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For a just and sustainable society

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Keynes and the creation of a new economic narrative

Editor

The following recent (and lightly edited) commentary by Martin Threedman [1] appeared as a Facebook entry:

" An interesting article by George Monbiot [2], discusses how the post WWII Restoration Story narratives of Keynesianism and Neoliberalism have dominated the political economic land-scape - and how these stories trump both reason and facts. He is asking for a new narrative for a post-neoliberal world and has stated that returning to Keynesianism would not work.

" One reason, in my view (among some others), is that this so-called Keynesian-ism can be more accurately described as bastard Keynesianism. But even if we could create a new narrative based on a more accurate representation of the work of John Maynard Keynes, that would be insufficient. A sufficient new narrative is provided by work in the field by Post-Keynesians, who take what Keynes understood as a starting point -- such as his key insight that an economy can be in equilibrium without having full employment (meaning that there is involuntary unemployment, a concept rejected by Neoclassical economists and their political sibling Neoliberalism) -- and taking it further. I emphasise in particular the necessity to perform a proper analysis of what a modern monetary production economy looks like, as exemplified by Godley's Stock Flow Consistent (SFC) models.

" I think a new narrative needs to be created by a combination of Modern Monetary Theory (MMT) and Monetary Circuit Theory (MCT). MMT combines many key post-Keynesian concepts (such as Lerner's Functional Finance) into a consistent whole and provides a realistic description of the operational realities of government and private finance, rather than the fantasies and myths of Neoliberalism. While MCT, particularly in the hands of Steve Keen (and based on Minsky's Instability Hypothesis), emphasises the non-linear far-from-equilibrium dynamics and instabilities of private credit creation (dynamics which are also understood by MMTers). Both of these use and are consistent with Godley's SFC models.

" Of course creating a new narrative would hide even the high-level labels noted in the previous paragraph. The question that must be asked is: who is, or could be, creating such a narrative? "

It may be noted that the term "bastard Keynesianism" was first coined by the indefatigable Joan Robinson, and has appeared in the titles of books by Lynn Turgeon [3] and the late John Hotson [4] -- one of ERA's early mentors.

Wynne Godley

Sources:

1. https://www.facebook.com/martin.3dman?lst=100003392862385%3A625380245%3A1505367641

2. http://www.monbiot.com/2017/09/11/how-do-we-get-out-of-this-mess/

3. https://books.google.com.au/books/about/Bastard_Keynesianism.html

4. http://www.jstor.org/stable/1182637?seq=1#page_scan_tab_contents

ERA Annual General Meeting 2017

The 2017 AGM is scheduled for Saturday 28th October at the CCSA Boardroom, the Joinery (111 Franklin St. Adelaide SA). Reports and other relevant information will be received, and new officers will be appointed for the following 12 months.

ERA membership 2018

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

Public meeting: Why we benefit from a government budget deficit

Editor

On Wednesday 18th October a public meeting occurred in the Ira Raymond room (Barr Smith Library) of Adelaide University, co-sponsored by Economic Reform Australia and the Adelaide Univ Economics Club, titled "Why we benefit from a government budget deficit" and presented by Assoc Prof Phil Lawn. It was followed by a Q&A session.

The mixed audience found the event interesting and informative. The main thrust was a description of the central ideas of MMT (modern money theory), as it relates to government fiscal operations. It was emphasised that a federal budget deficit is better described as a fiscal injection. Electronic copies of the talk are available (contact the editor).

Big banks financing environmental disasters

Editor

The New Economy Coalition has drawn our attention to a meeting held in late October of more than 90 of the world's largest banks in Brazil to recommit to the Equator Principles, a set of rules guiding which big infrastructure projects they will and won't finance.

"Equator banks" have promised to avoid or minimize the social, environmental and climate impacts of such projects, and to respect the rights and interests of Indigenous communities affected by them. But they haven't kept their word:

The Dakota Access Pipeline was financed by banks signed on to the Equator Principles even though it was built to pump tar sands, the dirtiest oil on earth, and was fiercely opposed by the Standing Rock Sioux and Cheyenne River Lakota Tribes for threatening their water sources.

The Honduran based Agua Zarca hydro project, where Indigenous leader Berta Cáceres was murdered for leading indigenous resistance to the project, also passed the ‘Equator test’ of FMO bank as a project supposedly respecting the rights of the Lenca communities.

These are just two examples of projects financed by banks under the Equator Principles that are resisted by indigenous communities.

A conversation about job guarantees

Steven Hail

Source: Flickr CC

The following is an email conversation that I had with a journalist (hence the lack of acknowledgements and references), with a couple of quotes added.

Q: Can you explain the concept of a job guarantee program?

SH: A job guarantee involves commitment to providing optional government funded employment opportunities, alongside optional training and education opportunities, to everyone who wants to take advantage of them, at a socially acceptable level of wages and working conditions, which then set a floor that the private sector and conventional government sector must at least match.

The program must be paid for by the federal government, which as a currency issuing central government can always afford to make payments in its own currency, since it cannot run out of Australian dollars. The problem with federal spending is that it can add to inflationary pressures, when there is too much spending in the economy, but never that the government can run out of money or be insolvent. Such an outcome is impossible, for a currency issuing monetary sovereign.

The program should be locally administered, and so differ in terms of the range of activities carried out in different parts of the country, depending on local needs. It should never compete significantly with the private or conventional government sector, but should operate in a complementary way to the rest of the economy.

It should permanently eliminate involuntary unemployment and underemployment. It should expand in an economic downturn, when the private sector needs fewer workers, and naturally contract in an upturn, when the private sector creates more employment opportunities.

It should also, over time, extend the norm for what is considered to be employment worthy of remuneration. And while we have not yet run out of things we can do for the benefit of the community – and if that ever happens, you would have to worry about the purpose of our existence – we will never run out of activities which can be incorporated into a job guarantee.

Q: What are some international examples of it working?

SH: The two most important schemes in recent years sharing at least some of the characteristics of the job guarantee favoured by economists like me (we are known as modern monetary theorists) have been

1. Plan Jefes de Hogar in Argentina (2002-08), launched soon after the major financial crisis and foreign debt default of 2001, when official unemployment was nearly 22%. It offered a voluntary job opportunity to heads of households (every family was able to designate one member as 'head of household') in community projects that were funded by the federal government but run locally. A very wide variety of projects formed part of the scheme. It did not share all the ideal characteristics of a job guarantee, in that access was limited to households with children, disabled family members, or a pregnant woman in the family.

It played a major role in reducing extreme poverty, in spite of the fact that the job guarantee wage was set, in the opinion of most external observes, too low. It began to change the accepted role of women in rural communities, as most of the participants in the program were women.

The years 2002-8 were years of high economic growth in Argentina, and of falling unemployment. Unfortunately, the government decided to phase out the job guarantee. This was despite the fact that it proved to be very popular with participants, appeared to have a wide range of social and economic benefits, and was assessed favourably by the World Bank.

Incidentally, in a survey of participants, where they were given six options for what they liked most about the program, the most popular choice was that it gave them something to do – the receipt of a basic income was the fifth most popular choice. But the income was important.

The program was eventually replaced with welfare – an unconditional income payment. This was not popular with job guarantee participants, and there are suggestions it reflects an unease amongst powerful men with the role the program had played in changing the economic role of women.

2. The Mahatma Gandhi Rural Employment Guarantee Scheme (MANREGA) in India (2005 - present) provides up to 100 days of minimum wage employment to every family which asks for it.

The scheme has played an important role in both reducing rural poverty and also in supporting incomes during the Global Financial Crisis.

According to the Economist magazine, 'Policy wonks argue that cash handouts to the poor would be easier to administer, and would leave the recipients free to work the fields or roll beedis (country cigarettes) for private employers'. But the poor themselves seem surprisingly sceptical of this idea. "If money comes for free, it will never stay with us," one elderly farmer says. "The men will drink it." To wring anything out of India's rigid bureaucracy takes a fight. If people feel they have earned their money from the government, they become more determined to claim it, even if that means waiting all day outside the village bank.'

Q: What makes it a hard sell politically?

SH: People's willingness to consider a job guarantee scheme depends on how it is framed to participants and the public more widely, and on how the public relate to those who might participate in it. More generally, we must address social attitudes towards the unemployed, underemployed, the insecurely employed and the discouraged. We have had more than three decades of discourse designed to reinforce attitudes amongst the employed that labour market outcomes are an efficient reflection of productivity and effort. More perniciously, we have financialised, or commercialised, our attitudes towards others, to the point where many see the unemployed as belonging to a different group to themselves – at least until the time they unexpectedly find themselves joining that group - so that they do not identify with them or feel any responsibility for their well-being.

To 'sell' a job guarantee scheme, policy makers must encourage people again to see everyone as part of a community, where relationships are not defined in narrow, impersonal financial terms, but in terms of mutual obligations and "from each according to their abilities, to each according to their needs".

Welfare payments don't achieve this outcome. They are not high enough to eliminate poverty. They don't nourish self-esteem. They don't encourage mutual respect and social inclusion.

Q: Can you explain the job guarantee's anti-cyclical nature and why that is a benefit?

SH: During an economic downturn,

Source: Flickr CC

what is needed is for the government's fiscal deficit to increase, in order for the government to spend more when everyone else is spending less, to sustain the private sector and keep people in work and in receipt of incomes. This is important because your income is someone else's spending, and so when total spending falls, people's incomes fall. That's when people get into debt problems, lose their homes, and end up living in poverty.

Government policy is already counter-cyclical to some extent, since there are more welfare payments made during a downturn, and the government collects less in tax as people's incomes fall.

A job guarantee is a more effective counter-cyclical measure in a downturn. It automatically, and without the government having to look into the future and fine tune anything, increases spending to those who need it and geographically where and when it is needed to prevent a serious recession from happening. It is a social safety net for the economy, in the event of a global recession, for example.

During an economic expansion, there is a need for the government's fiscal deficit to fall. You can even imagine rare circumstances when a government surplus might be appropriate, to avoid too much spending causing runaway inflation.

A job guarantee will naturally shrink during an expansion, as people find work elsewhere in the economy. What's more those workers will have benefited from remaining employed in the job guarantee, as opposed to having been unemployed and perhaps living in poverty in the absence of such a scheme.

A job guarantee can be an effective mechanism for stabilising a naturally unstable capitalist economy, while ensuring a fairer distribution of income and eliminating insecurity and absolute and relative poverty..

Q: Why is the minimum wage as it currently operates not really a minimum wage, and how does the job guarantee address that?

SH: It is not a real minimum as there is no guarantee you can get a job. If you can't get a job, you won't get the minimum wage. You'll be on the inadequate Newstart payment, or worse still you might get nothing at all. The current minimum therefore is $0.

A job guarantee provides guaranteed wage incomes and decent working conditions (including super payments) to everyone who chooses to participate. Everyone has access to a job guarantee, as a right. This does not preclude welfare payments to non-participants.

Q: How does a job guarantee program differ from work for the dole?

SH: It is voluntary. It has a decent wage. It has decent working conditions. Job guarantee workers get the normal rights in employment you would expect. Everyone in a job guarantee scheme is on the same hourly wage, but other than the absence of a wage structure within the job guarantee, it is equivalent to any other form of employment. It sets the minimum acceptable standard, and this should be set higher than today's minimum wage, which is not high enough.

Q: What are the psychological impacts of involuntary unemployment that monetary compensation doesn't address?

SH: The experience of involuntary unemployment is almost unique, in the sense that it has a significant and long lasting impact on life satisfaction. We never fully adjust to unemployment. It shifts the baseline for subjective well-being (SWB), with permanent effect. A variety of studies carried out by economists and psychologists, using panel data on the determinants of subjective well-being, have confirmed the negative impact of unemployment on the quality of people's lives.

Unemployment, always and everywhere, reduces subjective well-being. Any significant unemployment is a social problem, quite independently of any lost output associated with an output gap.

Meaningful employment satisfies real human needs, on a variety of levels, and delivers social status. Since the world consists of people with such needs, we ought to have an appropriately designed job guarantee, to meet those needs.

The responses individuals give to questions relating to well-being are admittedly highly context dependent, easily influenced by question ordering and framing, and hard to compare across surveys due to differences in scaling and other factors.

However, in recent years a number of studies of the impact of personal characteristics and life events on subjective well-being have been published by psychologists and economists, using panel data from national and international surveys.

Most people have a baseline level of subjective well-being (SWB), to which they revert over time, even following a variety of major positive or negative life events. The overwhelmingly most important determinant of this baseline for SWB is individual personality traits.

Even events such as marriage, divorce, illness, disability, winning a lottery, or other significant life events have at most a marginal impact on baseline SWB.

In most cases, even though negative life changes evoke a stronger emotional response than positive life changes, consistent with loss aversion, the impact is mainly if not entirely temporary. This is the ‘adaptation effect’, defined by the psychologist George Loewenstein as ‘a reduction in the affective intensity of favourable and unfavourable circumstances’.

Unemployment on the other hand, like persistent pain, has an apparently permanent effect on SWB. It significantly shifts baseline SWB. Some studies find evidence that the unemployed do partially adjust to the experience, but there are other studies that find no significant evidence of habituation at all. This is also true, though to a lesser extent, of underemployment, and of insecure employment.

An experience of involuntary unemployment seems to affect reported well-being negatively, even subsequent to a successful return to employment.

People who have been unemployed are permanently affected by the experience. This is, obviously, very serious news for countries with mass youth unemployment, and once again this is independent of any impact that unemployment may have had on human capital, and therefore productivity There is also evidence that the experience of unemployment may have a greater impact on SWB in a more individualistic culture

Q: How likely is it for a job guarantee program to be implemented in Australia?

SH: In a sense, we virtually had a job guarantee in place in the 1960s, in that there were plenty of jobs in the government sector for those who would otherwise have found it difficult to find paid employment. It was not until the late 1970s that Australian governments gave up their post-war commitment to maintain full employment. A true commitment to full employment means having enough paid jobs so that everyone who wants to be in employment has the opportunity to do so.

I think a job guarantee is inevitable at some stage in the future, as we adjust to accelerating technological changes and belatedly address climate change, as part of a ‘green New Deal’.

The alternative is a division of the population into ‘haves’ who are in employment and ‘have nots’ who are not, and are reliant on some form of welfare (whether it is called a UBI or not). This won’t deliver the subjective well-being and social inclusion which will remain essential to a stable and successful society.

It is just a question of time. Perhaps it will happen in other countries first.

Indeed, Prof Stephanie Kelton, Bernie Sanders' chief economic adviser during the last presidential campaign in the USA, is one of the leading advocates of the type of job guarantee I have been discussing above.

Q: Given you mentioned its likely to be a while before society comes around to the idea of a job guarantee program, in the meantime, with more job losses coming in the manufacturing industry, what would you consider to be the best response?

SH: Make that 'while' as short as you can. A voluntary, equitable, flexible, innovative job guarantee is, in my opinion, the best available response.

Dr Steven Hail is a Lecturer in Economics at Adelaide University, and is a member of ERA.

Water, health and wealth

Editor

Summary of: NBER Working Paper 23807, authored by Nava Ashraf, Edward Glaeser, Abraham Holland and Bryce Millett Steinberg

Providing a supply of clean water requires attending to the costs of the ongoing maintenance as well as the initial pipeline construction. Unfortunately the water supply often fails in the developing world, especially if users don't pay the marginal cost of water.

This paper uses the timing of frequent, unexpected water service outages in Lusaka, Zambia to identify the short-term impacts of piped water access on contagious diseases, economic activity and the time spent on daily chores.

We made use of microdata from the primary water utility in the city on the timing and location of water supply complaints to identify and match the outages to activities across the city using extensive administrative data.

We found that increases in outages are associated with an increased incidence of diarrheal disease, upper respiratory infections, typhoid fever and measles.

We also matched outages to geo-located microdata on financial transactions from the largest mobile money provider in Zambia, and found that outages are associated with a reduction in financial transactions. Outages also increase the time that young girls spend at their daily chores, possibly at the expense of time they spend doing schoolwork.

Imperfect infrastructure thus appears to burden the poor in ways that go far beyond obvious health consequences.

Source: Real World Econ Rev, 20 Sept 2017 https://rwer.wordpress.com/2017/09/20/water-health-and-wealth/

Anything which is physically possible can be made financially possible, if the people of a state desire it. — Robert A. Heinlein

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

To bring our human population in line with the biocapacity of the planet and transform our society from scarcity to sustainable abundance, we will need to address the great disparity in ecological footprint between the rich and poor, while simultaneously lowering the overall human population on Earth. — Jeremy Rifkin

Local government initiatives in Europe

Editor

A street festival in Kreuzberg, Berlin [Fabrizio Bensch/Reuters]

1. Buy-out buyers

Fearful of gentrification, and of international investors and other landlords who hike up rents, the Berlin Borough of Friedrichshain-Kreuzberg is blocking investors from buying apartment buildings by purchasing the properties itself.

Sales are being directed toward a state-owned independent housing association committed to affordable rents. The method could set a precedent for other cities across Europe to do the same.

Source: *The Berlin borough buying out private landlords*, by Feargus O'Sullivan
https://www.citylab.com/equity/2017/08/berlin-rent-control-neighborhood-protection/536325/

2. Sharing cities

As part of Amsterdam's title of Europe's first "sharing city", local government has taken on the task of developing digital platforms that connect citizens and facilitate swaps.

They embrace apps that let neighbours and visitors rent parked cars and unused storage space, share tools and skills, and share home cooked meals. Studies show that the tools have not only made Amsterdam more sustainable, but friendlier too.

Source: *Amsterdam harnesses the sharing economy for social good*
https://apolitical.co/amsterdam-sharing-economy-social-impact/

One of the saddest lessons of history is this: If we've been bamboozled long enough, we tend to reject any evidence of the bamboozle. We're no longer interested in finding out the truth. The bamboozle has captured us. It's simply too painful to acknowledge, even to ourselves, that we've been taken. Once you give a charlatan power over you, you almost never get it back.
– Carl Sagan

The seven sins of economists

Editor

The public mistrust of economists springs from the sins of omission and commission that they have committed over the years

The charging Wall Street Bull, bronze sculpture in the financial district of Manhattan. This icon was fenced off by authorities during the Occupy Wall Street demonstrations, following the global financial crisis (Flickr CC).

The following extract from an article by Pramit Bhattacharya [1] was made very recently in a blog by Lars Syll [2]:

" There has always been some level of scepticism about the ability of economists to offer meaningful predictions and prognosis about economic and social phenomenon. That scepticism has heightened in the wake of the global financial crisis, leading to what is arguably the biggest credibility crisis the discipline has faced in the modern era.

" Some of the criticisms against economists are misdirected. But the major thrust of the criticisms does have bite.

" There are seven key failings, or the 'seven sins', as I am going to call them, that have led economists to their current predicament. These include sins of commission as well as sins of omission.

Sin 1 Alice in Wonderland assumptions

The problem with economists is not that they make assumptions. After all, any theory or model will have to rely on simplifying assumptions … but when critical assumptions are made just to circumvent well-identified complexities in the quest to build elegant theories, such theories will simply end up being elegant fantasies.

Sin 2 Abuse of modelling

What compounds the sin of making wild assumptions is the sin of careless modelling, and then selling that model as if it were a true depiction of an economy or society …

Sin 3: Intellectual capture

Several post-crisis assessments of the economy and of economics have pointed to intellectual capture as a key reason the profession, as a whole failed, to sound alarm bells about problems in the global economy, and failed to highlight flaws in the modern economic architecture …

Sin 4: The science obsession

The excessive obsession in the economics discipline to identify itself as a science has been costly. It has led to a dangerous quest for standardization in the profession, leading many economists to mistake a model of the economy for 'the model' of the economy … Science obsession has diminished the diversity of the profession, and arguably allowed complacency to take root in the run-up to the global financial crisis …

Sin 5: Perpetuating the myth of 'the textbook' and Econ 101

The quest for standardization has also led to an astonishing level of uniformity in the manner in which economists are trained, and in the manner in which economists train others. Central to this exercise are textbooks that help teach the lessons of 'Econ 101' - lessons as disconnected from reality as they are from frontiers of economic research …

Sin 6: Ignoring society

What makes Econ 101 and a lot of mainstream economics particularly limiting is its neglect of the role of culture and social norms in determining economic outcomes even though classical economists such as Adam Smith and Karl Marx took care to emphasize how social norms and social interactions shape the economic outcomes ....

Economists typically don't engage with other social sciences, even though insights from those disciplines have a direct bearing on the subjects of economic enquiry …

Sin 7: Ignoring history

One way in which economists could have compensated for the lack of engagement with other social sciences is by studying economic history. After all, studying economic history carefully can help us understand the social and institutional contexts in which particular economic models worked, or did not work …

But economic history has been relegated to the margins during the past several years, and many graduate students continue to remain unacquainted with the subject. "

1. http://www.livemint.com/Opinion/UKjl4ctibfa9QqZXaHr1DJ/The-seven-sins-of-economists.html

2. https://rwer.wordpress.com/2017/09/26/seven-sins-of-economics/

Comment from guydauncey

Maybe Sin 8? - Obsession with rational man and self-interest.
Human nature is not fundamentally selfish, however, as so many economists from the 18th to the 20th century have assumed. Game theory shows that 25% of humans are predominantly selfish; 25% are predominantly altruistic; and 50% lean towards being altruistic provided others are as well. When fear is strong, and hope is minimal, the 50% can be diverted to a selfish, atavistic agenda. A rational economy would be based not on the widely adopted assumption of the always selfish human, but on an assumption that most humans are reciprocal altruists, favouring cooperation for the common good over private competition for private gain. Experience in the field with cooperative endeavours, from Mondragon in Spain to Emilia-Romagna in Italy and the John Lewis Partnership in Britain shows that the cooperative model is superior to other models for economic success.

The ABS is wrong: inequality is getting worse in Australia

Christopher Sheil and Frank Stilwell

The gap between the haves and the have-nots keeps growing. (Reuters: David Gray)

The Australian Bureau of Statistics announced in September 2017 that "inequality has remained stable since 2013-4". Given that economic inequality has been increasing since 1980 and the widespread view that it has reached unacceptable levels, the ABS's report came as a welcome respite. Or did it?

Most public discussion about inequality focuses on income (an economic flow), but wealth (an economic assets stock) is a more fundamental indicator of people's social position and opportunities, and its distribution goes to the fairness and stability of a society.

The ABS reports that the share of Australia's household wealth owned by the richest quintile (the top 20 per cent) has increased from 62.1 to 62.5 per cent since 2013-14.

An increase of just 0.4 per cent looks small, until you realise that's equal to half the total wealth owned by the poorest 20 per cent of households, whose share of the total wealth has fallen from 0.9 to 0.8 per cent.

Wealth inequality thus continues to increase at the extremes.

The share owned by the second richest quintile has fallen very slightly, from 20.5 to 20.4 per cent, while the middle and second lowest quintiles are unchanged.

The problem with the Gini coefficient

These shifts were not large enough to change the size of the Gini coefficient, the basis on which the ABS concluded that inequality has stabilised.

The Gini coefficient is a statistical artefact that aims to rank the distribution between complete equality (where everyone owns the same wealth) and complete inequality (where one household owns the lot). As a widely used index, it can hide as much as it reveals.

In this case, the stability of the Gini appears anomalous, given the very large rises in the value of houses in Australian cities during recent years and the fact that few among the poorest 40 per cent own one.

Most of the wealth the ABS apportions to the bottom of the wealth distribution comprises non-income earning household durables (such as cars, furniture and clothing), assets that are valued at zero in the national accounts (which treats durables as consumed when they're bought).

The quite poor and the quite rich

So, what's really going on? The best glimpse provided by the ABS's survey is a figure called the P90/P10 ratio. This refers to the wealth of those households at the 10th percentile (measured from the bottom of the range) divided into the wealth of the 90th percentile (the 10th percentile measured from the top). In other words, it compares the comparative wealth of the quite poor and the quite rich, but not the most extreme cases.

The ABS reports that the wealth of those on the 90th percentile is now almost $2 million, about 60 times the wealth of households at the 10th percentile.

The multiple is up from 52 times in 2013-14, a rise of 13.2 per cent, which is the biggest jump in this ratio since the ABS began surveying wealth (in 2003-04, when the P90/P10 ratio was 45).

The increase in this ratio implies that the gains of the wealthiest 10 per cent of households have been greater than those accumulated by the top quintile overall, a scenario reinforced by the facts that the top quintile's average wealth rose by a lower 12% cent, and this average was itself almost a cool million higher than the $2 million entry point for the top 10% ($2.9 million).

In other words, despite the apparent stability of the quintile distribution, the survey results are compatible with other evidence that the wealth of the top 10% - particularly the top 1% - is continuing to race away from the rest of us.

Concentration of wealth is increasing

The limitation of the ABS survey is that it ignores what is happening to the wealth distribution beyond the 90th percentile, which is precisely where most of the concern about growing inequality lies. The methodology lags behind international best practice, which now routinely shows data for the top 1 per cent, the top 10 per cent and the bottom 50 per cent.

Last year when we prepared a report on Australian wealth inequality for the Evatt Foundation, we adopted the global standards, using OECD data and, ironically, ABS data supplied to the OECD not published in Australia.

On conservative assumptions, we found that the top 10 per cent of households owned at least 50 per cent of the total wealth, and the top 1 per cent owned at least 15 per cent.

There is nothing in the ABS survey that leads us to conclude other than that the concentration of wealth in Australia is probably still increasing. If our official statistician thinks inequality has stabilised, he should adopt the methodology to prove it.

Source: ABC News, 15 September 2017
http://www.abc.net.au/news/2017-09-15/inequality-is-getting-worse-in-australia-abs-figures-opinion/8949102

Authors:
Christopher Sheil is a fellow in history at the University of New South Wales and **Frank Stilwell** is professor emeritus in Political Economy at the University of Sydney. They are co-authors of *The Wealth of the Nation: Current Data on the Distribution of Wealth in Australia*, published by the Evatt Foundation in 2016.

Countries intending to phase out combustion-engine vehicles

Editor

Articles by Hashem Al-Ghaili [1] and Dom Galeon [2] discuss an option for combining overall reduction in greenhouse gas emissions with improvement of pollution levels in streets and roads (thereby improving the health of the population). This option is a promotion of the sale of all-electric motor vehicles and/or a compulsory phasing out of the sale of motor vehicles that use carbon-based-fuel combustion engines.

In the past couple of years, the clean energy revolution has steadily been gaining ground. Aside from transitioning to cleaner, renewable energy sources, a number of countries also intend to keep their roads free from pollution by removing combustion engine vehicles. With the transportation sector contributing around 15% of man-made greenhouse gas emissions worldwide (27% for the U.S.), this is a noteworthy step.

The following list of seven nations have been listed in these articles according to the time they made their decision to remove combustion-engine vehicles:

1. Germany was the first country to implement a ban on petrol and diesel cars. In Oct 2016 the federal council (the Bundesrat) proposed and passed a resolution that calls for a total ban on internal combustion engines by 2030. The decision is significant because Germany has the fourth largest car manufacturing industry in the world.

2. Norway in February 2017 decided to follow and outdo the German example. It set a target that is five years earlier than Germany's. By 2025, Norway will only sell cars that are 100% electric. "By 2030, heavy-duty vans, 75% of new long-distance buses, and 50% of new trucks must be zero emission vehicles" according to the Norwegian Public Roads Administration.

3. India has instituted a policy similar to Norway's, to allow only the sale of all-electric cars by 2030. The effort is to be financed by the government.

4. France will implement a ban on all petrol and diesel vehicles effective by 2040. The process will take place step-wise, to include having "a fleet of 2.4 million rechargeable electric and hybrid vehicles, as well as a 3% of NGV heavy duty vehicles" by 2023, according to France's Ministry of Ecology, Sustainable Development and Energy.

5. United Kingdom will introduce a ban on new diesel and petrol fuel cars by 2040, as part of a 3 billion initiative that trickles down to local councils to improve the nation's air quality.

6. Netherlands has been considering the removal from roads and streets of petrol and diesel engines since April 2016, but have yet to formalise these plans.

7. China - the most heavily-polluted country, has revealed similar plans.

Sources

1. https://sciencr.com/7-countries-are-banning-fossil-fuel-based-cars/

2. https://futurism.com/these-7-countries-want-to-say-goodbye-to-fossil-fuel-based-cars/

Jobs, tax and politics: Three ways electric vehicles will change our world

Hussein Dia

Electric cars will shake up everything from jobs to tax (Flickr CC)

China, which possesses the world's largest car market, is working on a timetable to stop the production and sale of vehicles powered by fossil fuels. India has declared its intention to make all new vehicles electric by 2030.

Like Britain and France, these two markets are looking to phase out the sale of petrol and diesel vehicles over the next 20 years or so.

Vehicle manufacturers, the oil industry and governments are starting to wake up to the disruption that vehicle electrification could bring about.

Even automakers recognise that they cannot afford to be legislated out of these lucrative markets.

The motor manufacturers Volvo, Jaguar and Land Rover, Volkswagen, Audi, Mercedes and BMW have all promised to roll out electric models over the next decade.

Electro-mobility now seems inevitable, but the impact this shift will have on jobs, the oil economy and even national tax systems will be profound.

The global impact on jobs

Electric vehicles, including their batteries, generally require less manufacturing labour than ones that run on petrol.

For this reason, among others, a full phase-out of combustion engines by 2030 could cost an estimated 600,000 jobs in Germany alone, according to one report issued from the country's Ifo Economic Institute.

But the situation may not all be doom and gloom. According to the Australian Federation of Automotive Parts Manufacturers (FAPM), the ban may be good news for those supplying the Chinese market, including Australia.

Although Toyota and other local car manufacturers have shut down their Australian facilities, as electric vehicles become easier to build the manufacturing process may become simplified and robotised, creating new manufacturing and business opportunities for the right investor.

The disruption of oil

Going all-electric by 2030 will place considerable budgetary stress on major oil-producing countries, and change the geopolitical map.

Stanford economist Tony Seba and his team push the vision of an electric vehicle revolution a step further, and predict that the disruption will come earlier, during the 2020s.

They argue that oil demand will peak at 100 million barrels per day by 2020 and shift to 70 million barrels per day by 2030. According to their 2017 study, net exporting countries like Venezuela, Nigeria, Saudi Arabia and Russia will feel the greatest impact.

They also claim that the geopolitics of lithium - which along with nickel, cobalt and cadmium, is the key to electric vehicles - is entirely different from oil politics.

Although there is potential for supply disruption, lithium is not as critical as oil in the life of a car.

According to Seba:

Lithium is a material stock and, in the electric vehicle industry, is only required to build the battery, while oil is a fuel required to operate an internal combustion engine vehicle. Lithium scarcity would only affect new vehicle production. Thus, not having lithium is like not having a new engine; the existing fleet can still operate for years. But oil is essential to operate the existing fleet; so oil is a far more critical part of the value chain.

The impact on taxation

By 2030, revenue from petrol taxes could be reduced significantly, with the shift from individual ownership of petrol vehicles to shared (and ultimately autonomous) electric vehicle fleets.

Governments whose tax revenue relies on this stream could find themselves shifting to road pricing, such as charging per kilometre of travel or congestion charging.

Modelling by Seba and his team shows that around US$50 billion in petrol taxes could disappear from U.S. government budgeting.

In Australia, according to the Bureau of Infrastructure, Transport and Regional Development, public sector road-related revenue totalled A$28.7 billion in 2014-15.

Fuel excise contributed about A$11.03 billion or 38%, down from about 44% in the early 2000s. This revenue also faces reduction with increasing electric vehicle market adoption.

My research also shows that under some future scenarios of shared autonomous mobility, car fleet size could shrink to around 80%, meaning less revenue from vehicle registration fees and sale taxes, maintenance, insurance and parking.

The future outlook

Although details of the proposed bans in China and India are still sketchy, they represent just the kind of government policy shifts that are likely to make electric vehicles more pervasive.

Some groups, such as the oil giants BP and Shell, would disagree that the end of oil is upon us.

It’s been argued that electric vehicles are not a game-changer, as oil demand will continue to rise in the developing world and improvements in fuel efficiency will deliver benefits that outweigh

The BMW i3 electric car. (Kārlis Dambrāns/Flickr, CC BY)

those from electric vehicles.

The sheer breadth of the potential disruption makes it hard to predict what will happen, especially when the mix of sharing, electric and self-driving technologies converge to disrupt the mobility ecosystem.

Auto manufacturers, governments and the oil industry will have to make some tough decisions and prepare. The petrol engine vehicle isn't quite done, but its years of dominance on our roads are numbered.

Source: The Conversation, 6 Oct. 2017
https://theconversation.com/jobs-tax-and-politics-three-ways-electric-vehicles-will-change-our-world-84910

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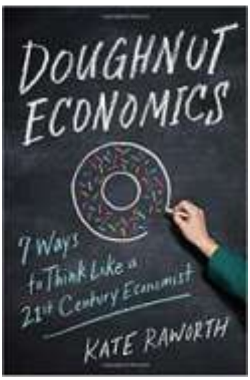


Book commentary: Doughnut Economics - Seven Ways to Think Like a 21st-Century Economist (Cornerstone, April 2017)
by Kate Raworth

I read this book with the excitement that the people of his day must have read John Maynard Keynes' *General Theory.* It is brilliant, thrilling and revolutionary. Drawing on a deep well of learning, wisdom and deep thinking, Kate Raworth has comprehensively reframed and redrawn economics. It is entirely accessible, even for people with no knowledge of the subject. I believe that Doughnut Economics will change the world. -- George Monbiot

Economyths: The five stages of economic grief

David Orrell

A healthy healing process for the economics profession to slowly come to terms with its role in the Great Financial Crisis.

Swiss psychiatrist Elizabeth Kübler-Ross, a pioneer in the field of grief counselling, identified the five stages of grief as denial, anger, bargaining, depression, and acceptance. This extract from David Orrell's recent book Economyths [1] draws on her model of grief as inspiration to chart the long, arduous, but ultimately healthy and healing (we hope, it's not over yet) process as the economics profession slowly comes to terms with its role in the Great Financial Crisis.

-- OO --

The ten years since the first tremors of the crisis began in 2007 have been a difficult journey, not just for the world economy, but also for the economics profession. The status of the field had never been higher than in the two decades preceding the crisis, during what Ben Bernanke and others called the Great Moderation. Inflation and macroeconomic volatility seemed to be under control, and total national income was growing at an almost steady rate (the fact that total debt was growing even faster was less remarked upon).

In 2002, Alan Greenspan received an honorary knighthood from the Queen for 'his outstanding contribution to global economic stability'. The following year, Nobel laureate Robert Lucas, famous for his theory of 'rational expectations', told his audience: 'My thesis in this lecture is that macroeconomics - in this original sense - has succeeded: Its central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades'.

With its firm grounding in mathematical rigour, economics was the undisputed queen of the social sciences.

Economists were therefore more than a little surprised by what jurist and economist Richard Posner – author of books including the aptly-named *A Failure of Capitalism: The Crisis of '08 and the Descent into Depression* – inventories as 'the bursting of the housing bubble (they didn't know it was a bubble), the ensuing banking collapse, the stock market crash, the sharp decline in output and employment, the global scope of the crisis, and the onset of deflation in the late fall of 2008 that created fears of a depression comparable to the Great Depression of the 1930s'. According to James Heckman from the University of Chicago, 'Everybody here was blindsided by the magnitude of what happened. But it wasn't just here. The entire profession was blindsided.'

Indeed, the crisis came as a traumatic event that left mainstream economists in what Greenspan called 'a state of shocked disbelief'. Models which were based on assumptions of stability, equilibrium and efficiency were of little use when markets were cratering, real estate was sinking into the mud, and oil and food were spiking. And since that time, economists have been working their way slowly and painfully through the different stages or aspects of the grief process, as they realise that their elegant models not only failed to predict the crisis, but also helped to create it.

When *Economyths* first came out, most economists were in a state of **denial** – especially those at the top of the profession. Future economics laureate Tom Sargent said in a 2010 interview "It is just wrong to say that this financial crisis caught modern macroeconomists by surprise." (No mention of whether the non-modern macroeconomists saw it coming too.) Laureate Robert Lucas preferred to see the unpredictability as a natural result of future economics laureate Eugene Fama's efficient market hypothesis (though as Posner notes, that didn't stop him from predicting, shortly after Lehman's collapse, that the crisis would soon go away). Eugene Fama agreed that the efficient market hypothesis 'did quite well in this episode'. The Nobel committee apparently agreed too.

As reality sank in, economists soon began lashing out in **anger** at anyone who dared criticise their field, including yours truly (I'm going to talk about this because it seems to be quite a general problem). At Canada's top-ranked economics blog Worthwhile Canadian Initiative, for example, a group of prominent academics, including regular contributors to national publications (*Globe and Mail*, *National Post, Literary Review of Canada*, Macleans, etc,), shared their professional thoughts about the book online. Descriptors used included idiotic, ignorant, intellectually lazy, juvenile, random, rubbish, semi-articulated, and 'sort of like Malcolm Gladwell without the insight' – ouch. Someone even compared me to a climate change denier (not uncommon, as it turns out).

One commenter described the online book burning as part of a widely-deployed 'shoot the messenger' strategy against critics. Which is fine – we give as good as we get, and at least they don't grade us. But what was interesting about their discussion was the way these academics, who hailed from top universities such as British Columbia, Carleton, Laval, and so on, managed to maintain the illusion that they were being incredibly tolerant and open to criticism. As one put it, 'Economists welcome criticism. In the academy, we are well-known, if not infamous, for being direct, abrupt, and rude in criticizing each other (and others). There is a very healthy discussion about methodology. Bring it on.' But they confused academic bickering with genuine criticism from people who share none of their biases.

The site linked to an even more vituperative blog review by an economics professor at the University of Victoria who of course took pains to say that economics 'benefits from criticism', as long as it's the right type, a topic we discuss further below (fortunately I was spared the electronic 'viruses and hate mail' which have apparently afflicted other critics of mainstream economics). And that was about it for thoughtful response from the country's economics establishment, at least until former Deputy Governor of the Bank of Canada William White (now at OECD) – one of the few people who warned of the financial crisis – cited the paperback edition as a Bloomberg Best Book of 2013, perhaps out of sympathy.

Economic depression

It therefore comes as something of a relief to us critics that some economists at least may be proceeding to the penultimate, more passive stage of the grief process, **depression**. Evidence is provided by a paper by Paul Romer, 'The Trouble With Macroeconomics' (he had also been reading Smolin's book, hence the title), a 2016 preprint of which caused a considerable stir in economics circles. Sounding almost *Economyths*-like in style, the first sentence of the abstract announces that 'For more than three decades, macroeconomics has gone backwards'. It goes on to describe the author's 'pessimistic assessment of regression into pseudoscience' and mention the 'serious failure' of top economists. Decidedly non-upbeat section titles include 'Post-Real Models', 'Loyalty Can Corrode The Norms of Science', 'Back to Square One', and 'The Trouble Ahead For All of Economics'. No concrete solutions are proposed for what sounds, to an outsider, like a rather dysfunctional state of affairs.

In the same way that elegant but unfalsifiable string theory has, as Smolin showed, taken over high-energy physics, so mainstream economics has increasingly emphasised elegant but unfalsifiable mathematical models over experimental reality. Most of the parameters in the models cannot be determined from observations, but are simply made up to give the desired answers. Events such as crashes are assumed to be caused by external shocks, rather than internal dynamics. The models can't make sense out of even basic things like monetary policy, which according to theory – since money plays no significant role in these models – should have little or no effect.

However, the problems are as much sociological as they are mathematical. Just as string theory is characterised by what Smolin described as 'groupthink' about the correct way to approach problems, so some economists see it as 'an extremely serious violation of some honor code for anyone to criticize openly a revered authority figure …

neither facts that are false, nor predictions that are wrong, nor models that make no sense matter enough to worry about'.

Romer, who is now chief economist at the World Bank, notes that he sees himself more as a practitioner rather than an academic, so feels free to speak out and tell it like it is, but many people are afraid to criticise a 'revered leader' because of the 'unpleasant reaction' that it may evoke.

He relates a story of running into a colleague who was so angry with him for criticising a paper by Robert Lucas that 'at first he could not speak. Eventually, he told me, "You are killing Bob."' Yikes. So much for that self-image of economists being open to criticism. In fact Romer says he was inspired to write the paper after seeing a documentary about the Church of Scientology.

Paul Mason has observed in the newspaper *The Guardian* that Romer's paper is important because he is not an outsider or a rebel, but 'a doyen of the profession, and from the heart of the US academic mainstream'. As the Bloomberg citation commented, 'along came one of the leading practitioners of his generation, to say that the skeptics were onto something'. Which, speaking as one such sceptic, is certainly appreciated. In fact in some respects Romer probably goes further – even I didn't sum an economic argument up as: 'Assume A, assume B, … blah blah … And so we have proven that P is true.'

However, while it is refreshing that some in the mainstream are facing up to these problems, and Romer's paper is written with great courage, a dose of dark humour, and an obvious concern for the state of economics, there is in fact little acknowledgement that these issues have long been debated and solutions proposed outside of the mainstream; and as argued in this book, it is exactly this deafness to other voices which is at the root of the 'trouble with economics', and the reason it has taken so long to confront the fact that there might be a serious problem, let alone actually do something about it.

The path to acceptance

Of course, depression is a state of mind that involves turning inwards. But for an area as insular as mainstream economics, the final stage of the grief process – **acceptance** – will only come when the field finally gets over itself and opens up to new ideas – or even the old ideas that have been there all along.

This may be beginning to happen. In 2017 for example the UK's Economic and Social Research Council announced that it intended to set up a network with its remit being to 'revolutionise' the field of economics: 'It will be led by a team of 25 world leading experts taken not only from different branches of economics, but also from psychology, anthropology, sociology, neuroscience, economic history, political science, biology and physics.'

Perhaps those experts can answer some of the questions we posed for them back in the original 2010 edition of *Economyths*. As seen in the revised edition, ideas from areas such as complexity science and data analysis are starting to sink in and have an effect. And some high-profile economists are having a go at new approaches. Joseph Stiglitz, for example, recently contributed to a paper that uses an agent-based model to account for 'the complex adaptive nature of economic systems, and the implications of money endogeneity' (i.e. the fact that money is produced by banks).

But one thing that mainstream economists won't go near – it doesn't fit with the models – is the idea that they might not be quite so impartial, objective and unbiased as they appear. Rodrik, for example, notes that leading economists had bought into the dominant efficient market paradigm which saw markets 'not only as inherently efficient and stable, but also as self-disciplining', and that this 'legitimized and enabled a great wave of financial deregulation that set the stage for the crisis'. He describes it as 'curious' that other models were not used.

But why would they make that particular choice? Why were other models, such as Minsky's model of the credit cycle, repressed? And did economists buy in or sell out? The field of economics has an unhealthily close dependency relationship with the financial sector, which may just have clouded its judgement.

Instead of acting out against critics in a way that embarrasses the profession, or ignoring those who want to help, it's time for mainstream economists to relax the defences and open up a little. A first step is to untangle those institutional effects and other motivations that have shaped their field and which continue to resist change. I'm sure there are plenty of sociologists and psychologists (even grief counsellors probably) who can help. Certainly the process can't be rushed. So here is, not a commandment, but a gentle suggestion to most economists at this difficult time: ten years is enough. Time to open the windows and let in the fresh air.

Sources

1. Economyths: '11 Ways That Economics Gets it Wrong', *Icon Books; 2nd edition (Sept. 2017)*

2. Evonomics article (17 Sept 2017) http://evonomics.com/economyths-five-stages-economic-grief/

The Treasurer's claim that wages growth requires profit growth

Editor

Well known Australian banking economist, Saul Eslake, has published an article [1], using ABS national income data, repudiating the recent claim of Treasurer Scott Morrison that a sustained increase in profitability is a prerequisite for a pick-up in wages growth.

Australian wages growth is, as Reserve Bank governor Philip Lowe recently noted, "the slowest since at least the mid-1960s". But the idea that wages and profits are connected is not supported by the available data. As Eslake has noted, " there does not appear to be any 'leading' relationship between growth in pre-tax company profits and growth in wages, even if the mining sector (which accounts for a good deal of the fluctuations in profit growth over the past dozen years) is excluded ".

Continuing his comment, Eslake noted:

" Some relationship between profit *margins* (that is, profits as a proportion of sales revenue) and wages might have existed in the past. However, that appears to have broken down in the years since the peak of the commodities boom ... Since then, aggregate profit margins have risen to levels not seen since the early 2000s, but wages growth has continued to slow.

" Rather than being a precursor to faster growth in wages, the growth in Australian company profits in recent years appears to be part of a broader global pattern: the share of aggregate income accruing to capital is rising while that accruing to labour is falling. "

One of the statistical charts shown by Eslake is reproduced below. He finally concludes:

" As I've argued previously, there's absolutely no evidence that preferentially taxing small businesses will do anything to boost innovation, productivity, investment or employment. Hence, there's no reason to think it will do anything to lift wages growth.

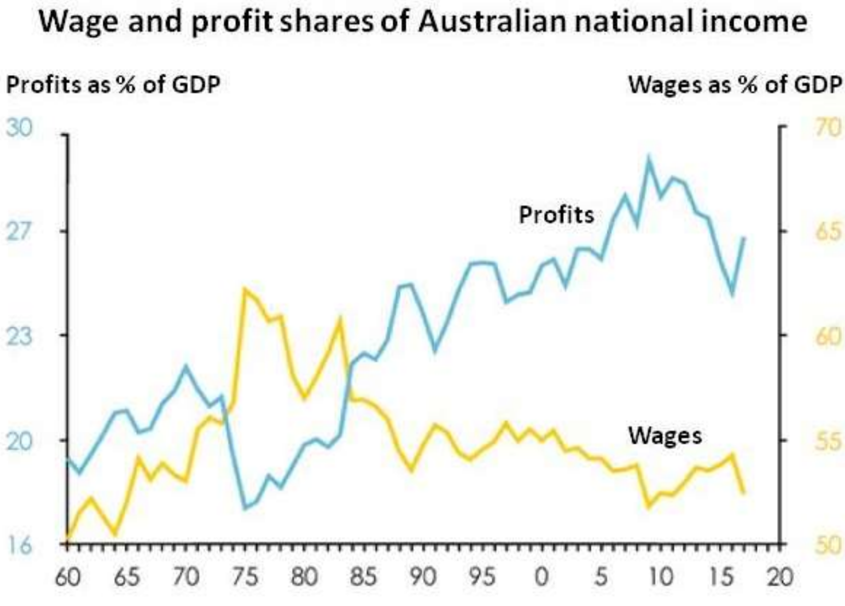
" Nor is there any compelling empirical evidence to suggest that across-the-board tax cuts for larger companies will have any significant impact on employment and hence on wages. "

Eslake also stated that he thinks it is now important to ensure that real wages do not grow at a pace relative to productivity growth which leads to higher unemployment.

Saul Eslake is a Vice-Chancellor's Fellow, University of Tasmania

Source: The Conversation, 6 Oct. 2017 Is faster profit growth essential for a pick-up in wages growth?

1. https://theconversation.com/is-faster-profit-growth-essential-for-a-pick-up-in-wages-growth-83819?



There have always been a few maverick economists who have been perceived as the lunatic fringe of economics, when in fact they have been the sane fringe of a lunatic profession. -- Paul Hellyer

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. -- John Maynard Keynes

In the absence of freedom there is no creativity, and in the absence of creativity there is no progress -- Robert Bostick

Rational expectations - the triumph of ideology over science

Editor

Lars Syll has reproduced in a recent blog [1] the following quote from Prof Joseph Stiglitz:

" Research shows not only that individuals sometimes act differently than standard economic theories predict, but that they do so regularly, systematically, and in ways that can be understood and interpreted through alternative hypotheses, competing with those utilised by orthodox economists.

" To most market participants — and, indeed, ordinary observers — this does not seem like big news … In fact, this irrationality is no news to the economics profession either. Long ago, John Maynard Keynes described the stock market as based not on rational individuals struggling to uncover the market fundamentals, but as a beauty contest in which the winner is the one who guesses best what the judges will say ..

" Adam Smith's invisible hand — the idea that free markets lead to efficiency as if guided by unseen forces — is invisible, at least in part, because it is not there …

" For more than 20 years, economists were enthralled by so-called "rational expectations" models which assumed that all participants have the same (if not perfect) information and act perfectly rationally, that markets are perfectly efficient, that unemployment never exists (except when caused by greedy unions or government minimum wages) and where there is never any credit rationing.

" That such models prevailed, especially in America's graduate schools, despite evidence to the contrary, bears testimony to a triumph of ideology over science. Unfortunately, students of these graduate programmes now act as policymakers in many countries, and are trying to implement programmes based on the ideas that have come to be called market fundamentalism … Good science recognises its limitations, but the prophets of rational expectations have usually shown no such modesty. "

1. https://rwer.wordpress.com/2017/10/05/rational-expectations-the-triumph-of-ideology-over-science/

Prof Joseph Stiglitz

Monsanto's violence in India: The sacred and the profane

Editor

An article by Colin Todhunter published in Global Research on 30 Sept 2017 [1] discusses the dictation of foreign capital on Indian development. The following extract introduces the full article.

" Foreign capital is dictating the prevailing development agenda in India. There is a deliberate strategy to make agriculture financially non-viable for India's small farms, to get most farmers out of farming and to impose a World Bank sanctioned model of food production.

The aim is to replace current structures with a system of industrial (GM) agriculture suited to the needs of Western agribusiness, food processing and retail concerns.

" The aim here is not to repeat what has been previously written on this. Suffice to say that the long-term plan is for an overwhelmingly urbanised India with a fraction of the population left in farming working on contracts for large suppliers and Walmart-type supermarkets that, going on current evidence, will offer a largely monoculture diet of highly processed, de-nutrified, genetically altered food based on crops soaked with chemicals and grown in increasingly degraded soils according to an unsustainable model of agriculture that is less climate/drought resistant, less diverse and unable to achieve food security. "

1. Todhunter, C. "Monsanto's Violence in India: The Sacred and The Profane", Global Research (30 Sept. 2017) https://www.globalresearch.ca/monsantos-violence-in-india-the-sacred-and-the-profane/5581536

Memo to mortgagors…get your house in order

John Kelly

Whether you believe it or not, an economic tsunami is coming and if you think we will survive the damage and the fall-out, as we did the GFC, you're dreaming.

The next GFC will make the last one look like a vicarage fund raiser. Why? Because we are not just making the same mistakes as last time, we are making bigger ones.

One simple statistic reveals a frightening scenario. Currently, the big four banks have a combined equity of about $162 billion. Place that along-side their current exposure to domestic mortgage loans of $1.6 trillion and you begin to see the looming threat.

Those mortgage loans have been fuelling an unsustainable housing bubble. But the banks see that as secondary to ensuring their share prices are maintained. What they seem oblivious to, is the plethora of business loans outstanding that feed off household demand. The early warning signs are there.

Stagnant wage growth is restricting spending and slowing demand. Household spending is becoming highly selective, limited to essentials but still relying on credit card financing. Our economy, all economies, are reliant on consumer spending. When consumers stop spending, the economy stops moving.

We have ignored the warnings, we have been seduced by low interest finance, cheap money and banks ever eager to lend at levels well beyond responsible management. As a result we have now reached the point when irrational expectation meets unmanageable debt.

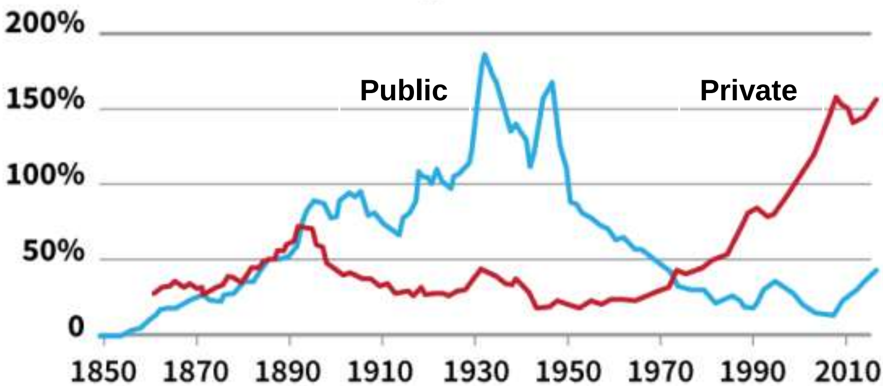
As matters stand today, it's not so much a case of the economy not moving, soon, the inevitable job losses will start to mount.

As with the GFC, the prime mover is the housing bubble. Let us be clear here. We are not talking about sovereign debt, what our national government has issued in bonds. That is always serviceable.

We are talking about what consumers owe and what is about to happen when it becomes apparent that they can no longer meet their debt obligations. We are talking about mortgage defaults.

Look at the chart sourced from the Australian Bureau of Statistics, the AOFM, the RBA and others.

Australia consolidated gross debt to GDP ratios



Source: ABS, AOFM, Barnard, Battellino, Hutchinson, RBA

Australia's current household debt to GDP is currently at 123 per cent, the second-highest in the world behind Switzerland. It has a household debt-to-income ratio at an all-time peak of 189 per cent. Mortgage loans to borrowers amount to more than six times household incomes and could wipe out 20 per cent of the major banks' equity base.

When the banks begin to see rising levels of mortgage default they will react without mercy. Foreclosures will follow, leading to a glut of homes for sale as the banks try to recover their money. House prices will crash. And that is just the start.

Businesses reliant on a strong, stable vibrant housing environment will feel the fall in sales of consumer goods. Unemployment will rise quickly leading to further decline in demand. From there, it's all downhill.

The question then arises. What will this government do about it? If you think they will react the same way Kevin Rudd's government acted, forget it. They will not. Their aversion to sovereign debt far outweighs any interest in issuing more debt.

The banks will demand the government protect their equity with guarantees and possibly a round or two of quantitative easing. That will save the banks but it won't stop falling demand, businesses failing and higher levels of unemployment.

We, the consumers, the lifeblood of the economy will be left to fend for ourselves. That is the way of conservative governments. They look after their own. If we are reduced to soup kitchens and charitable handouts, so be it.

This government would rather give a company a tax break than stimulate an economy with direct debit consumer grants. So here is a warning. Get your house in order. Reduce your debt burdens. Pay down your credit card and look for a cheaper house with a lower mortgage if you can.

When the value of your four bedroom, double garage with swimming pool falls below the level of your mortgage, the bank will come knocking on your door. Better you act first. In situations where the inevitable is all too obvious, you have one option: be first.

If you would like a broader overview of the impending tsunami, read Nassim Khadem's recent article in The Age [1]. When the spaghetti hits the fan and you decide it's time to capitalise by selling your home for something less ostentatious, it will be too late.

Source: John Kelly, AIM ntwk, 9 Oct. 2017 https://theaimn.com/memo-mortgagees-get-house-order/

1. Khadem, Nassim, Ten years since the global financial crisis, world still suffers 'debt overhang' http://www.theage.com.au/business/the-economy/10-years-since-the-gfc-20170526-gwe5f2.html

Inequality and immiseration in the U.S.

David Ruccio

It's clear that, for decades now, U.S. workers have been falling further and further behind. And there's simply no justification for this sorry state of affairs - nothing that can rationalize or excuse the growing gap between the majority of people who work for a living and the tiny group at the top. But that doesn't stop mainstream economists from trying. Look, they say, U.S. workers are clearly better off than they were before. Both real weekly earnings (the lower

Figure 1

line in the chart, Fig 1) and the median household income (the upper line) are higher than they were thirty years ago.

There's no denying that, on average, the absolute level of worker pay and household income has gone up. That's proof, mainstream economists argue, that workers are enjoying the fruits of their labor.

The problem is that the increase in workers' wages (Fig 2, lower line - the same as in the previous chart) pales in comparison to the rise in labor productivity (upper line in Fig 2): since 1987, real wages have increased by only 8%, while productivity has grown by 75%.

In other words, U.S. workers have been producing more and more but getting only a tiny share of that increase.

It should come as no surprise, then, that the wage share of national income (Fig 3) has fallen precipitously - by 8% since 1987 and by 16.5% since 1970.

U.S. workers are in fact experiencing a relative immiseration compared to their employers, who are able to capture the additional amount their workers are producing in the form of increased profits. Moreover, U.S. employers have every interest - and more and more means at their disposal - to continue to widen the gap between themselves and their workers. Not surprisingly, the relative immiseration of U.S. workers shows up in growing inequality - with the share of income captured by the top 1% increasing and the share going to the bottom 90% falling (see Fig 4). Each is a consequence of the other.

U.S. workers are getting relatively less of what they produce, which means more is available to distribute to those at the top of the distribution of income. That's what mainstream economists don't understand: that workers may be worse off even as their wages and incomes rise. That problem flies in the face of every attempt to celebrate the existing order by claiming "just deserts."

There's nothing just about the relative immiseration and growing inequality faced by U.S. workers. And nothing that can't be changed by imagining and creating a radically different set of economic institutions.

Comment From peterblogdanovich

Actually both firms and labor are losing out to the financial sector. Just before the GFC finance reached 40% of private sector profits. This same number was about 5% after WWII. Executive bonuses in non financial firms are a tiny fraction of labor's share of output. Pull on this thread and you will be appalled at what has happened to both labor and non financial firms.

Figure 2

Figure 3

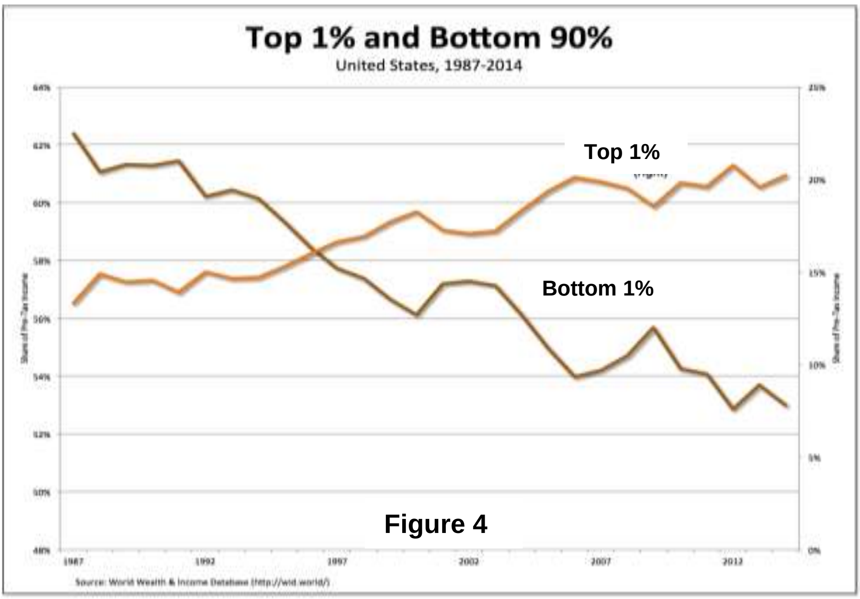


Figure 4

Source: Real World Econ Rev, 9 Oct. 2017;
https://rwer.wordpress.com/2017/10/09/inequality-and-immiseration-4-graphs/

Richard Thaler gets the 2017 'Nobel prize'

Lars Syll

The Swedish Academy of Sciences has announced that it has decided to award the 2017 Sveriges Riksbank Prize in Economic Sciences - in Memory of Alfred Nobel - to Richard Thaler. A good choice for once!

To yours truly Thaler's main contribution has been to show that one of the main building blocks of modern mainstream economics - expected utility theory - is fundamentally wrong.

If a friend offered you a gamble on the toss of a coin where you could lose €100 or win €200, would you accept it? Probably not. But if you were offered to make one hundred such bets, you would probably be willing to accept it, since most of us see that the aggregated gamble of one hundred 50–50 lose €100/gain €200 bets has an expected return of €5000 (and in making our probabilistic calculations we find out that there is only a 0.04% risk of losing any money).

Unfortunately – at least if you want to adhere to the standard neoclassical expected utility maximization theory – you are then considered irrational! A mainstream neoclassical utility maximizer that rejects the single gamble should also reject the aggregate offer.

Matthew Rabin's and Richard Thaler's modern classic *Risk Aversion* shows forcefully and convincingly that expected utility theory does not explain actual behaviour and choices.

What is still surprising however, is that although the expected utility theory is obviously descriptively inadequate, colleagues and microeconomics textbook writers all over the world gladly continue to use it, as though its deficiencies were unknown or unheard of.

That cannot be the right attitude when facing scientific anomalies. And when models are plainly wrong, you'd better replace them! Or as Rabin and Thaler have it:

" It is time for economists to recognize that expected utility is an ex-hypothesis, so that we can concentrate energies on the important task of developing better descriptive models of choice under uncertainty. "

What many of the works of Thaler show is that expected utility theory is an 'ex-hypothesis.' Or as Monty Python has it:

This parrot is no more! He has ceased to be! He's expired and gone to meet his maker! He's a stiff! Bereft of life, he rests in peace! If you hadn't nailed him to the perch he'd be pushing up the daisies! His metabolic processes are now history! He's off the twig! He's kicked the bucket, he's shuffled off his mortal coil, run down the curtain and joined the bleedin' choir invisible!! THIS IS AN EX-PARROT!!

An ex-parrot that changes truth shouldn't just be mended. It should be replaced!

Source: Real World Econ Rev, 10 Oct. 2017
https://rwer.wordpress.com/2017/10/10/richard-thaler-gets-the-2017-nobel-prize/

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