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More about the impact of neoliberal ideology on the lives of ordinary people, social institutions and the environment. Also we investigate the nature of spending, taxing and borrowing by a monetary sovereign state, and the future accessibility and purity of water supplies around the globe.

ECONOMIC REFORM AUSTRALIA (ERA) INC

ERA is a not-for-profit, non-political organisation, formed in 1993. Its goal is to educate and advise decision makers and the community about what is required for creating a society characterised by social justice, with economic and ecological sustainability. Essential prerequisites for achieving these objectives include reform of the financial and banking systems, taxation, foreign investment, foreign exchange management, and a commitment to economic democracy and sovereignty - entailing full scrutiny and accountability of all economic processes and a recognition that the economic system must serve the people for the global good.

Membership of ERA is open to all who agree with its objectives and overall philosophy, and may be effected by forwarding A$20.00 per annum (A$15 concession; A$10 extra for each additional family member) to the Treasurer (address below), together with address, telephone and fax numbers, and email address. It would be appreciated if new members would calculate the part of the year remaining and remit the appropriate pro-rata amount, with the option of paying for the following year as well (make cheques out to E.R.A.). Alternatively, pay by direct credit transfer, with your name added to the payment information (ERA's details: Beyond Bank Australia, BSB 805-022, A/C No 02228579). Members are entitled to receive the regular ERA publication *ERA Review*, and to vote at ERA meetings and participate in organized activities.

ERA's Patrons

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

Regular Meetings are held on the last Saturday of each month at the SA Conservation Centre (111 Franklin Street, Adelaide, SA 5000) and start at 2pm. Other meetings including AGMs are held at the same venue. For details, telephone (08) 8264 4282

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Items suitable for publication may be sent to the editor, who also should be contacted if you wish to receive copies of the ERA Review electronically as an email attachment, instead of as a posted copy.

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ERA membership 2017

If you are not a subscribed ERA member, or have not yet resubscribed for 2017, please consider doing so now. We rely on members' subscriptions and donations in order to cover the costs of our activities, including the printing and posting of the ERA Review to those who require a hard copy, and organising of public events. The cost is $20 per calendar year for regular members, $15 concession (pensioners and students), with $10 for each additional family member, forwarded by post as a cheque or as a money order made out to ERA, or as a credit transfer between accounts. The ERA account details are provided on page 2.

2016 Annual General Meeting (27 August 2016)

Outcomes of the ERA 2016 AGM include the election of the following officers: President - Darian Hiles, Secretary - John Hermann, Treasurer - Leona Hermann, Assistant Treasurer - Liz Gates, Membership Officer - Hugh Wigg, Public Officer - Dick Clifford, Minute Secretary - Michael Plowright. Dennis Dorney was appointed a member of the ERA Review Editorial Committee.

President's report

ERA continued to be carried on John's capable shoulders in 2016, both in spirit and in activities. His negotiations with the Relay Team for a new electronic face for ERA have been extensive and detailed, and we're now starting to see the results in a modern website with extensive capabilities.

The high standard of the ERA Review continued, with various enhancements such as a letters section and a revised front page. Other members coming onto the scene have also been inspired to contribute, in particular Tom Matthews starting the organisation of a film night due to be held later in the year: a healthy new development.

The new website will have a significant impact on ERA that will build in the coming months. 2017 is likely to see a dramatically invigorated public image and a greater and more effective penetration of ERA's macroeconomic understanding into the public domain. This is a development that is critically needed today if we are to avoid an even larger financial crisis caused, as with the GFC, by central banks and national governments following misunderstood and destructive policies arising from ignorance and submission to vested interests that have no interest in or knowledge of the wider consequences.

Darian Hiles

Secretary's report

The year 2016 has seen a lot of activity on several fronts. Following the postponement in 2015 of the commitment of the Relay Team led by Jordan Graetz to provide design and development advice and assistance for ERA's prospective and brave new face to the world - involving such media as the website, facebook page, blog site, and brochures - we were wondering if the task might have proven too daunting. But such fears proved to be unfounded, and the Relay Team's commitment was vigorously renewed early in 2016 and remains ongoing, although the bulk of their contributions has now been successfully completed. Nevertheless there remains much work to be done from ERA's end, in regard to filling in the many essential details before it all goes live. I am grateful to Darian for his ideas, cooperation and commitment in the task of providing a coherent presentation of ERA's viewpoints, and in the necessary face-to-face interactive process.

We have also received positive feedback and praise for what we are attempting to achieve with the ERA Review, and have been presented with many valuable written articles from competent authors in the field of heterodox economics, as well as from a considerable number of ERA's active members and affiliates. As editor, I have had to confront my areas of ignorance in relation to formatting and other editing matters, and once again Darian has been of immense help in educating me. Every so often a mistake or two in the formatting or the spelling eludes both myself and the reviewers. The positive side is that one learns new techniques from making mistakes, and hopefully the number of errors will diminish over time.

John Hermann

Coming Events

ERA Movie night   Note: This event has been cancelled.

ERA intends to hold a fund-raising event in Adelaide on Sunday 27 November 2016. This event, including screening at Palace Nova East (251 Rundle St., Adelaide) of the Cannes award-winning movie **"I, Daniel Blake"**, a movie about a failed system - and "blaming the victim".

The event will begin in the Palace Lounge at 5.30pm, where drinks and food will be provided (the movie screening starts at 6.00pm). There will be an introductory talk about the background of the movie, and a 15 minute Q&A session after the movie.

The cost of this event is $25.00, with a booking fee of 30c added at the checkout. Ticket bookings may be effected online using the URL:

https://www.trybooking.com/NMVS

Further information: Ph (08) 8264 4282

Chomsky movie - *Requiem for the American Dream*

ERA will hold a joint meeting with SA members of Sustainable Population Australia (SPA) on Wednesday 14 December 2016, at which the video about U.S. inequality and its implications *'Requiem for the American Dream*' will be shown, followed by discussion. The time is 7.30pm, and the venue is the CCSA rooms (111 Franklin Street, Adelaide).

This film was produced by well-known U.S. academic and author Noam Chomsky. Certainly the alarming growth of inequality in our society, and most noticeably in the U.S., is of concern to all of us. It is an inevitable consequence, and also an important indicator, of the impact of neo-liberal policies upon the lives of ordinary people as well as the environment.

ERA end-of-year (EOY) meeting

ERA will also hold an end-of-year meeting on Wednesday 28 December 2016. The EOY meetings are a useful way for members, affiliates and their partners to get together socially. The past two EOY meetings accommodated a dinner, in addition to presentations from well informed speakers. We will again be holding a dinner, and will also set aside time for speakers' presentations. Further information will appear on the ERA Facebook page and our usual networks.

Paying for public services, in a monetary sovereign state

Steven Hail

If our national Government was to spend more than the currently budgeted amount on your health care system next year, it would be good to know how they would finance that spending. It is a question that advocates of more health spending are always likely to be asked. More generally, exactly how is the total public spending which is currently budgeted for across the next year going to be funded? Do the various charts you see, linking the total tax take and government borrowing to items of government expenditure make any sense? If not, then why not?

The conventional view is that public spending must be paid for through taxation, government sales of assets, or issuing government bonds – in other words, through taxes now, 'selling off the family silver' now, or borrowing at interest now money which will have to be repaid in the future, and presumably setting up a burden of additional taxation for future generations.

Your reaction to this conventional answer might be a "conservative" one, which is to say, austerity to keep government spending down and privatisation, in order to keep taxes low: or a "progressive one", which is to say, tax the rich and the multinationals much more highly, because the Government needs more money from rich people so it can pay for our public services.

Both of these reactions are wrong, or at least misleading, because they are based on that conventional view of public sector finance which I mentioned above. It is a conventional view which suits many conservatives, but is also (wrongly) accepted as being valid by many progressive people. It is – and this might surprise you – a view which the majority of highly credentialed economists, including Nobel Prize winners, know to be incorrect, but which many of them justify as a mechanism for imposing some restraint on politicians. They believe that if politicians only knew the financial options which are actually available to them, they would abuse these freedoms, 'spend like drunken sailors', wreck the economy.

I don’t believe there is ever a good reason for remaining in ignorance about something this important, and I think we have other ways of restricting what politicians do than telling blatant lies to the public, so I want to share the truth with you.

To keep this as brief and as straight-forward as I can, I am not going to dwell on the current institutional practices, conventions and rules, as they are applied in 2016. Current practices are very different indeed from how things were done before 1979. All the sets of conventions and rules which have been applied down the years have, to a greater or lesser extent, obscured the truth about public finance, which I can summarise in two sentences. Let’s call them two ‘laws’ of public finance (based on Lerner's laws of functional finance, from the 1940s).

1 A government with its own currency (like the dollar), its own central bank (like the Reserve Bank), a floating exchange rate, and no foreign currency debt, faces no financial budget constraint at all.

2 Such a government faces real and ecological constraints, but no financial constraint.

Let’s be clear what we are talking about here. We are not talking about Greece. We are not talking about an independent Scotland, if Scotland were to keep the pound or join the euro (which I have recently advised a Scottish political party to stop saying they would do). We are talking about a genuine ‘monetary sovereign’. We are talking about the USA, Japan, Australia and the UK, among many others.

The Australian Government is a monetary sovereign. Every time the Australian Government spends a dollar, it does so by crediting the reserves of a commercial bank which are held at the RBA (Australia's central bank) by that dollar, and having the commercial bank credit the bank account of whoever has been the beneficiary of that spending. In other words, every time the Government spends, it creates money. Not some of the time – every time. All of the Governments spending creates money, and all this money is created using the equivalent of keystrokes on a computer.

The Government does not need to receive your money in taxes, or borrow your money by selling bonds, or raise money from you by selling you shares in government owned utilities …. before it spends. Think about it for a moment. It isn’t, in a literal sense, your money in the first place. Who issues the nation's currency? The RBA. And who owns the RBA? The Australian Government. The Government doesn’t need to collect its money, which it creates, from you before it can spend.

Every time our national Government spends, it creates some of its money for the purpose. I know commercial banks create a great deal of deposits for themselves, and a great deal of what is normally defined to be ‘the money supply’ by lending to their customers, but they can only do this because they have access to Government money, in the form of their reserves at the RBA. There are two ways for this money to be created. One is the Government spending this money (permanently) into existence, and the other is the RBA lending this money (temporarily) into existence.

We have come to the answer to our initial question. How can we pay for an increase in health spending? The same way that we pay for all public spending. The Government will spend the money into existence. The way the accounting is done these days, and current institutional practices, obscure this truth, but they do not change the fact that it is a truth. It is not a theory. It is a plain fact.

Let me put it more simply. Money does not grow on trees. It is easier than that. Money comes from nowhere. It exists mainly in the form of electronic entries on spreadsheets (these days), and you can say it is typed into existence. Our Government can no more run out of dollars than the scorer at a cricket ground can run out of runs, perhaps something to remember the next time our Australian boys go over to England to win the Lords' test match. In this sense, the Government really does have a 'magic pudding'.

You might ask me whether I am talking about 'printing money' to pay for the Government's spending. You might conjure up visions of Zimbabwe or Weimar Germany. I'll deal with those briefly in a footnote below, but let us be clear – in a sense, all of Government's spending always involves 'printing money'. Except, I hate using that term, because of its associations, and because it is a little misleading. Very little modern money is actually printed, remember – it is nearly all electronic.

The question is, then, why do governments tax people at all? Taxes do not 'pay for government spending', after all. Taxes do not pay for the education service. Taxes do not pay for Medicare. It might make you feel better to know that your taxes are not paying for military weapons. They really aren't. The Government doesn't need to get money from rich people before it can spend. Your taxes, in a literal sense, do not pay for anything. Taxes, at least in a monetary sovereign state, pay for nothing at all.

So, why do we pay taxes? There are many distributional, or microeconomic, functions which the tax system fulfils. However, at the macroeconomic level, the purpose of taxation is very simple. It is necessary for people to pay taxes to destroy (to use a provocative word) some private sector spending power, to make room within the economy for the government to conduct its desired spending on public goods and services, without pushing total spending in the economy beyond the productive capacity of the economy and causing inflation. Taxes limit inflation, helping us to maintain the spending power of money, so that people maintain their confidence in the value of money.

We have reached the second law I wrote down above. As a society, we cannot run out of dollars, but we can run out of people, skills, technology, infrastructure, natural and ecological resources. There are limits – but the limits are 'real' and not financial. When planning for the future, governments should use their freedom from financial constraints to plan wisely to manage the real and ecological constraints which will always be with us.

The Government, then, cannot spend without limit, because it would push total (private sector plus public sector) spending beyond the current capacity of the economy, and be inflationary. So we have to pay taxes.

This does not, however, mean that governments need to 'balance the budget', or should ever attempt to balance the budget, or limit its deficit to a specific proportion of GDP. In fact, most Governments (including Australia) have hardly ever run balanced budgets or budget surpluses in modern times, and when they occurred they tended to be just prior to economic downturns. For example, there were very small and very temporary fiscal surpluses in the UK in the late 60s, the late 80s and the late 90s. The rest of the time, the UK Government has been in continuous fiscal deficit, since the early 1950s.

This is not only true for the UK - it is true almost everywhere, with almost all the exceptions being relatively small and oil rich countries, like Norway. In the case of Norway, what makes it possible for the government to run fiscal surpluses is not the 'sovereign wealth fund' you may have heard about. It is simply Norway's consistently large trade surplus with the rest of the world.

Most governments most of the time historically have run budget deficits. This is essential, because if the rest of us want to build up our savings in dollars (including foreigners in 'the rest of us') it turns out the Government will be forced, one way or another, to run a deficit. A good deficit will prevent a recession from happening, and a bad deficit would be the consequence of a recession happening and tax receipts crashing while welfare payments rise, when everyone wants to save and not spend. To explain the logic properly would mean going into too much detail here, but believe me it is a mathematical (or accounting) fact of life.

Doesn't all this mean the Government getting further and further into a burdensome 'debt', which future generations will have to repay, so that government borrowing is somehow immoral, and especially so if it isn't to pay for investments in the future?

Not once you understand that monetarily sovereign governments don't and can't really borrow in their own currencies, at all, in the conventional sense of the term. If you or I, or a business, or a local authority, borrow in dollars, then later on we will have to repay that debt and the interest on it, or we will go broke. We are (obviously) not monetary sovereigns. We face a financing constraint.

It is different for our national Government. I have already said that the Government spends new money into circulation, and then uses taxes to destroy some of that money so that there won't be rising inflation. Ideally, the Government should spend more than it taxes, when it is running a deficit, to ensure that total spending in the economy is at the right level to maintain full employment. The total level of public spending, how it is divided up between public goods, and the structure of the taxation necessary to limit inflation, are then political issues.

Until the Global Financial Crisis, and before some central banks started doing quantitative easing, it was necessary for their governments to sell government bonds to more or less match government spending net of taxes, in order to keep control of interest rates. The reasons are a bit dull, but if you bear with me I will try to explain.

Interest rates in general depend on the interest rate banks charge each other when they lend each other money for liquidity management purposes for very short periods of time. A fiscal deficit effectively feeds cash reserves, or liquidity, into the banking system. In the past, it was necessary to remove those reserves again by selling government bonds, or this interest rate would fall below the level the central bank wanted it to be at. Banks with plenty of reserves of cash don't need to borrow from other banks. Sales of government bonds were about keeping the supply of cash to the banking system limited to the right level to stop interest rates falling.

That's all changed now – at least in the UK, the USA, Japan and the Euro-zone. The central banks of all those countries first cut interest rates to virtually zero, after the Financial Crisis, and then used quantitative easing to deliberately flood the banks with cash reserves, by purchasing large amounts of (mainly government) bonds from the private sector. The so-called 'bank rate' is now not a rate of interest at which private banks lend to each other – it is now the rate of interest that central banks pay on the huge amount of reserves the commercial banks have on deposit with it. Rather than seeking to limit those reserves, the central banks have been deliberately increasing them.

Yet the old practice of each government selling its bonds goes on. It is rather ridiculous at the moment, because as the governments concerned are selling new government bonds – in a conventional view, to raise money – their own central banks (which are owned by each government, remember) are kept busy buying those same government bonds second hand from the private sector, in order to increase the amount of money in bank reserve accounts. It's very strange and anachronistic. Economists like me view it as something of a muddle.

We have learned in recent years that there is no genuinely good reason for selling government bonds at all, if you are a monetary sovereign government. Indeed, it would be better to convert them into term deposits at the central bank, and to regard them as a form of money.

After all, at the moment bank reserves held at the central bank are (in an accounting sense) Government liabilities, on which the central bank as part of the Government pays interest, but are not seen as Government debt: government bonds are also government liabilities, on which the central bank on behalf of the Government also pays interest, but they are seen as Government debt.

Moreover, if the central bank, as a part of QE, buys Government bonds from the private sector, it is just swapping one interest bearing government liability for another. No wonder QE doesn't work! It isn't 'free money' at all. It is basically swapping two very similar assets for each other. The private sector used to own Government bonds and receive interest. The private sector now owns reserves at the central bank, and still received interest.

Why would that arrangement act as much of a 'stimulus' for the economy? Why, indeed?

To cut a very long story quite short:

1 When the Government spends it creates money.

2 When the Government taxes it destroys money.

3 Government 'debt' should not be thought of as 'debt' in the conventional sense at all. It is better thought of as a form of money.

4 The Government cannot run out of money, and as long as it doesn't guarantee to convert its money at a fixed rate into anything it could run out of, it faces no financial constraints at all.

5 However it faces real and ecological constraints, because we can run out of people, skills, technology, equipment, infrastructure, natural resources, and ecological space.

6 The Government is NOT a household and NOT a business, and has nothing at all in common with a household or a business, where financial matters are concerned.

7 When progressives understand this and start framing their arguments in this light, I believe they will be able to argue their points far more effectively and persuasively, and free themselves from what are sometimes called 'neoliberal dogmas' (i.e. conservative and 'new labour' nonsense).

Understand all of this, and I think that it will change your perspective on many things. And ought to make you a great deal more confident when dealing with interviewers. If they approach you using the conventional view as a framework, remember that it is either because they have never really thought these issues through or because they are being dishonest for some reason (sometimes it is a mix of the two, and people can, of course, be dishonest with themselves, or at least suffer from cognitive dissonance).

Footnote: Mugabe's Zimbabwe and Weimar Germany

Zimbabwe 2008 If you engage in a poorly planned and violent land reform, regardless of your motivation, there will be consequences. Zimbabwe's government managed to wipe out its vital agricultural system, while at the same time alienating most high income country governments, and facing sanctions. The supply of food failed. The Government then (literally) printed vast amounts of money to buy non-existent food, and inevitably the price level sky-rocketed. Ever higher prices then led to ever more money being printed, so that at least the friends of the government and the army could be provided for. The result was hyperinflation. The lesson is that if you destroy the supply side of your economy and try to make up for it by printing loads of money, you will be able to create hyperinflation. Zimbabwe 2008 has no lessons for Australia 2016.

Germany 1923 Germany's productive capacity had been destroyed by war and by the resolution of that war. In addition, Germany had been required to pay vast amounts of gold to its former enemies. The only way to obtain the gold was to buy it, using marks which could then only be spent into a German economy already on the brink of famine. There were some other issues, but it's basically similar to Zimbabwe 2008. If you destroy the supply side of an economy and then print loads of money, you will push spending far beyond the productive capacity of the economy and create inflation.

Dr Steven Hail is a lecturer in economics at the University of Adelaide, with a special interest in macroeconomics, and is a member of ERA.

On the one hand, our economists treat human beings as rational actors making choices to maximize their own economic benefit. On the other hand, the same companies that hire those economists also pay for advertising campaigns that use the raw materials of myth and magic to encourage people to act against their own best interests, whether it's a matter of buying overpriced fizzy sugar water or the much more serious matter of continuing to support the unthinking pursuit of business as usual in the teeth of approaching disaster.

\- John Michael Greer, The Long Descent: A User's Guide to the End of the Industrial Age

Modern economics is sick

Lars Syll

Dr Mark Blaug (1927-2011), a Dutch-born British economist, did more than any other single person to establish the philosophy and methodology of economics as a respected subfield within economics. His path-breaking *The methodology of economics* (1980) is still a landmark - and the first textbook on economic methodology that I had to read as a student.

Dr Mark Blaug

The following is extracted from his book:

" Modern economics is sick. Economics has increasingly become an intellectual game played for its own sake and not for its practical consequences for understanding the economic world. Economists have converted the subject into a sort of social mathematics in which analytical rigour is everything and practical relevance is nothing. To pick up a copy of *The American Economic Review* or *The Economic Journal* these days is to wonder whether one has landed on a strange planet in which tedium is the deliberate objective of professional publication. Economics was once condemned as 'the dismal science' but the dismal science of yesterday was a lot less dismal than the soporific scholasticism of today …

" If there is such a thing as 'original sin' in economic methodology, it is the worship of the idol of the mathematical rigour invented by Arrow and Debreu in 1954 and then canonized by Debreu in his *Theory of Value* five years later, probably the most arid and pointless book in the entire literature of economics. The result of all this is that we now understand almost less of how actual markets work than did Adam Smith or even Léon Walras. We have forgotten that markets require market-makers, that middlemen have to hold inventories to allow markets to function, that markets need to be organized and that property rights need to be defined and enforced if markets are to get started at all. We have even forgotten that markets adjust as often in terms of quantities rather than prices, as in labour markets and customer commodity markets, as Alfred Marshall knew very well but Walras overlooked; so well have we forgotten that fact that a whole branch of economics sprang up in the 1960s and 70s to provide 'microfoundations' for Keynesian macroeconomics, that is, some ad hoc explanation for the fact that a decline in aggregate demand causes unemployment at the same real wage and not falling real wages at the same level of employment …

" Indeed, much of modern microeconomics might be fairly described as a kind of geography that consists entirely of images of cities but providing no maps of how to reach a city either from any other city or from the countryside."

Source: https://rwer.wordpress.com/2016/03/11/modern-economics-is-sick/

The cost of sustaining the current financial system

Editor

The following is an extract from a 2014 interview by Cris Menon with Prof Steve Keen (Kingston University, London) [1].

CM: Many of the reforms you recommend are predicated on reform of the banking sector, cutting the banking sector down to size. How realistic is that given the nexus between the political class and the banks?

SK: We have to break that political nexus. It's false, because the reality is that finance is a cost of doing business; it's not a profit centre. Finance of course has to make a profit in its own right to be viable; you need a financially successful banking sector. But you don't need one that's 30-40% of the profits of the economy, because at that level it's actually siphoning off money being generated in real production -- of the industrial sector, the agricultural sector and the minerals sector.

Ultimately the financial sector should be the servant of the rest of the economy, not the master. But at the moment it's the master of not just the economy but of the politicians as well. So to break the nexus, we need a complete political shift ...

1. https://www.youtube.com/watch?v=-HHJ3q2TxEQ

Is the free market efficient?

Editor

The following extract is from an article by Kaye Lee which recently appeared in the AIM Network [1]:

" We are constantly told about the efficiency of the free market. But the market obviously is not efficient. The most basic law of economics - necessary if the economy is to be efficient - is that demand should equal supply. But we have a world in which there are huge unmet needs - investments to bring the poor out of poverty, to promote development in less developed countries in Africa and other continents around the world, to retrofit the global economy to face the challenges of global warming. At the same time, we have vast underutilized resources - empty homes, homeless people, and workers and machines that are idle or are not producing up to their potential. Unemployment - the inability of the market to generate jobs for so many citizens - is the worst failure of the market, the greatest source of inefficiency, and a major cause of inequality. "

1. Kaye Lee, AIM Network (9 Oct 2016): "*We should measure the health of our society not at its apex, but at its base"* http://theaimn.com/measure-health-society-not-apex-base/

Recommended reading:
Functional finance and the federal debt

by Abba P. Lerner

This classic paper [1] deals, in a logical and satisfactory manner, with those objections to deficit spending (deficit financing) by a central and sovereign government which are often expressed by orthodox economists. Abba Lerner's arguments in this direction constitute one of the major pillars of modern monetary theory, along with Knapp's state theory of money.

1. Social Research, v10, n1 (Feb 1943), pp 38-51. Published by *The New School*

New scientific models supported by the British government's Foreign Office show that if we don't change course, in less than three decades industrial civilisation will essentially collapse due to catastrophic food shortages, triggered by a combination of climate change, water scarcity, energy crisis, and political instability.

Before you panic, the good news is that the scientists behind the model don't believe it's predictive. The model does not account for the reality that people will react to the escalating crises by changing their behavior and policies.

But even so, it's a sobering wake-up call, which shows that business-as-usual guarantees the end-of-the-world-as-we-know-it: our current way of life is not sustainable.

The new models are being developed at Anglia Ruskin University's Global Sustainability Institute (GSI), through a project called the 'Global Resource Observatory' (GRO).

The GRO is chiefly funded by the Dawe Charitable Trust, but its partners include the British government's Foreign & Commonwealth Office (FCO); British specialist insurance market, Lloyds of London; the Aldersgate Group, the environment coalition of leaders from business, politics and civil society; the Institute and Faculty of Actuaries; Africa Development Bank, Asian Development Bank, and the University of Wisconsin.

Disruption risk

This week, Lloyds released a report for the insurance industry assessing the risk of a near-term "acute disruption to the global food supply." Research for the project was led by Anglia Ruskin University's GSI, and based on its GRO modelling initiative.

The report explores the scenario of a near-term global food supply disruption, considered plausible on the basis of past events, especially in relation to future climate trends. The global food system, the authors find, is "under chronic pressure to meet an ever-rising demand, and its vulnerability to acute disruptions is compounded by factors such as climate change, water stress, ongoing globalisation and heightening political instability."

Three steps from crisis

Lloyd's scenario analysis shows that food production across the planet could be significantly undermined due to a combination of just three catastrophic weather events, leading to shortfalls in the production of staple crops, and ensuing price spikes.

In the scenario, which is "set in the near future," wheat, maize and soybean prices "increase to quadruple the levels seen around 2000," while rice prices increase by 500%. This leads to rocketing stock prices for agricultural commodities, agricultural chemicals and agriculture engineering supply chains:

"Food riots break out in urban areas across the Middle East, North Africa and Latin America. The euro weakens and the main European stock markets lose 10% of their value; US stock markets follow and lose 5% of their value."

The scenario analysis demonstrates that a key outcome of any such systemic shock to the global food supply - quite apart from "negative humanitarian consequences and major financial losses worldwide" - would be geopolitical mayhem as well as escalating terrorism and civil unrest.

The purpose of exploring scenarios of this type is to prepare insurers for possibilities that are now more likely than previously assumed. The Lloyd's report points out:

"What is striking about the scenario is that the probability of occurrence is estimated as significantly higher than the benchmark return period of 1:200 years applied for assessing insurers' ability to pay claims against extreme events."

That leading insurance companies are now attempting to factor in potential losses from such crises is a major step forward in pushing the financial sector to recognise the dark-side of the current system of fossil fuel dependence.

The report concludes:

"A global production shock of the kind set out in this scenario would be expected to generate major economic and political impacts that could affect clients across a very wide spectrum of insurance classes."

It would have "major consequences for companies' investment income," with the potential to "generate losses that span many years." It would also result in political instabilities that take "decades to resolve" while imposing "greater restrictions on international business."

Governments want answers

The scenario was developed for Lloyds by the Anglia Ruskin University team with the British Foreign Office's UK/US Task Force on Resilience of the Global Food Supply Chain to Extreme Events.

The Foreign Office's food resilience Task Force began to come together late last year. An FCO document from February 2015 for a Task Force workshop throws light on its rationale, direction, and participants.

"The taskforce is looking at plausible worst case scenarios of disruption to the global agri-food system, caused by extreme weather events," the document explains. Taskforce projects aim to "improve understanding of how changing extreme weather events (severity, type, frequency, geographical impact) may impact on global food security" and to "identify how market and policy responses may exacerbate or ameliorate these effects."

Of particular concern to the FCO's taskforce is to determine "how large shocks in agricultural production could occur (e.g. floods, droughts, wind storms)," how these would translate into "crop reductions," and "how society responds to high food prices or limited local availability."

Although coordinated by the FCO, other UK government-backed programmes are involved, chiefly the Global Food Security Programme and the Science & Innovation Network, together representing the Department of Environment, Food and Rural Affairs (DEFRA); the Department of Health; the Department for International Development (DFID); the Government Office for Science; the Department for Business, Innovation and Skills; and the Scottish and Welsh governments.

On the U.S. side, government involvement was limited to the Center for Integrated Modeling of Sustainable Agriculture and Nutrition Security (CIMSANS), which is supported by the U.S. State Department, and USAID's Famine Early Warning Systems Network.

Another participant was a senior researcher from the Consultative Group for International Agricultural Research (CGIAR), whose members include many leading international institutions.

Collapse

I had been in touch with the Anglia Ruskin GSI team for a while, having previously reported on some of their work—and this month joined GSI as a visiting research fellow.

Earlier this year, I attended an invite-only GRO steering committee meeting of scientists, technologists, financiers, economists, and academics, where GSI's Director, Dr. Aled Jones, delivered a detailed presentation on the modelling work done so far, what it implied, and where it was leading.

Dr. Jones was previously Deputy Director of the Programme for Sustainability Leadership at University of Cambridge, where he was Director of the British government's flagship Chevening Fellowships Economics of Climate Change Programme, supported by the UK Foreign Office to deliver the FCO's Strategic Framework. Jones also chairs a working group of the UK government's Department for Energy and Climate Change's Capital Markets Climate Initiative (CMCI).

Jones' GRO initiative has received direct funding from the Foreign Office to develop its modelling capacity, and he is a co-leader of the FCO Task Force's working group on 'Impacts', where he and his team apply the GRO models to assess the way crop reductions would affect global food security.

GRO is developing two types of model: an Agent-Based Model to explore short-term scenarios of policy decisions by simulating social-economical-environmental systems; as well as a System Dynamics Model capable of providing projections for the next 5 years based on modelling the complex interconnections between finite resources, planetary carrying capacity, and the human economy.

"The financial and economic system is exposed to catastrophic short-term risks that the system cannot address in its current form," Dr. Jones told us.

He described GRO's use of the Agent-Based Model to capture and simulate the multiple factors that led to the 2011 Arab Spring events.

By successfully modeling the "impact of climate-induced drought on crop failures and the ensuing impact on food prices," he said, the model can then be recalibrated to "experiment with different scenarios."

"We ran the model forward to the year 2040, along a business-as-usual trajectory based on 'do-nothing' trends - that is, without any feedback loops that would change the underlying trend. The results show that based on plausible climate trends, and a total failure to change course, the global food supply system would face catastrophic losses, and an unprecedented epidemic of food riots. In this scenario, global society essentially collapses as food production falls permanently short of consumption."

Another steering committee member raised their hand: "So is this going to happen? Is this a forecast?"

"No," said Jones. "This scenario is based on simply running the model forward. The model is a short-term model. It's not designed to run this long, as in the real world, trends are always likely to change, whether for better or worse."

"Okay, but what you're saying is that if there is no change in current trends, then this is the outcome?" continued the questioner.

Jones nodded with a half-smile. "Yes," he said quietly.

In other words, simply running the Agent-Based Model forward cannot generate a reliable forecast of the future. For instance, no one anticipated the pace at which solar and wind energy would become cost-competitive with fossil fuels. And the fact that governments and insurers are now beginning to scope such risks, and explore ways of responding, shows how growing awareness of the risks has the potential to trigger change.

Whether that change is big enough to avoid or mitigate the worst is another question. Either way, the model does demonstrate in no uncertain terms that present-day policies are utterly bankrupt.

Limits to growth

GRO's System Dynamics Model takes a different approach, building on the 'World3' model developed by scientists at Massachusetts Institute of Technology (MIT), which famously forecast that humankind faced impending "limits to growth" due to environmental and resource constraints.

In popular consciousness, the 'limits to growth' forecasts were wrong. But recent studies, including one by the Australian government's scientific research agency CSIRO, confirm that most of its predictions were startlingly prescient.

Dr. Jones and his team at Anglia Ruskin University have taken this confirmation several steps further, not only by testing the model against the real world, but by recalibrating it internally using new and updated data.

"World3 was a very good, robust system," he told us. "Some assumptions were incorrect and misparameterised - for instance, life expectancy is smaller than assumed, and industrial and service outputs are larger than assumed. And the model was missing some shock dynamics and feedback loops."

The same questioner put his hand up and asked, "Does this mean the original model and its predictions are flawed?"

"I would say the model was largely correct," said Jones. "It was right enough to give a fairly accurate picture of future limits to growth. But there are some incorrect parameters and gaps."

The System Dynamics Model, Jones explained, is designed to overcome the limitations of World3 by recalibrating the incorrect parameters, adding new parameters where necessary, and inputting fresh data. There are now roughly 2,000 parameters in the model, drawing on a database of key indicators on resources and social measures for 212 countries, from 1995 until today.

Jones' affirmation of the general accuracy of the limits to growth model was an obvious surprise to some in the room.

The original model forecasted global ecological and economic collapse by around the middle of the 21st century, due to the convergence of climate change, food and water scarcity, and the depletion of cheap fossil fuels - which chimes with both the GRO's models.

Last year, Dr. Graham Turner updated his CSIRO research at the University of Melbourne, concluding that:

"… the general onset of collapse first appears at about 2015 when per capita industrial output begins a sharp decline. Given this imminent timing, a further issue this paper raises is whether the current economic difficulties of the global financial crisis are potentially related to mechanisms of breakdown in the Limits to Growth BAU [business-as-usual] scenario."

For the first time, then, we know that in private, British and US government agencies are taking seriously longstanding scientific data showing that a business-as-usual trajectory will likely lead to civilisational collapse within a few decades—generating multiple near-term global disruptions along the way.

The question that remains is: what we are going to do about it?

Source:
https://medium.com/insurge-intelligence/uk-government-backed-scientific-model-flags-risk-of-civilisation-s-collapse-by-2040-4d121e455997#.eedrpq2rt

This article was first published by **Insurge Intelligence**, a new crowd-funded investigative journalism project, and is released free in the public interest. Detailed references for the work reported in this article may be obtained from the original source.

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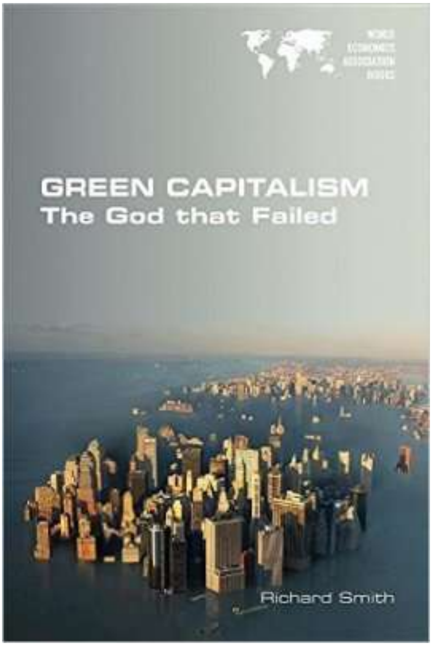
Book Summary

Green Capitalism: The God that Failed (WEA eBook Library)

by Richard Smith

Capitalism is, overwhelmingly, the main driver of planetary ecological collapse



From climate change to resource overconsumption to pollution, the engine that has powered three centuries of accelerating economic development revolutionizing technology, science, culture, and human life itself is, today, a roaring out-of-control locomotive mowing down continents of forests, sweeping oceans of life, clawing out mountains of minerals, drilling, pumping out lakes of fuels, devouring the planet's last accessible resources to turn them all into "product" while destroying fragile global ecologies built up over eons of time. Between 1950 and 2000 the global human population more than doubled from 2.5 to 6 billion, but in these same decades consumption of major natural resources soared more than 6 fold on average, some much more. Natural gas consumption grew nearly 12 fold, bauxite (aluminium ore) 15 fold. And so on. At current rates, Harvard biologist E.O Wilson says that:

"half the world's great forests have already been levelled and half the world's plant and animal species may be gone by the end of this century."

Corporations aren't necessarily evil, though plenty are diabolically evil, but they can't help themselves. They're just doing what they're supposed to do for the benefit of their shareholders. Shell Oil can't help but loot Nigeria and the Arctic and cook the climate. That's what shareholders demand. BHP Billiton, Rio Tinto and other mining giants can't resist mining Australia's abundant coal and exporting it to China and India.

Mining accounts for 19% of Australia's GDP and substantial employment even as coal combustion is the single worst driver of global warming. IKEA can't help but level the forests of Siberia and Malaysia to feed the Chinese mills building its flimsy disposable furniture (IKEA is the third largest consumer of lumber in the world).

Apple can't help it if the cost of extracting the "rare earths" it needs to make millions of new iThings each year is the destruction of the eastern Congo – violence, rape, slavery, forced induction of child soldiers, along with poisoning local waterways. Corporations like Monsanto and DuPont and Syngenta and Bayer Crop Science have no choice but to wipe out bees, butterflies, birds, small farmers and extinguish crop diversity to secure their grip on the world's food supply while drenching the planet with their Roundups, Atrazines and neonicotinoids. This is how giant corporations are wiping out life on earth in the course of a routine business day. And the bigger the corporations grow, the worse the problems become.

Bill Mitchell on the purposes of taxation

Editor

A recent blog by Prof Bill Mitchell [1] has listed the purposes for which a sovereign government might wish to tax its citizens. The acquisition of taxation revenue is not on that list, because under a modern fiat money system taxation revenue is never needed to raise funds for government spending. And that is because the government is the monopoly issuer of the nation's currency. This is fully consistent with the principles of function finance, as elucidated by Abba Lerner [2].

A sovereign government might impose taxes to control inflation – taxation is a way that government imposes limits on the non-government sector's capacity to spend and thus create real resource 'space' for government spending in pursuit of its social objectives without overreaching the capacity of the economy to respond by increasing real output.

One way of thinking about this is that taxation creates unemployment in the non-government sector and government spending creates the demand for goods and services which solves the unemployment.

Other reasons why a government might tax its citizens are:

(a) To redistribute purchasing power from the rich to the poor (high income to low income) – a point that is obvious.

(b) To alter the allocation of resources away from undesirable ends – such as tobacco or carbon taxes – making undesirable products more expensive in order to discourage their use.

(c) To provide some hypothecated public transparency for major projects/ programs like highways – politically contentious spending should be transparent. Taxes are, in fact, 'demand drains' and so reduce the capacity of the non-government sector to spend. In this sense, the transparency allows the non-government sector to see exactly what 'demand injection' (say highway spending) is replacing the command on resources that households and firms would have had in the absence of the taxes. It has nothing to do with the taxes funding anything. Just a $-for-$ matching to help expose the opportunity cost

References:

1. http://bilbo.economicoutlook. net/ blog/ ?p=34102#more-34102

2. Abba Lerner (1943), *Functional finance and the federal debt*, Social Research, vol 10, no 1, pp 38-51

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Even if we could grow our way out of the crisis and delay the inevitable and painful reconciliation of virtual and real wealth, there is the question of whether this would be a wise thing to do. Marginal costs of additional growth in rich countries, such as global warming, biodiversity loss and roadways choked with cars, now likely exceed marginal benefits of a little extra consumption. The end result is that promoting further economic growth makes us poorer, not richer. - **Herman E. Daly**, For the Common Good: Redirecting the economy toward community, the environment, and a sustainable future.

David Kotz asks: What does neoliberal ideology require?

Editor

The following has been extracted from a recent book by Prof David M. Kotz "The rise and fall of neoliberal capitalism" (HUP, 2015).

Kotz analyses the reasons for the rise of free-market ideas, policies, and institutions beginning around 1980. He shows how the neoliberal capitalism that resulted was able to produce a series of long although tepid economic expansions, punctuated by relatively brief recessions, as well as a low rate of inflation. This created the impression of a “Great Moderation.”

However, the very same factors that promoted long expansions and low inflation - growing inequality, an increasingly risk-seeking financial sector, and a series of large asset bubbles - were not only objectionable in themselves but also put the economy on an unsustainable trajectory. Kotz interprets the current push for austerity as an attempt to deepen and preserve neoliberal capitalism. However economic theory and history suggest that neither austerity measures nor the other policy adjustments can bring another period of stable economic expansion. Kotz also considers the possible directions of major economic restructuring that will be required if continuing stagnation is to be resolved.

Here is Kotz's list of 16 ideas and institutions of neoliberal ideology:

1. Dominance of neoliberal theories;
2. Removal of barriers to the movement of goods, services, capital and money across national boundaries;
3. Renunciation of aggregate demand management;
4. Deregulation of basic industries;
5. Deregulation of the financial sector;
6. Weakening of regulation of consumer safety, job safety, and the environment.
7. Weakening of anti-trust enforcement;
8. Privatization and contracting out of public goods and services;
9. Contraction of social welfare;
10. Tax cuts for business and the rich;
11. Marginalization of collective bargaining;
12. Casualization of jobs;
13. Unrestrained competition;
14. External hiring of corporate CEOs;
15. Penetration of market principles within corporations;
16. Shifting of financial institutions towards activities which are independent of the non-financial sector.

The bean counters score

Colin Cook

It was a long week-end and the federal Treasurer’s Eleven – aka The Bean Counters - had come up from Canberra to play the Village; they lost the toss, the Villager’s openers took the field – but consternation, for the bowling was underarm! ‘Do these guys know what they’re up to?’ was the general reaction around the ground.

But there was consternation amongst the scorers as well for the Treasurer’s scorer started with a bag full of kidney beans – transferring them methodically into a black box as runs were made.

The runs were coming freely once the Villagers got the hang of slow, low, curly deliveries – wickets were lost mainly through carelessness and hilarity but at 256 for 7 the Treasurer’s captain called a halt; all the beans had been used – there were no more runs to be had!

'But what about our other three batsmen?' complained the local skipper; mark them as 'unemployed' was the response, 'there are no more runs for them score'.

Lunch was a slow, somewhat sombre affair - the visitors seemingly uninterested in taking the field. 'What's the point' said the Treasury skipper, 'Where will the runs come from? You lot have used up all beans, there are no runs for us to score.

'Don't worry where the runs will come from' assured the Village scorer, 'we use a computer – so we have just as many runs as you need and more besides. No need for any of your batsmen to be unemployed.'

Free from the dread of the beans running out, the Treasury boys batted happily scoring 221 before the last wicket fell.

Net result, Treasury suffered a 35 run deficit, the Villagers enjoyed a 35 run surplus.

And the point is?

(a) The game of life should not be restricted by how many beans are to hand.
(b) When Treasury loses, others enjoy a win. And vice versa.
(c) Bean counters can learn a thing or two from the SCG scoreboard.
(d) No reason for anyone to be marked, 'unemployed' if you understand cricket scoring - or modern money creation (Ref Bank of England Q1 2014).

Background brief

The Australia Federal Government is a CICG, a currency issuing central government. The currency it issues is the Australian dollar which, since 12 December 1983 has been a FIAT currency; that is, 'State-issued money which is neither convertible by law to any other thing, nor fixed in value in terms of any objective standard' (Wikipedia). In short, our dollar is backed by no material substance but is a constitutional project and its value is underwritten by the willingness of the Federal Government to accept it in payment of taxes.*

Our dollars mostly appear as book keeping entries, numbers on computer screens not as 'real money'; ordinary folk cannot create A$s to add to their own balances or those of their friends, only the CICG can do that. Because a FIAT currency has no material backing, literally nothing limits how much can be produced but the amount of currency that should be created IS fixed by the sum total of the national resources – human, material, administrative and constitutional. To issue more FIAT money than that would be inflationary.

* And we all have confidence that this is so; this confidence is important for it is mutually supportive and what makes FIAT currencies work; they are not 'a trick' but an essential tool for modern societies.

Colin Cook is an ERA member who lives in NSW and blogs at http://cooksourdough.blogspot.com.au/

The oldest problem in economic education is how to exclude the incompetent. A certain glib mastery of verbiage - the ability to speak portentously and sententiously about the relation of money supply to the price level - is easy for the unlearned and may even be aided by a mildly enfeebled intellect. The requirement that there be ability to master difficult models, including ones for which mathematical competence is required, is a highly useful screening device. - John Kenneth Galbraith, *Economics Peace and Laughter*

News and views from New Zealand

NZ:- 100% pure bilge water

Dennis Dorney

In my most recent article I suggested that our Australian-owned banks were getting jittery and were reducing their exposure as much as possible. Their recent behaviour may support that idea or could simply be an example of their typical meanness.

On Sept 16th, Westpac Bank confirmed that it will close 19 rural branches around the country, with 72 jobs at risk. Despite massive resistance from some communities to the move, the bank had decided to go ahead with the closures. Two days later ANZ Bank announced that 5 rural branches were likely close. In view of the record profits being earned by these banks, it would not hurt them to be generous but they are impervious to persuasion. Perhaps they know something that we don't know.

Cool, (un)clear water

Perhaps banks need to be reminded that money is not the most important thing in the world. That humble, but most essential, commodity - water - has recently figured prominently in the news. It may seem far removed from economics but if you haven't any water, you will pay a lot to get some. Most of our readers will be aware that multi-nationals are buying up water rights as quickly as possible. In NZ we have water in plenty - so much so that we abuse it terribly.

Maori water rights

Maori claims of rights to rivers, water-ways, the sea shore etc have been a running sore in NZ for a long time. When the National government sold off a large chunk of our Energy companies, the Maori Party (although officially part of the ruling coalition) said that the sale could not proceed until its claim for rights to the water that generated our hydropower, had been resolved. The Government stated flatly that water belonged to no-one, which ended the dispute but had unintended consequences.

This meant that New Zealanders could access spring water in aquifers at no cost other than that of connection to the bore (generally about $300). Theoretically there was then no limit to the water they could extract, a fact that overseas companies picked up on very quickly.

The Ashburton District Council (South Island) is selling a section in its business estate for an undisclosed sum. It is provided with a valuable resource consent that allows abstraction of water from aquifers beneath the town. The council has refused to publicise information about the deal, which is understood to be with an overseas company, but the price appears to be for the section, not for the amount of water extracted, which is likely to be bottled on site. The consent expires in 2046, meaning that the buyer will gain access to more than 40 billion litres of Ashburton's pure water. It includes a recharge consent, meaning that any short-fall in water supplied must be replaced from other sources, which presumably means the Ashburton River nearby.

Muddying the water

But what happens if the water becomes contaminated? A similar deal exists in the Hawkes Bay District, where local spring water is bottled and sent to China. The first batch was rejected as having excessive nitrate concentrations, presumably from fertilisers or from cow droppings. Worse follows.

The Hawke's Bay (North Island) District Health Board confirmed on April 13th a spate of gastric illnesses stemming apparently from contamination in the water supply, though the cause of the contamination was not known. One person had died at a Havelock North nursing home, possibly from the contamination. Eventually around 5000 people were affected by the illness, and two subsequently died.

The contamination was of a type that would be passed on from birds, deer or - most probably - cows. Prior to the outbreak the water had never been chlorinated because it was trapped between clay layers and was therefore considered 'safe'. However the Hawkes Bay region had suffered a prolonged drought lasting well into winter, which was then broken by severe flooding. It is thought that the drought had cracked the clay layers allowing the flood waters access to the aquifer.

The environmental damage has a direct link to economic consequences. For a long time NZ has used the slogan "NZ: 100% Pure" to good effect to attract overseas visitors lured by a vision of a pristine environment. Unfortunately our present Government is obsessed with expanding NZ's dairy industry, which requires enormous quantities of water from rivers and aquifers to function. This increased demand reduces water flows to the point where bacteria can become established and also intensifies the leaching of nitrates into the rivers. It would be a very foolish person who drinks NZ river water these days.

Under pressure from the Parliamentary Opposition to raise river water standards to be at least swimmable, Dr Nick Smith, Minister for the Environment, has claimed that such a goal was an unattainable expectation.

NZ's Commissioner for the Environment, Dame Jan Wright, a woman of high repute, has stated the obvious in saying that all things being equal, intensifying farming must inevitably increase pollution. What is our slogan worth then?

Any government's policies ought to satisfy social, environmental and economic imperatives. The recent social trauma of the Hawkes Bay District stems from our cavalier approach to the environment and appears to have driven us up an economic cul-de-sac.

Dennis Dorney is a regular contributor and is an ERA member living in NZ

A dismal tale of failure

John Kelly

Over the last 12 months, Australia has recorded a loss of 86,500 full time jobs and the creation of 196,000 part-time jobs. September employment growth was negative, yet the overall rate fell by 0.1% due to a 0.4% decline in the participation rate, i.e. unemployed people giving up looking for work.

Read the full article:
https://johnbkelly.wordpress.com/2016/10/22/a-dismal-tale-of-failure/

Letters Section

From Dick Clifford
Re: Debits Tax

The most recent ERA Review (v8, n5) contains an article by Elinor Hurst on the drawbacks of a Debits Tax, giving as an example a farmer buying a cow and paying the debits tax - buying feed, paying staff and sending the cow to market. So the Australian farmer is paying several times over, whereas an importer only pays once.

This argument does not notice that under the present taxation system there are many cases of double taxation and the Department has many solutions for this problem. It also admits that for some problems there is no solution but that does not make the present system invalid - it just makes a reasonable decision in each case. So the argument of the farmers double tax is inadequate.

Certainly a proposed Debits Tax needs careful research to insure that the huge benefits are real. But the solution to double taxation is to have a computer programme where the farmer lists all the items and all the tax paid in each receipt and the corrected remaining tax is automatically calculated and a record of the costs of his business provided.

The basic idea of the Debits Tax, as it is usually proposed, is that a withdrawal from a bank, credit union or any other financial institution will be taxed at a rate of 1%, with the financial data instantly sent by the Electronic Funds Transfer (EFT) system to the National Treasury. The Government would need to pass an Act to change the 1% rate, and it has been proposed that this would abolish all other forms of tax including the GST.

While not often mentioned it would be necessary to consider the case of alcoholic beverages and tobacco which traditionally are charged at a higher rate. A special exception to the rules might be required to reduce excessive consumption of these substances.

One can find listed on the web about 20 advantages of a debit Tax System. These include:

(a) No extra taxes would be imposed on income, payroll, gifts, investments, estates, property, inheritance, goods or services.
(b) There would be an instant increase in wages/salaries, and goods and services would be cheaper (no GST).
(c) No more complex tax forms would be needed.
(d) Multinational companies would have to pay their fair share - but still cheaper than taxes in a tax haven.
(e) It would create a real "user pays" system. Fewer people would be "living on the edge."
(f) It would ensure a continuous flow of revenue to Treasury.
(g) The large and expanding national debt would be settled quickly.
(h) Australia would become a tax haven attracting overseas interests to invest (Until they adopted the debit tax)
(i) Increased savings would accrue.
(j) Increased revenue would imply the provision of adequate financial resources for state-operated superannuation, pension schemes and health services.

On the other side of the ledger, many tax consultants and tax department employees would become unemployed. They should be offered a 4-year full time course with pay in any profession of their choosing (emphasis would be given for courses on solar engineering etc.). But in the situation existing in the world today there are other reasons for adopting a Debits Tax. There are three problems requiring solution:

1) Reducing pollution (atmospheric CO_2, plastic rubbish in the oceans);
2.) Reducing armaments (converting arms factories to green equipment); and
3) Overpopulation.

1) The worlds observatories show an increasing level of CO2, a decreasing amount of ice and rising temperatures. It is essential to switch to solar and wind generation at a much quicker rate and with much larger heat saving, to cut pollution to reasonable levels. In addition solar stills as have been developed in France should be built for smelting of metals. Our industrialists have shown a disgusting lack of responsibility so it will now be necessary for the Government to offer and pay for converting all electric generators to solar and wind working. The money can come from an extra dollar on the Debit Tax rate or this can be reduced by adopting the other methods suggested in my pamphlet [1]. In addition it will be necessary to build electric vehicles and return petrol vehicles to the smelter. The cost of electric generators and vehicles have been much reduced and in some cases are cheaper than users of coal and oil. While I suggest that the Government should pay for the new equipment in no case should the Government offer any financial reimbursement.

2) Australia is allied to the U.S. and has supported that country in most of the wars they have been involved in since WW2. Many Middle East countries have been trashed and financially ruined. It is difficult to see how any of their peoples could not be a genuine refugee. Little or no thought has been given to a new Marshall Plan and the U.S. armament industry continue to supply all comers with the latest weapons and many feel their only salvation is to fight and kill. More efficient weapons are being made and the military are itching to use them. Present policies are leading us to world war. We should encourage all countries to adopt the Debit Tax, which will allow governments and their people to access the resources needed to repair much of the damage done.

3) Mankind/womankind are biological animals who inhale oxygen and exhale CO_2. We generate electricity by burning coal, and travel by land, sea and air using petroleum products. And if we continue doing these things then we will regret it. If the population is employed and have an interesting life then they tend to have fewer children, and so the population can be reduced without incurring the problems produced by strict population controls. The main problem lies with some of the religions, who are still preaching the desirability of producing ever more babies. They are unwilling to modify their views, in large part because their teachers never thought to tell them that the world is ever changing and that there is a need to adapt to such changes by bringing in reforms. The two largest religions are as bad as each other in this respect.

The present economic system has no hope of being able to correct these world problems; at present it is unwilling to do what is needed to provide the monetary resources needed. It is therefore essential to encourage all nations to adopt the Debit Tax and/or to create money by printing sufficient of it to cure unemployment - but no more than needed for that task otherwise we risk suffering from undue levels of inflation.

1. Reform of the Financial System http://www.users.on.net/rmc/moneyreform.pdf

From Elinor Hurst

Re: Debits Tax

I think Dick does make a valid point about tax adjustments for the multiply taxed farmer being possible, after all, this is exactly how the GST works. So, maybe that is not as big an issue as it first appeared.

What does concern me though is the proposal to have a Debits Tax replace virtually every other tax. Different taxes have different purposes, and a single tax will not achieve the multiple aims of all the others. Unfortunately, with a tax system to some degree we have a choice between fairness and simplicity.

As to the rest of his response regarding the world's problems today, Dick seems to suffer from the misunderstanding that "taxes pay for things". The insights of MMT reveal that bringing in more taxes won't help if a monetarily sovereign government is not prepared to deficit spend, because there will then still not be enough funding for all the public goods and services that are needed to fight climate change and other social and environmental issues.

From John McAuley

Re: Debits Tax

The nature of the Debits Tax is not so broad-ranging that one could construe it replacing income tax. Better to make the comparison with the notorious and oppressive GST. The GST actually replaced Australia's taxes on bank Debits in 2000. Mores the pity! But no one would reinstate the precise conglomeration of pre-GST Debit tax rates because each of the six States and two Territories then had its own diverse scale of tax rates, i.e. no national or uniform rate existed as it should have. A little later, there was an improvement with a uniform national take of 6 cents % on Credits within all financial institutions (the FID).

The head of the federal Treasury and his successor are quoted in the earlier article by Elinor Hurst (n5, v8) as having expressed a dim view of a Debits tax being biased against small businesses with less scope for vertical integration. What a pity application of the same criterion did not prevent the GST's replacement of the two low-rate DR/Cr financial taxes!

The GST directly suppresses jobs and economic growth, of which consumption is a major component. The GST replaced very cheaply collectible financial taxes from a relative handful of institutional collectors, whereas the highly complex GST involves two million businesses, each submitting up to five returns per annum at own cost.

Moreover, smaller business and lower income groups are the most disadvantaged by the GST.

I would also favour extending to the transactions in financial markets (in bonds, shares, derivatives, forex, etc) the proposed tax on Dr/Cr transactions handled in financial institutions (not only banks) and in replacement of the oppressive GST.

A uniform national low rate of this tax would be possible and sufficient to enable the Australian Commonwealth to resume a sharing in the distribution of proceeds, enable quick repayment of accumulated public debt held by the States and Territories - assuring them of no net disadvantage by a changed system, permit more appropriate compensation (e.g. for SA, Tas, Qld, ACT/NT), and assist the continuity of funding for high-priority infrastructure and services.

The tax rate proposed would be low relative to existing fees and brokerage charged by financial institutions.
It is of interest to note that both of the two Treasury heads referred to in the above ERA Review article, upon retirement, went on to careers on the boards of banks - Westpac and NAB.

Globally, 40% of people won't have access to clean water by 2030

Reynard Loki

For millions of people across the world, access to clean water so they can drink, cook and wash, is a daily struggle. In many rural, impoverished communities, fetching water is an arduous task that falls upon women and children.

In Africa and Asia, women and children must walk 3.7 miles on average to get their water. Collectively, women spend over 200 million hours every day just collecting water. That's more than just a major inconvenience, it's an incredible amount of lost economic potential.

This time-consuming and physically exhausting endeavour prevents women from working at paid jobs and keeps children away from school, impacts that continue a cycle of poverty and socio-economic exclusion. For the women and children who live in a small village in Kenya, their walk to water is more than five miles. And the water they gather isn't even clean; it comes from a dirty river containing harmful bacteria.

These villagers are not alone. Around 783 million people - 11 percent of the world's population - don't have access to clean water, which can be deadly. Lack of clean water and sanitation is the ultimate cause of approximately 3.5 million deaths every year.

It's a major crisis that could become even worse if nations don't fully address it soon. Water - being a finite natural resource - is getting scarcer as the global population steadily increases. By 2030, only 60 percent of humanity's demand for water will be met by existing resources at the current rate of use, according to the U.N. That means four out of 10 people will be without access to water.

"I've met people in a number of different countries who are impacted by the water crisis," said Matt Damon, who is the co-founder of Water.org, a charity that helps communities design and construct sustainable water supply systems.

In a video interview, the actor and activist described a trip to Ethiopia where he watched children retrieve water from a hand-dug well he described as a "filthy hole". "The water looked like chocolate milk" he said. "They were aware of the dangers of drinking that water, but they just didn't have a choice."

It was a long time coming, but finally, in 2010, the United Nations General Assembly recognized that water and sanitation should be basic human rights. "Safe drinking water and adequate sanitation are crucial for poverty reduction, crucial for sustainable development and crucial for achieving any and every one of the Millennium Development Goals," said U.N. Secretary-General Ban Ki-Moon.

In addition, improved water and sanitation can help fight hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, reduce the impact of climate change, protect biodiversity, prevent regional conflict and combat a wide range of diseases, including malaria and HIV/AIDS.

There has been progress. Between 1990 and 2015, 2.6 billion people gained access to improved drinking water sources. Much of that progress was due to nations meeting the U.N.'s Millennium Development Goals. Notably, the MDGs' target of halving the proportion of people without access to improved sources of water was met five years ahead of schedule.

But despite these impressive gains, 2.4 billion people are still using unimproved sanitation facilities, including 946 million people who are still practicing open defecation. India still has the highest number, around 190 million people, practicing open defecation, mostly in rural areas. This has led to a number of health impacts, including typhoid, cholera, hepatitis, polio, trachoma, intestinal worm infections and infectious diarrhoea, which are known to kill 760,000 children under the age of five worldwide every single year.

The lack of sanitation and access to clean water also has a tremendous economic impact, not least of all by keeping women out of the economic engine and kids out of school. "Doing nothing is costly" says U.N. Deputy Secretary-General Jan Eliasson. "Every $1 spent on sanitation brings a $5.50 return by keeping people healthy and productive." According to World Bank estimates, poor sanitation costs India an estimated $53.8 bill (6.4% of GDP), Pakistan $4.2 bill (6.3% GDP) and Cambodia $448 million (7.2% of GDP).

"Infrastructure improvements are the most pressing need in addressing these deficits", Jackson Ewing, director of Asian Sustainability at Asia Society Policy Institute, told AlterNet. "Progress on WASH [water, sanitation, hygiene] requires financial prioritization from governments and capital from development banks and private investment" He added that "the case must be made to finance ministries in places like South Asia and SE Asia that more resources should be allocated to improving water supply, building sanitary toilets, and rolling back water pollution."

Getting governments to prioritize water issues can be tricky. In many parts of the world, as throughout human history, water is a highly valued and guarded resource. Put another way, you don't want your enemies to have water. From the Middle East to Africa, from the Indian subcontinent to Asia, many nations have been willing to go to extremes not only to protect their water security, but to use water as a military weapon.

"Geopolitics and a history of cross-border disputes have meant that trans-boundary water issues are perceived largely from a perspective of national security," writes Mandakini Devasher Surie, the Asia Foundation's senior program officer in India." She says that a "highly securitized approach has severely limited access to water and climate data." By not sharing critical regional water data, Surie argues, it is difficult to get an accurate assessment of water availability. And you can't solve the problem if you don't know the extent of it.

To be sure, the water crisis has primarily impacted the developing world, but with ongoing water pollution concerns and climate impacts such as drought, wildfires and marine dead zones increasingly troubling rich nations across Europe and North America, developed countries are coming to realize that they are not immune.

"We don't know anyone who goes thirsty," said Water.org's Damon. "We have faucets everywhere. Our toilet water is cleaner than what 663 million people drink. The recent crisis in Flint, Michigan, ironically, is one of the first times, at least in my memory, that Americans have become aware of just how necessary clean water is, and the dire consequences of not having it."

In fact, the residents of Flint may have had their human rights violated due to the unavailability of clean water. At least nine current and former Michigan state employees face charges relating to allegations they covered up information about the lead contamination of Flint's drinking water. "The fact that Flint residents have not had regular access to safe drinking water and sanitation since April 2014 is a potential violation of their human rights" said Léo Heller, the U.N. Special Rapporteur on the human right to safe drinking water and sanitation.

When it comes to access to clean water and sanitation, we have come a long way. But with a larger water availability crisis looming, a rapidly growing population, and other concerns occupying the focus of world leaders, it's clear that ensuring this basic human right could be humanity's greatest challenge.

Source: Alternet, 18 October 2016

http://www.alternet.org/environment/theres-global-crisis-looming-2030-four-out-10-people-wont-have-access-water?

The references for statements referred to in the text may be found in the original source.

Reynard Loki is AlterNet's environment editor

Foreign debt explained: it's not what you think

A conversation between John Kelly and Steven Hail

An interesting conversation between John Kelly and economist Dr Steven Hail (Adelaide University) was reported in a recent AIM network article [1]. John asked Steven some questions about the much misunderstood subject of Australia's foreign debt position. This is a transcript of that discussion:

JOHN: Steven, can you help me out here? There has been talk recently about Australia's "foreign debt". What is this? I read recently that Federal government foreign debt is approx 30% of the overall total, now reported to be about $1.04 trillion. But to whom do we owe it and why? What did we borrow it for?

STEVEN: We didn't borrow it at all. The rest of the world chose to buy it. Anyone can buy Australian government securities, just as anyone can hold Australia's currency. Australia's negative net international investment position in total is about 60% of our GDP, where it has been for a long time. It is mainly in the form of private and semi-government (state) bonds, but some of it (and an increasing amount, due to their safety) is in the form of Australian government securities. This has been a problem, as it has been hard for Australian banks to get enough Australian government bonds to meet their regulatory requirements, since there are not enough of them in existence to meet the demand. It is entirely the wrong way around to think of it as our borrowing from someone.

Instead, the rest of the world chooses to net export to Australia (as it has every year since 1974) and holds the AUD it is earning in the form of Australian dollar assets. It is a portfolio decision of foreign investors, in a world where there are no controls on the assets they buy, and nothing to do with a need for us or the Government borrow. Moreover, the securities are in our own currency, or to the extent that private bonds are in foreign currency, are hedged against foreign exchange risk more than 100%.

The problem is that people who imagine they know something, and in fact really don't understand anything, end up imagining that this is the situation in Australia - that the government goes out looking for foreigners to buy its debt. And that is total nonsense. The Government chooses to issue bonds – which it could easily just not issue at all.

Foreigners then choose to buy some of those bonds. End of story.

JOHN: So is this "foreign debt" so called, our current account balance, our terms of trade, our trade deficit where the RBA holds accounts on behalf of foreign central banks in $AUD which can only be spent here? Does the government enter into contracts written in a foreign currency (say $US) to buy stuff like submarines etc?

STEVEN: We don't refer to a 'foreign debt'. We refer to a negative net international investment position. It means that, in terms of Australian dollars, the holdings the rest of the world has on Australian equities, bonds and other financial assets are greater than the holdings Australian residents have over foreign equities, bonds and other financial assets. It is basically the result of our previous current account deficits, stretching back over many years, which are themselves the result of the rest of the world wanting to save our currency. It is nothing to do with the RBA, really. It is not in foreign currency. We have no unhedged net foreign currency liabilities. In fact, we have net foreign currency assets, you might be surprised to know. While the government enters into foreign currency denominated contracts sometimes, it always buys the foreign currency to fulfil them on the foreign exchange market, and does not borrow in foreign currency. Short term trade credit is insignificant.

JOHN: So, rounding things off, if that's possible, we have no foreign debt (that is, monies borrowed and owing to another country in their currency), all government securities, bonds, treasury notes are issued in $AUD available to overseas buyers, but as we are the currency issuer, these can always be paid; our trade deficit is ongoing but does not involve exposure to any foreign currency and all foreign currency contracts are paid for by buying foreign currency, not borrowing. Have I understood it correctly? Am I right in thinking that our trade deficit is foreign ownership of $AUD currency deposited in RBA accounts?

Just a minor correction to the above. I realize we hold foreign currencies in various country's central banks with whom we have a trade surplus.

STEVEN: Nothing to do with a trade surplus. Trade makes up less than 1% of the turnover of the foreign exchange market. We hold some funds with foreign central banks for liquidity purposes, but also hold foreign government securities, as part of our foreign exchange reserves. Nothing to do with trade. I should add that such reserves are of use if the RBA decides to trade in currencies to influence exchange rates. We have a freely floating currency, but the RBA does nevertheless sometimes intervene to nudge the market – particularly if the currency is seen to be moving too quickly in one direction.

JOHN: So where does this $1.04 trillion figure come from? The AOFM website shows only $443 billion on issue.

STEVEN: The private sector, and it is a gross figure, not a net one.

JOHN: Right. Now I get it. Thanks.

[1] http://theaimn.com/foreign-debt-explained-not-think/

Book Review

What About Me? The Struggle for Identity in a Market-Based Society

by Paul Verhaughe (Scribe Publications, 2014; review by **Anna Fishzon**)

Feeling exhausted, hopeless, and anxious? You might be suffering from symptoms of neoliberalism, according to Prof Paul Verhaeghe. In this book he takes on “Enron society”, demonstrating how the core insights and principles of clinical psychology can be brought to bear on social relations, history, and ideology. The last 50 years have witnessed a staggering proliferation of psychiatric disorders - and a bloated *Diagnostic and Statistical Manual for Mental Disorders (DSM)* that has both reflected and caused over-diagnosis, disciplining, and medication of individuals afflicted with social rather than mental problems.

How can you *not* feel dejected and panic-stricken, asks Verhaeghe, when you live in a “meritocracy” that ensures some an obvious advantage? When you are evaluated incessantly and told you are not trying hard enough? When your work environment and community lack authority figures who take responsibility and set limits, leaving you to compete with coworkers and friends for scarce resources; and your creativity and passionate labor are immediately quantified and assessed for market value? You might even be relieved, argues Verhaeghe, to be diagnosed with an illness - and to incorporate it into your identity in order to excuse your inability to measure up. With so few options and so much pressure to fill the very limited number of slots designated for “winners”, having a neurologically determined ailment often feels better than being a failure. Using a psychiatric disorder as a shield from guilt is not malingering since the pervasiveness of neoliberal logic really has made you sick!

What About Me? traces notions of identity historically, providing an instructive overview of the shifts in Western thinking about the self. The story proceeds from Aristotelian immanence to Christian transcendence: the ancient Greek view that ethics are innate and need to be cultivated through self-care to the Christian belief that ethics are external and divine and inherently sinful humans can only aspire to goodness through spiritual communion. Since the latter half of the twentieth century, European and American neoliberal norms again have turned to the individual but without the classical period’s interest in citizenship or religious references to authority and God. Neoliberalism instead promotes a hyper-individualism supported by narrow positivism (quantitative measurement) and meritocracy (for the privileged classes) applied across a wide range of disciplines and professions, including academia and healthcare. Neoliberal success is equated with profit and human beings are understood “naturally” to be competitive, selfish, and unethical (hence the avalanche of evaluation and rules). But, following behavioral biologist Frans de Waal, Prof Verhaeghe suggests that altruism as well as aggression in here to higher primates and the cultural environment determines whether empathy or egotism predominates. The neoliberal obsession with the individual at the expense of the community ignores the fundamental human craving for love and hospitality – affecting the behavior that is necessary for our wellbeing.

Dr Paul Verhaeghe is a Belgian professor of clinical psychology and psychoanalysis.