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For a just and sustainable society

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How big does the fire need to be?

J.D. Alt

Source: Flickr cc

I have written about this before, but it bears repeating now - and perhaps it bears repeating every week until somebody with more leverage than me picks the message up and carries it a step further: The USA and the rest of the world have the resources needed to limit and mitigate the vast damage and dislocations that climate-change is now beginning to impose. The "resources" I'm referring to are not dollars. They are materiel, labour and human ingenuity. The only question is how and when we'll stop simply raising warning flags and marshal those real resources to take real action against the growing challenges.

To date, virtually nothing concrete has been done, or even started. The reason is because - to date - we have insisted on imagining that the "money" needed to pay for serious planning and to begin real actions must come, directly or indirectly, from tax-payer's pockets. Virtually by definition, this means the "money" is not available - nor, we should admit, will it ever be. Therefore, since we insist on believing that this is where the money must come from, we cannot even begin. There are a multitude of scientists and informed advocates who are now sounding alarm bells about what's coming down the road, but not a single one of them, unfortunately, can tell an audience how their local, state, or national governments are going to pay for the actions that need to be planned and implemented. Until that changes, we are like the proverbial deer frozen in the headlights of an on-coming tractor-trailer.

Fortunately, history has shown us how to get unfrozen. History has shown us that, when necessary, we can easily imagine a money-reality different than what we habitually insist is true: that money can be newly "created" to buy whatever is needed - labour, materiel, human ingenuity - to undertake and accomplish something we all recognize needs to be done for our collective benefit. Whether we "see" this alternative money-reality simply depends, apparently, on how big the fire is.

The history lesson that I'm specifically referring to is America's mobilization out of the Great Depression and into World War II. As documented in the books *American Default*, by Sebastian Edwards, and *A Call to Arms*, by Maury Klein, in 1933 America was facing its own frozen-in-the-headlights-how-can-we-pay-for-it predicament: The economy then had essentially collapsed into the Great Depression. The banking system was in a death-spiral as panicking families and businesses were withdrawing their deposits for cash - then redeeming their cash for the gold the dollars promised, forcing the banks into insolvency. Family savings had been wiped out, farmers had abandoned their land, businesses closed their doors, a fourth of the working population lost their jobs, and breadlines formed in every major city.

At the same time, wild-fires of armed fascism were destabilizing Europe and southeast Asia. Hitler gained dictatorial control of Germany and soon began mobilizing and arming the war machine of the Third Reich. Paralyzed by its myopic political insistence on maintaining the "sound-money" (gold backed) foundations of the U.S. monetary system - even though it had rendered the system itself virtually useless - the U.S. was ill-prepared, either to climb out of the Depression or to defend itself against the growing conflagrations of fascism.

Half the U.S. army in 1933 could be seated in Chicago's Soldier Field stadium - with the other half standing at attention on the football field. The U.S. Navy consisted of a few hundred left-over World War I rust-heaps, mostly in mothballs. As Germany's Luftwaffe began demonstrating its newly minted warplanes, the U.S. Airforce did not even exist. Nor did the currency that would be necessary build it: Where could the dollars possibly come from when America's families had lost their savings, when America's businesses had closed their doors, when America's banks had declared insolvency? Sell War Bonds? Who had the dollars to buy them? Declare an income tax? Who had the income to pay it?

The American mobilization - and the transformation of the understanding of money - began with the election of Franklin Roosevelt. Almost immediately, the federal government began to spend money (that no one thought existed) to pay U.S. citizens to undertake and accomplish what needed to be done. Here is a brief, but astonishing, list (annotated from the website *The Living New Deal*) of the concrete actions that were paid for in U.S. dollars during the first year of Roosevelt's presidency:

March 4, 1933: Franklin Roosevelt is sworn in as President.
March 31, 1933: The Civilian Conservation Corps (CCC) is created by the Emergency Conservation Work Act, putting unemployed young men to work in the nation's forests and parks.
May 12, 1933: The Federal Emergency Relief Administration (FERA) is created, via the Federal Emergency Relief Act of 1933, to provide work and cash relief for Americans struggling to get through the Great Depression.
May 18, 1933: The Tennessee Valley

Authority (TVA) is created with the passage of the Tennessee Valley Authority Act to provide affordable power and flood control, which it still does to this day.

June 13, 1933: President Roosevelt signs the Home Owners' Loan Act of 1933. The law assists mortgage lenders and individual home owners by issuing bonds and loans for troubled mortgages, back taxes, home owners' insurance, and necessary home repairs.

June 16, 1933: President Roosevelt signs the Farm Credit Act, making credit more accessible to farmers, and with fairer terms than private sector lending (e.g., lower interest rates).

June 16, 1933: President Roosevelt creates the Federal Emergency Administration of Public Works, which eventually becomes known as the Public Works Administration (PWA). During the next 10 years the PWA contributes billions of dollars towards tens of thousands of infrastructure projects all across the nation.

June 16, 1933: With Executive Order No. 6174, President Roosevelt authorizes up to $238 million in Public Works Administration (PWA) funds for the Navy. From these funds, 32 naval vessels are built.

October 23, 1933: The Army Corps of Engineers begins the construction of the Fort Peck Dam, one of the many large Corps projects made possible with New Deal funding.

November 9, 1933: The Civil Works Administration (CWA) is created with Executive Order No. 6420B, under the power granted to President Roosevelt by the National Industrial Recovery Act. By January 1934, more than 4 million formerly-jobless Americans are employed by the CWA. to build 44,000 miles of new roads, install 1,000 miles of new water mains, construct or improve 4,000 schools, and much more.

December 8, 1933: The Public Works of Art Project (PWAP) is created by an allocation of funds from the Civil Works Administration. Unemployed artists are hired to create works of art for public buildings and parks. They will create nearly 16,000 works of art.

Where did the money come from to make all this happen? Were they tax-dollars collected from the American people? Were they dollars borrowed from the banking industry and titans of finance? No. They were dollars issued by the federal government out of thin air - fiat dollars. As described by President Roosevelt's Secretary of the Treasury, William H. Woodin, the new dollars were "money that looked like money." And so, as demonstrated by what the spending of it accomplished, it was money. (What Woodin meant by this was that the "Federal Reserve Bank Notes" which the central bank was authorized to issue - as needed - by the Emergency Banking Act of 1933 looked exactly like the old "Federal Reserve Notes" they replaced, except for one tiny detail: they could not be redeemed for gold.)

This course of action was vehemently opposed by certain interests and forces outraged at the idea of having to trade their gold for fiat currency. They did everything in their power to shut down Roosevelt's presidency and his gradual and experimental shifts toward a fiat money system. From the perspective of the financial titans - who were, in one form or another, creditors - being repaid in gold was the only thing of importance. The country could be damned.

Roosevelt called them out in a speech a few days before he was elected, in a landslide, to his second term as President:

"We had to struggle with the old enemies of peace – business and financial monopoly, speculation, reckless banking, class antagonism, sectionalism, and war profiteering. They had begun to consider the Government of the United States as a mere appendage to their own affairs. And we know now that Government by organized money is just as dangerous as Government by an organized mob. Never before in all our history have these forces been so united against one candidate as they stand today. They are unanimous in their hate for me, and I welcome their hatred."

By 1941, fiat money - and all the things it had paid American's to accomplish - had begun to pull the country out of the abyss. And just in time. For it turned out the New Deal had only been a warm-up exercise in the creative use of sovereign money to accomplish collective goals. Europe was in the flames of war. Germany was threatening England from a French country-side it had already invaded and occupied—and was stalking American shipping off the U.S. Eastern seaboard with its submarine "wolf-packs." Then December 7th happened.

Over the next four years, miraculously, America built - and paid for with fiat money - the largest and most technologically advanced war machine that had ever existed on Earth. The scale of the spending was staggering. The most astonishing thing is what the unprecedented spending accomplished in the long run: It transformed an entire society to confront a new reality and created, for all practical purposes, a new "America" to thrive in that reality. The American people had "paid themselves" - through the fiat monetary actions of their sovereign government - to invent an array of new technologies and apparatuses originally conceived for waging war, but which, after the war, were clearly seen to have useful applications to peaceful life as well - and they had paid themselves to build a great many factories, research and production facilities capable of adapting and producing these useful things to civilian life - and they had paid themselves to train a very large workforce of engineers, technicians and skilled workers who knew how to make it all work. This was a powerful economic brew - and it was spiced by the fact that the returning G.I.s were getting paid to go to college to explore how to make the whole thing run even better. America never looked back. Until now.

We could ask what has happened. We could ask why, today, we cannot seem to marshal enough resources to rebuild the Puerto Rican electric grid and the Virgin Islands hurricane devastation. We could ask why there isn't a national engineering effort to begin planning for sea-level rise. We could ask why the U.S. forestry service doesn't have the budget it needs to pay U.S. workers to clear deadfalls and underbrush from its most vulnerable tree-stands. Or why we cannot imagine deploying a fleet of tanker planes to California large enough to deluge any wild-fire before it has a chance to become a conflagration.

The only question we really need to ask, though, is this: How big does the fire need to be before we "understand", once again, how we can pay ourselves to put it out?

Source: New Economic Perspectives, August 13, 2018
http://neweconomicperspectives.org/2018/08/how-big-does-the-fire-need-to-be.html

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Why technology alone won't save us

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

The previous issue, Part One, covered two reasons why modern technology cannot be relied upon to bail us out of future environmental problems. Part Two continues, with the third and final reason and a summary. We are grateful to Elinor Hurst for compiling the two extracted parts.

The third reason why we might question how fast technological change can reduce environmental impacts is that even some of the greatest improvements in technology proceeded at quite a modest rate. A good example is the steam engine which powered the first industrial revolution in Britain and then other countries from the mid-18th to the early 20th centuries. There were steam engines before James Watt designed his in 1769. Thomas Savery built a steam driven pump in 1698 based on a design by Denis Papin. The pump was used to remove water from mines to prevent flooding.[1] Thomas Newcomen improved Savery's design by incorporating a piston inside the cylinder in which the vacuum was formed.

The first Newcomen steam engine for pumping water was installed at a coal mine in 1712. These steam driven pumps allowed deeper mines and greater access to Britain's rich deposits of coal and other minerals. That they were extremely inefficient did not matter very much as long as they were used at coal mines where plenty of fuel was available.[2]

When James Watt was repairing one of Newcomen's engines he realised that he could make it more efficient by using a separate condenser to cool the used steam. In 1781 Watt designed a steam engine that could deliver rotary power rather than the up and down motion required for pumping water. Now steam engines could be used in manufacturing and because of their improved efficiency, requiring less coal to produce a unit of useful energy, factories could be located close to their markets rather than to the coal mines. The most common applications for these new and improved steam engines were in textile production, and the textile industry became a catalyst of the industrial revolution in Britain.[3] Steam engines could also be used to power steam trains and by the 1840s, for the first time in history, people could move themselves and their freight faster than a horse could carry them.[4]

Throughout this period and beyond, many improvements were made in the design and construction of steam engines. In particular, they were made much more efficient. By 1910 the best steam engines were about 50 times more efficient than a Newcomen engine and about 12 times more efficient than a Watt engine.[5] These were truly impressive gains but they did take a long time. Also there is always a delay between the timing of a technological advance and its implementation. The average efficiency of steam engines at any time was always less than the best.

A comparison of the gains in the efficiency of steam engines with the increase in installed capacity of steam engines in Britain shows that increases in scale outpaced improvements in efficiency by some 40 to 50 times.[6] The increased use of coal to fuel the almost 2000-fold increase in steam power in Britain between 1760 and 1910 very likely caused a significant increase in environmental impacts as well.

Many of the most important technological advances in the 20th century involved electricity. While the pace of technological change quickened, the record of efficiency gains in the use of electricity in the 20th century is far less impressive than for steam in the 19th. Total end use of electricity in the USA increased over 630 times from an estimated 5.7 bkWh[7] in 1902 to 3606.5 bkWh in 2000. The average secondary efficiency of this electricity use (that is the conversion of electricity to useful work) increased from 51.4 per cent in 1902 to 57.3 per cent in 2000, having reached 55.4 per cent as early as 1930.[8]

This very modest gain in the average secondary efficiency of electricity hides some larger improvements in particular uses of energy. Motors used in elevators and lighting stand out as two uses where quite considerable gains in efficiency were made. Gains were made in other uses too, almost all greater than the average. The reason why average efficiency increased so little is that the mix of uses also changed, with the least efficient uses, notably low temperature heat, increasing their share of total use. Ayres and colleagues correctly observe that using electricity to provide low temperature heat represents a promising opportunity for future gains.[9] Nonetheless the potential for future gains in many uses is quite limited with efficiencies already at 70 per cent or more.

Increases in scale can overwhelm the increases in efficiency. We can even expect this to happen as increases in efficiency work their way through the economy by lowering prices. This is sometimes called the ‘rebound effect’. It is not a new idea. Jevons wrote about it in 1865 in relation to coal. "*It is wholly a confusion of ideas to suppose that the economic use of fuel is equivalent to a diminished consumption. The very contrary is the truth*" (italics in the original).[10] For example, homeowners might respond to an increased level of insulation by keeping their homes warmer in winter and cooler in summer. In doing so they reduce the energy savings that they might have expected. A similar rebound effect is likely with the replacement of incandescent light bulbs by compact fluorescents. These more efficient light bulbs reduce the energy costs of lighting and so people may keep the lights on longer. A more subtle effect is possible too. In winter in cold climates, the heat from electric lights reduces the requirement for heat from a furnace. By using more efficient light bulbs which produce less ‘waste’ heat, furnaces will run longer unless thermostat temperatures are lowered, which is unlikely. In this case energy savings at the end-use level are partially or fully negated by the greater use of energy required to run the furnaces. If the electricity used for lighting comes from hydroelectric or some other renewable source, and the furnace is fuelled by oil or gas, then emissions of pollutants to the air would almost certainly increase. This is a rebound effect with a vengeance.

Ayres[11] has looked at the environmental implications of increasing the technical efficiency and concludes that "efficiency improvements have rarely, if ever, resulted in reduced aggregate energy (including materials) consumption". Haberl, Krausmann and Gingrich[12] have come to the same conclusion based on an analysis of data from 1700 to 2000: "At least so far, efficiency increases are more than compensated by increases in consumption levels".

Improvements in technology can reduce environmental impacts but too much reliance on technology without attending to scale will likely prove inadequate.

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"... the willingness to challenge professional economists - and other experts - should be the foundation of democracy. When you think about it, if all we have to do is to listen to the experts, what is the point of having a democracy at all? Unless we want our societies to be run by a body of self-elected experts, we all have to learn economics and challenge professional economists." -- Ha-Joon Chang, Economics: The User's Guide.

Keen versus Krugman

John Balder

The following extract, made by John Balder from his recent RWER paper [1], appeared in the RWER blogs site [2].

" To explore the origins of the global financial crisis, the first step is to specify the relationship between banking, money and credit. According to the mainstream view, a bank serves as an intermediary between a borrower and a lender. As a pure intermediary, a bank has no impact on real economic activity.

This view – taught in most Economics 101 textbooks – implicitly assumes that money is available in finite quantities that are regulated by the central bank.

" Several years ago, Paul Krugman and Steve Keen engaged in an enlightening back-and-forth about banking, money and credit. The discussion examined whether banks lend existing money or newly create the money they lend ...

" In support of the mainstream view, Krugman (2012) casually asserts:

' Think of it this way: when debt is rising, it's not the economy, as a whole borrowing more money. It is rather, a case of less patient people – people who, for whatever reason want to spend sooner rather than later – borrowing from more patient people.'

" Krugman notes [asserts] that banks lend existing money as intermediaries between borrowers and savers. In other words, [that] a bank must have $100 in deposits before it can make a loan for $100 (deposits create a bank liability, needed for a bank to create an asset).

" This viewpoint implies that money is neutral and can be ignored, as it has no relevance for real economic activity. The view seems to be intuitive, in fact almost obvious; after all, if I do not have $10, I cannot lend it to you.

" Conversely, Keen (2011) argued that banks newly create the money they lend. If true, this suggests that money creation impacts real economic activity and is not neutral. But how does a bank 'create' money? When a bank makes a loan, it simultaneously creates a deposit (which is money) for the borrower in an identical amount.[3] For example, if I borrow $10,000 from my bank, the bank creates a deposit account in my name with $10,000 in it. In creating credit, a bank necessarily creates a deposit and thus, money. This is how double-entry bookkeeping works. Loans create deposits.

" According to Richard Werner (2012), more than 95% of all money created in the US and UK is a direct result of credit creation by banks. When a bank creates credit, it also creates money. Post-Keynesians have been making this argument for more than three decades, though few have listened (e.g., Basil Moore was an early proponent) and this view was affirmed by the Bank of England (McLeay, 2014):

' Whenever a bank makes a loan it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money.'

" Yet, despite the factual basis of this claim, it has been ignored by neoclassical economists, given their attachment to equilibrium analysis.

" Banks are authorized to create credit, ex nihilo ('out of nothing') so credit (money) cannot be neutral. In creating credit, a bank creates money that a borrower uses to purchase goods and services that add to aggregate demand and economic growth. Banks are not limited to acting only as intermediaries that move money from savers to borrowers.[4]

" Importantly, banks also determine how credit and money are allocated. In the real-world, money creation distinguishes banks from other financial intermediaries (e.g., shadow banks) that can extend credit but do not possess the ability to create money. Within the financial sector, only banks are granted this authority.

" Money is a form of credit, an obligation to pay. In Werner's (2012) words, 'banks are the creators of the money supply' and 'this is the missing link that causes credit rationing to have macroeconomic consequences.' In short, finance (banking, money and credit) matter! "

1. Balder, J.M., "Post-crisis perspective: sorting out money and credit and why they matter!", Real World Econ Rev., issue no 85, 2018. http://www.paecon.net/PAEReview/issue85/Balder85.pdf
2. https://rwer.wordpress.com/2018/10/05/krugman-vs-keen/
3. Keen (2011 and 2017) and Werner (1995, 1997 and 2012).
4. Mainstream economics continues to assert that credit and money are neutral and do not impact real economic activity. Neoclassical economists have good reason to be defensive. Given the structure of their models, dropping the neutral money assumption will result in an indeterminate outcome.

See the original paper by Balder for details of the year-dated references.

Editor's comments: There is much more that could be written about this subject, but several points relating to the above can be made:

(a) The loanable funds doctrine is an attempt to explain the market interest rate, in which the interest rate is determined by the demand for and supply of loanable funds. The term loanable funds includes all forms of credit, such as loans, bonds, or savings deposits.

(b) Neutrality of money is the false idea that a change in the stock of money affects only nominal variables in the economy such as prices, wages, and exchange rates, with no effect on real variables, like employment, real GDP, and real consumption.

(c) The loanable funds view of interest rates and money neutrality are both properties of general equilibrium models, which are themselves rooted in a view of money as an addition to a previously barter system.

(d) The words "intermediary" and "intermediation" have more than one meaning. And in particular, bank economists misappropriated and redefined these words to mean something other than their original meaning. Their new interpretation of these words (unlike the interpretation used by Keen and Balder) has been designed to fit comfortably within the orthodox paradigm.

(e) The following sentence is ambiguous and misleading: "Money is a form of credit, an obligation to pay". It would be closer to the truth to say that bank credit is a form of money. Meaning the entries credited to a payee's account by a bank whenever it lends or spends, or when a sovereign government net spends or lends. And money is not an obligation to pay; it is an entity which facilitates a payment.

(f) Post-Keynesian economists have been making these arguments for more than three decades, though few have listened to them. The New York Fed explained it in 1969, and people working on the operations side of central banks and in private banks have known it for many years. It is academic (neoclassical) economists who were not interested, as it didn't fit their agenda.

(g) Werner's statement that 95% of all money created in the US and UK is a direct result of credit creation by banks is also misleading, because when central governments spend or lend into the real economy, they also create deposit liabilities for banks, which are matched by reserves at the central bank.

There is nothing sacrosanct about corporate culture - We can and must regulate it

Ann Wardrop and David Wishart

Board-level risk indicators include one person dominating meetings or a culture of blaming and withholding information.

Almost every inquiry into financial institutions, no matter the country, finds evidence of systemic misconduct. Customers overcharged, deceived and defrauded. At the root of the problem is organisational culture.

It's a safe bet that Australia's Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry will find the same. So what to do about it?

Banks say good culture cannot be regulated into existence. As the G30 Banking Conduct and Culture Report states boldly: "Culture cannot be regulated." Governments tend to agree. Regulators insist they won't "prescribe risk culture".

But this is a furphy. We can and should regulate for good corporate culture.

De Nederlandsche Bank (DNB), the Netherlands' central bank which also acts as prudential regulator of financial services, has for seven years explicitly regulated the internal cultures of Dutch financial institutions.

Identifying high-risk behaviour

DNB has a specialist unit of trained organisational psychologists who work within institutions to identify patterns of individual and group behaviour that increase the risk of misbehaviour.

The unit operates independently of the DNB's ordinary supervisory functions such as checking financial performance and compliance. It is especially interested in observing how those in leadership roles behave. Rules and

Source: Flickr cc

policies might look good on paper but when bosses tolerate misconduct or reward excessive risk-taking there is a greater chance rules will be broken.

Rather than just checking a bank's board is expert (compliance checking), the DNB psychologists will observe the group dynamics of a board meeting. They assess things like its "communication climate". Do the financial experts on the board get annoyed when non-experts ask fundamental but important questions? Can board members challenge the leader or the opinion of others?

The psychologists scrutinise body language such as facial expressions, posture and listening behaviour. This enables them to "zoom in" on underlying behavioural patterns that pose risks. For example, investigators might find one or two people dominate meetings, or that there is a culture of blaming, withholding information or competition between coalitions within organisational groups.

Having identified problems in an organisational culture, DNB investigators propose actions to reduce the risk of misconduct. They recommend changes to the financial institution's supervisory board. If the culture is deemed high risk, the DNB will intervene directly.

Actions speak volumes

Paradoxically while the prevailing view in Australia is that corporate culture cannot be regulated, the corporate and prudential regulators are following the Dutch example.

The Australian Securities and Investment Commission is embedding agents in the five biggest financial institutions. The commission's new head, James Shipton, has cited what the Dutch central bank does to support the idea of these agents sitting in on board meetings.

The Australian Prudential Regulation Authority has copied the DNB process even more explicitly. In 2017 it began a pilot program to assess risk culture. The assessment included interviewing staff and observing board interactions. Behavioural psychologists were employed to assist in these "cultural reviews".

The program was openly based on the DNB model, though with important differences. There was no separate review unit, for example.

APRA has also ventured into cultural regulation through its inquiry into bad behaviour at the Commonwealth Bank of Australia. The inquiry's final report excoriated the bank's culture. In an enforceable undertaking the bank agreed to develop a remedial plan, approved and monitored by APRA, to fix its culture.

Given this, it might be considered odd APRA's report still denies culture can be regulated. "The onus falls squarely on CBA itself," it states, before approvingly quoting the G30 report: "Supervisors and regulators cannot determine culture."

But in our view, no matter what ASIC and APRA say, these processes are clearly exercises in regulating for good corporate culture.

The core feature is that outside agents have the authority to assess behaviour within an organisation, and the power to make that organisation change the way it does things.

Resistance is ideological

The reluctance to admit this can and is being done, we think, is because it impinges on a "sacrosanct" idea about the sovereignty of how corporations run their internal affairs. We have argued this claim is more about ideology than logic.

APRA is now "re-scoping" its cultural-review program because it thinks it too costly. Meanwhile the royal commission continues to show the high cost of not intervening in corporate culture.

The evidence from the royal commission shows regulators must do more. Without doing something to regulate the cultures that lead to corporations behaving badly, any other new regulation will achieve little.

A step away from full DNB-style cultural reviews would be a step in the wrong direction. APRA needs the resources to follow the Dutch lead.

An autonomous supervisory unit, separate from APRA's other supervisory teams, working a similar way to the DNB specialist unit, is the way forward.

Source: The Conversation, 26 Sept 2018
https://theconversation.com/there-is-nothing-sacrosanct-about-corporate-culture-we-can-and-must-regulate-it-102788?

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1. In economics, it is often professionally better to be associated with highly respectable error than uncertainly established truth. -- John Kenneth Galbraith, The Affluent Society

2. Economics is haunted by more fallacies than any other study known to man. This is no accident. The inherent difficulties of the subject would be great enough in any case, but they are multiplied a thousandfold by a factor that is insignificant in, say, physics, mathematics or medicine - the special pleading of selfish interests. — Henry Hazlitt

What should be the purpose of economic policy? And what role can, and should economists play in guiding economic policy decisions?

Rachel French

In essence, economic policy should be sustainable. However, it should not be focused entirely on sustainable economic growth, but on sustainable development for the present population, and future generations, and leaving the environment secure and intact for the people. The purpose of policy is to provide quality infrastructure, in which people have the opportunity to thrive. This article is not a history of economic theory, nor will it make reference to all the philosophers of economic theory who have shaped the discipline. Instead it will focus on the needs of economic policy today. The article will be in two parts: the first will discuss the purposes of economic policy, and the second the role that economists should play in guiding policy decisions. It will conclude by stating that the purpose of economic policy should be to provide a sustainable future, with economists having responsibility to assist in creating policies that reduce inequality.

Economic policy should target the big issues within an economy. For example, in their latest report (2018) the World Economic Forum cites persistent inequality and environmental dangers as two of the four biggest concerns—the other two being international and domestic political tensions, and cyber vulnerabilities (World Economic Forum, 2018, p. 9). Accordingly, the purpose of economic policy should be to sustainably target inequality in order to increase living standards for those who cannot afford to pay for private goods.

Just as simply, investments in the public sphere in sectors such as health, education and environmental quality will both mitigate present inequality and prevent further inequality increases in the future (World Inequality Lab, 2017, p. 20). Investing in the public sector has been proven to increase living standards and decrease inequalities. Policy needs to be directed towards uplifting those at the bottom, and constraining those at the top of the income distribution.

Before outlining what the purpose of economic policy should be, it is important to understand where current economic policy is often focussed: orthodoxy. Broadly speaking, orthodox economic policy can encompass macroeconomic stabilisation policies, trade policies, growth and development policies, and redistribution policies. The main goals of macroeconomic stabilisation policy are to maintain and improve levels of gross domestic product, keep unemployment at a steady and socially optimal level, account for fluctuations in the business cycle, and moderate inflation rates (Jefferson & Kuperberg, 2013, p. 84).

Another form of government policy is fiscal policy; which is comprised of taxation and expenditure, with taxation allowing the government to raise funds for public goods and infrastructure. The tax system may impact income and wealth distribution, as well as the allocation of resources within an economy. (Brown, McLean & McMillan, 2018). Fiscal policy is often where individuals believe that the intervention of government into the economy should stop. Income tax is often a subject of discourse, and implementing progressive taxation is a practical means to reduce inequality. However, given the interconnectedness of politics and business, those with higher incomes are often able to advocate for a lower tax rate, under the guise of trickle-down economics.

Nevertheless, this is not the optimal form of economic policy. Neoclassical economic theory focuses economic policy on correcting market failures. Using this neoclassical view, once certain market inefficiencies have been resolved (such as limiting monopoly, investing in public goods, and taxing negative externalities) the market can allocate resources and allow the economy to grow (Mazzucato, 2018, p. 5). Despite the fact that neoclassical economists claim that reducing market intervention results in optimal and efficient allocation of resources, free markets often end up neglecting social and environmental concerns, which can lead to suboptimal resource allocation (Mazzucato, 2018, p. 5). Therefore, the shortcomings of neoclassical economics regarding social and environmental factors, and the belief that markets will function well, and naturally reach a self-sustaining equilibrium, means that it is not the best way to consider economic policy.

Empirical evidence can also be cited, such as the fact that income inequality has increased in almost all countries over the last few decades (World Inequality Lab, 2017, p. 9). Income inequality is not the only indication that the market in and of itself is not able to provide for everyone. Given that studies show that the top 1% of people hold more than half of global wealth -- the system hardly seems self-optimising, much less fair (Neate, 2017). Therefore, it can be concluded that given unequal resources distribution, it is evident that perhaps the market does not naturally result in optimal resource allocation, which subsequently implies that current

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economic policy is not as effective as it could be. Neoclassical policies under market capitalism have resulted in widespread inequality, and a damaged environment.

Given such high levels of inequality, it has become evident that basing policy simply on neoclassical theory is not providing a high quality of life to all. Economic growth is a subset of economic development, whilst economic development comprises education, health, housing, environment and other factors that contribute to living standards (Galadari, 2017, p. 2). It is important to distinguish between the two, as there is no long-term economic growth without economic development. Accepting the notion of 'development' is a process involving restructuring the ways in which resources are distributed, owned, produced and used (Couto, 2010, p. 221). Development can be translated into policy as the redistribution of resources, and increasing access to those who do not have enough. Sustainable development policies can be integrated into the current system, it just involves shifting the focus from maximum growth, to providing opportunities for all. An example of an area in which economic policy needs to improve is health. Aside from the funding of a public healthcare system, one of the biggest economic issues in this area is that of pharmaceutical companies with intellectual property rights over particular forms of medication and treatments. As can monopolists in other sectors, pharmaceutical companies can price their product according to market supply and demand. Given high and inelastic demand in the health sector, and the high-profit aims of companies, they are able to charge whatever they like for medicine (Galadari, 2017, p. 10).

Thus, economic policy should regulate health markets because a healthier population is more productive. Consequently, economic development in the health sector will lead to overall economic growth. Increased regulation in markets like this will allow more people to be able to afford more products, and will increase accessibility within markets. This is important in terms of development because an intrinsic aspect of development is access to resources. Though this may be a smaller-scale issue compared with global development needs, in the United States 8% of adults do not take medication as prescribed, simply because they cannot afford it (Cohen & Villarroel, 2015, p. 1). The percentage of adults who take medication as prescribed increases with their level of income (Cohen & Villarroel, 2015, p. 5). Increasing the number of people who are able to afford medication will result in higher growth and productivity in the long run. As health outcomes and inequality are correlated, gearing policy towards one issue will help address the other.

Sustainable economists have a more benevolent approach to policy. Since there is a notion within many Western economies that consumers and firms act to maximise self-interest above all other considerations, with firms aiming to maximise profit, and consumers maximising their own utility (Huang, 2011, p. 41), this rhetoric is often pervasive of the ways in which policies are made. However, the emphasis on consumption as a positive factor for wellbeing, can often surpass the recollection that many resources are finite. Not only are such resources finite, but they are also unequally distributed. Given that more than 80% of the global quantity of natural resources is consumed by industrialised (often Western) countries, the unequal division of consumption across countries is an issue (Huang, 2011, p. 41).

Thus, there is a need for redistributive policies that better protect natural resources, and also give greater access to developing countries. The aim of sustainable consumption is to minimise environmental impact, produce a better quality of life for the present population, and also exercise responsibility on behalf of future generations (Huang, 2011, p. 41). Such a drastic shift towards sustainable global development, would require a large level of altruism on the part of many of the developed economies', as they can play a major role in aiding in the development of smaller economies. This links to financial integration of an increasingly globalised world. Developed economies have the ability, and the resources, to further their overall growth, and policy should be consistent with these abilities.

Now that is has been well established that economic policy needs to be sustainable, the question remains how it can become so. It is the role of economists to guide policy decisions, show the potential implications of policies, and predict the effects of policies. Economists are able to use models, which are often ingrained in economic theory, to do this. Policy makers do not always request economists to determine the goal of policy, yet economists often help determine goals (Hausman, 2008, p. 21). As economists are not only finding ways to reach certain goals, but also setting them, it is incredibly important that they are provide holistic solutions, with goals large enough to make a positive impact — rather than just getting a politician re-elected. However, all economists are constrained by their biases. As the political beliefs of economists undoubtedly impact their professional training and scientific research, it is highly likely that economists will suggest policies that align with their beliefs (Horowitz & Hughes, 2018, p. 190). Thus, the bias of economists will affect the policy recommendations they make. Bias is not exclusive to economists, but it is imperative for it to be taken into consideration when they are advising policy decisions. Potentially, then, in an ideal world, it should be the responsibility of policy makers to obtain advice from economists of different schools of thought in order to receive balanced guidance.

It is not only their political beliefs and biases that limit economists, on a more subconscious level the cognitive biases that inform their political beliefs also restrict their capabilities. Simply put, cognitive biases are an explanation that demonstrates the propensity for individuals to make systematic errors in reasoning. They influence the ways that individuals evaluate information (Leighton, 2010, p. 159). In terms of making decisions that require controlled, thoughtful and logical thinking, cognitive biases can be detrimental (Leighton, 2010, p. 161). Cognitive biases are a way of explaining some of the weaknesses and patterns within human thought. One such bias is confirmation bias. Confirmation bias is the result of an individual seeking and interpreting information in such a way that it is aligns with their assumptions and pre-existing beliefs (Hernandez & Preston, 2012, p. 178). As individuals have a tendency to assume that heir prior beliefs are right, these already existing beliefs become the reference point when interpreting new information (Hernandez & Preston, 2012, p. 178). This means that as individuals seek out information that verifies what they already believe, economists are likely to advise those who believe as they do. This is unsurprising, but also limits the possibilities of policy. It is therefore important for economists to be able to think multilaterally and have the ability to guide policy in different directions, rather than just furthering their own agenda.

Another form of bias is present bias. Present bias is when higher value is placed on the immediate present rather than the future (Oliver, 2018, p. 272). This kind of bias is inherent among many economists because in many economic models, time discounting, which places a lower value on the future and prioritises the present, is used (Black, Hashimzade, Myles, 2017). Economists with a present bias, and who use time discounting in their models, would advocate for policies that have greater benefit in the present, irrespective of the implications for the future. This is unsustainable in many ways, but particularly in respect to caring for the environment. As many pollutants do not have immediate effects, environmental concerns often get neglected in lieu of other problems. This needs to change, and economists need to place greater weight on providing a stable world for future generations, rather than economic growth in the present.

Historically, economists have had a propensity to consider political issues subordinate and a factor that they have no professional responsibility to provide solutions for (Grant, 2018). This is particularly true for those who work mathematically. However, this is a damaging perspective. Politics and economics are linked inextricably, and it is erroneous for economists to avoid political responsibility, it removes themselves from accountability and disregards their social responsibility as citizens. The entanglement of business and politics coincides with policies that better benefit those with power, money, and influence. Economists should be attempting to mitigate the differences between businesspeople and politicians and they need to be able to analyse the social implications of policies, rather than neglecting them as secondary, in order to advocate policy that assists demographics other than the wealthy.

To conclude, this is a world in which children are raised to believe that they have the power to change; and economic policy is a tool with which to do this. The purpose of economic policy should be to create opportunities for those who need assistance, to reallocate resources in a more equitable way, and to focus on policies that use the environment in a sustainable manner.

Economists have the ability to guide policy in a way that creates a sustainable, and stable, economy for future generations. Thus, using principles guided by sustainability economics, global inequality can decrease, and sustainable development prevail, creating a better, fairer, world for all.

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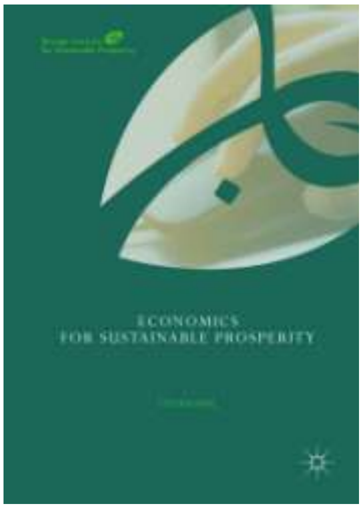
Recommended book: Economics for Sustainable Prosperity

Steven Hail -- Global Institute for Sustainable Prosperity, 1st ed. 2018

The central argument of this new book by Steven Hail is that the foundations for sustainable prosperity lie in an approach to economic management based on modern monetary theory and a job guarantee. This approach builds on the work of Keynes, Kalecki, Minsky, Davidson, Godley and other post-Keynesian economists - as well as on research by behavioural economists including Simon, Kahneman and Loewenstein - to explore the role that a permanent, equitable job guarantee can play in building an inclusive, participatory and just society. Orthodox (also known as neoclassical) economics, in its various forms, has failed to deliver sustainable prosperity. An important reason for this failure is its lack of realistic foundations. It misrepresents both human nature and economic institutions, and its use as a frame for the development and assessment of economic policy proposals has been disastrous for social inclusion and the quality of life of millions of people. This book discusses an alternative, more realistic and more useful set of economic foundations, which could deliver a decent quality of life with dignity to all.



Neoclassical economists -- a bunch of idiot savants

Editor

Lord Robert Skidelsky, October 2014

" Let's be honest: no one knows what is happening in the world economy today. Recovery from the collapse of 2008 has been unexpectedly slow …

" Policymakers don't know what to do. They press the usual (and unusual) levers and nothing happens. Quantitative easing (QE) was supposed to bring inflation "back to target". It didn't. Fiscal contraction was supposed to restore confidence. It didn't …

" Most economics students are not required to study psychology, philosophy, history, or politics. They are spoon-fed models of the economy, based on unreal assumptions, and tested on their competence in solving mathematical equations. They are never given the mental tools to grasp the whole picture …

" Good economists have always understood that this method has severe limitations. They use their discipline as a kind of mental hygiene to protect against the grossest errors in thinking ...

" Today's professional economists have mostly studied almost nothing but economics. They don't even read the classics of their own discipline. Economic history comes, if at all, from data sets. Philosophy, which could teach them about the limits of the economic method, is a closed book. Mathematics, demanding and seductive, has monopolized their mental horizons. Economists are the idiot savants of our time. "

- **Robert Skidelsky** (economic historian, and biographer of John Maynard Keynes)

Source: https://larspsyll.wordpress.com/2016/12/25/economists-nothing-but-a-bunch-of-idiots-savants/

Caricature of Ben Bernanke (Flickr cc)

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1. Anyone who believes that exponential growth can go on forever in a finite world is either a madman or an economist. **2.** Nothing fails like success because we don't learn from it. We learn only from failure. — Kenneth Boulding

If you hear a 'prominent' economist using the word 'equilibrium' ... do not argue with him; just ignore him, or try to put a rat down his shirt. — Nassim Nicholas Taleb

Is there a case for restoring the gold standard?

Lars Syll

The people behind a Sovereign Money proposal in Switzerland are effectively trying to get gold back into the monetary system. This is an extremely bad idea.

" Eighty-seven years ago Keynes could congratulate Great Britain on finally having got rid of the biggest 'barbarous relic' of his time – the gold standard. He lamented that advocates of the ancient standard do not observe how remote it now is from the spirit and the requirement of the age …

" The long age of Commodity Money has at last passed away before the age of Representative Money. Gold has ceased to be a coin, a hoard, a tangible claim to wealth … and it has become a much more abstract thing – just a standard of value; and it only keeps this nominal status by being handed round from time to time in quite small quantities amongst a group of Central Banks."

Ending the use of fiat money guaranteed by promises for currencies once more backed by gold is not the way out of the present economic crisis. Far from being the sole prophylactic against the alleged problems of fiat money, as the “gold bugs” maintain, a return to gold would only make things far worse.

So I (just as Keynes did) certainly reject any proposals for restoring the gold standard. The “gold bugs” seem to forget that we actually have tried the gold standard before – in the era more or less between 1870 and 1930 – and with disastrous results!

Implementing a new gold standard today would only lead to a generally falling price level. Sounds great? If you think so, read what Keynes wrote already eighty years ago in Essays in Persuasion:

" Of course, a fall in prices, which is the same thing as a rise in the value of claims on money, means that real wealth is transferred from the debtor in favour of the creditor, so that a larger proportion of the real assets is represented by the claims of the depositor, and a smaller proportion belongs to the nominal owner of the asset who has borrowed in order to buy. "

Allowing this debt deflation process – the analysis of which was later developed by Irving Fisher and Hyman Minsky – would land us in a situation where output and wages would fall and unemployment and the real burden of debt would increase. The only winners would probably be banks and financial institutes.

So why would anyone want to reinstate a gold standard? The best surmise is probably that it’s a question of ideology and politics.

Libertarians and market fundamentalists that advocate a return to gold, want to restrict the possibilities of governments to intervene in the economy and, even harder than with "independent" central banks, force countries to pursue restrictive economic policies that at all costs keep inflation down.

Still not convinced of why a return to gold is a bad idea? Then, at least, remember what Keynes wrote in "The Economic Consequences of Mr Churchill" (1925):

" We stand midway between two theories of economic society. The one theory maintains that wages should be fixed by reference to what is ’fair’ and ’reasonable’ as between classes. The other theory – the theory of the economic juggernaut – is that wages should be settled by economic pressure, otherwise called ’hard facts’, and that our vast machine should crash along, with regard only to its equilibrium as a whole, and without attention to the chance consequences of the journey to individual groups.

" The gold standard, with its dependence on pure chance, its faith in the ’automatic adjustments’, and its general regardless of social detail, is an essential emblem and idol of those who sit in the top tier of the machine. I think that they are immensely rash… in their comfortable belief that nothing really serious ever happens.

" Nine times out of ten, nothing really does happen - merely a little distress to individuals or to groups. But we run a risk of the tenth time (and stupid into the bargain), if we continue to apply the principles of an economics, which was worked out on the hypothesis of laissez-faire and free competition, to a society which is rapidly abandoning these hypotheses. "

So, next time you want to come up with some new idea on how to solve our economic problems with a magic gold bullet, remember new economic thinking starts with reading old books! Why not start with the best there are – those written by John Maynard Keynes.

Source: Real World Econ Rev, 7 June 2018 https://rwer.wordpress.com/2018/06/07/swiss-sovereign-money-referendum/#comment-137892

Is the U.S. Federal Reserve privately owned?

Editor

Australia's central bank is the Reserve Bank of Australia. It is a publicly-owned entity and, although enjoying a degree of independence, is ultimately responsible to the federal government and is obliged to cooperate with Treasury.

The central bank of the United States is the Federal Reserve System (the Fed) was set up by an Act of Congress in 1913 and is similarly responsible to the U.S. government.   Although parts of the Fed share some characteristics with private-sector entities, the Fed was established to serve the public interest. The Fed has a two-part structure: a central authority called the Board of Governors (in Washington, D.C.), and a decentralized network of 12 Federal

Reserve Banks located throughout the country. The Board is an agency of the federal government, but is not funded by Congressional appropriations. All net earnings of the Fed are returned to the federal Treasury.

There have been ongoing disputes concerning the extent of the Fed's independence and its ownership status. Therefore we thought the following information would be helpful, updated from a primer on money entitled "Money Facts", which was originally published by The Committee on Banking and Currency of the U.S. House of Representatives on September 21, 1964.

Some people erroneously believe that private banks "own" the Fed. This is because the original Act of Congress required that member banks invest a sum equal to 6% of their capital in the stock of their regional Federal Reserve Bank. But this was not required to disseminate Federal Reserve ownership. Forcing member banks to "invest" some of their capital in the Fed was essentially a guarantee against loose practices. So one can say that the Fed is not owned by anyone.

The "stock" owned by these banks is not stock in the normal, corporate-investment sense of the word. It carries only nominal proprietary interest, it cannot be sold or pledged, it represents no claim on Fed assets, and it carries no effective voting rights on any important decisions (i.e. directors appointed by member banks can always be outvoted by people appointed by the President and Congress).

In other words, the "stock" should not be interpreted as ownership stock at all. And the Fed could operate without this "stock", which serves no worthwhile purpose whatsoever. Eliminating it would change nothing in regard to the basic structure and functions of the Fed. The Fed does not need the money because it has the ability to create money whenever it needs any.

Governments left clueless by economic orthodoxy

Editor

Stephen Williams recently explained [1] how politicians of every persuasion have been led astray by mainstream economists, trapped in the delusion that federal government budget constraints are the same as those of households, businesses and state governments.

The reality is that the federal government has an unlimited ability to create money. And it should spend as much as the economy allows for achieving full employment, consistent with keeping a lid on inflation and avoiding ecological overshoot. It is also possible for the federal government to run deficits forever without needing to borrow from the private sector.

Williams draws on the work of Australian economists like Steven Hail and Philip Lawn, who say that increasing the size of high-GDP economies is now producing **un-**economic growth, as these economies are past their optimal size - as measured by marginal cost-benefit analyses. Economics, as now mostly practised, is largely self-reinforcing rather than self-correcting, as large vested interests dig in. The only way out is to re-examine first principles, which is what ecological economics, functional finance and MMT do.

1. Independent Australia, 27 Sept 2018 https://independentaustralia.net/politics/politics-display/how-mainstream-economics-has-led-to-clueless-governments,11933

Mainstream macroeconomics and Modern Monetary Theory

Steven Hail

What really divides them? A very great deal indeed!

I have been asked for a response to a very recent John Jay College, CUNY working paper, entitled *Mainstream Macroeconomics and Modern Monetary Theory: What Really Divides Them?* (Jayadev & Mason 2018):

http://newserver.jjay.cuny.edu/sites/default/files/contentgroups/economics/mainstreammacroeconomicsmodernmonetarytheory.pdf

The authors, who identify themselves as being sympathetic to modern monetary theory, argue that the answer to this question is 'not very much'.

Their view is that neither mainstream macroeconomists nor modern monetary theorists are correct to see modern monetary theory (MMT) as a radical challenge to macroeconomic thought, and that instead the essential difference between the modern mainstream and modern monetary theorists is a debate about the relative effectiveness of monetary policy and fiscal policy as tools for stabilising the economy across the business cycle.

In their abstract, they claim that 'while MMT's policy proposals are unorthodox, the analysis underlying them is entirely orthodox'.

This would be correct if modern monetary theory equated to the old-fashioned 1950s and 1960s Neo-Keynesian economics of what is often described as 'the first neoclassical synthesis'. But MMT does not fit that equation, and so the authors of this paper are incorrect.

In the early 1970s, James Tobin argued that the debate between (Neo-)Keynesians, including Tobin himself, and Milton Friedman's monetarists boiled down to the same issues the authors of this paper have chosen to raise in 2018 (Tobin 1971). It was all about whether changes in interest rates or changes in the fiscal balance were a more effective way of influencing total spending, output and employment, and this depended on the interest elasticity of investment spending by firms, as well as the interest elasticity of the demand for money. At the time, Friedman correctly argued that there was more to it than that. The idea that this is the key issue between mainstream economists (as the modern-day Friedmanites) and modern monetary theorists, as though we are channelling James Tobin, is mistaken.

Space precludes me from discussing this in full in this piece. That will have to wait for another occasion, or more correctly a series of other occasions. But we can deal with some misconceptions and errors of emphasis in Jayadev and Mason's paper here.

They claim their goal is 'not to make an assessment of MMT as a whole' and they admit to making 'only limited references to MMT literature'. How you are supposed to answer the question they set themselves without assessing MMT as a whole, and how you can imagine yourself able to answer this question without referring in depth to the relevant MMT literature I will leave to one side. However, we should be grateful that they are engaging with MMT at all, and doing so in a way which is not entirely dismissive.

They choose to ignore the chartal or state theories of money on which MMT is founded, and do not discuss at all the role of an employment guarantee within

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MMT. Indeed they state: 'It is unfortunate, in our view, that many MMT texts begin with discussions of endogenous money, chartalism, and the mechanics of government fiscal operations. These arguments are intended to make the case that modern states have the capacity to borrow without limit at an interest rate of their choosing, but there is no need to establish this. It is already implicit in the orthodox view that the central bank can set the interest rate.'

Without an understanding of fiscal operations within a modern monetary system, it is not clear that government financial liabilities are properly not viewed as debt in the conventional sense at all, but as net financial assets for the non-government (private) sector; it is not clear that the 'money multiplier' theory is based on misconceptions about how the monetary system works, so that the issuance of debt securities by a monetary sovereign running fiscal deficits is optional; and it is not clear that the fiscal balance and any government debt to GDP ratio you choose to define are never appropriate targets for policy makers.

Jayadev and Mason are right to say that modern monetary theorists 'do not see the debt ratio as an important target for policy'. They are wrong, or at least misleading, to say 'that most MMT advocates would probably agree that the debt ratio should not be allowed to rise without limit'. The debt ratio WILL not rise without limit, and should only rise if there is a demand from the non-government sector to net save domestic currency, while the economy operates at the full employment level of income. It is not that the debt ratio is not an important target for policy. It is NEVER a suitable target variable – important or not – and should evolve as necessary in response to the evolution of the fiscal balance, to maintain non-inflationary full employment.

They argue that modern monetary theorists argue interest rates should be kept low in order to prevent the government debt ratio rising. This also is misleading. Modern monetary theorists argue for low, or even zero, official interest rates, because the link between interest rates and total spending is unreliable, shifts over time as balance sheets evolve, and even has an uncertain sign; and because non-zero risk-free interest rates have adverse implications for the distribution of income. This has nothing to do with stabilising an essentially irrelevant debt ratio. The fact that a low or zero interest rate DOES prevent that ratio rising without limit is true, but the idea that this is the reason we advocate for low or zero and stable interest rates is false.

They claim 'the limits of a central bank's ability to control interest rates remains an open question'. Once again, it is a pity they seem to have no interest in the 'mechanics' of fiscal and monetary operations, or it would be obvious that a central bank can always use its balance sheet to set risk-free interest rates across the yield curve. This is a matter of fact, and there are no limits to it. It should not be an open question.

Lower (or zero) interest rates do not necessarily imply higher private spending, and so do not imply larger primary fiscal surpluses (or smaller primary fiscal deficits) for non-inflationary full employment.

Zero official interest rates reduce the flow of interest payments from the government to the private sector, for example, which depresses demand; interest payments within the private sector are transfers of purchasing power; and any impact of lower interest rates on private borrowing has balance sheet effects, which means that any stimulus is limited in duration.

This of course is why modern monetary theorists favour more extensive bank regulation, and in some cases bank nationalisation, to influence the direction of new credit creation, and to limit the amount of new lending over time. Higher interest rates are not the only available mechanism for limiting private sector indebtedness.

They are right to say that MMTists 'pursue the fiscal balance consistent with price stability', and that we accept the basic logic behind the Phillips Curve relationship between inflation and unemployment. They are wrong to confuse our definition of full employment, which is a situation where there is no involuntary unemployment, with the mainstream definition, of a so called 'natural rate of unemployment' (or NAIRU).

This is where their decision to ignore a job guarantee is so unfortunate. The job guarantee is the automatic fiscal stabiliser which eliminates the Phillips Curve trade off and does away with NAIRU, because it acts an institutional mechanism to allow us to attain genuine full employment without inflationary consequences. Mainstream economists use a buffer stock of unemployed labour to control inflation. We advocate a buffer stock of equitably and productively employed labour as a superior tool of stabilisation.

Because Jayadev and Mason are locked into natural rate thinking and the associated Phillips Curve as immutable facts of life, their definition of potential output is different to ours. They define potential output as the level of output consistent with the NAIRU rate of unemployment, and see the task of the authorities as stabilising output at or close to this level. We may define full employment output as the level of output consistent with non-inflationary full employment, when a job guarantee is in place. Just as the size of the job guarantee automatically sets the appropriate fiscal balance, so the level of output will be whatever it needs to be for there to be equitable and non-inflationary full employment.

It is unfortunate that they repeat the oft-stated claim that democracy imparts a bias towards deficits and inflation. It is surely increasingly difficult to argue that this is the case, given the history of recent years. The problems of the great democracies of the USA, Europe and Japan, and so many others, in recent times have hardly been indicative of a bias towards inflation. Democracy ought to impart a bias over time to effective government, in the sense that ineffective governments ought to lose elections, and be replaced. Where this is not the case, the model of democracy being used is at fault.

They conclude by saying, 'What reason do we have to believe that an elected government that was free to set the budget balance at whatever level was consistent with price stability and full employment, would actually do so? This is where the real resistance lies.' How unfortunate that they have no idea of the central significance of the job guarantee in modern monetary theory. It is also unfortunate that they do not ask, 'What reason do we have to believe that a government irresponsibly pursuing an inappropriate policy target of a fiscal surplus will not drive the economy into increasing private indebtedness, financial fragility and severe recession?'

We should be grateful to the authors of this paper for their attempt to engage with modern monetary theory. That they have not been able to do so effectively is mainly because they have not delved deeply into the inadequacy of mainstream (neoclassical) macroeconomics as a useful description of how monetary economies actually function. To do this, they would need to acquaint themselves with the work of a variety of Post-Keynesian economists, including Paul Davidson, Hyman Minsky, and the great Michal Kalecki, and then go back and re-read Keynes himself. They ought then to re-read Lerner and to study carefully Wynne Godley's stock-flow consistent monetary models of the economy. They refer to a paper by Godley's co-author, Mark Lavoie, but they ignore the much more important work Lavoie did with Godley on stock-flow consistent modelling, which is an important tool within MMT.

Actually, they could just read my book, *Economics for Sustainable Prosperity* (Hail 2018), which explains the philosophical and scientific differences that exist between mainstream macroeconomics and modern monetary theory, and builds connections from MMT to both behavioural economics and ecological economics.

I am planning to summarise the chapters of this book for readers of the ERA Review over the next year or so, so that readers can fully answer the question *Mainstream Macroeconomics and Modern Monetary Theory: What Really Divides Them?*

The brief answer is 'a very great deal indeed'.

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The Trans-Pacific Partnership is not about trade

Editor

A recent article by Pat Ranald [1] has criticised the latest version of the Trans-Pacific Partnership (TPP-11), which has been endorsed by both of the major political parties within the Australian parliament. The major elements of her criticism are as follows:

(a) It is hard to know exactly what the TPP will do for us, because the federal government hasn't commissioned any independent modelling, either of the TPP-11 proposal before the Senate or the original TPP-12.

(b) In TTP-11, regulation is regarded as something to be frozen and reduced over time, and never increased. But our experience of the global financial crisis, the banking royal commission, escalating climate change and the exploitation of vulnerable temporary workers tells us that from time to time governments need to be able to re-regulate in the public interest.

(c) The TPP-11 contains the so-called Investor-State Dispute Settlement (ISDS) provisions that allow private corporations to bypass national courts and seek compensation from extraterritorial tribunals if they believe a change in the law or policy has harmed their investments.

(d) The text of trade agreements such as TPP-11 remains secret until the moment they are signed. After that it's then tabled in parliament and reviewed by a parliamentary committee. But the parliament can't change the text. It can only approve or reject the legislation before it.

(e) In the midst of internal opposition to TPP-11, the Labor Party opposition has decided to endorse it and then try to negotiate changes if it wins government. But renegotiation won't be easy. Labor would have to try to negotiate side letters with each of the other TPP governments.

A recent article by Stephen Fitgerald [2] emphasises that TTP-11 is not about free trade. But rather, it is about power and control: "Powerful corporations have been allowed to swallow the state; they have, as the economist James Galbraith explains, created a 'predator state', which they naturally exploit for their own expansion. There is no frame of reference with which we can more convincingly define the TPP."

1. Ranald, P., "The Senate is set to approve it, but what exactly is the Trans Pacific Partnership?" , The Conversation, 16/10/18

2. Fitzgerald, S., "The predators behind the Trans-Pacific Partnership", The AIM network, 18/10/18

Economic statistics are like a bikini - what they reveal is important, what they conceal is vital.
-- Attributed to Prof Sir Frank Holmes, Victoria University, New Zealand, 1967

Letters

From Wayne McMillan (NSW)

Setting the Economic Agenda

Economic and financial commentators, central bank gurus, policy research spokespeople and treasury boffins use a language that could be called econo-speak. They talk as if anyone who has difficulty understanding them must be an economic ignoramus. They frame the economic agenda and decide what will be discussed, how it will be discussed and the terms of the discussion. If any Australians dare decide to discuss economic issues outside the boundaries set by this self-proclaimed economic literati, then be prepared either for ridicule, waspish biased criticism or arrogant refusal to even contemplate differing views.

Considering the economic disaster from the global financial crisis and the bald fact that 99.9% of the econo-speak commentators did not predict this event, it doesn't stack up that they are the font of all economic knowledge. Even worse if we dig a little deeper and delve into the economic theories that these commentators draw from, we also find out that these are the very flawed theories upon which the global economic crisis was built.

If you search hard enough you can read or listen to well-known economists, alive and dead across the political spectrum, telling all and sundry that orthodox economic theory needs to be rethought as it has failed us. This isn't a new phenomenon it has been with us for some time. I attended a talk by internationally acclaimed Nobel Prize winning economist Joe Stiglitz in 2014 at the Sydney Town Hall to a packed audience. It was attended by a broad cross-section of people. Joe was adamant that the Anglo-American constructed economic theories had failed many countries especially the USA and warned Australians not to go down the road of austerity policies or follow American orthodox economic ideas.

In the light of these revelations, any discussion about economic matters should be up for grabs and no new economic hypotheses and ideas should be labelled as nonsense, until they are scrutinised carefully and proven to be empirically invalid. We need open, free debate about issues relating to budget repair, taxation, deficits and surpluses. The time to drop the TINA (There Is No Alternative) rhetoric is long overdue. I don't believe that most Australians think that the economic problems we face are simple to solve, but some of our economic commentators give the impression that this is the case. One of the problems facing us is that many of our politicians follow these commentators like glue, so this doesn't help to enlighten the public about the range of policy choices available.

A major simplistic technique used by some politicians to explain the Federal Budget is to compare it to an ordinary household budget, which is patently false. Fiscal and monetary policy is far more complex than just balancing the books. Federal budgetary policy, which is one aspect of 'fiscal' policy has also a stabilisation role for the economy which is very important for future economic growth and differs greatly from the role of household budgets that seek to keep a family living within its means. Confusion over levels of public and private debt has been deliberately propagated. Australia doesn't have a high level of public debt, but it does have a high level of private debt.

When we come to the financial sector, there is still much confusion and secrecy about how central banks and ordinary banks operate. What does our central bank actually do and what is its role? Can governments who issue a sovereign fiat currency that is free floating, ever run out of money? Do banks create new money out of thin air in the economy by lending to people they see as a good risk, or do they loan out the money of savers?

There are many interesting questions that have come out of the post global financial crisis. New and developing economic theories about Economics abound and they deserve further objective investigation.

We need to sort out the wonkish and ridiculous ideas from those theories or hypotheses that have a firm, empirical basis. We need to look at the facts and relevant circumstances first before we assume any given outcome.

No economic theory comes out of the ether -- it has a firm foundation in a distinct mix of social, political and ideological contexts. Our media today is not unbiased and I include the ABC in this category; it tends to label certain ideas and theories through a prism of so called assumed norms and mores, which are supposed to be common knowledge. This is a myth and it's self-perpetuating.

To introduce any new policies will require a range of sound tests and there will be an element of trial and error. There are no easy answers to complex socio-economic, problems, so we will have to go back to the drawing board more than once. Therefore economic education is needed for the ordinary Australian, to ensure they are not fooled by economists, politicians and economic commentators, who have a vested interest in pushing their own ideological point of view.

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