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For a just and sustainable society

Government debt vs household debt: 'good' and 'bad' debt explained

Steven Hail

To add more private debt – and to add it to the young – is the height of folly ... We are in the grip of a mass delusion and we have been now for 30 years or more.

(Image via purchasingpower.com)

It is difficult to identify the most ludicrous policy proposal to emerge from our politicians in recent times.

But an increase in our already high university fees, when in a smart country there should be no university tuition fees at all, or at most a token charge, is definitely on the short-list.

We have as much private debt as we do in Australia, largely because we do not have enough government liabilities - call them "government debt" if you must. And if we are to use the term "government debt" for something which is better thought of as a form of money - and is not debt in the conventional sense of the term at all in a country with a monetary system like ours - can we please dispense with all this nonsense about "good debt" and "bad debt"?

There is good government spending and less good government spending - for sure. Government spending involves the use of real resources in our economy and should always be carried out for the public purpose. It can add to inflationary pressures in the economy, so must be limited in scale and carefully budgeted for. Moreover, enough taxes must be collected to keep a lid on inflation, dependent on the level of government and non-government spending, relative to our productive capacity as a nation.

But there is no real distinction between "good debt" and "bad debt". That is, no apparent funding source can ever be tied to a specific type of expenditure or investment. To pretend otherwise is nonsense. Even if taxes and government borrowing did "pay for" government spending, the notion that a specific source of funding could be

matched to a particular type of spending is nonsense. It is sometimes called "hypothecation" and everyone knows it to be nonsense.

If you understand how modern financial systems work in countries like Australia, however, the problem with Federal Treasurer Scott Morrison’s framing of his budgetary proposals is much more fundamental than a silly and essentially meaningless distinction between good and bad "debt". It is that every dollar of government spending or investment is, in reality, a new dollar being born - the monetary base literally increases every time the government spends a dollar. Every dollar of taxation marks the death of a dollar. Government bond sales (the issuance of "debt") are just a way to drain dollars from the banking system to support the current mechanism the Reserve Bank of Australia (RBA) has for controlling interest rates.

The Australian Government cannot ever run out of Australian dollars. Our current institutional arrangements may obscure this fact, somewhat, but it remains a fact. Government debt is better thought of as money. Government debt never has to be paid back. Government debt is not a burden on future generations, even when held by foreign investors.

A problem we have in Australia at the moment is that the fiscal deficit is too small to support the economy and there is insufficient government debt to meet the saving requirements of the private and foreign sectors. This is why we have so much unemployment, underemployment and insecure employment. This is why we have so much private debt and, in particular, household debt. This is also part of the reason for our property bubble and our fragile financial system.

To add more private debt – and to add it to the young – is the height of folly, resulting from the mass delusion that the budget is broken and needs to be repaired, that the government can run out of its own currency, that government liabilities are in some way a burden on future generations (excuse me!) and that there is something inherently "good" about a budget surplus.

We are in the grip of a mass delusion and we have been now for 30 years or more.

The Coalition are deluded. The ALP are deluded. The Greens are deluded. Most micro-parties are deluded. Virtually all journalists are deluded - to an extra-ordinary degree. All orthodox econ-omists are deluded and so are a few heterodox ones.

None of them understands the mechanics of monetary systems.

We live in the Ptolemaic age where the government budget is concerned. We have invented the telescope and we can clearly show anyone who is prepared to look through it that the monetary system is not Ptolemaic.

Some haven't realised this.

Others have the same shock religious fundamentalists had with the idea that the Sun and the planets do not revolve around the Earth.

Shamefully, many people are at least partly aware of the insights of modern monetary theory and that these insights are based on fact but are ignoring all this for career-based, political or other reasons. They will often justify them-selves by mentioning that great but pathetic excuse, the Overton Window.

All this garbage will collapse in the end and those shamefully ignoring the truth at the moment will be made to look at what they are, because the workings of a monetary system are quite simple enough at the level of fundamentals, so that anyone can understand them.

Meanwhile, prepare yourself for wall-to-wall garbage, from the Right but also from the Left, in the discourse relating to the 2017 Budget, in the days, weeks and months ahead.

Source: Independent Australia, 3 May 2017
https://independentaustralia.net/politics/politics-display/government-debt-versus-household-debt-good-and-bad-debt-explained,10259

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Recommended: Can we avoid another financial crisis? by Steve Keen

In 2008, conventional economics led us blindfolded into the greatest economic crisis since the Great Depression. Almost a decade later, with the global economy wallowing in low growth that they can’t explain, mainstream econ-omists are reluctantly coming to realise that their models are useless for understanding the real world. How did mainstream economists not see the crisis coming? Was it unpredictable, as they now assert, or did their theory blind them to the real causes? Will another such crisis occur? These and other questions are asked and answered in Steve Keen‘s new book, with a short explanation of how we got into this mess, and why we cannot get out of it by conventional means.

Be prepared for a cashless society

Joshua Krause

Last month, the European Central Bank suggested that the 500 Euro note needs to be eliminated. Not long after, academics and policy makers in the US started to call for the elimination of the $100 bill. This isn't something that the average person really thinks about on a regular basis, or even cares about. The vast majority of our purchases are done through digital channels these days. Unless you're about to buy a used car on Craigslist, you probably won't be needing the hundred-dollar bill. For most people, eliminating it would be an inconvenience at best.

So what gives? Why is anyone even considering the elimination of these bills? It seems like there is simply no need for it.

The truth is there are a lot of reasons why governments and banks want to eliminate these high-denomination notes, and none of them are good. It should go without saying that the people who are pushing this are not going to give you a straight answer. You're going to hear them give the same reason over and over again for the foreseeable future: Large denominations are indispensable for black market transactions. They enable drug dealers, tax evaders, corruption, and terrorism.

That's what they will say in the beginning. However one day they'll give all those reasons, but instead of suggesting eliminating large-denomination bills they will suggest that we get rid of cash altogether.

That's right. It seems that what the government, as well as the multinational corporations and the central banks are really aiming for is a wholly cashless society, and they will start by eliminating the bills we don't use very often. Some observers will recognize this strategy as the "slippery slope". Start out with something small that sets a precedent, and quietly eliminate everything over a long period of time so that no one notices.

Eliminate certain bills, restrict large cash purchases, demonize people and businesses that hold large amounts of cash and confiscate their wealth by means of asset forfeiture, flag bank accounts that transfer large sums of money, etc. You may recognize some of those as policies that are already in place. The anti-cash crusade is happening right now, and here's the real reason why:

For starters, there are people in both the public and private sector that want to track everything you do. Like a stalker, they just really really want to get to know you better. They want an intimate knowledge of what you buy and sell. Those corporations that are in bed with our government would love to have this knowledge, so they can do a better job of tailoring their marketing to you.

The governments that are in bed with those corporations want to use that knowledge to rule every aspect of your life. You can't live if you can't buy and sell, so without cash you'll be locked into a system that you can't opt out of. They will say that cash is for terrorists and criminals, but they don't want you to realize that you're in the same boat. An absence of cash means that there are no anonymous transactions.

The second biggest reason? They want to effectively steal from you. They can't bring themselves to stop spending, for all sorts of reasons. And we never want to give them more tax money, so raising more taxes through a legitimate political process is off the table. Instead the intention is to lower interest rates. How low? Ideally they would like negative interest rates to be negative. They want to make it impossible for you to save money.

The excuse for this will be different from before. They will do it when the next major recession hits, so they can say that it will be good for the economy. If saving money implies losing money then you will spend, thereby supporting the economy. But they really want to legally steal from you.

They know that if cash is not eliminated before these negative rates are implemented, then you can simply pull your money out of the bank and hide it in your mattress. They don't want to leave you with any choice.

As you can see, physical currency is an essential means for maintaining your liberty. That's why, in light of recent calls to disband high-denomination bills, two Swiss politicians have proposed the exact opposite. Philip Brunner and Manuel Brandberg have suggested the creation of a 5000 franc note to ensure the safe-haven status of Switzerland's currency.

"In France and Italy already cash payments to a maximum of only 1,000 euros are permitted and the question of the abolition of cash is being seriously discussed and considered in Europe" Brunner said on his Facebook page. The move toward electronic payments allows governments "total surveillance" over individuals, the pair claim.

So how will you preserve your freedom if, and probably when, this proposal comes to pass?

The most obvious solution would be to stock up on gold and silver before the confiscation of cash arrives, because that is the best alternative. Precious metals provide a convenient way to make untraceable purchases (you will probably see underground markets popping up in order to cater for many of the normal purchases made every day). After all, gold and silver were the most popular alternatives to currency until the 20th century.

Alternatively you could put your money in any physical asset that may hold its value, such as land for example; but for daily purchases, gold and silver would be king.

Of course, governments could try to ban using precious metals for trading as well. They tried confiscating gold in the past and they could do so again. But it's not going to work. When negative interest rates arrive with the cashless society, millions of people will attempt to replace their assets with gold and silver. They'll be joining all of those who operate in the black market, who will have already moved into precious metals by necessity.

There would be widespread disobedience against those rules. Nobody is going to give a damn about the laws at that point. If governments brazenly tried to wipe out what people identify with what they have earned throughout their entire lives, then millions of savers will not be terribly concerned about the law. With so many people breaking the law, it will be impossible for governments to really clamp down on it.

They'll be just as successful in preventing people from acquiring gold and silver as they have been in preventing people from acquiring pot. And the police will have had their savings wiped out as well, so will be playing the same game as everyone else. It will be prohibition all over again.

In short, gold and silver appear to be the best things that one can buy to prepare for a cashless society. A lot of people will be rushing into precious metals if governments decide to ban cash, and it is likely that those governments will be helpless to stop them.

Source: ActivistPost, 8 Mar 2017
http://www.activistpost.com/2016/03/why-you-need-to-prepare-for-the-cashless-society.html

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Book Review - Defiant earth: The fate of humans in the Anthropocene, by Clive Hamilton

Reviewed by John Coulter

This book is about THE most important issue; humanity's power to disrupt the Earth System. Population growth and technologically facilitated resource exploitation now threatens humanity's future. So pervasive and long-lasting have the effects of this shift become that our age should be reclassified from the Holocene to the Anthropocene. No longer can we say 'remove humans and Nature will bounce back to its Holocene tranquillity'; the effects of changes in the CO_2 content of the atmosphere will last for thousands of years as will the mass extinction of species and a host of other environmental impacts. We have entered a new age. Clive summarises his message in a few words early in the book 'So today the greatest tragedy is the absence of a sense of the tragedy'

But this is really two books that may have been better separated. The first is well summarised in Clive's own article in The Guardian [1] and in a recorded interview [2] Neither of these mentions book two which occupies the major portion of Defiant Earth: a dissection of the history, philosophy, religion, politics and economics which, embedded within the growing power of industrial technology has brought us to the edge of this abyss.

The disruption of The Earth System contains a number of paradoxes. Evolution did not 'intend' to produce a pinnacle species whose powers would rival those of Nature but Clive argues, such is the gulf between us and other living creatures, that we are special. The task is to exercise our power so as to protect the further course of species evolution. Clive speaks of an Earth System ‘fighting back’ yet really the Earth System is only doing what it has always done: respond to impacts in ways determined by its inherent laws. These laws which were and are understandable by humans should have been taken into account. The Swedish scientist Svante Arrhenius predicted and calculated the extent to which increased CO_2 could increase global temperature more than 120 years ago.

Much of this ‘book 2’ revolves around discussion of ‘freedom’ and ‘necessity’, terms which Clive does not define. His context implies an unfettered and at times irresponsible freedom, irresponsible when judged by its consequences. Necessity appears to be that which appears necessary ‘at the time’. He rejects in a single sentence the notion that ‘consistency’ (non-contradiction) can provide a direction for humanity. But despite a large part of the book arguing about the exercise of freedom and necessity he fails to mention Hegel’s aphorism made famous in Garrett Hardin’s 1967 *Tragedy of the Commons*, ‘Freedom is the recognition of necessity’ (emphasis added). I think this means that one could only ever be truly free if one recognised the bounds within which that freedom can be exercised. Behaviour outside those knowable and understandable bounds will inevitably end in the kind of mess in which humans are now immersed.

The Enlightenment grew from a belief that everything in and about the world was knowable; that the laws governing the world were consistent and understandable. Science has been built on that belief. Surely carrying that principle of comprehensive consistency over into our present predicament could provide a direction if not an ethical motivation. Is it that our leaders do not understand this comprehensive consistency principle or do they deliberately choose to ignore it? Is it inevitable that evolution should produce a destructive pinnacle species? If humans were to disappear might another primate arrive at the same conflicted crossroad in another 6 million years? I don’t know and neither does Clive.

Where might we find the motivation to behave in this comprehensively consistent way? Clive points to the marvellous creativity of humans, their technical brilliance, insights into themselves, and music and science itself. All this could be lost; what wanton vandalism. There is another source. Stephen Boyden has pointed out that of the 6 million years of human evolution for 99.99% we lived in small groups in close contact with Nature. Nature framed our physiology and our psychology. Fulfilling these atavistic needs is an important part of a fully human destiny. Therein lies a major impediment to healing the rift with the Earth System. Increasingly humans are born into a non-Nature world. Is this the source of the ‘absence of a sense of the tragedy'?

The challenge of the Anthropocene and this book is to recognise and exercise our comprehensively informed responsibility for the functioning of the Earth System.

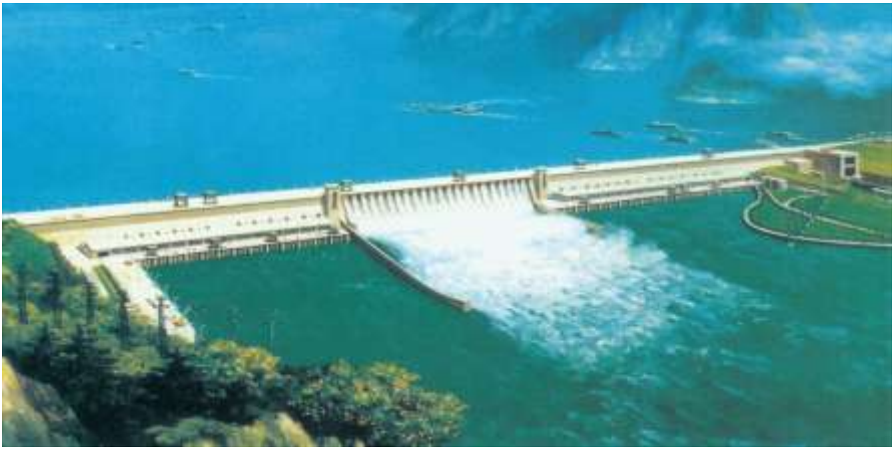
Summaries:

1. https://www.theguardian.com/environment/2017/may/05/the-great-climate-silence-we-are-on-the-edge-of-the-abyss-but-we-ignore-it

2. https://fuzzylogicon2xx.podbean.com/e/planet-interrupted/

If China can fund infrastructure with state credit money, so can we

Ellen Brown



The Three Gorges Dam on the Yangtze River in China is the largest hydroelectric scheme in the world. Sovereign governments can fund massive infrastructure projects like this without raising taxes, slashing services, cutting pensions, or privatizing industries.

The week of 14th to 20th May has been designated the "National Infrastructure Week" by the U.S. Chambers of Commerce, the American Society of Civil Engineers (ASCE), and over 150 affiliates. Their message: "It's time to rebuild". Ever since the ASCE began issuing its "National Infrastructure Report Card" in 1998, the U.S. has received a dismal grade of D or D+. In the meantime, the estimated cost of fixing its infrastructure has risen from $1.3 trillion to $4.6 trillion.

While U.S. politicians debate endlessly over how to finance the needed fixes and which ones to implement, the Chinese have managed to fund some massive infrastructure projects all across their country, including 12,000 miles of high-speed rail built just in the last decade. How have they done it, and why can't we?

A key difference between China and the U.S. is that the Chinese government owns the majority of the nation's banks. About 40% of the funding for its giant railway project comes from bonds issued by the Ministry of Railway, 10-20% comes from provincial and local governments, and the remaining 40-50% is provided by loans from federally-owned banks and financial institutions. Like private banks, state-owned banks simply create money as credit on their books. The difference is that they return their profits to the government, making the loans interest-free; and the loans can be rolled over indefinitely. In effect, the Chinese government decides what work it wants done, draws on its own national credit facility, pays Chinese workers to do it, and repays the loans with the proceeds.

The US government could do that too, without raising taxes, slashing services, cutting pensions, or privatizing any industries. How this could be done quickly and cheaply will be considered here, after a look at the mix of funding proposals currently on the table.

The Endless Debate over Funding and the Relentless Push to Privatize

In *a* 15 May 2017 report on *In the Public Interest* [1], the debate taking shape heading into National Infrastructure Week was summarized like this:

The Trump administration, road privatization industry, and a broad mix of congressional leaders are keen on ramping up a large private financing component (under the marketing rubric of 'public-private partnerships'), but have not yet reached full agreement on what the proportion should be between tax breaks and new public money - and where that money would come from. Over 500 projects are being pitched to the White House...

Democrats have had a full plan on the table since January, advocating for new federal funding and a program of infrastructure renewal, spread through a broad range of sectors and regions. And last week, a coalition of right wing, Koch-backed groups led by Freedom Partners released a letter encouraging Congress "to prioritize fiscal responsibility" and focus instead on slashing public transportation, splitting up transportation policy into the individual states, and eliminating labor and environmental protections (i.e., gutting the permitting process). They attacked the idea of a national infrastructure bank and targeted the most important proposal of the Trump administration . . . - to finance new infrastructure using tax reform to enable the repatriation of overseas corporate revenues . . . .

In a November 2014 editorial titled "How Two Billionaires Are Destroying High Speed Rail in America", author Julie Doubleday observed that the U.S. push against public mass transit has been led by a think tank called the Reason Foundation, which is funded by the Koch brothers. Their $44 billion fortune is derived largely from Koch Industries, an oil and gas conglomerate with a vested interest in mass transit's competitors, those single-rider vehicles using the roads that are heavily subsidized by the federal government.

Clearly, not all Republican politicians are opposed to funding infrastructure, since Donald Trump's $1 trillion infrastructure plan was a centerpiece of his presidential campaign, and because his Republican base voted him into office. But "establishment Republicans" have traditionally opposed infrastructure spending. Why? According to a 15 May 2015 article in *Daily Kos* titled "Why Do Republicans Really Oppose Infrastructure Spending?"**:**

" Republicans – at the behest of their mega-bank/private equity patrons – *really, deeply* want to privatize the nation's infrastructure and turn such public resources into privately owned, profit centers. More than anything else, this privatization fetish explains the Republicans' efforts to gut and discredit public infrastructure ...

" If the goal is to privatize and monetize public assets, the last thing Republicans are going to do is fund and maintain public confidence in such assets. Rather, when private equity wants to acquire something, the typical playbook is to first make sure that such assets are what is known as "distressed assets" (i.e., cheaper to buy). "

A similar argument was advanced by Noam Chomsky in a 2011 lecture titled "The State-Corporate Complex: A Threat to Freedom and Survival". He said**:**

" [T]here is a standard technique of privatization, namely defund what you want to privatize. Like when Thatcher wanted to [privatize] the railroads, first thing to do is defund them, then they don’t work and people get angry and they want a change. You say okay, privatize them ... "

What’s Wrong with Public-Private Partnerships?

Privatization (or “asset relocation” as it is sometimes euphemistically called) means selling public utilities to private equity investors, who them rent them back to the public, squeezing their profits from high user fees and from tolls. Private equity investment now generates an average return of about 11.8 percent annually on a ten-year basis. That puts the cost to the public of financing $1 trillion in infrastructure projects over 10 years at around $1.18 trillion, more than doubling the cost. Moving assets off the government’s balance sheet by privatizing them looks attractive to politicians concerned with this year’s bottom line, but it’s a bad deal for the public. Decades from now, people will still be paying higher tolls for the sake of Wall Street profits on an asset that could have belonged to them all along.

One example is the Dulles Greenway, a toll road outside Washington, D.C., nicknamed the “Champagne Highway” due to its extraordinarily high rates and severe underutilization in a region crippled by chronic traffic problems. Local (mostly Republican) officials have tried in vain for years to either force the private owners to lower the toll rates or have the state take the road into public ownership. In 2014, the private operators of the Indiana Toll Road, one of the best-known public-private partnerships (PPPs), filed for bankruptcy after demand dropped, due at least in part to rising toll rates. Other high-profile PPP bankruptcies have occurred in San Diego, CA; Richmond, VA, and Texas.

Countering the dogma that “private companies can always do it better and cheaper,” studies have found that on average, private contractors charge more than twice as much as the government would have paid federal workers for the same job. A 2011 report by the Brookings Institution found that “in practice [PPPs] have been dogged by contract design problems, waste, and unrealistic expectations”. In their 2015 report “Why Public-Private Partnerships Don’t Work”, Public Services International stated that “[E]xperience over the last 15 years shows that PPPs are an expensive and inefficient way of financing infrastructure and divert government spending away from other public services. They conceal public borrowing, while providing long-term state guarantees for profits to private companies”. They also divert public money away from the neediest infrastructure projects, which may not deliver sizable returns, in favor of those big-ticket items that will deliver hefty profits to investors.

A Better Way to Design an Infrastructure Bank

The Trump team has also reportedly discussed the possibility of an infrastructure bank, but that proposal faces similar hurdles. The details of the proposal are as yet unknown, but past conceptions of an infrastructure bank envision a quasi-bank (not a physical, deposit-taking institution) seeded by the federal government, possibly making use of taxes on the repatriation of offshore corporate profits. The bank would issue bonds, tax credits, and loan guarantees to state and local governments to leverage private sector investment. Along with the private equity proposal, an infrastructure bank would rely on public-private partnerships and investors who would be disinclined to invest in projects that did not generate hefty returns. And those returns would again be paid from the public purse entailing the implementation of tolls, fees, higher rates, and payments from state and local governments.

There is an alternative way of setting up a publicly-owned bank. Today's infra-structure banks are basically revolving funds. A dollar invested is a dollar lent, which must return to the bank (with interest) before it can be lent again. A chartered depository bank, on the other hand, can turn a one-dollar investment into ten dollars in loans. It can do this because depository banks actually *create* deposits when they make loans. This was acknowledged by economists attached to the Bank of England (in a March 2014 paper entitled "Money Creation in the Modern Economy") and also at the Bundesbank (the German central bank) in an April 2017 report.

Contrary to conventional wisdom, money is not fixed and scarce. It is "elastic": it is created for example when loans are made by banks and is also extinguished when those loans are paid off. The Bank of England report stated that private banks create nearly 97% of the money supply today, and that all borrowing from banks expands the circulating money supply. Unfortunately the U.S. Federal Reserve tried but failed to stimulate the U.S. economy by using its quantitative easing (QE) policies - in an attempt to expand the bank lending that expands the money supply.

The stellar (and only) model of a publicly-owned depository bank in the US is the Bank of North Dakota (BND). It holds all of its home state's revenues as deposits by law, acting as a sort of "mini-Fed" for North Dakota. According to reports, the BND is more profitable even than Goldman Sachs, has a better credit rating than J.P. Morgan Chase, and has seen solid profit growth for almost 15 years. The BND continued to report record profits after two years of oil bust in the state, suggesting that it is highly profitable on its own merits owing to its business model. The BND does not pay bonuses, fees, or commissions; has no high paid executives; does not speculate on risky derivatives; does not have multiple branches; does not need to advertise; and does not have private shareholders seeking short-term profits. The profits return to the bank, which distributes them as dividends to the state.

The federal government could set up a bank on a similar model. Since financ-ing is typically about 50 percent of the cost of infrastructure, the government could cut infrastructure costs in half by borrowing from its own bank. Public-private partnerships are a good deal for investors but a bad deal for the public. The federal government can generate its own credit without private financial middlemen. That is how China does it, and other governments can too.

Source: Common Dreams, 17 May 2017

https://www.commondreams.org/views/2017/05/17/if-china-can-fund-infrastructure-its-own-credit-so-can-we

1. https://www.inthepublicinterest.org/weekly-privatization-report-5-15-2017/

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

Comments on Ellen Brown's article on state funding of infrastructure

Editor

This is a well targeted article, and although it advocates and describes the use of fiscal measures for funding infrastructure, it does not utilise all of the principles of Functional Finance (FF) - which reflects the fact that FF is not a widely or well understood subject.

The main thrust of the article is a repudiation of the neo-liberal vision of how infrastructure spending should be financed, and in particular Ellen's insistence that the way ahead can and should embrace setting up state-owned and operated banks, which the state governments can directly borrow from at effectively no cost to themselves. Clearly this method of funding infra-structure projects has worked admirably for the state of North Dakota, which - unlike other states within the U.S. - possesses its own state bank.

The last paragraph also suggests that a central (or federal) government could set up a public bank for this purpose, along similar lines to the State Bank of North Dakota. The rationale for doing this seems to be that the U.S. Federal Treasury is currently not permitted to borrow directly from its own central bank (the Federal Reserve, or Fed), although there are ways of bypassing this legislative restriction - as explained in "Federal Treasury finances: a funct-ional perspective" which appeared in ERA Review, vol 9, No 2.

However it should be added that many other governments, including Australia and Canada, are not shackled with such a legislative prohibition, moreover the central banks in these countries are fully state-owned entities. And so in these countries it would not really be necessary for the federal government to set up a new type of state bank in order to fund infrastructure projects using money created specifically for that purpose.

There is a related and important aspect to this story that was not touched on. Namely, that monetary sovereign governments (which includes the currency-issuing central governments of countries such as Australia, Canada, New Zealand, Japan, the U.S. and the U.K.) have the ability to create "net financial assets" and to inject those assets into the real economy. These may be thought of as financial assets which are unencumbered by financial liabilities. State governments and commercial banks do not possess the ability to do this.

Thus whenever a commercial bank creates a new asset for itself (such as a commercial or personal loan) it also simultaneously creates an equal liability - in the form of a deposit of bank credit money in the name of the borrower. This means that (monetary sovereign) central governments possess natural advantages over commercial banks and lower levels of government, in regard to raising the financial assets needed for funding infrastructure projects - and especially large-scale projects. One of these advantages is that a monetary sovereign always has the ability to meet its financial obligations. Always!

In regard to private sector funding of infrastructure projects, we would say that the oft-claimed greater efficiency of the private sector is really only greater efficiency in regard to the extraction of monetary profits. The evaluation of the efficiency of the projects themselves is left to the consumers, who usually have inadequate information to judge it by before completion, especially as the full picture generally only becomes available at that stage. Competition between alternatives is a very restricted, incestuous and often collaborative affair, again based on the extraction of financial profit.

The Human Development Revolution

Asad Zaman

Because of Western dominance, brilliant thinkers from the East get very little attention in global media. Even though brilliant economists from East Asia and China have created globally acknowledged economic miracles in their countries, none of them have received a Nobel Prize. On the other hand, Western economists whose theories were demonstrably in conflict with the events that took place in the global financial crisis - like Lucas, and Fama - have received Nobels. One of our greatest un-sung Eastern Heroes is Mahbubul Haq. My recently published article [1] describes the revolution he created in economic thought.

Goethe starts his famous *East-West Divan* with a poem about the journey (Hegire), both physical and spiritual, from the West to the East. In this essay, we consider the analogous journey from Western to Eastern conceptions of development. This involves switching from viewing humans as producers of wealth, to viewing wealth as a producer of human development. To start with the Western conceptions, both Adam Smith and Karl Marx defined economic growth as the process of accumulation of wealth. The range of diversity of Western thought is bounded by the Left-Right spectrum. Ideas on which both extremes agree command widespread consensus in the West. Consequently, a core concept of modern economic theory is that wealth is the means and ends of the process of economic development. Unfortunately, due to the dominance and influence of Western paradigms, this concept has been widely accepted and adopted in the East today.

Mahbubul Haq was indoctrinated into

the Western development paradigm which gives primacy to wealth at leading universities, Yale and Harvard. He got the chance to apply these economic models as chief economist in Pakistan during the ’60s. However, because of his Eastern upbringing and heritage, he was able to recognise the murderous message at the heart of the cold mathematics of the Solow-Swan growth models. These models focus on savings, created by reducing present levels of consumption, as the only route to the accumulation of greater future wealth.

Mahbubul Haq realised what is not mentioned in the economics textbooks : obsession with the production of wealth requires us to use the sordid and cruel tactic of obliging workers to produce wealth while refusing to allow them to consume it - in order to purchase more machines and raw materials. He was clear-sighted enough to recognise the consequences of these policies : wealth did indeed accumulate, but it went into the pockets of the 22 richest families, without providing any relief for the misery of the masses.

Today the global application of capitalist growth strateg-ies has led to a dramatic increase in inequalities both inside nations and across nations. One horrifying statistic pertaining to inequality on our planet is that the 13 most wealthy individuals currently possess more wealth than the poorest half of humanity (i.e. 3.5 billion).

Dissatisfaction with state-of-the-art Western growth theories led Mahbubul Haq to a revolutionary insight, taken from the heart of the traditions of the East, and having no parallels in current Western economic theories. Instead of capital, Mahbubul Haq placed human beings at the centre of the process of economic growth, returning to the ancient wisdom that “human beings are the means and ends of development”. Although labelled a heretic for going outside the boundaries of contemporary economic thought, the pragmatic genius of Mahbubul Haq sought to minimise the differences and create bridges to conventional thinking in order to achieve acceptance for his radically different approach to development.

His Human Development Index (HDI) was a master stroke, combining two inherently incompatible conceptions of development in a compromise which ceded ground to wealth in order to create international visibility for poverty. His friend and classmate Amartya Sen was reluctant to accept the HDI owing to certain inherent flaws in this marriage of fire and water, but eventually agreed to its practical necessity. The pragmatic approach of Mahbubul Haq paid off handsomely when the HDI measure achieved global recognition as rectifying major defects in the standard GDP per capita. Widespread acceptance and use of HDI has led to a radical change in the discourse on development, by adding poverty, health, education and other soft social goals to the pure and simple-minded pursuit of wealth. The revolutionary ideas of Mahbubul Haq have led to improvements in the lives of millions, as global consensus developed on the embodied social goals.

The Human Development approach of Mahbubul Haq was carried further by Amartya Sen, who defined development as the freedom to develop human capabilities. This notion, closely aligned with Eastern thought, was so alien to orthodox economists that they rejected it. Consequently, a new human-centred field of development studies emerged, which combined many streams of dissent from orthodoxy. Unfortunately, leaders at the helm of policymaking in the poor countries of the world are trained in orthodox economic theories, and have not assimilated the radical lessons of Mahbubul Haq, acquired from bitter experience. The paths to genuine development lie open, but with their backs to the doors, they are unable to see them.

Conventional growth theories create the mindset that the game is all about wealth creation. We will worry about our poor population only after we acquire sufficient wealth to feed them. The poor are a burden on the development process because providing for them takes away from money desperately needed to finance development of infrastructure, purchase of machinery and raw material, and industrialisation. We cannot afford to feed the poor, if we want to grow rapidly. The human development paradigm stands in dramatic contrast to this currently common mindset among planners. Instead of utilising humans to produce wealth, we utilize wealth to develop human capabilities. Our human population, our poor, are our most precious resource. This point of view receives strong support in the empirical findings of a recent World Bank study entitled “Where is the Wealth of Nations?” The study finds that the wealthiest nations are rich because they have spent money to develop their human resources, and not because of natural resources.

Thus, instead of being a burden, our poor are our most efficient means to development. If we use available wealth to improve their lives, to empower them, to educate them, and to provide them with the support they need, they can rapidly change the fate of the nation. Furthermore, they are also the end of the development process - that our goal is NOT to produce more and more wealth, a la Adam Smith and Karl Marx - but to ensure that our people lead rich and fulfilling lives. If we use our energies to achieve this goal, then we have already arrived at the destination - we do not need to wait for a distant future where sufficient wealth will accumulate to enable us to take good care of our people.

1. The Express Tribune, 20 May 2017

Source: WEA Pedagogy Blog
https://weapedagogy.wordpress.com/2017/05/21/the-human-development-revolution/

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The philosophy behind economics

Aiden Bedford & Rui Sihombing

Imagine for a moment there’s a brand new machine that you can choose to enter, for the rest of your life. This machine allows you, through the beauty of technology, to live the most perfect life imaginable with all of your deepest desires satisfied. And for the rest of your life thereafter, you don’t even realise you’re in the machine. Would you choose to enter the machine? A lot of you would be familiar with this idea already, Robert Nozick’s classic “experience machine”. How could Nozick’s experience machine, a philosophical thought experiment, be at all relevant to economics? Actually, it’s quite useful. It has to do with the whole idea of “utility”, a key aspect of the philosophy quietly underpinning contemporary mainstream (neoclassical) economics. We'll return to the experience machine in a second.

As expressed in the seminal *Principles of Economics* by Alfred Marshall, utility is a philosophical concept; a quantifiable measure which is correlated with both desire and satisfaction but not quite the same as the two. We assign subjective value to all goods and services this way. But Marshall admits that desire and satisfaction, being qualities, can't be directly mathematised. Hence the reason for this separate idea of utility. If you're confused, you should be.

Economist Joan Robinson famously referred to utility as a "*concept of impregnable circularity: utility is the quality in commodities that makes individuals want to buy them, and the fact individuals want to buy commodities shows they have utility*". Neoclassical economics is the mathematical extrapolation of the philosophical presumption that all humans are rational utility-maximisers, and that given a certain constraint (income for instance), people will choose their optimal consumption, leisure and labour according to their preferences.

According to this theory then, everyone should choose to enter the experience machine and step inside the perfectly crafted dream world. Yet ask yourself, would you forgo reality for this synthetic alternative? If your answer is no, then you are not the perfect rational utility optimising agents that economists assume you all to be. And what we've raised so far is only one of many issues with the presumption of utility-maximising individuals. Chances are you often do things that you don't want to, in order to satisfy someone else's preferences. What's more, we tend to recognise a distinct group of preference-optimisers as being problems: alcoholics and drug addicts. It goes on and on. Once you pick away at the implicit philosophical assumptions behind a so-called "science", you start to notice these inconsistencies.

What is the point to all this then?

What this means is that fundamentally, neoclassical-mainstream economic theory is a philosophy about human nature and human economic behaviours and actions. This brings us to another classic of Joan Robinson: "Economics itself has always been partly a vehicle for the ruling ideology of each period as well as partly a method of scientific investigation."

The economy will continue to move on, whether or not the policy prescriptions and theories of economists are correct or not. There has never been a scientific revolution to throw away failed economic theories whenever they demonstrably failed to describe the operation of the natural world. As such, we are left with a mishmash of grand and often conflicting or inconsistent mathematical theories glued together with a variety of ad hoc hypotheses, resting on an arbitrary philosophical foundation. So today we are stuck with failed models, and many failed ideas. Academics flog dead horses and students behold.

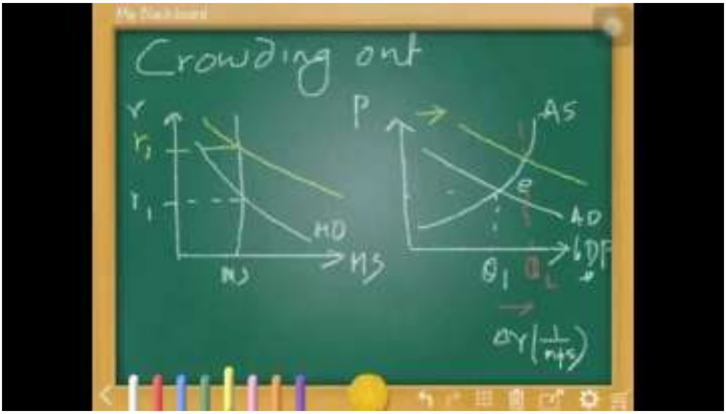
If anyone claims to preach a doctrine of a value-free economics, regardless of the economic school of thought, then you have every reason to question and doubt what they prescribe. They could still be right, of course. But our point here is about necessary scepticism. Behind the clean-cut mathematical models, there's often shaky assumptive foundations. Philosophy might seem at first glance to be unrelated or unnecessary to questions of economics. But on the contrary, it’s crucial. It is absolutely necessary, whilst recognising the biases of our own ideology, to seek an understanding of the market as it truly exists. It would be better off leaving our current fantasy world at the door.

Aiden Bedford and **Rui Sihombing** are members of the University of Adelaide Economics Club. This article appeared in the student publication *On Dit*, and was inspired by Prof Yanis Varoufakis' lecture presented at the University of Sydney in May 2016.

Chicago economics: a dangerous pseudo-scientific zombie

Lars Syll

The "crowding out of loanable funds" hypothesis is largely spurious and misconceived, as can be shown by proper studies of government borrowing and deficit spending, monetary flows within the private sector, and banking practices.

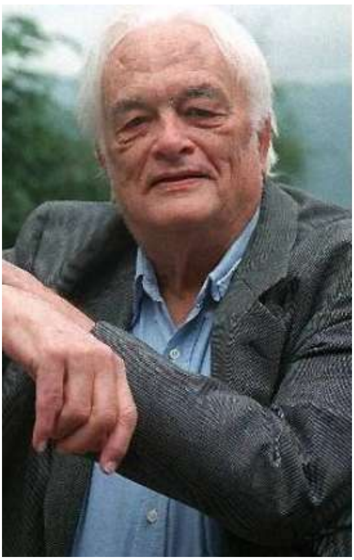


According to US mainstream economist John Cochrane: "Every dollar of increased government spending must correspond to one less dollar of private spending. Jobs created by stimulus spending are offset by jobs lost from the decline in private spending. We can build roads instead of factories, but fiscal 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 behavioural assumptions."

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’).

According to this narrative, government borrowing is supposed to “crowd out” private investment. However according to economist William Vickrey in his paper "Fifteen Fatal Fallacies of Financial Fundamentalism" [1]:

" On the contrary, the current reality is that the expenditure of [money associated with] the borrowed funds - unlike that of tax revenues - will generate added disposable income, enhance the demand for the products of private industry, and 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 the deficit will - in the medium long run - generate two or more additional dollars of private investment. The capital created is an increment to someone's wealth and ipso facto someone's saving. The dictum "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. "



William Vickrey

A couple of years ago, in a lecture on the US 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 US 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.

Robert Lucas

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

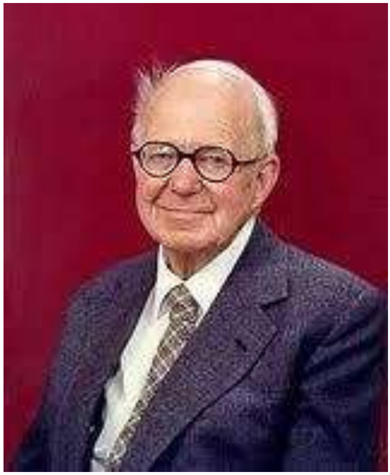
As could be expected there is no room for any Keynesian type considerations for addressing the eventual shortages of aggregate demand which will inhibit the recovery of the economy. No, as usual in the new classical macroeconomic school's explanations and prescriptions, the blame game points to the government 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 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 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 ruled out on whimsical theoretical-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 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 blatantly failed. Maybe it would be asking too 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 thirty years from now, no one will know anything about Robert Lucas or John Cochrane. John Maynard Keynes, on the other hand, will still be known as one of the masters of economics.



G.L.S. Shackle

According to British economist G.L.S. Shackle: " If at some time my skeleton should come to be used by a teacher of osteology to illustrate his lectures, will his students seek to infer my capacities for thinking, feeling, and deciding from a study of my bones? If they do, and any report of their proceedings should reach the Elysian Fields, I shall be much distressed, for they will be using a model which entirely ignores the greater number of relevant variables, and all of the important ones. Yet this is what ‘rational expectations’ does to economics. "

1. http://www.columbia.edu/dlc/wp/econ/vickrey.html

Source: Real World Econ Rev, 31 May 2017 https://rwer.wordpress.com/2017/05/31/chicago-economics-a-dangerous-pseudo-scientific-zombie/

- -

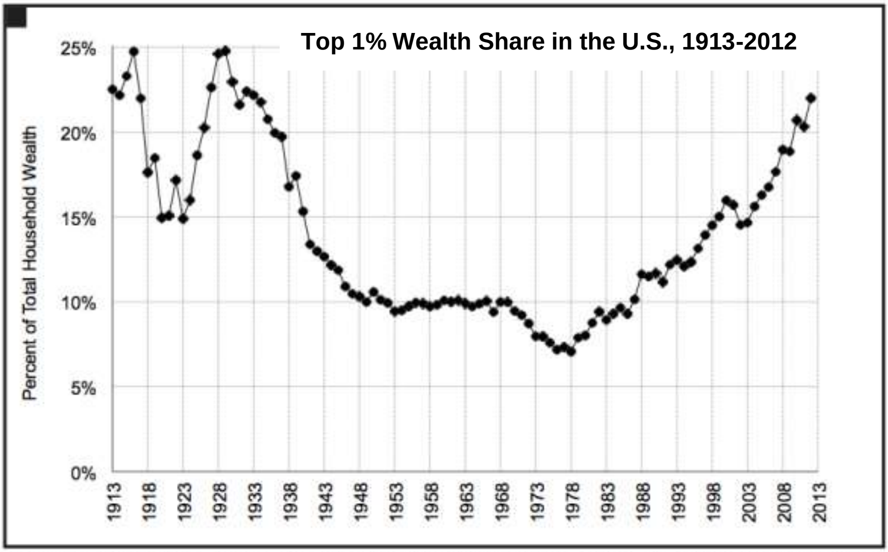
In our time, the curse is monetary illiteracy, just as inability to read plain print was the curse of earlier centuries. - Ezra Pound

In economics the majority is always wrong. - John Kenneth Galbraith

I’d rather be vaguely right than precisely wrong. - John Maynard Keynes

Scary numbers

David Ruccio



Note: This figure depicts the share of total household wealth held by the 0.1% richest families, as estimated by capitalizing income tax returns. In 2012, the top 0.1% included about 160,000 families with net wealth above $20.6 million.

Gabriel Zucman, in his article in the special issue of Pathways, "State of the Union: The Poverty and Inequality Report 2016" [1], reveals lots of scary numbers about wealth inequality in the United States.* The scariest is the percentage of wealth owned by the top 0.1 percent of households, which "has exploded in the U.S. over the past four decades."

The share of wealth held by the top 0.1 percent of households is now almost as high as in the late 1920s, when The Great Gatsby defined an era that rested on the inherited fortunes of the robber barons of the Gilded Age.

In recent decades, only a tiny fraction of the population saw its wealth share grow. While the wealth share of the top 0.1 percent increased a lot in recent decades, that of the next 0.9 percent (i.e., 99–99.9) did not. And the share of total wealth of the "merely rich"-- households who fall in the top 10 percent, but are not wealthy enough to be counted among the top 1 percent - actually declined slightly over the past four decades. In other words, $20 million fortunes (and higher) grew much faster than smaller fortunes in the single-digit millions.

The flip side of this trend is, of course, the wealth of the bottom 90 percent, which actually grew from 15 percent in the 1920s to 36 percent in the 1980s but dramatically declined thereafter. According to the most recent data, the members of the bottom 90 percent collectively own just 23 percent of total U.S. wealth, about as much as in 1940.

Yes, indeed, these are scary numbers.

*There are lots of other scary numbers in the rest of the report, concerning U.S. poverty, income inequality, and much else - alone and in comparison to other countries.

1. http://inequality.stanford.edu/sites/default/files/Pathways-SOTU-2016.pdf

Source: Real World Econ Review blog, 6 Nov 2016
https://rwer.wordpress.com/2016/11/06/26530/

To make America great again, write off the private debt
Steve Keen

President Trump should pay no heed to what insider economists are telling him.

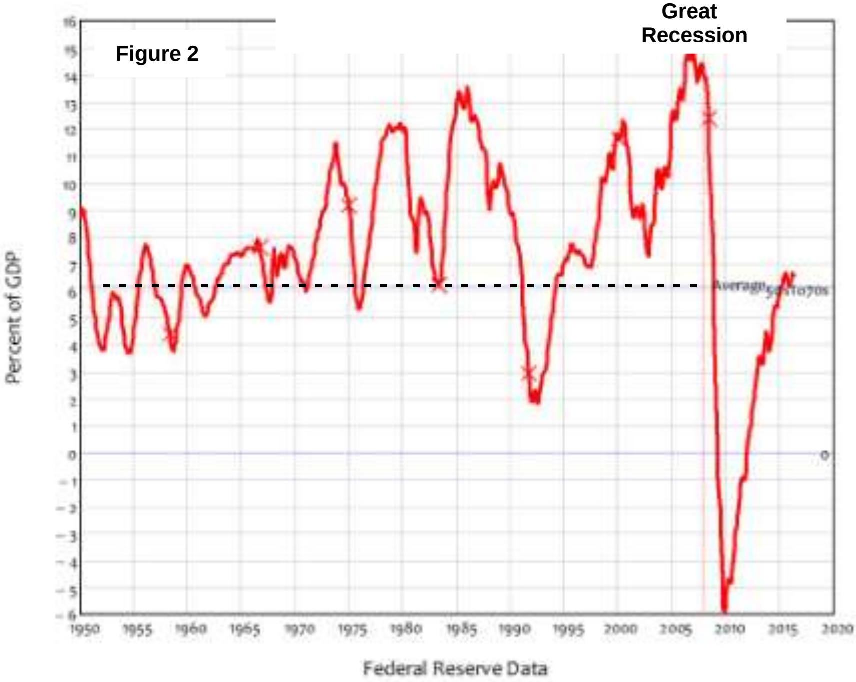
USA Private Debt, 1820 -2016

Dear President Trump,

The key source of America's economic weakness today is something you have experience with: private debt. All of the leaders before you have obsessed about government debt while ignoring private debt, which is far higher (150% of GDP versus 100%) and far more dangerous. You can do something about this, and unlike your purely political predecessors, your experience tells you that it can be done -- the only question is how to do it.

The private debt mound sitting on top of American households and businesses is the reason demand is depressed right now. With that debt mountain weighing them down, firms are reluctant to borrow and invest, while households are reluctant to use credit to consume. Credit demand is now back to the average of the 1950s to 1970s - the

USA Demand from Credit



"Golden Age" of America, when your supporters today and their parents had well-paying manufacturing jobs. But it will easily turn negative again like it did during the Great Recession, given how enormous the debt burden still is today, since your immediate predecessor put more effort into rescuing Wall Street than he did into rescuing Main Street.

The Washington insider economists who are now going to attempt to get your ear will tell you that this private debt doesn't matter, and that nothing can be done about it anyway. They're wrong on both counts.

On whether it matters, they'll say that one person's debt is another person's asset, so the total level of debt doesn't matter. What they ignore is that banks create money and demand when they lend, and both money and demand fall when debt is repaid. They ignore the evidence shown in Figure 2, which I've been shoving in front of their faces for over a decade now (from early 2006, well before the Great Recession began).

On whether it can be done, they'll tell you that this is "helicopter money", and that it's a dreadful idea. But the reality is that they're doing it already. It's just that the Fed's helicopter, which they call "Quantitative Easing", has been dropping that money on Wall Street rather than Main Street.

When the Fed buys bonds off a pension fund under QE, it creates the money that it buys that pension's funds bonds with. The pension fund then does what pension funds do with money: they buy shares and other bonds. This drives up share markets, which benefits Wall Street and the 1% directly. Brokers get paid lots of commission, most of which they tend to stuff in their offshore bank accounts. They spend a fraction of this on Main Street, buying the odd hamburger.

But there would be far more money in Main Street's hands if you put it there directly. There are many ways to do this, and it's important to do it in a way that doesn't favour people who borrowed over people who didn't. The easiest way to illustrate it is to imagine that you tell the Federal Reserve to buy mortgages directly from the public.

For the Federal Reserve, there's little practical difference to what it's doing right now, except that 100% of the money it creates will turn up in Main Street bank accounts rather than those of Pension Funds and Wall Street brokers. With less debt, there'll be more spending by Main Street, and, as a result, more employment. The only sufferers will be bankers and Wall Street, who will have far less income-earning assets than they have now, and may even have to work for a living.

There will also be Washington economists, and Wall Street economists, and Federal Reserve economists, who will tell you that the economy is doing just fine now: just stick with current policies and everything will be OK. After all, isn't the unemployment rate down to a mere 4.9% now, a boom-time level?

On this issue, your instincts are correct, and there's official data to prove it: the employment rate shows that 3% less Americans are employed now than before the Great Recession. Part of that is demographic change, but most isn't: 2 million less Americans aged 25-54 have a job now than had one in 2007.

US Employment Rate (percent of population with a job)

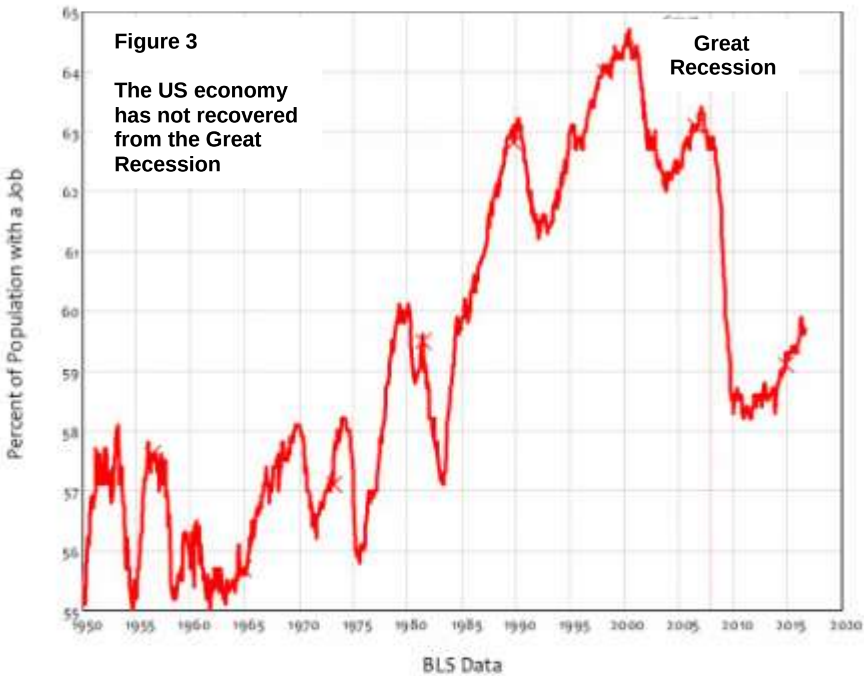


Figure 3

The US economy has not recovered from the Great Recession

You can rebuild America's crumbling infrastructure too, because you can fund the rebuilding by running a deficit, with no fear of not being able to finance it - and here you'll get as much misinformation from your Republican colleagues, obsessed with balancing the books, as you will do from the Washington consensus you seem to want to turn on its head. They'll tell you that the Government can't do that, because if it issues too many bonds the finance markets won't buy them.

Yes they will. People buy American bonds because it's America, and they accept payment in American dollars for those bonds for the same reason. And who produces those dollars? Effectively, the US government does now. There are no practical limits to your capacity to produce them: it's only the effect that matters. Good luck.

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Source: Forbes, 9 Nov 2016
https://www.forbes.com/sites/stevekeen/2016/11/09/to-make-america-great-again-write-off-the-private-debt/#251f15ec73f8

Steve Keen is Professor of Economics at the Kingston University in London. Author of *Debunking Economics* and *Can we avoid another financial crisis?* Steve is also an ERA patron. Support Steve at *https://www.patreon.com/ProfSteveKeen* if you like what he is doing.

Comment: Debts that cannot be paid will not be paid. Such debts must be restructured or forgiven and written off. In economics when this is done activity can proceed instead of being stifled. For this reason our bankruptcy courts do not engage in moralising to shame debtors. It is irrelevant in that context. This applies to the rest of life. It doesn't mean that we can't fully engage in moralising. It just prevents moralising from making things worse, which it does often enough for those concerned to require awareness of the tendency to moralise.

The vital importance of restoring the Glass-Steagall Act

Editor

An article published by economist and former deputy Treasury secretary Dr Paul Craig Roberts on his blogsite [1] and in OpEdNews [2] entitled "Without Glass-Steagall, America will Fall" has made the point that the alarming growth of economic inequality within the U.S. is a direct consequence of the demolition (in 1999 under the Clinton administration) of the Glass-Steagall Act. This very important U.S. legislation, originally co-sponsored by Sen. Carter Glass (D,Va) and Rep. Henry B. Steagall (D, Ala), is otherwise known as the U.S. Banking Act 1933. It was signed into effect by President Franklin Roosevelt in June 1933, and was designed for the specific purpose of separating commercial banking from investment banking. It also created the Federal Deposit Insurance Corporation, among other things. According to Roberts:

" For 66 years the Glass-Steagall Act reduced the risks in the U.S. banking system. Eight years after the Act was repealed, the banking system blew up, threatening the international economy. The U.S. Treasury was forced to come up with $750 billion dollars, a sum much larger than the Pentagon's budget, in order to bail out the banks. This huge sum was insufficient to do the job. The Federal Reserve also had to step in and expand its balance sheet by $4 trillion in order to protect the solvency of banks declared 'too big to fail'.

President Roosevelt affixing his signature to the Glass-Steagall bank reform bill in 1933.   CreditBettmann/Corbis

" The enormous increase in the supply of dollars known as Quantitative Easing inflated financial asset prices instead of the consumer price index. This rise in bond and stock prices is a major cause of the worsening income and wealth distribution in the United States. The economic polarization has undercut the image and reality of the U.S. as a land of opportunity and has introduced political and economic instability into the life of the country.

" These are huge costs and are being paid for the benefit only of the rich who were already rich. "

According to Roberts, the repeal of Glass-Steagall has turned a somewhat egalitarian democracy with a large middle class into a society sometimes described as the One Percent vs. the 99 percent, and has destroyed the image of the U.S. as an open and prosperous society.

The population at large is well aware of the nation's economic decline, and this awareness was manifested in voting trends at the last presidential election. The population also knows that the reported U.S. Bureau of Labor Statistics (BLS) figure of 4.3% for the unemployment rate, as well as the alleged abundance of new jobs, are fake news. The BLS gets the low rate of unemployment by not counting the millions of discouraged workers who cannot find employment. If you haven’t looked for a job in the last 4 weeks, you are not considered to be unemployed. The birth/death model, a purely theoretical construct, accounts for a large percentage of the non-existent new jobs. The jobs are there by assumption, but are not really there. And there has been an immense replacement of full time jobs with part time jobs. Commensurate with this transition to part time employment, the health care and pension benefits that were once a substantial part of employees' pay packages are being terminated.

Those with a good understanding of the mechanics of banking realise that it makes perfect sense to fully separate commercial from investment banking. The government insured deposits of commercial banking should not serve as backing for investment banking's creation of risky financial instruments, such as subprime and other derivatives. The U.S. government during the time of Roosevelt understood that reality, but it appears that the government during the time of Clinton apparently did not. This deterioration in government competence has cost the U.S. dearly. Here is what Roberts says:

" By merging commercial banking with investment banking, the repeal of Glass-Steagall greatly increased the capability of the banking system to create risky financial instruments for which backing from the public purse was available. So, we have an extraordinary situation in which the repeal of Glass-Steagall effectively forced the 99 percent to bail out the One Percent.

" The repeal of the Glass-Steagall Act has turned the United States into an unstable economic, political, and social system. We have a situation in which millions of Americans have lost full time employment with benefits to jobs off-shoring, and in which their lower income employment in part time and contract employment leaves them no discretionary income after payment of interest and fees to the financial system (insurance on home and car, health insurance, credit card interest, car payment interest, student loan interest, home mortgage interest, bank charges for insufficient minimum balance, etc. Thus they are on the hook for bailing out financial institutions that make foolish and risky investments.

None of what Roberts had described would be politically viable unless Congress and the President intended to resign and turn over the governance of the U.S. to Wall Street and the Big Banks. A growing crescendo of voices are saying that this effectively has alreadyhappened. So, can anything be said to remain of democracy when the One Percent can cover their losses at the expense of the 99 Percent, which is what the repeal of Glass-Steagall guarantees? Roberts stresses the vital importance of restoring Glass-Steagall type legislation, and continues:

" Not only must Glass-Steagall be restored, but also the large banks must be reduced in size. That any corporation could be too big to be allowed to fail is a contradiction of the justification of capitalism. Capitalism's justification is that corporations who misuse resources and make big losses should go out of business, thus releasing the misused resources to those who can use them profitably. Capitalism is supposed to benefit society, not be dependent on society for bailing it out.

" I was present when the former CEO and Chairman of Chase Manhattan Bank, George Champion, testified before the Senate Banking Committee against national branch banking.

" Champion said that it would result in the banks becoming too large and that the branches would suck savings out of local communities for investment in traded financial assets. Consequently, local communities would be faced with a dearth of loanable funds, and local businesses would die or not be born from lack of loanable funds.

" I covered the story for Business Week. But despite the facts as laid out by the pre-eminent banker of our time, the palms had been greased, and the folly proceeded.

"As Assistant Secretary of the US Treasury in the Reagan Administration, I opposed all financial deregulation. Financial deregulation does nothing but open the gates to fraud and sharp dealing. It allows one institution, even one individual, to make a fortune by wrecking the lives of millions.

" The American public is not sufficiently sophisticated to understand these matters, but they know when they are hurting. Moreover few in the House and Senate possess sufficient sophistication to understand these matters, but they do know that to gain an understanding of them is not conducive to having their palms greased. So how do the elected representatives manage to represent those who vote them into office?

" The answer is that they seldom do. The question before Congress today is whether they will take the country down for the sake of campaign contributions and cushy jobs if they lose their seat, or by contrast will take personal risks in order to save the country. "

The reality is that no society can survive in the long run if dangerously excessive risks and financial fraud can be bailed out by the government via the public purse. Moreover any effort to reduce the financial risks arising from the intermixing of commercial and investment banking by requiring stronger capital positions of financial corporations will be largely futile. Dealing with the 2007-08 financial crisis required Treasury and Fed payments which greatly exceeded any realistic capital and liquidity requirements for financial institutions. Without a re-enactment Glass-Steagall type legislation, the risks currently being taken - which are all driven by financial greed - will lead to the complete economic destruction of the U.S. and other countries around the world.

Sources:

1. http://www.paulcraigroberts.org/2017/06/09/without-glass-steagall-america-will-fail/

2. https://www.opednews.com/articles/Without-Glass-Steagall-Ame-by-Paul-Craig-Roberts-Glass-Steagall-170609-541.html

Macron’s false claim that laying off workers will boost the economy

Dean Baker

In her Washington Post column, Catherine Rampell recently repeated some ill-founded conventional wisdom in telling readers that French president Emmanuel Macron’s plans to weaken labour unions and reduce restrictions on laying off workers are the path to revitalizing France’s economy. In fact, this claim is not supported by the evidence. There is little evidence that the existence of strong unions or labour market protections are associated with high unemployment.

The most obvious reason that France has had high unemployment is the turn to austerity in 2010 following the economic crisis. As a result of the cutbacks in government spending, there was no source of demand for replacing the demand generated by asset bubbles prior to the crisis. For some reason, this fact is rarely mentioned in reporting on France's economy

Source: Real World Econ Rev, 9 June 2017

https://rwer.wordpress.com/2017/06/09/the-evidence-does-not-support-macrons-claim-that-deregulating-labor-market-will-boost-economy/

Will addressing climate change devastate the economy?

Editor

In a recent blog ("Global warming must be addressed now", Real-World Economics Review, 9 May 2017), macro-economist Dean Baker ridiculed the idea that replacing fossil fuel energy technology with renewable energy technology will be necessarily harmful to the economy. Here is an extract from his longer article:

" .... the idea that addressing the problem [of climate change] will devastate the economy is nonsense.

" The price of solar energy and wind energy has plunged in the last two decades. Both are already competitive with fossil fuel energy in many parts of the country, even without subsidies.

" Modest subsidies, coupled with modest fossil fuel taxes, would go far toward reducing our emissions of greenhouse gases. And these would hardly bankrupt the economy.

" Most analysts believe that a $40 per ton tax on carbon would be sufficient to allow the United States to meet the commitments it made in the Paris agreement negotiated under President Obama. A tax of this size would raise the price of a gallon of gas by 40 cents, not a negligible amount but hardly one that would devastate our economy.

" And there's a big upside to clean energy. The solar industry already employs four times as many people as the coal industry.

" We need to both manufacture the solar panels and have people install them on the roofs of houses and businesses. This industry can be the source of hundreds of thousands more jobs as the industry grows and the technology improves.

" The same story applies to electric cars. It's great that we still have many good-paying jobs in the auto industry, but there is no reason that we can't employ as many people – or even more – producing electric cars. Here, technology is also improving rapidly so these cars can be more competitive.

" Addressing climate change should not be a tough choice. We can both sustain a strong economy and sharply curtail our greenhouse gas emissions. There is no excuse for President Trump's environment-threatening executive order. "

Source: Real-World Econ Rev, 9 May 2017 https://rwer.wordpress.com/2017/05/09/global-warming-must-be-addressed-now/

"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

Economics is a form of brain damage

Asad Zaman

Environmentalist David Suzuki hits the nail on the head. The number of ways that economic theory systematically blinds one to the realities of the world we live in is almost uncountable. When Henry George's land tax became widely popular, economists "disappeared" land as a factor of production from economic theories, merging it illegitimately with capital. Money is made to "disappear" by using the quantity theory of money to claim that money is a veil. This makes it impossible to understand how the mechanisms of money creation ensure that the wealthy can become richer at the expense of the rest of us. And the parasitical nature of the finance industry has been covered up by the idea of "wealth creation" - in which wild speculation can double the price of stocks. Financiers then claim to have created wealth, which is a socially valuable activity, instead of being a fraud and deception. The ideas of cut-throat competition, survival of fittest, and social Darwinism have been used to justify a large number of free market activities which harm the masses to make profits for the wealthy. There is no doubt that believing all of the text-book economic theories leads to serious brain damage, as I myself have experienced - and the process of unlearning has been slow and painful.

Source: Real-World Econ Rev, 30 April 2017https://rwer.wordpress.com/2017/04/30/economics-is-a-form-of-brain-damage/

The myth of the balanced budget

John Kelly

Something interesting is happening at the moment. Despite their rhetoric, their attempts to demonstrate economic prowess and their pretence at under-standing economics, Australia's federal government will have the honour of taking Australia's gross debt position beyond half a trillion dollars ($500,000 million). It is an unprecedented amount and double that which they inherited from their predecessors in 2013. And incredibly, they have done this in less than four years.

Senator, Pauline Hanson was moved to remark, "At this rate we will never be able to pay it back," she said. "We need to rein in our spending." That is what we call an observation from ignorance. But let us not be too hard on her. There are 150 lower house members and 75 other senators who think the same way.

Some MP's are calling for the reinstate-ment of the debt ceiling. Remember the former treasurer, Joe Hockey, who wanted to lift the debt ceiling to $500 billion back in 2013. In the end, the idea of a ceiling was abandoned following a deal done with the Greens.

A quick word of advice here for Senator Hanson. No, we won't be paying it back - not ever. The fact is that a currency-issuing nation can never run out of money, can never owe anything in its own currency, can always afford to buy whatever is for sale in its own currency, and indeed, has a responsibility to ensure that all men and women seeking work are able to find it.

If work cannot be found in private industry they should be employed by the state. As matters stand today, the government is failing in that responsibility because over 700,000 Australians are currently seeking work and cannot find it. That means we are not spending too much, we are spending too little.

The government's reluctance to spend is consistent with their pursuit of what is, in their eyes, the Holy Grail: their long sought after balanced budget, one where total spending equals taxation receipts. It is a grossly flawed objective.

To avoid the embarrassment of having to fess up to that failure, to provide work for its citizens, our treasurer Scott Morrison has found a very convenient loophole for his, and the nation's, future. He calls it "good debt." His plan is to somehow separate value-adding "good" debt (infrastructure spending and the like), from the ever burdening "bad" debt (pensions, unemployment and sickness benefits etc), when preparing his next budget, in the hope that it will miraculously produce a balanced budget.

It's actually a half good, half bad idea. The good half is that he recognises the value of infrastructure spending. The bad half is that he can't see that welfare spending also puts money into the hands of people who spend it. Money spent on infrastructure is no different from money spent on welfare. It's still spent! What he can't see, is that rather than spend on unemployment welfare, he could harness the idle resources of the unemployed in ways superior to welfare spending, thus raising the living standards of all Australians and in turn, benefit the nation as a whole.

He could give them a job. He could, by his own definition, so easily convert his "bad" debt into "good" debt, by eliminating unemployment benefits in favour of employing the unemployed and the underemployed in public works. He could then confidently argue that because it is all good debt, there is no need to issue bonds in order to accommodate it. The money can be classified as "Overt Monetary Financing", another way of saying, money created out of thin air. In doing so, he would have the so-called "balanced budget", he so desperately wants.

A balanced budget is all just numbers in a computer. The trick is to have the numbers in the correct place. At the moment they are not, but they could be.

Source:
https://theaimn.com/myth-balanced-budget/

ECONOMIC REFORM AUSTRALIA (ERA) INC

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ERA educates and advises decision-makers and the wider community about the economic foundations of a society characterised by social justice and ecological sustainability.

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