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For a just and sustainable society

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Why have wages been allowed to stagnate?

Steven Hail



Source: Flickr cc

I recently wrote an article [1] pointing out that people in minimum wage jobs today in America, Australia and the UK are doing much worse, relative to the well-off, than they were 50 years ago. The article argues for an increase in the minimum wage in each country, to restore to the low paid their fair share of national income, combined with an employment guarantee at that wage.

One of our readers wrote in, asking us to explain why minimum wage rates have been allowed to stagnate.

I can't answer this question fully within a few hundred words. If you want a very full answer, and have some background in economics, I invite you to track down the electronic version of my thesis in the Flinders University library. Otherwise, the soon-to-be-published book of Claire Connelly, who is Renegade Ink

editor-in-chief, is recommended. But in the meantime, here are a few hints:

Firstly, it isn't just about minimum wage rates, and I don't want to raise the minimum wage just for its own sake. It is more about the whole distribution of income. Within most, but by no means all, high income countries, the distribution of after-tax income has become far less even since the 1970s. The US is just an extreme case of this phenomenon.

There are so many other ways in which I could demonstrate the same thing. The rewards of economic development have increasingly gone to those at the very top of the pile, and increasingly in the form of capital income. Those bang in the middle of the distribution in the US, for example, haven't done all that well, and the share of labour income in

national income has fallen inexorably. It is obvious.

How has this been allowed to happen? It has been in part a consequence of a deliberate plan, but also in part just an evolutionary development.

That it has been partly deliberate is shameful: that it has been partly just the way economies have evolved, does not mean it cannot be reversed.

An increase in the minimum wage is just one of the mechanisms for reversing extreme inequality. Changes in tax systems are another. The reversal of various forms of financialisation are a third. Technology has played a role, but it isn't the whole story. Globalisation has played a role, but it isn't the whole story. The power of the already rich to influence political processes and government policies, and the media and public opinion, has been a big part of it, but it isn't the whole story.

The deplorable failure which is modern orthodox macroeconomics has played a major role.

Worst of all, the total surrender of the political Left, nearly everywhere, in the 1970s, and the utter failure of so-called progressives to stand-up for the ideals on which their parties were founded over the last forty years, led to a long series of neoliberal triumphs, of which the abandonment of those on minimum wage rates was just a small part.

This has fulfilled the wildest dreams of those who formed the Mont Pelerin Society in 1947, with the aim of rolling back the progress of equality and social equity which was emerging from the ruins of War. Members of this Society have accounted for at least eight Nobel prizes in economics since 1969, founded numerous well-funded think-tanks and research institutes, and made

major contributions to the partial transformation of the discipline of economics into a tool for misleading the masses, intimidating politicians, and the promotion of inequality and privilege.

I stated 'partial' because there have always been at least some economists like Hyman Minsky, Paul Davidson, Steve Keen, Michael Hudson, Bill Mitchell and Stephanie Kelton, who have explained how those who were inspired by Milton Friedman and his colleagues have misled the world; how there is a better and more realistic approach to understanding economic systems, which suggests a very different set of economic policies; and how these policies are far more consistent with the principles of which the major progressive political parties were founded, more than a century ago.

A Friedman neoliberal would oppose any minimum wage, on the basis that it would inevitably cause unemployment. A Friedman neoliberal would advocate for drastic cuts in marginal tax rates on the wealthy, on the grounds that such tax cuts would provide an incentive for investment and risk taking. A Friedman neoliberal would argue for reductions in employment protection, to ensure that employers were not deterred from hiring workers in the first place. A Friedman neoliberal would ignore income distribution and would punish the unemployed, on the basis that income depends on productivity, and the unemployed need an incentive to work.

Milton Friedman received a Nobel prize in economics. He was also an incompetent economist, There is no credible evidence that any of the recommendations in the previous paragraph are true. Of course, you could set a minimum wage rate too high, and of course taxes can discourage activities under

some circumstances. But the neoliberal project of Friedman and his fellow members of the Mont Pelerin gang, when evaluated in terms the gang themselves would have accepted as a test, has been a failure. Their ideas have been pursued in most places most of the time since the 1970s. Economic development has not increased, over 1950s and 1960s levels. It has fallen.

What has increased is inequality, social immobility, relative (and in the case of the US absolute) poverty, household indebtedness, financial fragility, and a series of indicators of creeping social failure, one of which is the election of president Donald J. Trump.

Why have minimum wages stagnated? Ideology, ignorance, selfishness, delusion and intellectual fraud.

Call it neoliberalism if you must. But it

isn't just about minimum wages.

What can you do about it? Insist on the reversal of much of the misleading political economic agenda of the last two generations.

What can members of the economics profession do about it? There is a need to overthrow orthodox, neoclassical, general equilibrium macroeconomics, and replace it with a better guide for policymakers. What should be in such a new economics? You'll need to look up the thesis I mentioned above for more on that issue.

Source: <https://renegadeinc.com/why-have-wages-been-allowed-to-stagnate/>

1. <https://renegadeinc.com/just-social-wage-job-guarantee/>

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

Minsky on secure employment

Editor



"The persistence of poverty in the midst of potential plenty is reason enough for the adoption of a program of job guarantees for all; a program that will go far toward erasing both private and public poverty." (Minsky, in 1964)

"If the economy provides basic security and a sense of personal worth for all – because work is available for all – many

social problems will recede to manageable proportions." (Minsky, in 1986)

Hyman Minsky (1919-1996) was a U.S. Post-Keynesian economist, Professor of Economics at Washington University in St. Louis, and a distinguished scholar at the Levy Economics Institute of Bard College.

Extracted by Trevor Newman, appearing in Facebook page "Politics and Macroeconomics for a Better World", 27 July, 2018.

Corporations and mainstream media on “horrors” of higher wages

Dean Baker



The media have treated us to an array of stories warning us of terrible labor shortages facing the country. Some of the pieces have been general, such as a CNBC piece on the labor shortage “reaching a critical point”, and also a Wall Street Journal article on wage gains “threatening profits”.

Other stories have been more industry-specific, such as Washington Post’s highlighting of the trucker shortage that threatens the “prosperous economy.” Then there is a New York Times piece noting that nursing homes have trouble attracting nursing assistants at \$13.23 an hour average pay for the occupation. It’s clear that many in the media are terrified by the prospect that as the labor market gets tighter, workers might get a larger share of the pie. Perhaps this should not be surprising when billionaires control major news outlets, but it does mean that economic report-

ing might be getting pretty far out of line with economic reality.

At the most basic level, if workers did see pay increases at the expense of profits, they would just be getting back some of what they have lost in this century. The after-tax profit share of national income rose by almost 3% between 2000 and 2016. That would correspond to an average loss of almost \$3,000 per worker per year.

But even this calculation understates the shift from wages to profits. According to new research by Gabriel Zucman, more than a third of the foreign profits of US corporations are actually profits made in US but shifted overseas to evade taxes.

Factor this profit shift into the calculation and the loss to workers is close to \$4,000 per worker per year. And this is before factoring in last year’s corporate tax cut.

In this context, the whining over higher wages seems especially pathetic. The corporations were happy to take advantage of a weak labor market, especially in the years of the Great Recession, to increase their profit share. Now they are warning of disaster if they have to give back some of their gains if the labor market continues to strengthen.

Undoubtedly, many of those complaining about the labor shortage want the Federal Reserve Board to accelerate its pace of interest rate hikes. The hope is that slower economic growth will mean fewer jobs and higher unemployment.

Others are looking for more direct help from the government. For example, Donald Trump's Mar-a-Lago resort is looking to get permission to bring in 78 foreign workers to fill low-paying jobs such as cooks and housekeepers.

We'll see soon enough how the battle shakes out, but the basic story should be quite clear to anyone who is paying attention. The increase in income inequality we have seen over the last four decades has little to do with the intrinsic dynamics of the market. It is a story of the rich rigging the rules to get all the money.

We see this again and again in different areas of public policy. After running around the country for 18 months

yelling about China's currency policy, which has cost the jobs of millions of manufacturing workers in the United States, Donald Trump has dropped currency from his list of complaints as he sets out on his trade war. Instead, we are supposed to fight China over Boeing and Pfizer's patent fees.

The Supreme Court has decided it is a "free speech violation" if unions sign a contract requiring the workers who benefit from the union to share in the cost of maintaining the union. However, the court sees no questions of freedom at stake when fast-food companies prohibit their workers from seeking jobs with competitors.

Undoubtedly, we will see many economists doing careful research studying the causes of growing inequality. Major foundations will devote tens of millions of dollars for this work.

But there is no mystery here. The rich control the political process and they are using this control to get an ever larger share of the economic pie. Implying that there is some complex puzzle to be sorted out helps the rich in their pursuit of upward redistribution.

Source: Real World Econ Rev, 17 Jul 2018
<https://rwer.wordpress.com/2018/07/17/corporations-and-mainstream-media-trumpet-the-horrors-of-higher-wages/>

What is a good economy?

Warren Mosler

" I just want to say a quick word about what a good economy is because it's been so long since we've had a good economy. You've got to be at least as I am to remember it. In a good economy business competes for people. There is a shortage of people to work for business. Everybody wants to hire you. They will train you, whatever it takes.

They hire students before they get out of school or college. You can change jobs if you want to because other organisations and companies are always trying to hire you.

" That's the way the economy is supposed to be but that's all been turned around. For one reason, which I'll keep coming back to, the budget

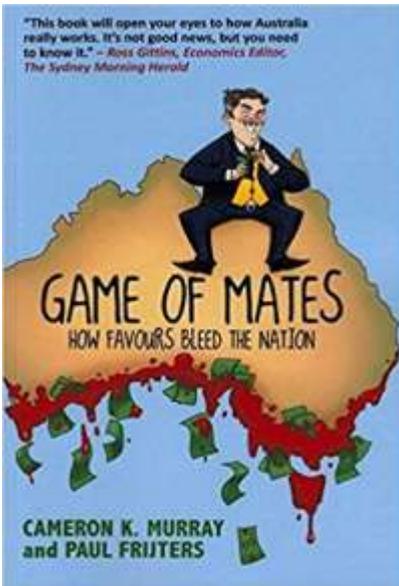
deficit is too small. As soon as they started tightening up on budget deficits many years ago, we transformed from a good economy where people were the most important thing to what I call this 'crime against humanity' that we have today ...

" So what you do is target full employ-

ment, because that's the kind of economy everybody wants to live in. And the right size deficit is whatever deficit corresponds to full employment ... "

Source: Warren Mosler, from a talk given in Chianciano, Italy, on January 11, 2014 entitled "Oltre L'Euro: La Sinistra. La Crisi. L'Alternativa."

Recommended Book: Game Of Mates: How favours bleed the nation by Cameron Murray and Paul Frijters (Paperback – April 5, 2017)



James is our most mundane villain. His victim is Bruce, our typical Aussie, who bleeds from the hip pocket because of James' actions. Game of Mates tells a tale of economic theft across major sectors of Australia's economy, showing how James and his group of well-connected Mates siphon off billions of dollars from the economy to line their own pockets.

In property, banking, mining, transport, superannuation and other sectors, James and his Mates cooperate to steal huge chunks of the economic pie. It takes a rigorous economic lens to unpick what it takes for well-connected insiders to siphon off our wealth. The game of grey corruption – unethical, yet often very legal – is a play for an unearned part of our shared wealth (economic rent) that takes place in Australia's companies and parliaments.

New coal power cannot compete with solar and wind Mark Diesendorf

The writing is on the wall for coal power and indeed for all fossil-fuelled electricity. In 2017 new global investment in all fossil-fuelled power (coal + oil + gas) was US\$145b. But new global investment in renewable electricity was more than double that at US\$310b. Around the world, many proposed new coal-fired power stations have been cancelled. In Australia, new coal power cannot compete with solar and wind farms. No-one wants to invest in new coal power.

As a result, a group of federal government politicians with links to the coal industry are pushing for huge subsidies to build an unnecessary new coal-fired power station. Meanwhile, the small subsidy to renewable energy (a certificate or portfolio scheme) ends in 2020.

Source: <https://www.quora.com/How-come-coal-is-38-percent-of-global-power-generation-both-in-2017-and-1998>

Assoc Prof Mark Diesendorf works at the University of New South Wales

New coal doesn't stack up – look at QLD renewable energy numbers

Matthew Stocks and Andrew Blakers



Windy Hill near Cairns gets its fair share of power-generating weather (source Flickr cc).

During August the federal government has been inking a deal with the states on the National Energy Guarantee, but it appears still to be negotiating within its own ranks. Federal energy minister Josh Frydenberg has reportedly told his party room colleagues that he would welcome a new coal-fired power plant, while his former colleague (and now Queensland Resources Council chief executive) Ian Macfarlane urged the government to consider offering industry incentives for so-called “clean coal”.

Last month, it emerged that One Nation had asked for a new coal-fired power plant in north Queensland in return for supporting the government's business tax reforms.

Is all this pro-coal jockeying actually necessary for our energy or economic future? Our analysis suggests that renewable energy is a much better

choice, in terms of both costs and jobs.

Renewables and jobs

Virtually all new power generation being constructed in Australia is solar photovoltaics (PV) and wind energy. New-build coal power is estimated to cost A\$70-90 per megawatt-hour, increasing to more than A\$140 per MWh when carbon capture and storage are used.

Solar PV and wind are now cheaper than new-build coal power plants, even without carbon capture and storage. Unsubsidised contracts for wind projects in Australia have recently been signed for less than A\$55 per MWh, and PV electricity is being produced from very large-scale plants at A\$30-50 per MWh around the world.

Worldwide, solar PV and wind generation now account for 60% of global net new power capacity, far exceeding the net rate of fossil fuel installation.

Medium to large (at least 100 kilowatts) renewable energy projects have been growing strongly in Australia since 2017. Before that year, there was a slowdown due to the policy uncertainty around the Renewable Energy Target, but wind and large scale solar are now being installed at record rates and are expected to grow further.

This has been accompanied by a rapid increase in employment in the renewables sector, with roughly 4,000 people employed constructing and operating wind and solar farms in 2016-17. In contrast, employment within biomass (largely sugar cane bagasse and ethanol) and hydro generation have been relatively static.

Although employment figures are higher during project construction than operation, high employment numbers will continue as long as the growth of renewable projects continues. As Fig 1 shows, a total of 6,400MW of new wind and solar projects are set to be completed by 2020.

The Queensland question

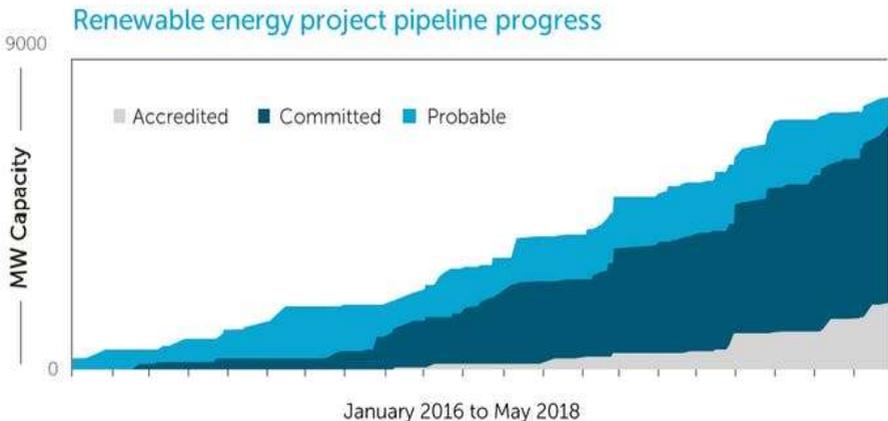
Australia's newest coal-fired power plant was opened at Kogan Creek,

QLD in 2007. Many of the political voices calling for new coal suggest that this investment should be made in QLD. But what's the real picture of energy development in that state?

There has been no new coal for more than a decade, but developers are queuing up to build renewable energy projects. Powerlink, which owns and maintains Queensland's electricity network, reported in May that it has received 150 applications and enquiries to connect to the grid, totalling 30,000MW of prospective new generation – almost all of it for renewables. Its statement added:

" A total of more than A\$4.2 billion worth of projects are currently either under construction or financially committed, offering a combined employment injection of more than 3,500 construction jobs across regional Queensland and more than 2,000MW of power. "

Around 80% of these projects are in areas outside South East Queensland, meaning that the growth in renewable energy is set to offer a significant boost to regional employment.



Renewable energy projects expected to be delivered before 2020. Clean Energy Regulator

Tropical North Queensland, in particular, has plenty of sunshine and relatively little seasonal variation in its climate. While not as windy as South Australia, it has the advantage that it is generally windier at night than during the day, meaning that wind and solar energy would complement one another well.

Renewable energy projects that incorporate both solar and wind in the same precinct operate for a greater fraction of the time, thus reducing the relative transmission costs. This is improved still further by adding storage in the form of pumped hydro or batteries – as at the new renewables projects at Kidston and Kennedy.

Remember also that Queensland is linked to the other eastern states via the National Electricity Market (NEM). It makes sense to build wind farms across a range of climate zones from far north Queensland to South Australia because – to put it simply – the wider the coverage, the more likely it is that it will be windy somewhere on the grid at any given time.

This principle is reflected in our work on 100% renewable electricity for Australia. We used five years of climate data to determine the optimal location for wind and solar plants, so as to reliably meet the NEM's total electricity demand. We found that the most cost-effective solution required building about 10 gigawatts (GW) of new wind and PV in far north Queensland, connected to the south with a high-voltage cable.

Jobs and growth

This kind of investment in northern Queensland has the potential to create thousands of jobs during the coming decades. An SKM report commissioned by the Clean Energy Council estimated that each 100MW of new renewable energy would create 96 direct local jobs, 285 state jobs, and 475 national jobs during the construction phase. During operation those figures would be 9 local jobs, 14 state jobs and 32 national jobs per 100MW of generation.

Spreading 10GW of construction over 20 years at 500MW per year would therefore deliver 480 ongoing local construction jobs and 900 ongoing local operation jobs once all are built, and total national direct employment of 2,400 and 3,200 in construction and operations, respectively.

But the job opportunities would not stop there. New grid infrastructure will also be needed, for transmission line upgrades and investments in storage such as batteries or pumped hydro. The new electricity infrastructure could also tempt energy-hungry industries to head north in search of cheaper operating costs.

Source: The Conversation, 27 June 2018 <https://theconversation.com/new-coal-doesnt-stack-up-just-look-at-queenslands-renewable-energy-numbers-98707?> (published under creative commons licence)

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Andrew Blakers is a Professor of Engineering, Australian National University.

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1. We must realize that growth is but an adolescent phase of life which stops when physical maturity is reached. If growth continues in the period of maturity it is called obesity or cancer. Prescribing growth as the cure for the energy crisis has all the logic of prescribing increasing quantities of food as a remedy for obesity. — Albert A. Bartlett
 2. The greatest enemy of knowledge is not ignorance, it is the illusion of knowledge. — Daniel J. Boorstin

**The renewable energy train is unstoppable.
The NEG needs to get on board
Ken Baldwin**



One of a growing number of solar energy plants proliferating within Asian countries (this one in central Thailand funded by the Asian Development Bank). The world's largest solar plant is in China (Tengger Desert Solar Park, located in Ningxia) and currently covers an area of 43 km² with a peak power of 1,547 MW. (Source: Flickr cc)

On the face of it, the National Energy Guarantee (NEG), adopted as Coalition policy at a recent party room meeting, appears to promise the certainty that industry, consumers and experts have desperately sought for the past decade. But be aware that there is a renewable energy train coming down the track that is unstoppable.

The NEG cannot stop the train, but it could act as a guide rail to steer it – or even safely accelerate it - by reducing investment risk and lowering the cost of finance for renewable energy projects.

Latest figures indicate that the renewable energy train will rapidly smash Australia's 2020 Renewable Energy Target. Assuming that the current pace of renewable energy investment

continues (and there is good reason to expect that it will, given the unarguable economics of plummeting renewable energy prices worldwide), the electricity sector would then be on track to hit the government's 26% emissions reduction target by 2030 with virtually no policy help at all.

The unstoppable renewable energy train may even end up contributing the lion's share of the reductions needed to achieve Australia's economy-wide target of cutting emissions by 26-28% relative to 2005 levels by 2030.

This would particularly be the case if we ramped up the electrification of other sectors such as transport and industry, and encouraged householders to replace gas with electricity for heating

and cooking.

The big issue then would be whether the rest of the electricity system can adapt quickly enough as renewable energy reaches 50% and above. This would call for significant grid upgrades and storage systems, so as to provide efficient and reliable supply.

Missing the train?

With the NEG projected to deliver no more than 36% renewable energy by 2030, one could argue that this policy is simply waving from the platform as the renewables train goes whooshing by. But this argument ignores the impetus that the NEG would provide to advancing climate policy as a whole.

The NEG is widely regarded by energy analysts as the fourth-best solution – after a carbon pricing system, an emissions intensity scheme, or a clean energy target. But while many commentators have taken issue with both its ambition and its effectiveness, legislating the NEG would undeniably break the policy paralysis that has stopped Australia from moving forward for so many years.

There is no reason why a future government could not introduce some other measures – such as an economy-wide price on carbon, regarded by most economists as the most efficient way to combat climate change. Such a scheme could be laid right over the top of the NEG and would drive further transformation not just of the electricity market, but every other sector of the economy. This would be complementary to the NEG and could help decarbonise the electricity sector even more rapidly.

Yet much of the opposition to the policy has come from government backbenchers concerned that it already puts too much emphasis on cutting emissions.

How, then, can the NEG thread the political needle without being compromised as an effective tool for decarbonisation?

Making the NEG better

First, the mechanism itself needs to be decoupled from the ambition. That is, the politically charged emissions reduction target needs to be set not in legislation but by regulation, so that it can easily be used as a dial to tune the level of ambition.

Any future government could then ramp up the electricity sector's emissions target beyond 26%. This could be done either to cover the inevitable shortfall in other sectors (where emissions reductions are harder to achieve), or to help deliver a steeper emissions-reduction trajectory if required by the world's post-Paris progress. Bear in mind also that signatories to the Paris Agreement have agreed to periodically review and tighten their emissions goals, meaning that Australia's current target will probably be revised upwards.

Critics of this approach might argue that it provides less certainty to industry, rather than more. But the certainty would be established by the mechanism of emissions reductions rather than the rate. If that sounds hard to envisage, consider how financial institutions plan and prepare for changes to interest rates, within a broad economic regulatory framework.

A timetable for reviewing and adjusting emissions targets could be set in much the same way as the Reserve Bank of Australia handles bank interest rates, although this should perhaps be done on timeframes measured in years rather than months.

Second, the states need to be able to set their own renewable energy targets,

independently of those states that currently have no target, such as New South Wales. One way to implement this would be for all states to agree to each comply with the minimum 26% target so there would be no free-riding on the back of those states that decide to be more ambitious than the national baseline.

Whatever happens, the renewable energy train is building momentum, and the debates within COAG and with intransigent elements in the federal Coalition party room may end up being irrelevant in the long run.

But for the sake of our future, the

resolution of climate and energy policy via the NEG will be an important baby step that helps to underpin the cost of decarbonising our entire economy. To do that, we must first pick the lowest-hanging fruit: the electricity sector.

Source: The Conversation, 15 August 2018 (published under creative commons licence) <https://theconversation.com/the-renewable-energy-train-is-unstoppable-the-neg-needs-to-get-on-board-101519?>



Dr Ken Baldwin is Director of the Energy Change Institute, Australian National University, and is also Deputy Director of the Research School of Physics and Engineering.

Does economic growth make us happier?

Editor

The following reference to the work of Richard Easterlin [1] has been extracted from a paper by Asad Zaman and Mehmet Karaçuka [2]:

" In Easterlin's (1974) seminal paper, he finds that within any one country, in cross sectional studies, there was a strong correlation between income and happiness. One would easily conclude that money can buy happiness. However, looking at a cross section of countries, one comes to a different conclusion ...

" For 10 of the 14 countries surveyed, the happiness ranking is about the same, even though the income per capita changes by a factor of 30 from \$140 to \$2,000 ...

" The finding of strong correlation between income and happiness disappears when comparisons are made across countries. Similarly, there is no correlation between happiness and income in the long run within a single country ... Easterlin (2001) cites several studies which show that,

despite tremendous increases in GNP per capita, the level of happiness in European and Latin American has remained virtually constant over decades.

" The startling implication of these empirical findings is that the stress being placed on economic growth is entirely misplaced. Growth has no clear relation to happiness. The profession of economics, as well as policy makers all over the world are directly threatened by these findings, which suggest radical changes in how to organise economic affairs ...

" The implicit proposition of utility theory that the sole route to happiness is maximisation of consumption contradicts with the empirical evidence: this proposition is true only in the short run. This short run validity creates a dangerous illusion of long run validity; understanding this has dramatic policy implications. If happiness is determined by relative comparisons, then one can achieve greater happiness by reducing inequalities, and also by reducing the standards of living for everyone. This will lower the benchmark and make it easier for everyone

on the planet to be happy in comparison with this benchmark. "



1. Richard Ainley Easterlin is a professor of economics at the University of Southern California. He is best known for the theory named after him, the Easterlin paradox.

2. Asad Zaman and Mehmet Karacuka (2011), "The Empirical Evidence Against Utility Maximization" (SSRN Electronic Journal). The following is the abstract from this source:

Current Economics Textbooks and Economists justify a theory of consumer behaviour based on utility maximization on a priori grounds. This methodology follows Lionel Robbins' idea that econ-

omic theory is based upon logical deduction from postulates which are 'simple and indisputable facts of experience'. But strong evidence has emerged from many different lines of research that these 'simple and indisputable facts of experience' are contradicted by human behaviour. In this article, we summarize some of main contradictions between predictions of utility theory and actual human behaviour. Efforts to resolve these contradictions continue to be made within orthodox frameworks, but it appears likely that a paradigm shift is required.

File access:

https://www.researchgate.net/publication/256016795_The_Empirical_Evidence_Against_Utility_Maximization

Fixing corporate governance -- more than rearranging deck chairs Andrew Linden and Warren Staples



Source: Flickr cc

As the Financial Services Royal Commission rolls on, it's increasingly likely commissioner Kenneth Hayne will make sweeping recommendations about banking regulation and the governance of Australia's largest corporations.

New AMP chairman David Murray and the Australian Institute of Company directors are calling for changes to

address the scandals, including loosening the ASX corporate governance code. But this misses what is really required to fix Australian corporate governance, which is wholesale change in prudential regulation, corporate law, competition law, and electoral law.

In an attempt to stave off the more thorough and permanent changes such

as cancelling banking licences and forced divestment, financial institutions have also been selling subsidiaries, and issuing statements about future good conduct.

David Murray is arguing for strengthening the existing customs and practices that distinguish between non-executive and executive directors (directors who are also managers), the loosening of prescriptive aspects of the industry-written ASX corporate governance code, and a reduced ability for shareholders to pursue class actions.

Murray also suggested boards should frame a “set of beliefs that connect their organisation more closely with the community”.

But as the royal commission has shown, industry self-regulation has failed and corporate boards seem incapable of systemically improving corporate governance.

Murray is half-right in criticising the role the ASX code plays in undermining the core legal duties of directors. But his solutions would take us in circles.

Leaving it up to shareholders to force better corporate governance ignores empirical evidence that institutional investors rarely act in concert and tend to “exit” rather than address problems.

Research also shows directors select mates and friends to join them on boards. This makes it hard for directors to fulfil their core legal responsibilities. Unhelpfully the dominant theory in corporate governance works against these responsibilities by asserting that boards should only represent shareholder interests.

However a singular focus on profit and shareholders (widely and deeply held by directors, executives and some regulators) is increasingly seen as

economically, socially and politically unhealthy.

Academics like Sumantra Ghoshal and Edward Banfield long ago outlined the dark places a value system centred on extreme individual self and familial interest would take communities and countries.

How to fix corporate governance

To address the confusion created by mixing executive and non-executive directors on one board, Australia should mandate a two-tiered board structure for corporations and large companies.

This would separate non-executive from executive directors and create clear, legally separate roles for both groups.

On the upper, supervisory boards’ non-executive directors would be legally tasked with monitoring and control. This includes approving strategy and appointing auditors.

A lower, management board made up of executive directors would be responsible for implementing the approved strategy and day-to-day management.

Research on European banks suggests having employee and union representation on supervisory boards, combined with introduction of employee elected works councils to deal with management over day-to-day issues, reduces systemic risk and holds executives accountable.

This is important given the findings of an Australian Prudential Regulatory Authority report into culture at the Commonwealth Bank. It found a board in awe of the CEO and executive committees unwilling to challenge him. Not to mention their lack of detailed operational and regulatory knowledge.

It’s noteworthy that it was operational-

level employees who acted as whistle-blowers and brought on the banking royal commission.

Employee-elected directors would systemise this process. Employees often have a much better understanding of what is happening inside large corporations than any independent non-executive director could.

And by electing employee directors, boards become more democratic and better proxies of the public interest - not just those of shareholders.

The ASX code is bad and ineffective. It's written by corporate insiders for corporate insiders, under the aegis of a listed corporation (the Australian Stock Exchange).

This is why responsibility for writing and amplifying governance practice should fall to a regulatory (APRA, Australian Securities and Investments Commission and the Australian Competition and Consumer Commission) convened panel comprised of community and consumer advocates.

Finally, intensifying proactive surveillance would increase the number of criminal prosecutions of directors and senior executives.

These reforms are important but they're just the start. They need to be complemented by wide-ranging initiatives in prudential regulation, corporate law, competition law, electoral law and

industrial relations. All of this is necessary to constrain inappropriate corporate influence over regulators, politicians and wider public discourse.

The laundry list of necessary reforms includes breaking up the big four accounting firms, capping executive remuneration and banning variable incentives, banning corporate political donations and heavily restricting lobbying, better resourcing regulators and working to prevent regulatory capture, and closing loopholes in corporate law.

Source: The Conversation, 6 July 2018 <https://theconversation.com/solving-deep-problems-with-corporate-governance-requires-more-than-rearranging-deck-chairs-99297> (published under creative commons licence)

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Editor's comment: In regard to the financial services industry, the laundry list of necessary reforms should include the separation of commercial banking from all other aspects of financial services - particularly investment banking - thus ending the vertical integration of these activities which poses a clear threat to the health of the economy as a whole and to the welfare of the commons in particular. This type of separation will require legislation along the lines of the Glass-Steagall Act that was implemented in the U.S. during the 1930s with the support of the Roosevelt administration.

The loanable funds fallacy

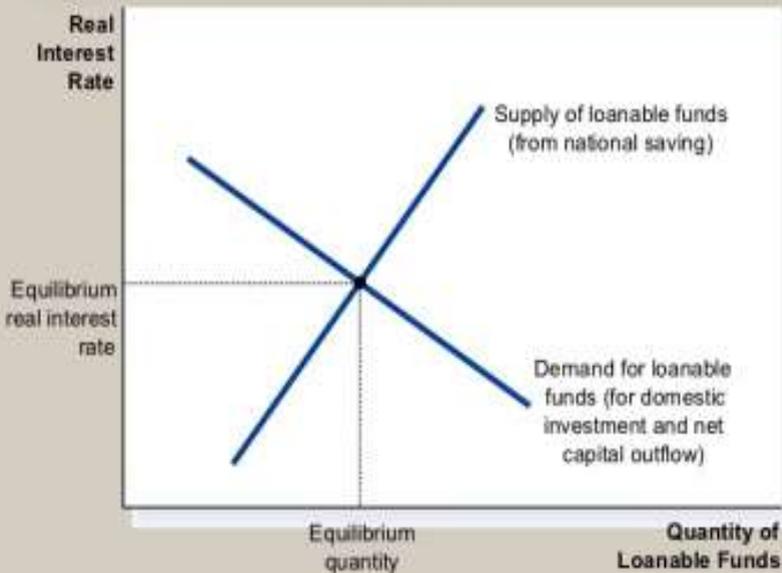
Lars Syll

The loanable funds hypothesis in many regards is an approach where the ruling rate of interest in society is - pure and simple - conceived as nothing else than the price of loans / credits set by banks and determined by supply and demand - as Bertil Ohlin put it - "in the same

way as the price of eggs and strawberries on a village market".

It is a beautiful fairy tale, but the problem is that banks are *not* barter institutions that transfer pre-existing loanable funds from depositors to borrow-

Figure 1 The Market for Loanable Funds



ers. Why? Because, in the real world, there simply are no pre-existing loanable funds. Banks create new funds - credit money - if someone has got into debt previously! Banks are monetary institutions, not barter vehicles.

In the traditional loanable funds concept - as presented in mainstream macro-economics textbooks - the amount of loans and credit available for financing investment is constrained by how much saving is available. Saving is the supply of loanable funds, and investment is the demand for loanable funds - assumed to be negatively related to the interest rate. Lowering households' consumption means increasing savings via a lower interest.

That view has been shown to have

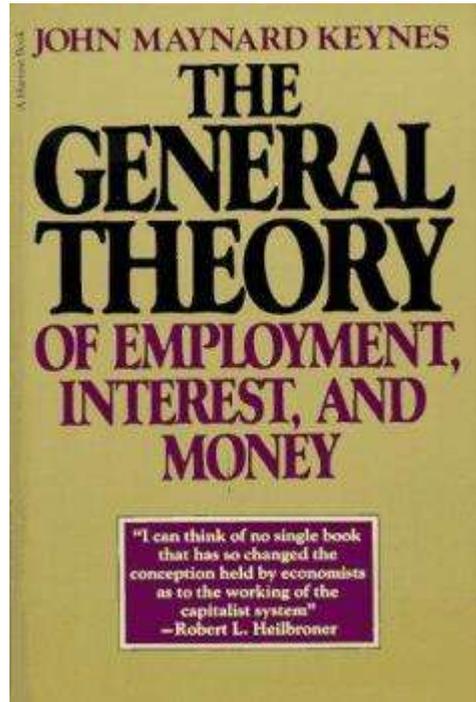
very little to do with reality. It's nothing but an otherworldly neoclassical fantasy. But there are many other problems as well with the standard presentation and formalization of the loanable funds explanation:

1. As already noticed by James Meade decades ago, the causal story told to explicate the accounting identities used gives the picture of "a dog called saving wagged its tail labelled investment." In Keynes's view - and later over and over again confirmed by empirical research - it's not so much the interest rate at which firms can borrow that causally determines the amount of investment undertaken, but rather their internal funds, profit expectations and capacity utilization.
2. As is typical of most mainstream

macroeconomic formalizations and models, there is pretty little mention of real-world phenomena, like e.g. real money, credit rationing and the existence of multiple interest rates, in the loanable funds explanation. The loanable funds approach essentially reduces modern monetary economies to something akin to barter systems - something that they definitely are not. As emphasized especially by Minsky, to understand and explain how much investment/ loaning/ crediting is going on in an economy, it's much more important to focus on the working of financial markets than to stare at accounting identities like $S = Y - C - G$. The problems we meet on modern markets today have more to do with inadequate financial institutions than with the size of loanable-funds-savings.

3. The loanable funds hypothesis in the 'New Keynesian' approach means that the interest rate is endogenised by assuming that Central Banks can (try to) adjust it in response to an eventual output gap. This, of course, is essentially nothing but an assumption of Walras' law being valid and applicable, and that *a fortiori* the attainment of equilibrium is secured by the Central Banks' interest rate adjustments. From a realist Keynes-Minsky point of view, this can't be considered anything else than a belief resting on nothing but sheer hope (Not to mention that more and more central banks now choose not to follow Taylor-like policy rules). The age-old belief that central banks control the money supply has more and more come to be questioned and replaced by an 'endogenous' money view, and I think the same will happen to the view that central banks determine "the" rate of interest.

4. A further problem in the traditional loanable funds theory is that it assumes that saving and investment can be treated as independent entities. This is seriously wrong:



According to Keynes: " The classical theory of the rate of interest [the loanable funds theory] seems to suppose that, if the demand curve for capital shifts or if the curve relating the rate of interest to the amounts saved out of a given income shifts or if both these curves shift, the new rate of interest will be given by the point of intersection of the new positions of the two curves. But this is a nonsense theory. For the assumption that income is constant is inconsistent with the assumption that these two curves can shift independently of one another. If either of them shifts, then, in general, income will change; with the result that the whole schematism based on the assumption of

a given income breaks down ... In truth, the classical theory has not been alive to the relevance of changes in the level of income or to the possibility of the level of income being actually a function of the rate of the investment. "

There are always (at least) two parts in an economic transaction. Savers and investors have different liquidity preferences and face different choices — and their interactions usually only take place intermediated by financial institutions. This, importantly, also means that there is no 'immediate and direct' automatic interest mechanism at work in modern monetary economies. What this ultimately boils down to is - *iter* - that what happens at the microeconomic level - both in and out of equilibrium - is not always compatible with the macroeconomic outcome. The fallacy of composition ('atomistic fallacy' of Keynes) has many faces, and loanable funds is one of them.

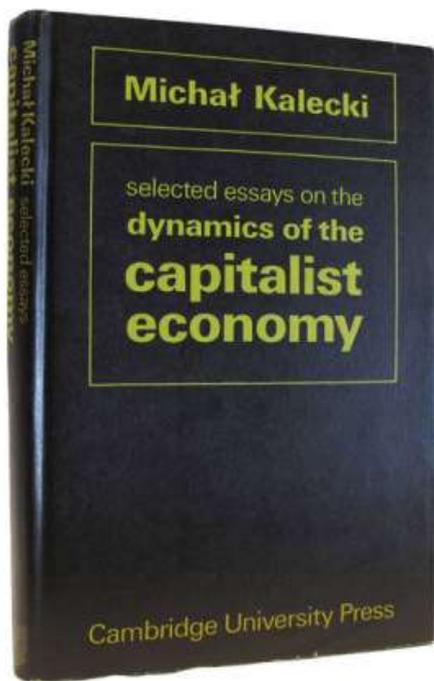
5. Contrary to the loanable funds explanation, finance in the world of Keynes and Minsky precedes investment and saving. Highlighting the loanable funds fallacy, Keynes wrote in "The Process of Capital Formation" (1939):

" Increased investment will always be accompanied by increased saving, but it can never be preceded by it. Disharding and credit expansion provides not an alternative to increased saving, but a necessary preparation for it. It is the parent, not the twin, of increased saving. "

What is 'forgotten' in the loanable funds theory, is the insight that finance - in all its different shapes - has its own dimension, and if taken seriously, its effect on an analysis must modify the whole theoretical system and not just be added as an unsystematic

appendage. Finance is fundamental to our understanding of modern economies, and acting like the baker's apprentice who, having forgotten to add yeast to the dough, throws it into the oven afterwards, simply isn't enough.

All real economic activities nowadays depend upon a functioning financial machinery. But institutional arrangements, states of confidence, fundamental uncertainties, asymmetric expectations, the banking system, financial intermediation, loan granting processes, default risks, liquidity constraints, aggregate debt, cash flow fluctuations, etc., etc. - things playing decisive roles in channelling money/savings/credit - are more or less left in the dark in modern formalizations of the loanable funds theory.



" It should be emphasized that the equality between savings and investment ... will be valid under all circumstances.

" In particular, it will be independent of the level of the rate of interest which was customarily considered in economic theory to be the factor equilibrating the demand for and supply of new capital. In the present conception investment, once carried out, automatically provides the savings necessary to finance it. Indeed, in our simplified model, profits in a given period are the direct outcome of capitalists' consumption and investment in that period. If investment increases by a certain amount, savings out of profits are pro tanto higher ...

" One important consequence of the above is that the rate of interest can-not be determined by the demand for and supply of new capital because investment 'finances itself' . "

So, yes, the 'secular stagnation' will be over, as soon as we free ourselves from the loanable funds explanation - and scholastic gibbering about ZLB - and start using good old Keynesian fiscal policies.

Source: Real World Econ Rev, 27 Apr 2018
<https://rwer.wordpress.com/2018/04/27/the-loanable-funds-fallacy/#comment-136271>



The gulf between the annual pay of Domino's CEO (amounting to tens of millions of dollars) and those who deliver the pizzas is extraordinary. So is their CEO worth that much? (Source: Flickr cc)

On Monday 16 July the Bloomberg Billionaires Index announced that the Amazon chief Jeff Bezos had amassed a personal net worth of over US\$150 billion. He's the richest person in modern history.

And on Tuesday 17 July the Australian Council of Superannuation Investors published a report showing that total pay for Australian corporate bosses hit

a 17-year high in 2017. Topping the list was Domino's Pizzas chief Don Meij who received a hefty annual income of A\$36.8 million.

Meanwhile, over in Vermont, the US Senator Bernie Sanders invited the CEOs of Amazon, Walmart, McDonald's and Disney to meet their employees for a live streamed discussion, saying: " I really hope (the CEOs) have the guts

to sit on a panel with their own employees and explain why it's acceptable that they receive huge compensation packages while their very own workers are struggling to put food on the table. "

None of the CEOs showed up.

Public outcry

The vast income enjoyed by the corporate elite jars with Australia's "fair go" culture. While top bosses averaged yearly take-home pay increases of more than 12% to A\$4.36 million in 2017, wage growth for ordinary workers hit record lows, and is still barely keeping up with inflation.

Rubbing salt into the wound are cuts to penalty rates, wage-theft scandals and retailers announcing they want to freeze the minimum wage.

Things must be getting pretty bad when even PM Malcolm Turnbull, normally bullish in his support of corporate Australia, admitted that top-end remuneration appears "extraordinarily high".

Amidst the outcry, however, some still rush to the defence of the C-suite dwellers. "Executive pay experts" have slammed criticism as nonsense, arguing that if Australian corporations want to be competitive in attracting "global talent" then their pay should be higher.

The market-based justification for swag-bag sized pay packets is a common defence for executive excess. CEOs deserve massive remuneration because they single-handedly lead their companies to success, it's argued. To suggest anything else is labelled crass populism.

Where's the performance evidence?

Do CEOs really add so much to a company that they deserve these gargantuan salaries? No, according to a recent study entitled 'How much do

CEOs really matter?' by Markus Fitza at Texas A&M University. He statistically isolated the "CEO effect" – the extent to which they actually influence company performance – in 1,500 of the largest US firms between 1993 and 2012.

He discovered that the CEO effect was negligible in these companies. Financial performance could be better explained by random luck or chance than the qualities of a great leader.

And research by Weijia Li and Steven Young at Lancaster University found something similar. They focused on the UK's top 350 biggest firms between 2003 and 2014. These companies increased their value (returns on investment/capital) by only 1%, yet executive pay over the same period increased by 80%, most of it described as performance-related.

The UK government has now taken tentative steps to rein in excessive pay for chief executives.

A white male culture of entitlement

There's another problem with this story about "business heroes" earning their due through extraordinary merit. When you look at the pictures of the top ten CEOs, all you see are smiling white faces of men.

This is so even though the number of women CEOs in Australia hit an all-time high this year. The top 200 listed companies now have 12 women in the top job! Not just a vast minority, on average those women earn about A\$1 million less than their male counter-parts.

The rapid explosion of CEO pay is part of a more general trend that has been building steam for the past 30 years. In what has been dubbed the CEO Society CEOs are lauded as supermen to be venerated, despite clear evidence – ranging from the Global Financial Crisis

to eye-watering levels of inequality – that their collective influence is socially and economically damaging.

The level of CEO pay reflects an elitist corporate culture of privilege and entitlement. It's dominated by middle-aged white men whose singular responsibility for corporate success is hugely overstated at best.

What is to be done? A recent survey found that three-quarters of Australians agreed corporate salaries should be capped. Most said the maximum should be around \$720,000. We would add that remuneration and stock options above that figure should be subjected to a windfall tax of say 90%.

So why not legislate for a system that where CEOs get fair pay for a fair day's work? Well, as Professor Wendy Brown of the University of California, Berkeley, shows, today's political consensus is marked by an increasingly

intimate relationship between corporations and the state, at the expense of democracy.

If the furore over CEO pay is anything to go by, it is the nature of that political consensus that needs to change so entrenched systems of inequality based on gender and racially based privilege are no longer acceptable.

Source: The Conversation, 24 July 2018
<https://theconversation.com/ceo-pay-is-more-about-white-male-entitlement-than-value-for-money-100245?>



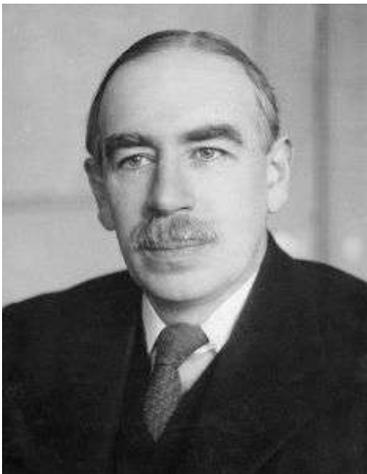
Carl Rhodes is a Professor of Organization Studies at the UTS Business School, Sydney



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Keynes - getting money into perspective

Editor



"When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues. We shall be able to afford to dare to assess the money-motive at its true value. The love of money as a possession — as distinguished from the love of money as a means to the enjoyments and realities of life — will be recognized for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease."

Source: John Maynard Keynes, Economic Possibilities for our Grandchildren
https://link.springer.com/chapter/10.1007/978-1-349-59072-8_25

RBA evidence that you've been played for a sucker Damian Penston



Our monetary system is very badly misunderstood, which is the reason behind many of the most severe problems faced by society. Economic crises and unemployment are not difficult problems to resolve once the root causes are properly understood, so it's extremely valuable to build up a big picture view.

The purpose of this article is to demonstrate how asking a few clear questions, in a way that doesn't allow for ambiguous answers, can help to quickly build up a big picture view that may help you see the World more clearly than most economists. I shall discuss three questions that I recently directed to the Reserve Bank of Australia (RBA) and the responses received.

The questions that were asked are fundamental to understanding macroeconomics and recognising whether Government policy is making effective use of the available tools.

Question 1: Can the RBA ever, under any circumstances, run out of Australian dollars?

Answer: No.

That is exactly how we asked the question, word for word. It's a taboo subject for central bankers, so we were pleasantly surprised to receive their response in writing.

Next, we wanted to ask if the RBA has ever bounced a cheque from the Commonwealth Government, but we used very specific language so that there could be no ambiguity in their answer.

Question 2: Has there ever been an occasion in the past where the RBA has refused to honour a payment that was requested by the Commonwealth Government which has been made using the correct format and doesn't contravene any laws or sanctions?

Answer: No.

Why does this matter?

There have been multiple newspaper headlines with dire warnings that Australia is at risk of losing its AAA credit rating. The large credit ratings agencies Standard & Poor's and Moody's have made threats to downgrade unless the Government reduces the amount of money circulating around the economy by securing a budget surplus (whose implementation would cause a recession!).

They claim that there is a possibility that Australia may default on its debt repayments, but the Australian Office of Financial Management's data shows that 99.998% of the National Debt is in Australian dollars. If the RBA has the ability to create an infinite number of dollars and they'll always honour a payment that has been requested by the Government, then why do we even need a credit rating in the first place? The answer is simple - we don't! And any claim to the contrary is spurious, at best.

The national debt is an extremely misunderstood topic that deserves its own separate article. Suffice to say that it isn't what many people believe it to be as the language that is commonly used is counter-intuitive.

Final question

Now that we've established that the Government can arrange to have an infinite amount of money created just by asking, it's logical to ask why we pay taxes. That's not something that the RBA is in a position to answer, so it's point-less asking them.

However, there are some economists who say that taxes don't fund spending and that money ceases to exist once taxes are paid. The Government of Australia has a set of accounts called

the Official Public Account Group (the OPA Group) which are managed by the Department of Finance, but we found a way of finding out from the RBA if tax money really does fund Government spending.

If you look at the glossary of terms on the RBA's website, you'll see that it says the following:

'Money base' defined as holdings of banknotes and coins by the private sector plus deposits of banks with the Reserve Bank of Australia (RBA) and other RBA liabilities to the private non-bank sector.

To put that into plain English, the money base is the term used for all money which has been created by the Government sector. It's clear from the definition that only coins, notes and the digital money that commercial banks have in their accounts at the RBA are counted towards this - the balances of Government accounts are not included (the OPA Group*). So, we sought confirmation...

Question 3: Do any of the monetary aggregates which are published by the RBA include the balances of any accounts in the OPA Group?

Answer: No.

The Government has no money in any of its accounts. If you search through the Department of Finance website, they even say that the balances in the special accounts (which are part of the OPA Group) aren't money.

What's going on?

When the Government receives your taxes, the money you've paid ceases to exist. The numbers in the Government's accounts aren't money, but they are used as a way of keeping score for budget purposes. When a certain

amount of money is spent against those accounts, the numbers in the accounts go down by an equal amount and are not allowed to go below zero. Every time the Commonwealth Government spends, new money is created (refer to questions 1 and 2).

Why does this matter?

This topic also deserves its own article, or several articles, but what you need to understand for now is that taxation doesn't fund spending - it's a tool for preventing hyperinflation (an economist would call it a tool for regulating aggregate demand). Taxes are often regarded as unfair, but so are the alternatives (unless one is able to create a higher consciousness society that doesn't use money!).

If taxes are not collected at all, there's a chance that people will stop using the currency and begin using other things as money, such as cinema tickets, supermarket coupons, cattle, etc. There are different types of taxes, most of which cause distortions in the economy and some are more unfair than others.

When you combine the answers to questions 1, 2 and 3, it becomes easier to make sense of some of the solutions which have been proposed for problems like unemployment and private sector debt. It also becomes clear that budget surpluses are unnecessary, and that AAA credit ratings for monetary sovereign governments are a farce and that anyone who says otherwise is acting against the public interest.

If you've read this far, then you should have a better understanding of the money system than most economists and virtually every politician on the planet.

How does that make you feel?

* The Commonwealth's central bank account. The OPA is one of a group of linked bank accounts, referred to as the Official Public Account Group of Accounts. OPAs are maintained with the Reserve Bank of Australia (RBA), as required by subsection 53(3) of the PGPA Act.

Source: Fair Money Australia website
<http://www.fairmoney.org.au/article-2017-03-24-rba-evidence.php>



Book extract, from “Managing Without Growth. Slower by Design, Not Disaster”, Sect 7.4.2, by Peter Victor, publ by Edward Elgar 2008. Part One

Differences in views about what technology has contributed in the past and what it might accomplish in the future separate the optimists from the pessimists. Engulfed as we are by a flood of new technologies based especially on miniaturization and the life sciences, it is understandable that many people think we can count on technology to see us through any future difficulties. They may be right. They may also be wrong. What if technological change proves unable to keep pace with the projected increase in scale. Precaution suggests that we should limit the increase in scale so that we do not have to count on technology alone bailing us out.

There are three good reasons for not relying too much on technology. First, new technologies can be mixed blessings. They often solve one problem but create others. Examples abound: nuclear power stations produce electricity and radioactive waste. Jet planes transport people and goods around the world at unprecedented speed leaving greenhouse gases and noise pollution in their wake. Television entertains and informs us. It also promotes a high consumption lifestyle, glamorizes violence and deprives us of exercise. Computers with their increasing advertising content do much the same. It is hard to think of a technology that does not have a downside, often unanticipated. The faster we develop and implement new technologies, the more likely it is that we will have to deal with adverse effects. We will not be able to foresee them all. We are not that smart. But unwelcome surprises would be less likely if we took more time to think about and anticipate the consequences of new technologies

and phased their introduction to allow more time to learn from experience. The aggressive pursuit of economic growth, or one of its many surrogates – competitiveness, productivity, free trade and so on – stands in the way of a more thoughtful approach to new technologies throughout all stages of invention, design, development and diffusion. As IPAT (1) reveals, the faster the rate of economic growth, other things equal, the faster must be the rate of technological improvement to compensate for the effects on the environment of scale.

We saw in Chapters 4 and 5 several areas where a rise in impacts cannot or should not be tolerated.(2) It follows that we should be looking for ways to reduce requirements for resources and impacts on the environment. Can we strike a better balance between the rate of economic growth (a combination of GDP/person and population) and the rate at which new technologies are introduced? While there are many institutions in the public and private sectors promoting and contributing to growth, there is very limited institutional capacity to screen new technologies while they are under development and before they are adopted. Technology development and diffusion are driven primarily by expectations of profit. Profit is based on prices. We have already seen that prices are inadequate for conveying accurate and reliable information about resource scarcity and environmental impacts (3), so price and profit induced technological change suffers as a result.

The second reason to be cautious about relying too much on technology to resolve problems arising from increasing scale is that some of these

problems do not lend themselves to a technological solution. There are some aspects of nature, or differently stated, some services that nature provides, that human ingenuity cannot be expected to replicate or replace if they are lost or damaged. Regulation of the climate is one example. If our actions disturb the climate so that it 'flips' into another fairly stable but much less hospitable regime, it would be foolish to assume that we will develop a technology that could flip it back and do so in a timely manner.(4) Less dramatic but still disturbing is the observation that the Atlantic cod fishery that declined so precipitously in the 1990s from over fishing has not come back (5) even though there has been a moratorium on catching cod since July 1992. (6)

The third reason relates to the limited speed at which technological change can occur, and will be covered in the next issue of ERA Review.

This extract was compiled by Elinor Hurst, with the permission of the author. A second version of this book is currently in press.

References

1. The acronym IPAT is for the equation (environmental) Impact = Population x Affluence x Technology.
2. Examples given included: climate change from greenhouse gas emissions, deforestation, decline in ocean fisheries, reduction in availability of fresh water.
3. See Chapter 3 of the book for an explanation of this statement.
4. Schneider, S.H. (2004), 'Abrupt Non-Linear Climate Change, Irreversibility and Surprise', *Global Environmental Change*, 14 (3), 245-258.
5. At the time of writing, ie 2008.
6. Fisheries and Oceans Canada (2003), 'A scientific review of the potential environmental effects of aquaculture in aquatic ecosystems. Volume I, Canadian Technical Report of Fisheries and Aquatic Sciences, 2450.

Only speculators will profit from an Australian economic crash Steve Keen



Australian Stock Exchange building, Sydney (source: Flickr cc)

For years, Australia has been seen as the goose which laid the golden egg for workers, migrants and investors. Ironically, as the US casino closes, it will end up as a speculator's paradise.

The performance of the Australian stock market relative to its US equivalent since the Global Financial Crisis (GFC) shows the difference between a country where Quantitative Easing (QE) - the

buying of bonds by the central bank to drive bond prices up and interest rates down, and thus encourage firms to invest and financial institutions to buy shares – was practiced and one where it was not. It's both a warning about what could happen when the Fed starts to unwind QE, and a perverse opportunity to profit when Australia's central bank, the RBA, inevitably starts its own QE program.

Since Australia avoided the GFC, and its rate of economic growth has been twice as fast as for the US post-crisis (an average 2.7% per year, vs 1.3% for the US), you might expect Australia's stock market to have done better than America's. In fact, it's performed much worse: the main Australian index, the ASX, still hasn't returned to its mid-2000s peak, while the US S&P500 has more than doubled its pre-crash level, and it's almost four times as high as it was in the deepest depths of 2009.

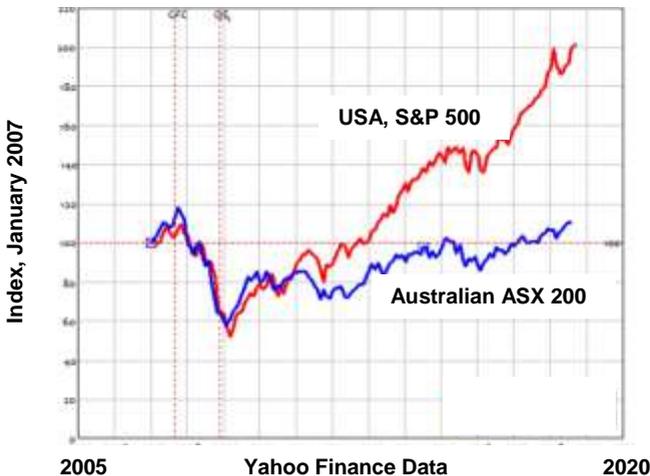
The timing of the US stock market recovery is instructive: it began in February 2009, just three months after the Federal Reserve began "QE1" (the

first of three episodes of Quantitative Easing), when it promised to net buy bonds from the financial sector to the tune of \$1 trillion per year (\$80 billion per month).

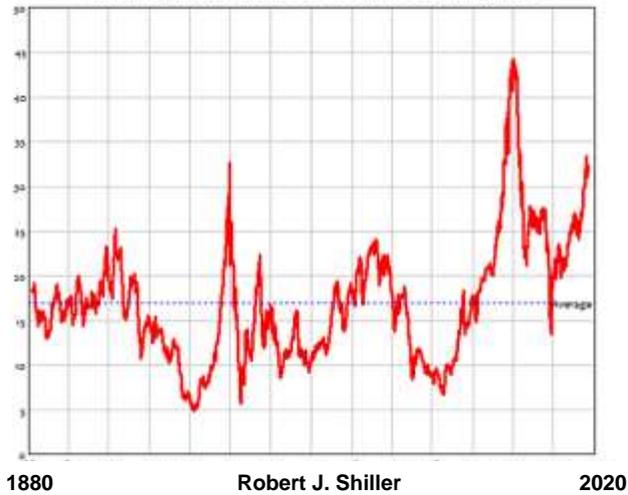
Trouble ahead

With the Fed buying a trillion dollars worth of bonds every year, thus giving the financial sector one trillion in cash per year in place of its interest-earning bonds, the only place the financial sector could stash that money in search of a return was the stock market. This was of course the policy intention: to drive share prices higher in order to stimulate the economy. Aside from the fact that it's made the wealthier even wealthier as a direct effect of government policy, and costs far more than a direct boost to the poor would have done, it's worked a treat: according to Robert Shiller's "Cyclically Adjusted Price to Earnings Ratio," it's driven America's stock market to its second-highest peak in history, higher than the 1929 bubble, second only to the DotCom maximum in 2000, and more than twice its long-term average.

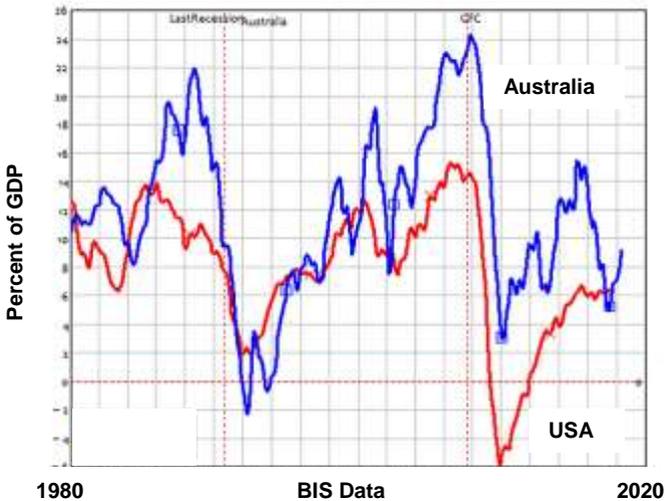
US and Australian share market indices since the GFC



Shiller's cyclically adjusted US share price to earnings ratio



Credit money in the US and Australia



Now the Fed is planning to both unwind QE – to sell bonds to the private sector in return for cash – and to push interest rates up as the economy booms, and the inflation rate finally kicks higher after a decade of low interest rates.

That means that the Fed will be on the sell side for bonds, putting the finance

sector on the buy side. To pay for those purchases, the finance sector will have to sell shares. Interest rates will also rise doubly, firstly from the Fed pushing its policy rate higher, and secondly from the unwinding of QE driving down bond prices and therefore driving up interest rates. Anyone's who's in the US stock

market and not worried about what that triple whammy could do to share prices is delusional.

So what's a share market speculator to do? Well, when one casino turns bad, why not look for another one? The odds are that the next stock market casino in which the tables will be tilted by the house in favour of the gambler will be Australia's.

Short-sighted sheep

Australia's RBA didn't have to rescue its economy from the crash, because prompt fiscal action by the Australian government (and re-starting the housing bubble via a bribe to entice first-home buyers into the market) stopped the private sector deleveraging that caused the crisis everywhere else.

So Australia's long boom since its last recession in 1990 was prolonged by continuing its private-debt bubble.

However, this isn't how the RBA interpreted Australia's success. Because its chieftains are as blissfully unaware of the importance of private debt to macro-economics, as was Ben Bernanke (and I know this from personal interactions with them at up to the deputy governor level). Instead, Australia's apparent success led its political and economic pundits to believe that the GFC was not in fact a global phenomenon, but a "*North Atlantic Financial Crisis*" due to how poorly financial systems were managed in the US and UK, versus their excellent management in Australia.

Ha! The real reason that Australia (and Canada) avoided the worst of the GFC is that they kept on drinking the Kool-

Aid that caused it: private debt, and especially household mortgage debt. Whereas the other Anglo-sphere countries which had serious crises during 2007-08 (the US, UK and Ireland) have reduced their household debt levels since then, Canada and Australia have continued to lever up – Australia to the spectacular level of over 120 percent of GDP.

This additional leverage is what has kept the housing bubbles alive in both these countries well after they burst in the rest of the English-speaking world. But it's starting to turn in both states now, especially in Australia where the growth in household credit has turned negative, and where house prices have already fallen more than 5% from their peak. When that deleveraging gathers momentum, a recession will strike and Australia's RBA will do just what the Fed did - start QE to try to prop up the share market.

So ironically, Australian shares will likely start to do well, just as the national economy begins to tank. Such is the nature of stock markets when central banks believe keeping stock prices high is more important than keeping the level of unemployment low, never mind wage growth.

Source: <https://www.rt.com/op-ed/436263-australia-economy-stock-market/>
Published 18 Aug, 2018



Dr Steve Keen is an author and an Australian research economist. You can support his attempts to build a new economics: <https://www.patreon.com/ProfSteveKeen>.

The real problems of our planet are not economic or technical, they are philosophical. The philosophy of unbridled materialism is being challenged by events. -- Ernst F. Schumacher

Letters

From Alan Baird (NSW) Pushing the neoliberal buttons

I note several positive comments about the May-June Issue but the July-August issue ain't bad either.

I particularly admire the way that the ERA commentary isn't persuaded into joining partisan politics, ignoring the transgressions of a "favoured side" while blasting the obvious (and often *very similar*) nonsense from the other. Your articles tend to keep the politics separate from the economics except when specifically instancing connection between individual party political policy and the concomitant ERA economic logic.

A good example was the Dean Baker article which skewered the familiar refrain (from partisan Democrats) that their side of politics had clean hands compared with the much more blatant transgressors against the common good, the Republicans. The fact that the Glass-Steagall Act's removal helped unleash the degradation of US banking further and that it was a perpetration of the Clinton Govt shows a common culpability shared between both sides. The neoliberal nonsense remains very saliently believed by both sides to the present day, hence the advent of Trump who painted himself as "different"! He couldn't have done it without the Democrats.

This translates very neatly into the Australian experience, with neoliberal enthusiasts festooning the ranks of both sides of politics. And unlike *all* mainstream publications including supposedly "left-leaning" such as the Guardian, you have not been infected by "corporate leaning" sophistry from imported "talent" from IPA-land. One of the recent Guardian "standout contributors" unbelievably given a guernsey was a former acolyte of the esteemed John Howard (!) who predictably pressed the usual neoliberal buttons with tediously predictable doctrine from the IPA play-book employing the usual arguments involving "envy", "aspiration" etc to the point of ennui, instantly familiar to anyone who has read the mainstream press. The above all occurred in the heat of battle during recent brouhaha over Labor corporate/progressive table tax policy potentially crumbling into ever more irrelevant neoliberal orthodoxy. This was simultaneously accompanied by an almost Russo-Turkish media compliance with Federal Govt doctrine including the ABC. The atmosphere became almost foetid.

But not quite. A small SA/NSW island of opinion remained calmly aloof (but informed) from it all. A breath of fresh air.

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