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CONTENTS

Steve Keen	A thought experiment on budget surpluses	3
John Coulter	(Book review) Econobabble, by Richard Denniss	8
Editor	Economists' understanding of competition	9
Editor	Monopoly's new era	9
Ellen Brown	Bank of North Dakota soars despite oil bust	10
Greg Reid	Rise of the prosumer	13
Lars Syll	The tiny little problem with Chicago economics	15
Dennis Dorney	News and views from NZ: Housing -- again	17
Editor	The energy and transportation revolution	19
Michael Hudson	(Interview) Closing the Panama tax haven	20
Editor	Panama papers source: Intentions behind data leak	24
Editor	IMF admits that neoliberalism causes inequality	25
	Letters Section	27
Richard Giles	A comedy without a name	27
Tony Troughton-Smith	Monbiot on neoliberalism	27
Lowell Manning	Monbiot on neoliberalism	27
John Coulter	Monbiot on neoliberalism	28
Darian Giles	Barter is exchange without money	28
Editor	OECD warning: Australian real estate risks contraction	30
Peter Radford	Practical economics is radical?	30
Patricia Ranald	Trans-Pacific trade deal should be an election issue	32

Articles in this issue emphasise that ...

The Panama Papers scandal has revealed corruption at a very high level. There will be more on this in the next issue. Economic headwinds blowing through this country include the likely impact of the TPP, the ongoing foreign purchases of Australian land, property and businesses, the unaffordability of housing for many young people, the risk of future real estate contraction, the contraction of our manufacturing industry, and the failure of governments to embrace the developing opportunities for investing in clean and green energy technologies.

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A thought experiment on budget surpluses

Steve Keen

UK Prime Minister David Cameron
(THIERRY CHARLIER/AFP/Getty Images)

While conservative parties - like the US Republicans, UK Tories, and Australia's Liberals - are more emphatic on this point than their political rivals, there's little doubt that all major political parties share the belief that the government should aim to have low government debt, to at least balance its budget, and at best to run a surplus. As the UK's Prime Minister put it in 2013:

"Would you want a government that is not targeting a surplus in the next Parliament, that just said no, we're going to run overdrafts all the way through the next parliament," he told BBC political editor Nick Robinson.

"I don't think that would be responsible. So the other parties are going to have to answer this question, 'Do you think it's right to have a surplus?' I do." (David Cameron: It's responsible to target budget surplus", BBC October 1, 2013)

So is it "right to run a surplus"? Let's consider this via a little thought experiment. The numbers are far-fetched, but they're chosen just to highlight the issue:

Imagine an economy with a GDP of $100 per year, where the money supply is just $1 - so that $100 of output each year is generated by that $1 changing hands 100 times in a year. And imagine that this country's government has accumulated debt of $100 - giving it a debt to GDP ratio of 100% - and it decides to reduce it by running a surplus that year of 1% of GDP. And imagine that it succeeds in its target.

What will this country's GDP the following year, and what will happen to the government's debt to GDP ratio?

The GDP will be zero, and the government's debt to GDP ratio will be infinite.

Huh? The outcomes of this policy are the opposite of its intentions: a policy aimed at reducing the government's debt to GDP ratio increased it dramatically; and what is perceived as "good economic management" actually destroys the economy. What went wrong?

The target of running a surplus of 1% of

GDP means that the country's government collects $1 more in taxes than it spends. This $1 surplus of taxation over spending takes ***all*** of the money in the economy out of circulation, leaving the population with no money at all. The physical economy is still there, but without money, no-one can buy anything, and the economy collapses. The government can pay its debt down by $1 as planned, but the GDP of the economy is now zero, so the government debt to GDP ratio has gone from $100/$100 or 100%, to $99/$0 or infinity.

As I noted, the numbers are far-fetched, but the principle is correct: *a government surplus effectively destroys money*. A government surplus, though it might be undertaken with the noble aim of reducing government debt, and the noble intention of helping the economy to grow, will, without countervailing forces from elsewhere in the economy, increase the government's debt to GDP ratio, and make the economy smaller (if the rate of turnover of money - it's so-called "velocity of circulation" - is greater than one).

This thought experiment illustrates the logical flaw in the conventional belief that running a government surplus is "good economic management": it ignores the vital relationship between government spending and the money supply. Unless the public finds some other way to compensate for the effect of a government surplus on the money supply, the surplus will reduce GDP by more than it reduces government debt.

But surely my thought experiment can't be right, can it, because haven't there been cases where governments have run surpluses and the economy has boomed? Yes there have been, because in the real world, the public can counter the destruction of money by a government surplus in two ways: they can borrow money from the banks, or they can run a trade surplus with the rest of the world (I'll focus on a domestic economy here, leaving the impact of the trade balance for another article).

Just as a government surplus destroys money, lending by banks creates it (if new loans exceed the repayment of old loans by the public). Let's extend our thought experiment to consider this possibility:

Imagine that households and businesses in this hypothetical economy started with zero debt, and in the year that the government runs a 1% surplus, the public decides to go into debt to the banks to the tune of 2% of GDP, or $2.

What happens to the money supply, GDP, the government's debt to GDP ratio, *and the private sector's debt to GDP ratio*, the next year?

The total amount of money in the economy rises by $1 - minus $1 for the budget surplus, plus $2 from net lending by banks - and if the rate of turnover remains constant, then GDP will rise from $100 to $200. The government's debt ratio will fall by more than it expected: debt will be cut from $100 to $99 as planned, but GDP will double to $200, so that the government's debt ratio will fall by more than planned, from $100/$100 or 100%, to $99/$200 or 49.5%. But the private sector's debt will rise from $0 (for a private debt ratio of $0/$100 or 0%) to 1% ($2/$200).

Of course, it's possible that the rate of turnover of money will fall, because households and businesses now think that they should spend less, and save some money to enable them to repay their debt in the future. Let's imagine that the turnover rate falls by 10% - from 100 times a year to 90. Then GDP

rises from $100 (100 times $1) to $180 (90 times $2), which is not as good, but it still looks like a great economic success. The government debt ratio is $99/$180 or 55%, and the private sector's debt ratio is $2/$180, or 1.11%.

With this outcome, everyone in the economy has exceeded their expect-ations: the government, which planned to reduce its debt ratio by 1% (from 100% of GDP to 99%) has instead reduced it by 45% (from 100% to 55%). GDP has increased by 80%, and the private sector, which planned for a debt ratio of 2%, has instead found itself with a debt ratio of just 1.1%. And the banks, which had no "skin in the game" before this year, end it with the non-bank public paying it interest on $2; with a 3% rate of interest, the banks earn $0.06. It ain't much, but it's better than nothing.

Such a favourable outcome elicits the obvious conclusion: if this worked so well in year 1, let's do it again in year 2! So the second year of this experiment in "sound finance" goes like this:

The government aims for a 1% surplus again - which is now $1.80. The private sector aims to borrow 2% of GDP again - which is $3.60. And the turnover rate falls again from 90 times a year to 81, as the private sector tries to save to allow debt repayment in future.

The outcome is: the money supply rises by $1.80 (the $3.60 created by the banks' lending to the public, minus the $1.80 taken out of the economy by the government surplus) to $3.80; govern-ment debt now falls from $9 to $7; and with turnover at 81 times a year, GDP is now $307.80.

This more realistic thought experiment doesn't alter the conclusion of the first - that a government surplus destroys money, and on its own would cause GDP to fall if the velocity of circulation of money was greater than one - but it shows that this process can be offset by private sector borrowing, and in the early days, the outcome looks really good.

But it doesn't stay that way, because even though private sector borrowing keeps the money supply growing despite the government's permanent surplus, the decline in velocity ultimately reduces GDP.

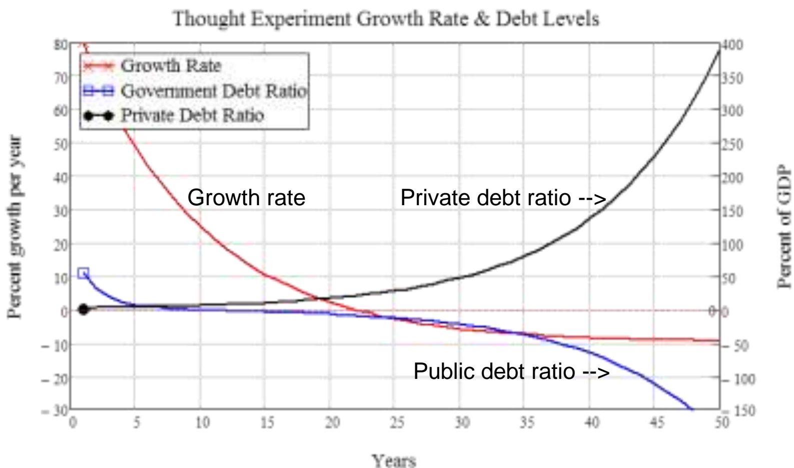

Fig 1: What works with low private debt fails with high private debt

So how realistic is this thought experiment? It's far from the sort of complete dynamic model that I prefer building, but the basic points it makes do apply in the real economy:

1. Far from "saving money", government surpluses actually destroy it;

2. Absent a trade surplus, the only way to counter this is by the private sector borrowing as much as or more money into existence than the government destroys by its surplus;

3. So an economy can grow if the government runs a surplus, but only at the expense of a rising private sector debt to GDP ratio; and ..

4. As common-sense implies and history confirms, this can't and won't keep growing forever. At some point - for most countries, at between 150% and 250% of GDP - it stops growing. Then private sector deleveraging compounds the effect of a government surplus, also destroying money; finally,

5. Velocity has had a secular tendency to fall since the 1980s, when private sector debt (in America) reached the significant level of 95% of GDP - see Figure 2. There's every reason to think that this declining velocity has been in response to rising private sector indebtedness.

The unrealistic parts of this thought experiment relate to the ability of a government to run a surplus in the first place. Since both government taxation and government spending are to a large extent functions of the economy's level of performance, governments that want to run surpluses can normally only do so when the economy is booming because of a rapid rate of increase in private debt. This was the secret to Spain's period of government surpluses before the financial crisis, as Figure 3 vividly illustrates.

Fig 2: The rate of turnover of money has been falling since 1980

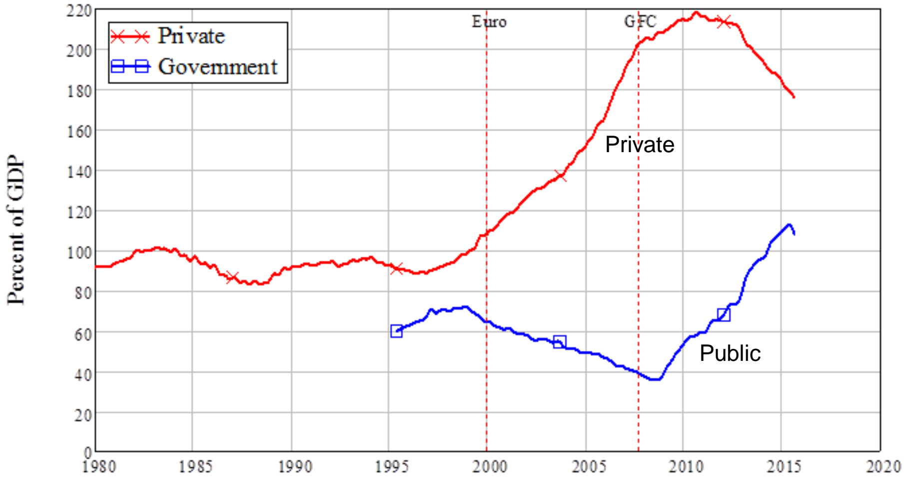

Fig 3: Spain reduced government debt in the 2000s only because private debt ballooned

When the private debt bubble burst in the Global Financial Crisis and the private sector started to seriously de-lever, Spain's government debt skyrocketed, despite the EU's insane Maastricht Treaty rules (and this experience was replicated in virtually every OECD economy). Then attempts by the government to return to surplus by austerity caused the economy to shrink even faster.

So in answer to David Cameron's question from 2013, "Do you think it's right to have a surplus?", my answer is "No, I don't"-- because unlike Dave, I understand that running a government surplus destroys money. The conventional belief that governments should run surpluses is not "sound finance", but an unsound failure to understand capitalism.

Source: Forbes website
http://www.forbes.com/sites/stevekeen/2016/03/13/a-thought -experiment-on-budget-surpluses/#13706cd431b1

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Dr Steve Keen is Professor of Economics and Head of the School of Economics, Politics and History at Kingston University in London, and is an ERA patron.

If the ordinary wage-earner worked four hours a day, there would be enough for everybody and no unemployment -- assuming a certain very moderate amount of sensible organization. This idea shocks the well-to-do, because they are convinced that the poor would not know how to use so much leisure. In America men often work long hours even when they are well off; such men, naturally, are indignant at the idea of leisure for wage-earners, except as the grim punishment of unemployment; in fact, they dislike leisure even for their sons. -- Bertrand Russell

Book Review

Econobabble: How to decode political spin and economic nonsense, by Richard Denniss

John Coulter

This book delves into an important matter, how pervasively we are deliberately and misguidedly misled by most of the economic debate and policy which daily surrounds us. However, I believe the book is too kind to economists and to economics more generally, and is pervaded with a left slant that may unfortunately stop some readers from hearing its message.

In the earlier chapters I found too many of the examples provided were drawn from contemporary Australian Coalition speeches and reports. And though the quotes do show some flaws in the use of economics (flaws often exploited for self-interest) the same flaws can be found more widely and over a much longer time scale. Every evening on ABC TV News we find examples of the same gobbledegook. Quoting from these would have been more neutral. Thus it would have been better to dissociate the flaws from who currently benefits until further into the book. For this reason I would recommend that the very good last chapter be read first.

I thought Richard excuses economists and economics too much for their part in this mess and lays the blame most heavily on politicians and economic commentators, ignoring the very long history of deliberate distortion among academic economists.

Economics as a discipline began as a description of how the production and distribution of wealth was practised in the early days of the emergence of capitalism, and then morphed into a belief that this description was the natural order of things, and thence into a defence of that order because it happened to serve the interests of the most powerful – leading to the doctrine of 'the invisible hand'.

It is worth looking closely at the rise of Georgian (Henry George, 'Progress and Poverty' 1879) thinking, which sought to place taxation primarily on land (or in today's terms, the profits extracted from natural resources -- especially non-renewable resources). Classical economics took land, capital and labour as the three primary inputs to the economic engine. For a time George was more widely recognised than was Marx, but his beliefs and his policy proposals were strongly resisted by the U.S. land and industrial barons of the time who went about creating university faculties of economics around persons who espoused that capital and labour were the primary inputs, capital and land being interchangeable. Thus nature and biophysical reality were written out of economics, and this omission continues to dominate most economic discourse today.

Yes, econobabble infects almost all economic discussion but it can be found as much in the mouths of Labor and Coalition pollies, as with journalists and economic commentators. Its eradication requires a radical shift in mainstream academic economics.

Keynes had no formal training in economics yet came closest to changing its direction. It's a pity he had no formal training in thermodynamics or the shift may have been more radical. His remark that formal education was 'the inculcation of the incomprehensible into

the indifferent by the incompetent' is most relevant in this situation. Economics needs to be reinvented by those with thermodynamic, biophysical and anthropological understanding.

Dr John Coulter is a scientist, former senator for SA, former vice president of Australians for a Sustainable Population, and an ERA member living in S A.

Economists' understanding of competition

Editor

The following extract is from an article by Dr Evan Jones which appeared in *The Bulletin* more than twenty years ago, entitled *Down with Economists*. We reproduce it now as a matter of interest, and because we don't believe anything much has changed, since that article was written, in the mainstream economists' understanding of the market mechanism.

" [amongst economists ..] competition itself is poorly understood. Two dominant versions exist. The first version depends on large numbers of small firms inhibiting the accession of any to a position of market dominance. This is the stuff of the textbooks. Version two depends on all firms of whatever size and product fighting it out to the death (Social Darwinism). Its second version has much currency in right-wing think tanks.

" The first version requires strong regulatory action for its success. The second insists that regulatory action is what inhibits the system from working. Public representations to the electorate of the advantages of competition mix these versions unashamedly. Both can't be right. The details matter as to what a Trade Practices Commission might do or whether we have a Trade Practices Commission at all. "

Dr Evan Jones is a research economist attached to the University of Sydney, Dept. of Political Economy, and is an ERA patron.

Monopoly's new era

Editor

The following extract is from an article by Prof Joseph Stiglitz which appeared in Project Syndicate on 17 May 2016:

" For 200 years, there have been two schools of thought about what determines the distribution of income -- and how the economy functions. One, which emanates from Adam Smith and the nineteenth-century liberal economists, focuses on competitive markets. The other, cognisant of how Smith's brand of liberalism leads to rapid concentration of wealth and income, takes as its starting point unfettered markets' tendency toward monopoly. It is important to understand both, because our views about government policies and existing inequalities are shaped by which of the two schools of thought one believes provides a better description of reality...

" The implications of this are profound. Many of the assumptions about market economies are based on acceptance of the competitive model, with marginal returns commensurate with social contributions. This view has led to hesitancy about official intervention: If markets are fundamentally efficient and fair, there is little that even the best of governments could do to improve matters. But if markets are based on exploitation, the rationale for laissez-

faire disappears. Indeed, in that case, the battle against entrenched power is not only a battle for democracy; it is also a battle for efficiency and shared prosperity. "

Prof Joseph Stiglitz was chief economist at the World Bank until Jan 2000. He is currently at Columbia University business school. He was awarded the 'Nobel' economics prize in 2001.

Source: Project Syndicate, 17 May 2016 <https://www.project-syndicate.org/commentary/high-monopoly-profits-persist-in-markets-by-joseph-e--stiglitz-2016-05>

Bank of North Dakota soars despite oil bust: blueprint for California?

Ellen Brown

Despite North Dakota's collapsing oil market, its state-owned bank continues to report record profits. This article looks at what California, with fifty times North Dakota's population, could do following that state's lead.

Even amid falling oil prices, by increasing its lending into a collapsing economy, the state-owned Bank of North Dakota has helped prop the economy up. (Photo: AP/Dale Wetzel)

In November 2014, the Wall Street Journal reported that the Bank of North Dakota (BND), the nation's only state-owned depository bank, was more profitable even than J.P. Morgan Chase and Goldman Sachs. The author attributed this remarkable performance to the state's oil boom; but the boom has now become an oil bust, yet the BND's profits continue to climb. Its 2015 Annual Report, published on April 20th, boasted its most profitable year ever.

The BND has had record profits for the last 12 years, each year outperforming the previous year. In 2015 its reported earnings were $130 million, with total assets $7.4, capital $749 million, and a return on investment of a whopping 18.1%. Its lending portfolio grew by $486 million, a 12.7% increase, with growth in all four of its areas of concentration: agriculture, business, residential property, and student loans.

By increasing its lending into a collapsing economy, the BND has helped prop the economy up. In 2015, it introduced new infrastructure programs to improve access to medical facilities, remodel or construct new schools, and build new road and water infrastructure. The Farm Financial Stability Loan was introduced to assist farmers affected by low

commodity prices or below-average crop production. The BND also helped fund 300 new businesses.

Those numbers are most impressive considering that North Dakota has a population of only about 750,000, just half the size of Phoenix or Philadelphia. Compare that to California, the largest state by population, which has more than fifty times as many people as North Dakota.

What could California do with its own bank, following North Dakota's lead? Here are some possibilities, including costs, risks and potential profits.

Getting Started: forming a bank without cost to the taxpayers

A bank can be started in California with an initial capitalization of about $20 million. But let's say the state wants to do something substantial and begins with a capitalization of $1 billion.

Where to get this money? One option would be the state's own pension funds, which are always seeking good investments. Today state pension funds are looking for a return of about 7% per year (although in practice they are getting less). One billion dollars could be raised more cheaply with a bond issue, but tapping into the state's own funds would avoid increasing state debt levels.

At a 10% capital requirement, $1 billion in capitalization is sufficient to back $10 billion in new loans, assuming the bank has an equivalent sum in deposits to provide liquidity.

Where to get the deposits? One possibility would be the California Pooled Money Investment Account (PMIA), which contained $67.7 billion earning a modest 0.47% as of the quarter ending March 31, 2016. This huge pool of rainy day, slush and investment funds is invested 47.01% in U.S. Treasuries, 16.33% in certificates of deposit and bank notes, 8.35% in time deposits, and 8.91% in loans, along with some other smaller investments. A portion of this money could be transferred to the state-owned bank as its deposit base, on which 0.5% could be paid in interest, generating the same average return that the PMIA is getting now.

For our hypothetical purposes, let's say $11.1 billion is transferred from the PMIA and deposited in the state-owned bank. With a 10% reserve requirement, $1.1 billion would need to be held as reserves. The other $10 billion could be lent or invested. What could be done with this $10 billion? Here are some possibilities.

Slashing the cost of infrastructure

One option would be to fund critical infrastructure needs. Today California and other states deposit their revenues in Wall Street banks at minimal interest, then finance infrastructure construction and repair by borrowing from the Wall Street bond market at much higher interest. A general rule for government bonds is that they double the cost of projects, once interest is paid. California and other states could save these costs simply by being their own bankers and borrowing from themselves; and with their own chartered banks, they could do it while getting the same safeguards they are getting today with their Wall Street deposits and investments. The money might actually be safer in their own banks, which would not be subject to the bail-in provisions now imposed by the G-20's Financial Stability Board on giant "systemically risky" banking institutions.

To envision the possibilities, let's say California decided to fund its new bullet train through its state-owned bank. In

2008, Californians approved a bond issue of $10 billion as the initial outlay for this train, which was to run from Los Angeles to San Francisco. At then-existing interest rates, estimates were that by the time the bonds were paid off, California taxpayers would have paid an additional $9.5 billion in interest.

So let's assume the $10 billion in available assets from the state-owned bank were used to repurchase these bonds. The state would have saved $9.5 billion, less the cost of funds.

It is not clear from the above-cited source what the length of the bond issue was, but assume it was for 20 years, making the interest rate about 3.5%. The cost of one billion dollars in capital for 20 years at 7% would be $2.87 billion, and the cost of $11.1 billion in deposits at 0.5% would be $1.164 billion. So the total cost of funds would be $4.034 billion. Deducted from $9.5 billion, that leaves about $5.5 billion in savings or profit over 20 years. That's $5.5 billion generated with money the state already has sitting idle, requiring no additional borrowing or taxpayer funds.

What about risk? What if one of the cities or state agencies whose money is held in the investment pool wants to pull that money out? Since it is held in the bank as deposits, it would be immediately liquid and available, as are all deposits. And if the bank then lacked sufficient liquidity to back its assets (in this case the repurchase of its own bonds), it could in the short term do as all banks do – borrow from other banks at the Fed funds rate of about 0.35%, or from the Federal Reserve Discount Window at about 0.75%. Better yet, it could simply liquidate some of the $56 billion remaining in the PMIA and deposit that money into its state bank, where the funds would continue to earn 0.5% interest as they are doing now.

Assume that from its $5.5 billion in profits, the bank then repaid the pension funds their $1 billion initial capital investment. That would leave $4.5 billion in profit, free and clear – a tidy sum potentially generated by one man sitting in an office shuffling the computer entries, without new buildings, tellers, loan officers or other overhead. That capital base would be sufficient to capitalize about $40 billion in new loans, all generated without cost to the taxpayers.

A California New Deal

The bullet train example is a simple way to illustrate the potential of a state-owned bank, but there are many other possibilities for using its available assets. As the BND did after building up its capital base, the bank could advance loans at reasonable rates for local businesses, homeowners, students, school districts, and municipalities seeking funds for infrastructure.

These loans would be somewhat riskier than buying back the state's own bonds, and they would involve variable time frames. Like all banks, the state bank could run into liquidity problems from borrowing short to lend long, should the depositors unexpectedly come for their money. But again, that problem could be fixed simply by liquidating a portion of the money remaining in the PMIA and depositing it in the state-owned bank, where it would earn the same 0.5% interest it is earning now.

Here is another intriguing possibility for avoiding liquidity problems. The bank could serve simply as intermediator, generating loans which would then be

sold to investors. That is what banks do today when they securitize mortgages and sell them off. The risk of loss is imposed on the investors, who also get the payment stream; but the bank profits as well, by receiving fees for its intermediating functions.

The federally-owned Reconstruction Finance Corporation (RFC) did something similar when it funded a major portion of the New Deal and World War II by selling bonds. This money was then used for loans to build infrastructure of every sort and to finance the war. According to a US Treasury report titled *Final Report of the Reconstruction Finance Corporation* (Government Printing Office, 1959), the RFC loaned or invested more than $40 billion from 1932 to 1957 (the years of its operation). By some estimates, the sum was about $50 billion. A small part of this came from its initial capitalization. The rest was borrowed – $51.3 billion from the US Treasury and $3.1 billion from the public. The RFC financed roads, bridges, dams, post offices, universities, electrical power, mortgages, farms, and much more, while at the same time making money for the government. On its normal lending functions (omitting such things as extraordinary grants for wartime), it wound up earning a total net income of $690 million.

North Dakota has led the way in demonstrating how a state can jump-start a flagging economy by keeping its revenues in its own state-owned bank, using them to generate credit for the state and its citizens, bypassing the tourniquet on the free flow of credit imposed by private out-of-state banks. California and other states could do the same. They could create jobs, restore home ownership, rebuild infrastructure and generally stimulate their economies, while generating hefty dividends for the state, without increasing debt levels or risking public funds – and without costing taxpayers a dime.

Source: Common Dreams, 02 May 2016
http://www.commondreams.org/views/2016/05/02/bank-north-dakota-soars-despite-oil-bust-blueprint-california

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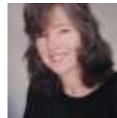

Ellen Brown is an attorney and founder of the Public Banking Institute. She is the author of twelve books, including the best-selling Web of Debt.

Editorial comment: It has been drawn to our attention that the accounting in the above article by Ellen Brown may not be precise, and a correction would be in order. However such a correction does not in any way undermine the basic message.

Rise of the prosumer

Greg Reid

Subsidies lowering cost barriers to roof top solar have created a new type of consumer, the “prosumer” and created a powerful driver of sustainability in the electricity market. The prosumer both produces and consumes and is no longer content to be a price taker. As grid power prices have risen to protect profit margins, prosumers have led a ground swell of change through the community energy companies, micro-grids and battery storage. Together, these changes are transforming the power grid into something more diversified and sustainable.

Prosumers are also driving a wave of change in transport since they are well placed to take advantage of electric

vehicles. Solar home owners can use electric vehicles either as mobile battery storage or as a means of turning their excess power into fuel. In April this year, the Model 3 Tesla electric vehicle was swamped with 320,000 orders in the first week, the largest pre-order of any new vehicle, of any type.

The advent of compulsory superannuation has created yet another type of prosumer. Initially designed to sustainably finance retirement for an aging population, superannuation has thrust consumers indirectly into the arena of finance and investment. A “Divestment” movement has created demand within the superannuation market for sustainable and ethical investment streams that help build a better future in which to retire. More superannuation funds are providing this type of investment stream not just to meet demand but because the returns have been insulated from the volatility of fossil fuel markets.

Superannuation is a compulsory form of saving that on a personal balance sheet would appear to make an individual more independent of debt and insurance products. And it may be possible to push sustainability reforms in both housing and insurance by using the market power of superannuation without threatening retirement income.

When purchasing a home, the top 20% of the price is at risk to market volatility. The next 30% would only be at risk from a severe market down turn, while the remaining 50% is relatively secure. The Super balance of a couple might be used to offset the secure 50% of a home purchase ie the Super fund would have first lien on resale and would proportionally benefit from capital gain.

Banks might still require a deposit to offset the highest risk part of the home purchase price and might expect a slightly higher premium but the overall loan would be reduced. Banks would be forced to compete in home finance with Super funds whose interests align more to the long term benefit of the home owner. Effectively the home owner would be an indirect prosumer in home finance via their Super fund.

Insurance is another financial risk product where Super funds could play a prosumer role by offering low cost brokerage that in the event of a claim, draws firstly on up to $10,000 of super savings. Acting like a large “excess” , this approach would deter most small claims and should substantially lower premiums. More importantly, both consumers and Super funds would have an incentive to avoid claims by maintaining assets and being safety and security conscious. The Super funds would act as prosumer advocates by negotiating better premiums for low rates of claims and by forcing prompt settlement of major claims.

The current insurance market is unsustainable, especially in a world of climate change. Premium reductions for risk minimisation are trivial or non-existent. Instead, insurance companies prefer to hike premiums as risks increase and routinely obstruct or refuse the major claims. Victims are often left with no choice but to dip into super savings at a substantial financial penalty and consumers have no means to know whether one insurer is more likely to pay up than another.

Unlike insurance companies, Super funds have a commercial and charter interest in the financial well being of their members. The funds have an interest not only in member recovery after natural disasters but in encouraging preparation and maintenance of homes for weather extremes. As share-

holders in insurance companies and as prosumer representatives, Super funds could drive substantial reform toward a fairer and more sustainable insurance industry.

Prosumer approaches may not be applicable in all types of industries but rooftop solar alone is driving major change in how consumers view their market role. Prosumer strategies in a few more industries could encourage a broader sentiment across the economy where sustainability and balanced incentives are an expected part of all market structures.

Greg Reid is an ERA member living in NSW

The tiny little problem with Chicago economics

Lars Syll

The following is the opinion of the U.S. economist John Cochrane:

" Every dollar of increased government spending must correspond to one less dollar of private spending. Jobs created by stimulus spending are offset by jobs lost from the decline in private spending. We can build roads instead of factories, but fiscal stimulus can't help us to build more of both. This form of "crowding out" is just accounting, and doesn't rest on any perceptions or behavioral assumptions. "

And the tiny little problem? It's utterly and completely wrong!

What Cochrane is reiterating here is nothing but Say's law, basically saying that savings are equal to investments, and that if the state increases investments, then private investments have to come down ('crowding out'). As an accounting identity there is of course nothing to say about the law, but as such it is also totally uninteresting from an economic point of view.

My Swedish forerunners - Erik Lindahl and Gunnar Myrdal - stressed more than 80 years ago that it's really a question of *ex ante* and *ex post* adjustments. And as further stressed by a famous English economist about the same time, what happens when *ex ante* savings and investments differ, is that we basically get output adjustments. GDP changes and so makes saving and investments equal ex post. And this, *nota bene*, says nothing at all about the success or failure of fiscal policies!

William Vickrey's view

The following extract is from *Fifteen Fatal Fallacies of Financial Fundamentalism,* by William Vickrey:

"[According to conventional economics] government borrowing is supposed to "crowd out" private investment.

" However the current reality is that on the contrary, the expenditure of the borrowed funds (unlike the expenditure

of tax revenues) will generate added disposable income, will enhance the demand for the products of private industry, and will make private investment more profitable. As long as there are plenty of idle resources lying around, and monetary authorities behave sensibly (instead of trying to counter the supposedly inflationary effect of the deficit), those with a prospect for profitable investment can be enabled to obtain financing

" Under these circumstances, each additional dollar of deficit will in the medium long run induce two or more additional dollars of private investment. The capital created is an increment to someone's wealth and ipso facto someone's saving. 'Supply creates its own demand' fails as soon as some of the income generated by the supply is saved, but investment does create its own saving, and more. Any crowding out that may occur is the result, not of underlying economic reality, but of inappropriate restrictive reactions on the part of a monetary authority in response to the deficit. "

In a lecture about the U.S. recession, Robert Lucas gave an outline of what the new classical school of macroeconomics today thinks on the latest downturns in the US economy and its future prospects.

Lucas starts by showing that real U.S. GDP has grown at an average yearly rate of 3 per cent since 1870, with one big dip during the Depression of the 1930s and a big – but smaller – dip in the recent recession.

After stating his view that the U.S. recession that started in 2008 was basically caused by a run for liquidity, Lucas then goes on to discuss the prospect of recovery from where the U.S. economy is today, maintaining that past experience would suggest an "automatic" recovery, if the free market system is left to repair itself to equilibrium unimpeded by social welfare activities of the government.

As could be expected there is no room for any Keynesian type considerations on eventual shortages of aggregate demand discouraging the recovery of the economy. No, as usual in the new classical macroeconomic school's explanations and prescriptions, the blame game points to the government and its lack of supply side policies.

Lucas is convinced that what might arrest the recovery are higher taxes on the rich, greater government involvement in the medical sector and tougher regulations of the financial sector. But - if left to run its course unimpeded by European type welfare state activities - the free market will [he says] fix it all.

In a rather cavalier manner – without a hint of argument or presentation of empirical facts – Lucas dismisses even the possibility of a shortfall of demand. For someone who already 30 years ago proclaimed Keynesianism dead – "people don't take Keynesian theorizing seriously anymore; the audience starts to whisper and giggle to one another" – this is of course only what could be expected. Demand considerations are simply ruled out on whimsical theoretical and ideological grounds, much like we have seen other neo-liberal economists do over and over again in their attempts to explain away the fact that the latest economic crises shows how the markets have failed to deliver. If there is a problem with the economy, the true cause [they say] has to be government.

Chicago economics is a dangerous pseudo-scientific zombie ideology that ultimately relies on the poor having to

pay for the mistakes of the rich.
Trying to explain business cycles in terms of rational expectations has failed blatantly. Maybe it would be asking to much of freshwater economists like Lucas and Cochrane to concede that, but it’s still a fact that ought to be embarrassing. My rational expectation is that 30 years from now, no one will know who John Cochrane or Robert lucas was. John Maynard Keynes, on the other hand, will still be known as one of the masters of economics.

Source: RW Econ Rev, 2 June 2016
https://rwer.wordpress.com/2016/06/02/the-tiny-little-problem-with-chicago-economics/

Prof Lars Syll is attached to the Malmo University College in Sweden

News and views from New Zealand

Housing -- again

Dennis Dorney

In my NZ articles over a long period, a major theme has been a) the rapidly rising price of housing in NZ, in particular Auckland, which holds about 32% of the nations population, and b) the failure of every attempt by the government to resolve the problem. My most recent comments had indicated that a Reserve Bank cap of the ratio of debt to income appeared to have caused a pause in house prices. That has proved short lived and prices are bounding ahead faster, if anything, than before. Nationally average house prices have risen over 12% in the last year to an average of $578,000, led by Auckland with prices of $956.000 (over 15%). Queenstown, fuelled by a tourism boom now has an $875,000 average at an incredible 22% increase.

Inaction ... and consequences

A proposed solution is to raise the ratio further, which will squeeze out the last of the first-home buyers. There is probably no short term solution, since the problem is mainly an acute shortage of affordable State housing, which cant be resolved quickly. Matters are not helped by the fact that young first-home buyers are typically among the 1 million people who don't vote at all, whereas the speculators, who are making a killing, most probably do vote for the government, so the will to fix the problem is lacking.

However, the problem has become so acute that the main-stream media can no longer ignore it. An analysis by Radio New Zealand, on 16th May said that "the government can't continue to ignore the growing numbers of people forced to live in cars, and in shipping containers and garages".

The Salvation Army estimated that in most streets 10% of South Auckland garages were being lived in and in some streets all the garages were occupied, sometimes shared between two families. Many were simply not making enough to survive, because minimum wage and benefits were not enough to pay the cost of rising rents. The maximum entitlement is $200 a week, but rent is typically $500 or $600.

Apparently those seeking emergency shelter are being pressured by WINZ (Work and Income NZ) to take out loans so that they can rent temporary accommodation. One family was being put up in a $190-a-night motel. The loans must be repaid of course.... with interest.

It was claimed that HNZ (Housing New Zealand) was not building anywhere near the 1000 new State houses a year

that the city desperately needed.

Meanwhile the government demands a dividend from its State housing stock- an estimated $118 million this financial year. It would be hard to think of anything more cynical. It would make more sense to re-invest the money into new homes.

Migration: Coming home to roost

Increase in demand, due to immig-ration, is also an issue. After the last economic crisis many Kiwis migrated to Australia, where opportunities for work were better and wages higher. This led to a net emigration from New Zealand over that period.

This was a God-send for the incoming Government because unemployment figures would otherwise have been much higher. As readers will know, that era is now over and Kiwis in Australia who have become unemployed now find that they cannot get unemployment benefits there.

So they have come home - but not alone. Since the world economy shows no sign of improvement, nor wars of abating, migrants and refugees see New Zealand as a safe haven. In the last year net migration to New Zealand rose to 67000, of which about a fifth are New Zealanders coming home. The rest comprise mainly those with work or student visas, and tourists.

For the government this is good news. These immigrants will come with money in their pockets, which will boost the economy. The income derived from servicing this migration is now the strongest performing sector of our economy. These people will need accommodation and are pushing up the total demand, and hence price, of housing.

Those who hold working visas are also competing for non-existing jobs in a tough market. This will reduce wages. The bad news, then, is for house buyers and workers. Again the government will be in no hurry to do anything about a situation that is amicable to many of its supporters.

However the immigration and tourist boom could be transient. When the Australian economy recovers, those itinerant Kiwis will be off across the ditch again, or if the NZ Dollar rises or the price of oil rises to its proper level (the present low price is as much due to politic considerations as to market forces) the tourism industry will diminish.

Rondo

The government has a costly habit of missing the overall picture. A report from the Morgan Foundation on April 18 showed where such myopia can lead.

To meet our carbon emission obligat-ions under the Kyoto agreement, our government purchased large quantities of cheap Emission Reduction Units (a type of Kyoto carbon credit) from the Ukraine and Russia even though it knew that the credits were fraudulent and had never represented any real emissions.

Although we are a small nation, we bought many more per capita than any other nation, reducing the value of these credits to almost nothing, effectively destroying the Credits market.

One of our major export earners is forestry, which is only marginally profitable at present, so the very real carbon emissions absorbed by forests is an important benefit accrued through that industry, so the Government's devious game has made forestry less viable.

During the dairy bubble, which the government was actively encouraging, it would have been tempting to convert a logged out forestry area to dairy, rather than replant. The dairy bubble has now burst, leaving that industry in disarray, and many of the farmers, who had made the switch from forestry, feeling twice bitten.

Currently the largest contributor to our economy is through migration and tourism, both of which our government is also actively encouraging. Given the Governments track record, if I owned a small hotel in Queenstown, I would sell now.

Dennis Dorney is an ERA member and a regular contributor, and lives in New Zealand

The energy and transportation revolution

Editor

Many estimates vastly understate the advent of solar. *Photo: Fairfax*

An article by Angela Macdonald-Smith which appeared in *The Age* on 24 May 2016 [1] reported on a startling thesis by Tony Seba of Stanford University, to the effect that within just fifteen years conventional energy production and transport will have been rendered obsolete by the revolution taking place in batteries, solar power and electric cars.

" There is no excuse .. to be unaware of what's coming" he says -- a world with little centralised power generation, 100 percent electric vehicles and minimal private car ownership. " It's the end of energy and transportation as we know it, and it's coming very quickly" Mr Seba said at the start of a week of investor meetings in Australia. " It's going to be over by 2030; it has started already." Mr Seba's thesis is based on the transformation being wrought by four technologies: solar power, battery storage, electric vehicles and self-driving cars. The change will be as rapid and as unforeseen as the switch from horse-drawn carriages to cars in the early 20th century.

Solar power costs have dropped from $US100 to US45¢ per kWh since 1970, a period when other forms of energy have surged in price 16-fold. Mr Seba predicts that by 2025 all new cars will be electric, with fuel cars rapidly wiped out as the self-driving car revolution disrupts transport and pushes the world towards mobility-on-demand transport.

Source: The Age, 24 May 2016

1. http://www.theage.com.au/business/energy/its-the-end-of-energy-and-transportation-as-we-know-it-tony-seba-20160519-goz5bm. html#ixzz49ZnElbYm

Closing the Panama tax haven will require fighting the most powerful lobby in the world

Interview with Michael Hudson

Economist Michael Hudson says oil and mining industries and the U.S. State Department created Panama and Liberia for the express purpose of tax evasion

The following transcript is from an interview between Sharmini Peries, of the Real News Network, and Prof Michael Hudson. Sharmini introduced the topic as follows:

Peries: Within a week of the 11 million documents called the Panama papers, being published by the International Consortium of Investigative Journalists, they became a household name. The documents are connected to the Panama law firm Mossack Fonsesca that helped establish offshore accounts for some of the wealthiest and most powerful leaders to launder money and evade taxes.

On Tuesday 12th April the Panama police raided the Mossack Fonseca law firm to search for more documents linked to illicit activities. But what are they expecting to find, since we have already known for some time now that offshore accounts are being used to evade taxes by the banking sector, essentially white-collar crooks, at institutions such as Credit Suisse and others? But who is really behind the creation of these mechanisms and loopholes for tax evasion?

Our next guest, Michael Hudson, says Panama was created as a tax haven by certain sectors of our economy for this purpose. Thanks for joining us, Michael.

Michael Hudson: Good to be here, Sharmini.

PERIES: Michael, so let’s begin with a short history of the creation of Panama and how it was bought from Colombia by the United States, and its relevance today vis-a-vis the Panama papers.

HUDSON: Well, Panama was basically carved off from Colombia in order to make a canal. And it was created very much like Liberia. It’s not really a country - in the sense of a country that has its own currency and tax system. Panama uses U.S. dollars. So does Liberia. And the real story that didn’t

come out in the Panama papers, which naturally focused on criminal people laundering money, is that Panama was not designed to launder money. It was designed to launder earnings. Mainly by the oil and the gas industries, and the mining industry. Panama and Liberia were long noted as having "flags of convenience". This means that oil tankers and mineral-transporting ships would register themselves under the corporate flags of Panama or Liberia, or some other country that used the U.S. dollar rather than its own currency.

Well, I first discovered this about forty years ago, when I was doing a study of the balance of payments for the oil industry. I went to Standard Oil, whose treasurer met with me to walk me through their balance sheet. And I said, I can't figure out whether Standard Oil and the other oil companies make their money at the producing end of oil, or at the distributing end of refining and selling it.

And he said, well, we make our earnings right here in New York, in the Treasurer's office. I said, what do you mean? He said, well, we sell the oil that we buy from Saudi Arabia or the near East at very low prices to the tanker company that's registered in Panama or Liberia. They don't have an income tax in their country, because they're not a real country. And we sell the oil to the downstream distributors in the United States or Europe.

We sell that crude oil at a very, very high price. So high that there's no profit to be made at all in refineries or selling the oil. So we don't pay the tax collector in Europe anything. Neither do we pay the American government anything. All of our earnings are reported as being made in the tankers.

And I said, well, I've looked at the balance of payments reports here in the Federal Reserve and the Treasury bulletins. I see here's Europe, here's Latin America, here's Africa and Asia. But I can't find where these profits are. And he said, ah, look at the very last line - it's international. Well, international, of course, but aren't all of these countries and Europe international? He said, no - international means they're really part of the United States abroad.

They're the offshore banking centers - Panama, Liberia, etc. I found out that Panamanian companies, were set up initially to register the oil tankers and mineral ships in order to make the appearance of taking all of their profits from transporting oil, copper and other minerals from third world countries to the U.S. and Europe.

The U.S. government went along with this, making the oil industry tax exempt as early as the 1920s. Income tax was intended to capture basically economic rents, but the big rent extractors - oil and gas and minerals - got away with paying none.

PERIES: Michael, you indicated in one of your articles that you were actually approached by a State Department operative in 1967. Tell us more about that experience.

HUDSON: Yes, from a State Department person who'd gone to work for Chase. The problem that America had in the 1960s was the Vietnam war. The entire balance of payments deficit of the U.S. in the 1950s and the '60s, right down to the early '70s, was military spending abroad. A big problem was that the U.S. dollar was destined to decline unless the U.S. sold gold, and that's what led to Nixon finally to take the dollar off the gold standard in 1971. The State Department came to Chase, and said, we've got to figure out some

way of getting enough dollars to balance the military deficit. And they found a way to do it - by making the U.S. the new Switzerland of the world.

The end result was that the U.S. government went to Chase and other banks and asked them to be good American citizens, and make America safe for the criminals of the world to keep their money so that the U.S. dollar would be supported. Chase had done so already, when they had been asked to have a bank in Saigon so that the Army and other people wouldn't put their money into French banks - which would have resulted in General De Gaulle cashing it in for gold, Chase said, okay, we will help set up banks.

Other banks did this not to evade the law, or to break the law initially, but to be good citizens and attract crooked capital from all over the world. Now, the same thing happened with the British

West Indies declared their independence, not in order to be a real country but in order to attract flight capital to the U.K. They rejoined the empire as a colony so that they could serve as a money laundering center. The idea was that all of this money would be sent to the U.S.

The context of all this can be easily traced. If you look at the money that goes into Panama and other offshore banking centers in the Caribbean, none of this money stays in Panama.

PERIES: Over the next few days there has been many questions raised about why there are not many Americans or even Canadians named in the leaked documents. Some speculate that this is because in the U.S. they don't need tax havens, because it is one. States like Nevada, Wyoming and South Dakota are considered the new Switzerland of tax evasion. Explain how the process works, because this is all interlinked.

HUDSON*:* The idea is not simply to put money into the U.S. Imagine you're a Russian or Ukrainian kleptocrat, and you want to keep a billion dollars safe. You're not going to put it directly into a Delaware or Wyoming corporation. If you tried to put it in directly then the U.S. government and the bank would be well aware that the president of the Ukraine has a billion dollars in one of our institutions. So the money needs to be laundered.

Likewise for Colombian drug cartels. They're not going to put the Colombian drug cartel balance in a Delaware bank. It has to go through a lot of stages. So the money goes out of the Ukraine and out of Russia into Latvia, primarily, into the banks of Riga. And the Riga banks will send the money, say, to the British West Indies. From the British West Indies it will go to Panama. And then it'll go - already concealed - into, say, a Delaware corporation.

If you look in the balance of payment statistics, you will find liabilities of bank branches in Panama or the British West Indies - or whoever - to the U.S. head office. And you can find out the quantity of U.S. stocks, bonds and deposits that have come from these islands. Their magnitude is so enormous that clearly this is what has been supporting the U.S. dollar. Moreover Congress is right behind this.

During the 1960s, criminals were the world's most liquid people. They didn't want to tie down their money in the form of physical property, because property can be seen, it's visible. And finance in the balance of payments reports is often described as "invisibles". The general idea, if you're a criminal, is to have your finance invisible, which will help to keep it safe. And the safest

investment is U.S. Treasury bonds.

During the 1960s the U.S. Congress debated whether to have withholding tax on U.S. Treasury bonds, especially to foreigners. It was pointed out that most foreigners who hold Treasury bonds are actually criminals, and so Congress (to its shame) decided that it needed the criminals' money and would not withhold taxes on that money. It decided to make crime tax-free. Thus U.S. industry and labor would be taxed, but not foreign criminals. So we were not going to withhold on what they held through their fiduciary accounts in Delaware, New York or London. The London branches of the U.S. banks were the single biggest bank depositors and source of revenue of growth in the 1960s. These deposits were called eurodollars. And the money flowing into these branches was largely from drug dealing, arms dealing, and third world dictators in Africa and other places.

So the whole international banking system, under U.S. pressure, was set up to facilitate the money laundering of drug capital. The reason Canadian and U.S. entities were not noteworthy in the law firm's records is that the law firm was engaged in money laundering - concealing the means of getting it.

The oil industry doesn't conceal it however. The oil industry declares all of the income it gets. Likewise the mining industry declares all the income that it gets from the Panamanian and Liberian shipping companies. But because Panama and Liberia don't have an income tax, there's no tax liability for this. This money has been effectively stolen from the tax collector.

PERIES: What are the solutions to this problem, and is it attainable at all?

HUDSON: Well, the solution is to tax companies on their worldwide earnings. If you know that a U.S. company - like Standard Oil, Exxon - now makes X billion dollars earnings, it doesn't matter whether you take these in Panama or the United States. We should treat the income declared from the Panamanian shipping company as having been earned in the U.S. and tax it.

However we will not see a solution to money laundering, because if one sets out to adequately tax companies on their worldwide earnings, then one is taking on the largest and most powerful vested interests in the U.S. - oil, gas and other monopolies. I don't think any politician is strong enough to attract campaign contributions from these main contributors and at the same time really push to tax them. Congress can go after the little guy, but it's very hard to go after the little guy and the small tax evaders without catching the big fish. And the big fish happen to be the biggest of the U.S. corporations.

That's why the problem is not going to be solved, largely because the U.S. wants to support the dollar by attracting all of this money, just like the U.K. wants to support the pound by making itself the flight capital center for all of the biggest criminals in the world, from the Russian kleptocrats to the African dictators, to Asian money launderers.

The entire financial system has been criminalized in the process of being militarized, to subsidize the fact that countries like the U.S. and U.K. have very heavy military budgets. This is how they finance the military budget, with money laundering by the world's criminal class, and the by-product is to leave the largest companies, like Apple and Exxon, tax exempt.

Source: http://therealnews.com/t2/index.php?option=com_content&task=view&id=31&Itemid=74&jumival=16116#.VxCiTaIiKls.facebook

Michael Hudson is a distinguished research professor of economics at the University of Missouri, Kansas City, and is a former balance of payments economist for Chase Manhattan bank. He is the author of many books, and the latest among them is *Killing the Host: How Financial Parasites and Debt Bondage Destroy the Global Economy.*

Panama Papers source explains intentions behind Mossack Fonseca data leak

Editor

The following material was extracted from an ABC (Australia) News report, written by Elise Worthington and the International Consortium of Investigative Journalists

PHOTO: The Panama Papers sparked a number of police raids after they were released in April. (Twitter: @PrensaFgr)

The secretive source behind the Panama Papers, known as "John Doe", has leaked more than 11 million documents - the largest leak of confidential data ever analysed by journalists. He has released a detailed manifesto explaining why he decided to blow the whistle, and the key points are:

1. He claims to have never worked for a government or intelligence agency
2. He is willing to work with law enforcement
3. He thinks Mossack Fonseca should pay for its "crimes"
4. He describes the papers as a "glaring symptom of society's diseased, decaying moral fabric"

"In the end, thousands of prosecutions could stem from the Panama Papers, if only law enforcement could access and evaluate the actual documents," he said in a four-page statement shared with (ICIJ).

Hundreds of investigative reporters from news organisations around the world, including the ABC's Four Corners program, the BBC and the Guardian, worked in secret with the ICIJ for months analysing the unprecedented leak of 2.6 terabytes of internal data dating back to the 1970s, revealing the inner workings of the Panamanian law firm Mossack Fonseca. These documents, including internal emails, contracts, bank records and property deeds, have revealed that the firm had set up more than 200,000 shell companies, foundations and trusts in

tax havens around the world.

The report emphasised John Doe's claim that while shell companies are not illegal by definition, they are often associated with the crime of tax evasion, and that the Panama Papers reveal "they are used to carry out a wide array of serious crimes that go beyond evading taxes."

In the statement, the source said he was encouraged that a global debate about tax reform had started, but authorities' lack of action was telling:

"For 50 years, executive, legislative, and judicial branches around the globe have utterly failed to address the metastasizing tax havens spotting the Earth's surface," he said.

"I decided to expose Mossack Fonseca because I thought its founders, employees and clients should have to answer for their roles in these crimes, only some of which have come to light thus far. It will take years, possibly decades, for the full extent of the firm's sordid acts to become known."

The Australian Tax Office has revealed it is in possession of some of this data, and is investigating more than 800 Australians named in the leak.

Source: ABC News, 7 May 2016 http://www.abc.net.au/news/2016-05-07/panama-papers-source-breaks-his-silence/7391036

IMF admits that neoliberalism causes inequality

Editor

The International Monetary Fund is backtracking on what it has promoted for decades

In the previous issue of ERA Review we saw the following statement from the head of the IMF (International Monetary Fund, Christine LeGarde: 'There is a strong case for domestic coordination across policies, with fiscal policy needing to do more in some cases', which appeared in T*he Managing Director's Spring Global Policy Agenda Decisive Action, Durable Growth April 2016.*

Lagarde relates within it that the outlook for the world economy has weakened further, risks have increased, the recovery in advanced economies is moderate, emerging and developing economies are slowing further, risks to global financial stability have increased and a durable recovery seems elusive.

The IMF has now effectively repudiated

the measures they've advocated and in some cases, forced, many countries to adopt for decades. The admission by Lagarde - that the neoliberal austerity policies have been responsible for creating inequality and poverty - is also consistent with what other economists attached to the IMF have been saying, in particular within a paper written by IMF Deputy Director Jonathan Ostry, Division Chief Prakash Loungani, and economist Davide Furceri [1,2,3].

In the June issue of the IMF's quarterly magazine *Finance and Development*, the above authors state that neoliberalism - seen in measures such as privatization, the opening up of domestic markets to foreign competition, and the cutting of government spending - has resulted in less benefits than expected and has increased inequality. They also cautioned against imposing austerity measures on debt-laden countries.

In one of his recent blogs, Professor Bill Mitchell laid the blame for what has happened with the IMF:

“ In the last month or so, we have seen the IMF publish material that is critical of what they call neo-liberalism. They now claim that the sort of policies that the IMF and the OECD have championed for several decades have damaged the well-being of people and societies. They now advocate policy positions that are diametrically opposite their past recommendations (for example, in relation to capital controls). In the most recent OECD Economic Outlook we now read that there is an “urgent need” for fiscal expansion – for large-scale expenditure on public infrastructure and education – despite this organisation advocating the opposite policies at the height of the crisis. It is too early to say whether these ‘swallows’ constitute a break-down of the neo-liberal Group-think that has dominated these institutions over the last several decades.

" But for now, we should welcome the change of position, albeit from elements within these institutions. They are now advocating policies that Modern Monetary Theory proponents have consistently proposed throughout the crisis. If only! The damage caused by the interventions of the IMF and the OECD in advancing austerity would have been avoided had these new positions been taken early on in the crisis. The other question is who within these organisations is going to pay for their previous incompetence? ”

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"Neoliberalism: Oversold?" by J. Ostry, P. Loungani and D. Furceri
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The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist. - - John Maynard Keynes

Letters Section

From Richard Giles (Association for Good Government)

A comedy without a name

The Left blames the greed of bankers, the Right blames mistakes of judgement and unforeseeable events. So it is a welcome sight to see Lord Mervyn King say “The [economic] crisis was a failure of a system and the ideas that underpinned it, not of the individual policymakers or bankers, incompetent and greedy though some of them undoubtedly were” (ERAR v8 n3, p.6).

The financial disease he may have been speaking about is speculation in the largest financial and most important economic asset in the nation, land. It catches hold immediately there is an economic recovery and it ends only after it has brought the economy, and society, to a temporary standstill.

In the meantime lowering interest rates stimulates the disease, and every effort to stop it by raising interest rates tends to kill the economy. Lord Mervyn King, speaking about the global banks, calls this the ‘prisoner’s dilemma’. But interest rates rise in any case propelled by rising speculation.

To kill land speculation you must kill the economy – at least temporarily.

Since this cycle happens every twenty years or so we really all know about it. But no one does anything about it and for good reason. This is because to stop it we would really have to take away the selling price of land.

So we cover it all over by talking, not of land speculation, but of “asset inflation” in which we include the rising price of racehorses and antique clocks! We talk of mistakes of judgment if we think everything is right just as it is while we talk of greed if we wish to subject the economic system to nationalisation. We talk of the need to rein in lending for real estate purchases when that only excludes the poorer part of the population from ever buying a home. We talk falteringly about what a “land tax” might do but then think better of it.

In the meantime the price of land tends to go on rising leading the poor to rent tiny apartments and making the very largest owners of land (including natural resource) values ever more rich and powerful.

Dante wrote of *The Divine Comedy.* What sort of comedy is this?

Fom Tony Troughton-Smith (NSW)

Monbiot on neoliberalism

The article "The Zombie Doctrine" by George Monbiot [1], dated 15 Apr 2016, slipped my notice when it first appeared. Fortunately its age is immaterial.

It's a good thought-provoking read.

1. http://www.monbiot.com/2016/04/15/the-zombie-doctrine

[**Ed:** this item first appeared in ERANet]

From Lowell Manning (NZ)

Monbiot on neoliberalism

Yes, I read it a while ago. Well worthwhile getting hold of George Monbiot’s latest book “How did we get into this mess?” published by Verso several months back. It’s a collection of articles he’s written over recent years. Individually the articles are startling, but when collected together they give a frighten-

ing picture of how the neoliberal agenda has been implemented. I felt really angry when I read it (and anger isn't always helpful). In the end, as many of us have been saying for a long, long time, we have to speak up and change the language of the debate.

From John Coulter (SA)

Monbiot on neoliberalism

The seeds of neoliberalism and the anti-environment characteristics of the present economic arrangements go back much further to the late 1800s and early 20th century. While classical economics took land, labour and capital as the inputs to economic activity there was a deliberate and successful attempt to write 'land' (resources) out of the equation claiming that capital could replace resources.

Wealthy US entrepreneurs endowed the early schools of economics in several of the major universities. At the time Georgist thinking was very prominent and the idea that the rich should compensate the rest for their dominance of land and with it rent was anathema to the rich land owners. This is the basis of the neoclassical concept of infinite resources and that the market and growth can expand forever.

It is well exemplified in the writing of the famous neoclassical economist, Robert Merton Solow, an American economist particularly known for his work on the theory of economic growth that culminated in the exogenous growth model named after him. He was awarded the John Bates Clark Medal (in 1961), the Nobel Memorial Prize in Economic Sciences (in 1987) and the Presidential Medal of Freedom (in 2014).

John Bates Clark (1847-1938), one of the founders of neo-classical economics was a ferocious opponent of Henry George. He held positions in lesser universities until appointed to Columbia in 1895. The President of Columbia at the time was Seth Low, a wealthy silk importer and land owner who in 1985 was running against Henry George for mayor of New York.

Robert Solow neglected the role of 'land/ resources' in his growth model writing in a 1974 article: 'The world can, in effect, get along without natural resources'.

From Darian Hiles (SA)

Barter is exchange without money

Google leads us to the simple definitions of barter: as a verb it is "exchange (goods or services) for other goods or services without using money" and when used as a noun, "paper money ceases to have any value and people resort to barter".

Only an economist (or a sympathetic journalist [1] who, amazingly, becomes the muse for the economist) would still insist that barter emerged from money or that barter can't work because it doesn't maintain exchange ratios or satisfy general business needs [2].

Obviously, economists can't escape taking money as a given, and some even claim that pre-money exchanges can only have been gifts. But if a herder has bred an excess of cattle, they are more likely to be traded than given away as gifts, and a person who wants food and accommodation is more likely to offer labour in return than expect to receive these things as gifts. Ask any

young adventurer.

David Ruccio's "double coincidence of wants" [3], based on Adam Smith's description of the difficulty of finding matching needs, is another excessively narrow assumption about barter that takes for granted the modern individualist mindset of considering each item on its own rather than conforming to the basic social need to work within a community network. Ruccio argues that this one-on-one swap never defined an economy, which is true. The problem is that Ruccio's scenario is a fanciful invention.

In early civilisations, people worked together in self-supporting networks using internal and external resources and it was of benefit to individuals to cooperate.

Researchers of Ancient Egypt [4] have described government redistribution and rewards rather than money in a system closer to barter than gifts for labour. Precious metals were too rare to support a general economy, so coins could only be used for special transactions, leaving other arrangements for food, accommodation, security and apprentice-style training for the young.

Monks in monasteries lived a similar way, and favours and indulgences are still common in the Church today.

Egyptian architects and the project managers would have been rewarded more than general workers but the system was basically the same: labour in exchange for goods and services, with quality and quantity based on negotiation. These were not gifts or reciprocal favours [5], as returns were built into the arrangements. Barter is the best word we have to describe this process despite attempts to restrict the concept to being simply a one-on-one substitute for money.

More accurate instances of the Smith/ Ruccio scenario were treasured items of skilled hunters and craft workers bartered as isolated items, often in return for a service such as continuing the craft tradition or using the item to support the tribe. The modern confusion seems to derive from this narrower version of barter.

It was only when the lower class in later societies sought to have the privileges and luxuries of the upper class that more general demands for individual items rather than support services started to develop and a neutral intermediary was needed.

Adam Smith's concern about the coincidence of needs, a central criticism of barter, disappears at the extended social level because the sources of goods and services are widely known and the social network has a range of possessions and needs that are balanced by internal negotiation.

The major break with money as a quasi commodity came with Richard Nixon's abandonment of the gold standard – the ultimate anchor of a tradeable commodity system – and its replacement by truly neutral electronic tokens. That's where our focus should be.

1. Ilana Strauss, *The Myth of the Barter Economy*
   http://www.theatlantic.com/business/archive/2016/02/barter-society-myth/471051/
2. Caroline Humphrey, *Barter and Economic Disintegration*
   Man, New Series, Vol. 20, No. 1 (Mar, 1985), pp. 48-72
3. David Ruccio, *Money and the myth of barter*, ERAR v8 n3 2016
4. National Bank of Belgium, *Monetary practices in ancient Egypt*
   http://www.nbbmuseum.be/en/2012/05/nederlands-geldgebruik-in-het-oude-egypte.htm
5. Wikipedia, https://en.wikipedia.org/wiki/Barter#Adam_Smith_on_the_origin_of_money

OECD warns that Australian real estate risks contraction

Editor

Australia's property markets are at risk of a "sharp correction" according to the Organisation for Economic Cooperation and Development.

PHOTO: ABC News: Nic MacBean

An ABC News report by Elysse Morgan on 4th June 2016 [1] has revealed that Australia's property markets are at risk of a "sharp correction", according to a recent report on Australia by the OECD (Organisation for Economic Cooperation and Development):

" continuing property market momentum adds to the risk of a sharp correction "

This warning - of the risk that house prices will suffer a big fall - echoes concerns raised by Federal Treasury secretary John Fraser this week that Sydney is "unequivocally" in a bubble.

The OECD warned the RBA to not cut interest rates again, saying "monetary policy firepower" should be held in reserve given the uncertainties about the outlook and possible inflationary effects on house and other asset prices.

Source: ABC News, 4 June 2016
http://www.abc.net.au/news/2015-06-04/australian-real-estate-at-risk-of-sharp-falls-oecd/6521150

Elysse Morgan is an Australian journalist, and is finance reporter for the ABC.

Practical economics is radical?

Peter Radford

I have a book by James Meade published in 1975. It's called "The Intelligent Radical's Guide to Economic Policy". Thumbing through it reveals how some things never change and yet, also, how the neoliberal suffocation of economic thinking and policy has allowed us to drift from a socially just economy.

He ends his first paragraph thus:

"The radical in politics is the citizen who places a rather high relative value upon Liberty and Equality in the catalogue of social goods."

To a contemporary ear his defence of free competitive markets sounds suspiciously apologetic for raw capitalism, but he is more sophisticated than that. He gives us what might appear to our jaundiced minds an old and naive argument: a mixed economy gives us

the best of all worlds:

"The intelligent radical thus starts by advocating the removal of all unnecessary restrictions on the operation of free competitive markets. But he recognizes that on the foundation of this market mechanism the must be built a superstructure of governmental interventions and controls. Some of these interventions are needed simply to set a background of conditions in which free competition can work effectively; others are needed to replace entirely the mechanism of competitive markets, where that mechanism cannot be expected to operate effectively; others have an intermediary purpose, namely to modify without replacing the operation of a market price mechanism."

I see this not as radical, but pragmatic. History teaches us, or, rather it teaches me, that freedom of individual action, which in an economic setting means being able to profit from one's own efforts, skills, and industry, is the best method for assuring rising living standards for us all. I don't think this is empirically contestable. Ideologues with a worldview that demands denigrating the individual and making it subordinate to some collective identity will, naturally, oppose such pragmatism. But their case collapses in the face of the evidence of the past hundred years.

Alternatively, other ideologues whose worldview superimposes rugged individualism on absolutely every economic activity are equally proven false. There are plentiful occasions in which collective action is not just preferable, but more efficient. Besides history also has taught us that such a reliance on the individual leads to socially pernicious outcomes. The evidence is piled up against the ideologues on both sides.

So it is odd, to me, for a practical and inclusive call for a variety of solutions to economic problems to be called radical.

Yet set Meade's call for flexible policy in today's context: we have suffered through four decades of policy making that is determinedly one sided. It has been taken as a basic rule that market based solutions are always preferable to governmental solutions. Hence the steady drip of neoliberal policy:

deregulation, weak or non-existent opposition to monopoly and oligopoly creation, trade deal-making benefiting capital and harming labour, tax structures biased towards capital, opposition to labour union activity, shifting of financial risk onto households and away from employers, a mania for balanced government budgets – even if the result is far from that – and steadfast opposition to the provision of government services in key areas such as retirement or health care, sometimes successful, sometimes not.

Meade is urging us to look at this list and to impose solutions that balance liberty with equality. He argues we ought oppose monopolies vigorously because of the cost they impose on all of us. He argues we ought bias policy towards encouraging and not diminishing competition because that way we all benefit from the enterprise and ingenuity of market 'winners'. But he also says we need to recognize the downside of capitalism and defend our vision of equality against any slippage towards class domination, reduced opportunity, and, worse, the co-option of government by special interests.

Call me old fashioned, but I think this makes a lot of sense. Modern economics, by taking onboard so much of the individualist delusion has set itself determinedly against democratic action. After all it is through our democratic

political processes that we express most clearly our desire for the mitigation of the downsides of capitalism. Yet modern economics is blind to that form of expression of choice – it sits outside the market, so economics has no metric to weigh its worth or tolerance for its interruption of so-called market forces.

So perhaps Meade was correct. His is a radical's guide to economic policy. Being pragmatic, apparently, is being radical. Who knew?

Source: Real World Ec. Rev. 16 June 2016 https://rwer.wordpress.com/2016/06/16/practical-economics-is-radical

Why the Trans-Pacific trade deal should be an election issue

Patricia Ranald (extracted from the AFTINET June Bulletin)

The Trans Pacific Partnership (TPP) text was negotiated in secret for six years, released in November 2015 and signed by Australia, US and 10 other Pacific Rim governments in February. But it is far from a done deal. So far, no government has passed the implementing legislation required to ratify it. Australia's early election has interrupted the Parliamentary Inquiry examining the TPP. The election campaign provides an opportunity to debate its merits before the inquiry report and parliamentary vote following the election.

There is strong community opposition to the TPP in Australia and many other countries because it provides very little market access for trade in goods, but increases the power of global corporations at the expense of citizens. It includes stronger monopolies for costly biologic medicines, which will delay the availability of cheaper forms of these medicines, and cost hundreds of millions of dollars. The TPP also includes special rights for foreign investors to bypass national courts and sue governments if they can argue that a law or policy harms their investment, with inadequate protections for public interest areas like health and environment. Only tobacco regulation can be clearly excluded from such cases.

The US, Japan and at least four other countries must pass implementing legislation and ratify the deal before it can come into force. Ironically, this is least likely to happen in the US. Both Hillary Clinton and Donald Trump oppose the TPP and there is strong bipartisan opposition in Congress.

Congressional opposition has been swelled by right-wing Republicans who want even more rights for pharmaceutical and other corporations, and have demanded such changes in return for supporting the legislation. The tobacco industry claims that the TPP is discriminatory because it prevents them from suing governments over tobacco regulation, while allowing other global corporations to sue over other public interest legislation.

The TPP could impact on several major Australian election promises including healthcare funding and tax policy. A recent Productivity Commission report confirmed that stronger monopolies on biologic medicines in the TPP would cost hundreds of millions of dollars per year. Election policies for government regulation to prevent tax evasion by global corporations could be undermined if those same corporations are given additional rights to sue governments for compensation in international tribunals.

Dr Patricia Ranald is Research Associate, Sydney University, and Convener of the Australian Fair Trade & Investment Network