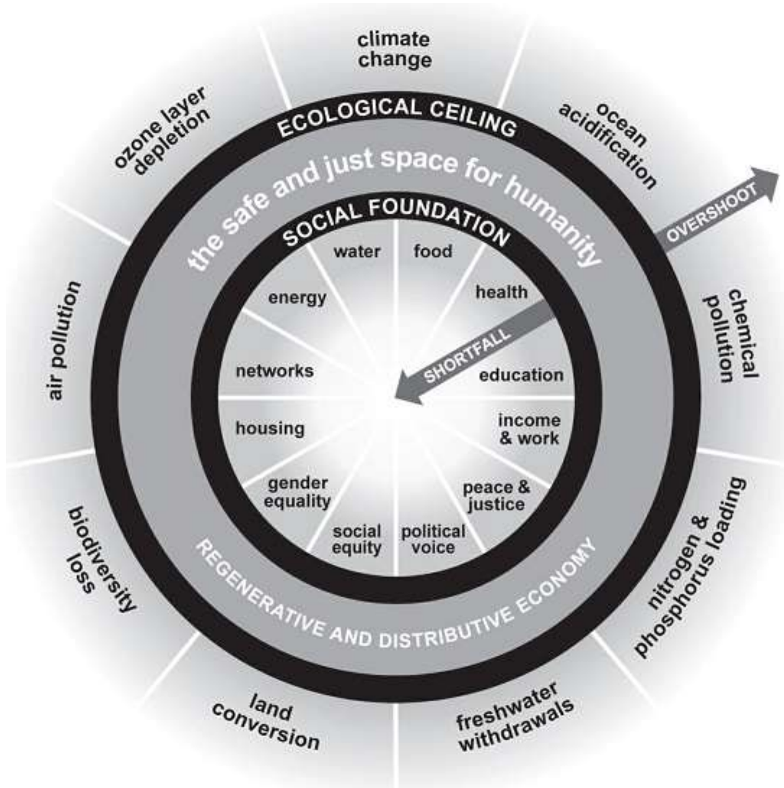
Economic theory has long portrayed a clean environment as a luxury good, affordable only for the well-off -- a view that says that pollution has to increase

before it can decline, and (guess what), growth will eventually clean it up. But as with inequality there is no such economic law: environmental degradation is the result of degenerative industrial design .... This century needs economic thinking that unleashes regenerative design in order to create a circular - not linear - economy, and to restore humans as full participants in Earth's cyclical processes of life.

" **7. Be agnostic about growth: from growth-addicted to growth-agnostic**

To the alarm of governments and financiers, forecasts for GDP growth in many high-income countries are flatlining, opening up a crisis in growth-based economics. Mainstream economics views endless GDP growth as a must, but nothing in nature grows forever, and the economic attempt to buck that trend is raising tough quest-ions in high-income but low-growth countries. That's because today we have economies that need to grow, whether or not they make us thrive. What we need are economies that make us thrive, whether or not they grow. "

1. Source:
Lars Syll**,** Real World Econ Rev, 13 June 18
https://rwer.wordpress.com/2018/06/13/economics-for-the-21st-century/



The doughnut depicts a social foundation of well-being that nobody should fall below, and an ecological ceiling that should not be exceeded. Between the two lies a safe and just space.

Commentary on Doughnut Economics by Oxfam International

Editor

The following extract is from the Oxfam International website [1]:

" ... Achieving sustainable development for nine billion people has to be high on the list of humanity's great uncharted journeys. So here's an idea for a global-scale compass to point us in the right direction -- the doughnut.

Who's stressing the planet?

The rich, not the poor. Bringing everyone alive today above the social foundation need not stress planetary boundaries.

The real source of stress is excessive resource use by roughly the richest ten percent of people in the world – backed up by the aspirations of a rapidly growing global middle class seeking to emulate those unsustainable lifestyles. Thanks to the extraordinary scale of global inequality, widespread poverty coexists with dangerous planetary stress

What about growth?

The aim of economic development must be to bring humanity into the safe and just space, ending deprivation and keeping within safe levels of resource use. Traditional growth policies have largely failed to deliver on both accounts: far too few benefits of GDP growth have gone to people living in poverty, and far too much of GDP's rise has been at the cost of degrading natural resources. "

Further reading

1. https://www.oxfam.org/

2. https://www.kateraworth.com/doughnut/

3. https://policy-practice.oxfam.org.uk/publications/the-uk-doughnut-a-framework -for-environmental-sustainability-and-social-justice-344550

Budget 2018: another unfortunate budget

Steven Hail

The Federal Government's 2018 Budget is based on a fundamentally flawed premise, which will drive the private sector further into debt.

Prime Minister Malcolm Turnbull Source: Flickr cc

Opposition Leader Bill Shorten   Source: Flickr cc

The Federal Government's Budget Statement tells us that:

'A sustainable budget supports economic growth, creates opportunity and boosts the living standards of Australians, while guaranteeing the essential services they rely on.' So far so good. A sustainable budget would indeed do that. And:

'A balanced budget enables the government to provide responsible tax relief to encourage and reward working Australians, to back businesses to invest and create jobs, and invest in nation-building infrastructure that busts congestion, makes our roads safer and gets what we produce to market.'

No, it does not do these things. This is completely incorrect. Balanced budgets do not enable our federal government to do anything at all. Relative to a fiscal deficit, a balanced budget reduces demand for the things businesses sell, prevents more jobs being created and reduces the funding for nation-building infrastructure, including green infrastructure. You could even say it limits tax cuts — if tax cuts are your thing. It doesn't enable the government to do anything useful. In the absence of a current account surplus on the balance of payments, it drives the private sector further into debt.

The statement also indicates that:

'It puts the government on the road to paying down debt, which will position Australia to take greater advantage of future economic opportunities, as well as creating a buffer to withstand any future economic shocks that could impact on the living standards of Australians.'

Wrong again. Federal government "debt" is the net financial assets of the non-government sector, in Australian dollars. That includes the private sector and the rest of the world. "Paying down debt" just means destroying Australian dollars. It does nothing to 'position Australia to take advantage of future economic opportunities'. It does nothing to create any sort of 'buffer to withstand future economic shocks'. And it does nothing to protect the living standards of Australians.

What it does is to provide an excuse for cutting government spending on public

services below where it could otherwise have been, and keep underemployment in place, when underemployment is unnecessary.

And the fourth point stated:

'All of this is reliant on a Government that builds a strong economy and lives within its means.'

Again, this is fundamentally wrong and founded on a misconception stemming from the misleading metaphor of a (currency-issuing) government, as though it operates like a (non-currency-issuing) household.

The means of the economy, including the government, are the people, skills, physical capital, technology, infrastructure and natural resources, including most importantly, the ecological services provided to us by the natural environment. They also include net imports, if the rest of the world wishes to net save in our currency. Our government does not have "means" at all, other than in this sense.

The means of the government are not determined by the amount of taxes it collects, now or in the future — except insofar as taxes are necessary to limit total government and private spending to the ecologically sustainable productive capacity of the economy.

More than likely they won't hit their target of a balanced budget anyway. It rests on optimistic assumptions about export prices, wage growth, the willingness of people – who are already up to their eyeballs in debt – to take on even more debt and the willingness of banks and financial regulators to keep pushing debt onto households, like drug pushers selling heroin.

The point is that in an economy with many unmet needs for public investment, serious problems with close to 15% unemployment and underemployment, long-term unemployment, high youth unemployment and with one of the two highest ratios of household debt to GDP in the world, a balanced budget commitment or, worse still, an aspiration for fiscal surpluses, is crazy.

A budget surplus drains safe dollars from the financial system. Who in their right mind would want to do that in Australia under present circumstances? The Turnbull Government and our major opposition parties – it must be said – still have their macroeconomics all wrong.

They think they can run out of dollars. They can't. They think they need our dollars. They don't. We need their dollars. They must think we are the currency issuers. We aren't. They are.

Once our governments remember this, because they used to know it but seem to have forgotten, we can start to have a sensible conversation about the appropriate role for the government and its budget to play in a 21st Century economy, in one of the richest societies the world has ever known — albeit one with major ecological and social challenges ahead.

Right now, the nation's politicians and the serious people in suits who are paid to comment on politics, seem to have no idea at all how a modern monetary system works. This is unfortunate.

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Source: Independent Australia, 9 May 2018 https://independentaustralia.net/politics/politics-display/budget-2018-another-unfortunate-budget,11480

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Letters

From John Rawson (New Zealand)

Scientific method in economics

I believe the May-June “Review” is one of the best that has been produced yet. I appreciate greatly the summary of Michael Hudson’s book, with its depiction of neocolonialism (by big business), which I have for some time considered should be the correct name for what is called neoliberalism.

The Walton/Hermann dialogue on bank income and spending makes several points about money fully clear, while the brief summary of the Bank of England statement serves to establish clearly that banks create money when they lend or spend.

The general trend of Lars Syll’s item is good, but his description of scientific method needs further detail, because economics needs to adopt similar honest methods in full. Its procedure is:

- Collect information and attempt to put it into easily understood order.
- Form a hypothesis to explain it. It may be a statement in words or have some substantive form, at which stage it is classed as a ”model”. A mathematical statement qualifies as a model.
- Search for data to disprove it.
- When a model is derived that seems to stand up to antagonistic reasoning, publish it for others to criticise.

A hypothesis that receives fairly general support becomes a theory, but it is never proved. It remains open to being modified or even totally discarded in the light of further factual knowledge.

Prof Syll also refers to a ‘Nobel prize’ winning economist. Perhaps even quoting this in inverted commas is beneath the credibility level needed for this publication; it could refer correctly to the “Bank of Sweden Prize” (“in honour of Alfred Nobel”). A device very obviously designed to reward people who follow banker-approved lines of thought.

from Greg Reid (NSW)

Taxing the robots

Wealth inequality is growing at an alarming rate. International tax evasion is endemic. Wage incomes remain stagnant and are increasingly insecure. On top of this, a tsunami of automation is building that will displace skilled and unskilled workers alike. All of this is partly in consequence to how taxes are levied. New approaches are needed.

In this new century the taxation burden is falling increasingly on wages and acts as a disincentive to employment. Current taxation favours capital and automation by providing numerous offsets for interest, replacements, energy, licensing etc and globalisation offers ample opportunity to park apparent profits in tax havens. Many of our largest companies and richest individuals pay no tax at all.

The trend to robots and automation is now too widespread to be halted but promises of new types of employment must be treated with scepticism. In a global digital economy there is no reason to assume that the new jobs will arise here or in sufficient numbers to avoid severe social and political consequences.

An individual or company owning many assets but with no “assessable” income still benefits from public infrastructure,

law enforcement, regulation, health services etc. It is time to redefine tax obligation as the cost of accessing our natural assets, our stable society and our valuable market.

Tax obligation should be assessed on a number of interacting scales covering turnover, capital, profit and wages that together set a fee to operate in our economy. Each scale could partly offset against the other. A labour intensive company could offset employee taxes against its other obligations making employees competitive with automation or unregulated internet contractor services. A capital intensive trust would still pay tax even if there is zero apparent profit. A highly geared company would still pay some tax on turnover but less if it had more employees.

In many ways our current system of direct and indirect taxation is already evolving in this direction however the approach is piecemeal with a multitude of loopholes and no minimum access fee to our economy. An example is the proposed internet advertising levy targeted at Google and Facebook but it will only apply to advertising paid in Australia and not reflect the total value of our market to the internet giants.

Entities engaged in financial speculation add to market volatility and asset inflation and yet are currently exempt from any form of turnover tax. There are many examples where our current system fails to recover economic costs let alone a basic fee to access the public services and assets that underpin our society. Tax must be reinstated as a cost of doing business here rather than a flexible accounting item linked only to apparent profit.

A concern likely to be raised is a precipitous flight of capital from Australia. But there is no point in attracting capital if current tax structures help channel that investment into socially destructive trends. Provided taxes are not crippling then capital will stay because of our advantages of stable society, good infrastructure, well developed economy and extensive environmental assets.

In the face of massive global change new tax structures are urgently needed to help save the more equitable features of our society. There are drawbacks to different proposals but ERA is an ideal forum to explore options and put them to the scrutiny of a highly qualified economic audience.

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He wants to focus on what he calls 'cultural issues'. That makes sense, because when you're going to rob people blind you don't want to have them focus their attention on economic issues. — Noam Chomsky, Class Warfare: Interviews with David Barsamian

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