



# ERA Review

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*For a just and sustainable society*

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## Growth and GDP: don't mention the G-Words

Geoff Davies



Source: Flickr cc

A recent exchange between Jason Hickel and Dean Baker on whether humanity can have a viable future and still have 'economic growth', nicely highlights the way old concepts and words can trap us in unproductive debate and action.

The way forward is to recognise the need for a fundamental re-framing of the nature and purpose of our societies, and their economies. The terms growth, GDP, capital and capitalism are so ill-defined, confused or inappropriate that they only hinder debate.

Specifically, the source of the apparent disagreement is, first, the pretence that Gross Domestic Product is a measure of the quality of our lives, and second the common presumption that a shrinking GDP is a disaster.

Perhaps the main reason a growing GDP has become an obsession with politicians and economic policy makers

is that, in our poorly-managed and mis-managed market societies, a shrinking GDP commonly comes with rising unemployment and limited political prospects.

But GDP is not accounting, it is a crude tally of the ways we spend money. It was never intended to be a measure of the quality of a society, but it has come to be used in that way. GDP indiscriminately counts as positive contributions things like food production, the production of trucks, clear-felling of forests, creating and cleaning up after oil spills, car crashes and intrusive cancer treatments.

Caring for baby at home and growing backyard vegetables count for zero. GDP is simply the sum of our activities that involve money, regardless of whether they are useful, useless or harmful, and its use grossly distorts our priorities.

Proper accounting involves a balance sheet, the good stuff on one side and the bad stuff on the other, so you can see whether what you are doing is worth the trouble. The GPI (Genuine Progress Indicator) has such a balance sheet, as do the triple-bottom-line approaches. You might quibble about the details of those measures, but at least their approach is defensible.

The problem with the arguments about Growth, Steady State, Degrowth, Post-Growth and so on is that they are still (commonly) conducted in terms of GDP. But GDP is a hopelessly confused and incomplete measure which is not meaningfully related to anything we want.

It seems that Hickel and Baker understand the challenge but they still argue from within the old framing, and thus perpetuate it. If we stop talking about GDP and growth we can find things we agree on, and get on with doing them.

A way forward is first to distinguish quality from quantity. We can, and must, reduce the quantity of resources we extract, use once, and dump: by learning again to re-use everything.

However there is no reason we cannot continue to improve the quality of the things we make and do. This is how the living world has been working, for about four billion years now.

What comprises quality, in our things and in our lives, is for us to decide. If quality is a clever, non-toxic, recyclable, portable telephone, then we can have that. If quality is time to smell the flowers and eat healthy local food we can have that too.

If quality is a daring sport, or singing and listening to an opera, we can have them so long as no-one or nothing is harmed by our activities.

Notice I haven't said anything about money. The price of things is a secondary feature determined by the particular way in which society creates, uses and destroys money. The fundamental purpose of money, commonly overlooked, is to facilitate exchange. The economy is not money, the economy has to do with the things we make and do and exchange.

Some of the Hickel-Baker debate involved capital and the propensities of capitalism. These are both very loaded and ill-defined terms, but in this context capital means money (representing a claim on things) and capitalism carries the expectation that money can be used to acquire more money (and thus a greater claim on things).

A basic problem with capitalism, as usually practised in recent centuries, is that it has led to great concentrations of ownership, and thus of economic and political power. Well we have other forms of ownership, some of them collective, that can allow rewards to flow more fairly, and with less harm to people and the world.

So let us focus on our agreed rules of ownership (of things and money) and make them work better for our common interest.

If, as we shift our society to a form that has some hope of survival, some people's jobs are removed, then let us address that challenge directly by supporting them until they establish a rewarding life for themselves, instead of relying on abstract aggregates of this or that use of money, and a few ineffectual economic levers, that may result in some replacement jobs that might or might not be useful and rewarding.

If we relegate money (and the associated financial and banking systems) to

its proper place of facilitating what we do, and focus instead on what we do, then the net price of everything, the GDP, becomes irrelevant, as does its possible increase or decrease.

So let us move to clean energy, to a circular economy that extracts and dumps far less material, and to systems of money and ownership that facilitate

what we want. As we do so we will probably find the quality of our lives improving, along with the quality of myriad non-human lives around us.

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**Source:** Real World Econ Rev, 18 Dec 2018  
<https://rwer.wordpress.com/2018/12/18/grth-and-gp-dont-mention-the-g-words/>

## 20th anniversary of the euro — no reason for celebration

Lars Syll

When the euro was created 20 years ago, it was celebrated with fireworks at the European Central Bank headquarters in Frankfurt. Today we know better. There are no reasons to celebrate the 20-year anniversary. On the contrary.



Since its inception, the euro has been in crisis. And the crisis is far from over. The tough austerity measures imposed in the eurozone has made economy after economy contract. And it has not only made things worse in the periphery countries, but also in countries like France and Germany. Alarming facts that should be taken seriously.

Europe may face a future with growing economic disparities where we will have to confront increasing hostility between nations and peoples. What we've seen

lately in France shows that the protests against technocratic attempts to undermine democracy may go extremely violent.

The problems — created to a large extent by the euro — may not only endanger our economies, but also our democracy itself. How much whipping can democracy take? How many more are going to get seriously hurt and ruined before we end this madness and scrap the euro?

The euro has taken away the possibility for national governments to manage their economies in a meaningful way — and in country after country, the people have had to pay the true costs of its concomitant misguided austerity policies.

The unfolding of the repeated economic crises in euroland during the last decade has shown beyond any doubt that the euro is not only an economic project but just as much a political one.

What the neoliberal revolution during the 1980s and 1990s didn't manage to accomplish, the euro shall now force upon us.

But do the peoples of Europe really want to deprive themselves of economic autonomy, enforce lower wages and slash social welfare at the

slightest sign of economic distress? Are increasing income inequality and a federal überstate really the stuff that our dreams are made of? I doubt it.



History ought to act as a deterrent. During the 1930s our economies didn't come out of the depression until the

folly of that time — the gold standard — was thrown on the dustbin of history. The euro will hopefully soon join it.

Economists have a tendency to get enthralled by their theories and models and forget that behind the figures and abstractions there is a real world with real people. Real people that have to pay dearly for fundamentally flawed doctrines.

**Source:** Real World Econ Rev, 5 Jan 2019  
<https://rwer.wordpress.com/2019/01/05/20th-anniversary-for-the-euro-no-reason-for-celebration/>

**Editor's comment:** The underlying reason why the single currency has not worked is the attempt to impose monetary union without commensurate fiscal union, and - given the neoliberal climate – this was destined to produce economic tyranny and austerity.

## What is wrong with mainstream economics?

### Editor

The following notes were developed from "Five fundamental propositions about orthodox economics" which appeared recently in a blog by Asad Zaman \*. The basic points listed might be startling to the general public but would be familiar to heterodox economists.

(1) Modern mainstream economic doctrines are based on fundamentally disproven assumptions which are self-contradictory and easily demonstrated to be wrong:

(2) The mainstream story is seriously flawed because, inter alia:

(a) The axiomatic theory of human behaviour encapsulated in *homo economicus* is not matched by real human behaviour.

(b) The theory of perfect competition devised to explain prices and markets has no relation to the realities of

monopolies and oligopolies, cartels, multinationals, excess production, and the shaping of demand by advertisements and culture.

(c) The welfare theory implicit in the maximization of lifetime utility is exceedingly harmful to human welfare because welfare practices should be derived from moral considerations and social associations, rather than from the satiation of consumers' preferences and a purely utilitarian approach.

(d) The optimization and equilibrium methodology used in mainstream economics is a complete failure. Human beings do not and cannot optimize, because they simply do not possess the information required for doing so.

And dynamic systems cannot be understood by simply looking at their real or supposed equilibria. In addition, standard econometrics techniques can be

used to demonstrate anything outside of their domain.

(e) Owing to these problems the mainstream theory is fundamentally flawed, because it cannot adequately interpret and analyse economic data.

(3) It appears that many leading economists are aware of the contradictions between economic theory and the simple facts of observation but choose to ignore them, writing off embarrassing observational evidence as externalities which are "too hard" to address. This type of contradiction would be addressed as a matter of priority if economics would adopt scientific methodology.

(4) The Global Financial Crisis which started in 2008 created widespread public awareness of this catastrophic failure of economics.

(a) The Queen of the United Kingdom, while visiting the London School of Economics, asked why no one saw this crisis coming, yet there has been no serious attempt to answer this simple question.

(b) The US Congress appointed a commission to study why economists not only did not foresee the crisis but, without analysis, confidently predicted that such an event could never happen.

(5) Most amazing, and as documented

by many, is the lack of response of the economics profession itself to the global financial crisis.

(a) The old theories which failed so miserably continue to be taught the world over and economics teachers continue to believe in, and preach, the same sermons, the practical implementation of which led to global disaster.

(b) Students continue to be exposed to the same poisonous doctrines that have ruined personal happiness and destroyed the possibility of building a decent society.

(c) The same DSGE models that failed to predict the volatility of stocks in the GFC continue to be used today and the same monetary policies that led to the crisis and could not prevent the Great Recession which followed are lauded, praised and continue to be practised.

Lastly, there seems to be an increasing general awareness of this failure of the profession as a whole but no serious widespread move is apparent towards obvious solutions embracing a heterodox approach. This lack of satisfactory analysis is a devastating indictment of modern mainstream economics.

\* **Source:** Real World Econ Rev, 2 Jan 2019  
<https://rwer.wordpress.com/2019/01/02/romers-trouble-with-macro/>

## What is competition?

### Editor

Competition continues to be poorly understood by many economists. Here is an extract from a paper written more than 26 years ago by Australian economist Dr Evan Jones \*:

" Two dominant versions exist. Version one depends on large numbers of small firms inhibiting the accession of any to a position of market dominance. This is the stuff of the textbooks. Version two

depends on all firms of whatever size and product fighting it out to the death (Social Darwinism). Its second version has much currency in right-wing think tanks.

"The first version requires strong regulatory action for its success. The second insists that regulatory action is what inhibits the system from working. Public representations to the electorate of the

advantages of competition mix these versions unashamedly. Both can't be right. The details matter as to what a Trade Practices Commission might do or whether we have a Trade Practices

Commission at all. "

**\*Source:** Evan Jones (1991), "Down with Economists: Australia would be a happier place without economists"; *The Bulletin*, 8 Oct 1991, pp 86-88

## Why Germany leads in renewables: it has its own green bank

Ellen Brown



Wind turbines in Germany (Source: Flickr cc)

The "Green New Deal" endorsed by US Rep Alexandria Ocasio-Cortez (D-NY), and over 40 other House members has been criticized as imposing a too-heavy burden on the rich and upper-middle-class taxpayers who will have to pay for it. However, taxing the rich is not what the Green New Deal resolution proposes. It says funding would come primarily from certain public agencies, including the US Federal Reserve (Fed) and "a new public bank or system of regional and specialized public banks."

Although funding through the Fed might be controversial, establishing a national public infrastructure and development bank should be a no-brainer. The real question is why we don't already have one, as do China, Germany and other countries that run circles around the US in infrastructure development. Many European, Asian and Latin American

countries possess their own national development banks, and also belong to bilateral or multinational development institutions that are jointly owned by multiple governments. Unlike the Fed, which considers itself "independent" of government, all national development banks are wholly owned by their governments and their mission is to carry out public development policies.

China has its own Infrastructure Bank and has also established the Asian Infrastructure Investment Bank, which counts many Asian and Middle Eastern countries in its membership, including Australia, New Zealand and Saudi Arabia. Both banks are helping to fund China's trillion-dollar "One Belt One Road" infrastructure initiative. China is so far ahead of the US in regard to building infrastructure that Dan Slane, a former adviser on President Donald

Trump's transition team, has warned, "If we don't get our act together very soon, we should all be brushing up on our Mandarin."

The renewable energy leader, however, is Germany, which has been called "the world's first major renewable energy economy". Germany has a public sector development bank with the name KfW (*Kreditanstalt für Wiederaufbau*, or "Reconstruction Credit Institute"), which happens to be larger than the World Bank. Along with Germany's nonprofit Sparkassen banks, KfW has largely funded Germany's green energy revolution.

Unlike private commercial banks, KfW does not have to focus on maximizing short-term profits for its shareholders while turning a blind eye to external costs, including those imposed on the environment. The bank has been free to support the energy revolution by funding major investments in renewable energy and energy efficiency. Its fossil fuel investments are close to zero. One of the key features of KfW, as with other development banks, is that much of its lending is driven in a strategic direction determined by the national government. Its key role in the green energy revolution has been played out within a public policy framework under Germany's renewable energy legislation, including policy measures that have made investment in renewables commercially attractive.

As one of the world's largest development banks, KfW has assets totalling \$566.5 billion, as of December 2017. Ironically, the initial funding for KfW's capitalization came from the US, via the Marshall Plan in 1948. Why didn't the US fund a similar bank? For the simple reason that powerful banking interests did not want the competition from a

government-owned bank that could make below-market loans for infrastructure and development. Major US investors today prefer funding infrastructure through public-private partnerships, in which private partners can reap the profits while any losses are imposed on local governments.

### **KfW and Germany's Energy Revolution**

German renewable energy technology mainly embraces wind, solar and biomass. In 2017, renewables generated 41% of the country's electricity, up from just 6% in 2000; and the public banks provided over 72% of the financing for this transition. Over 2007-2009 KfW funded all of Germany's investment in Solar Photovoltaic (PV) technology. Subsequently, Solar PV was introduced nationwide on a major scale. This is the sort of catalytic role that development banks can play -- kickstarting a major structural transformation by funding and showcasing new technologies and sectors.

Not only is KfW one of the biggest financial institutions, but it has been ranked one of the two safest banks in the world (the other, Switzerland's Zurich Cantonal Bank, is also publicly owned). KfW sports triple-A ratings from all three major rating agencies -- Fitch, Standard and Poor's, and Moody's. The bank benefits from these top ratings and the statutory guarantee of the German government, which allow it to issue bonds on very favourable terms, backing its loans with the bonds.

KfW does not operate through public-private partnerships, and it does not trade in derivatives or other complex financial products. It relies on traditional lending and grants. The borrower is responsible for loan repayment. Private investors can participate, but not as

shareholders or public-private partners. But rather, they can invest in “Green Bonds,” which are as safe and liquid as other government bonds and are prized for their green earmarking. The first “Green Bond made by KfW” was issued in 2014 with a volume of \$1.7 billion and a maturity of five years. It was the largest Green Bond ever at the time of issuance and generated so much interest income that the order book rapidly grew to \$3.02 billion, although the bonds paid an annual coupon of only 0.375 percent. By 2017, the issue volume of KfW Green Bonds reached \$4.21 billion.

Investors have benefited from the high credit and sustainability ratings of KfW, the risk-free liquidity of its bonds, and the opportunity to support climate and environmental protection. For large institutional investors with funds that exceed the government deposit insurance limit, Green Bonds are the equivalent of savings accounts - a safe place to park their money with the provision of a modest interest. Green Bonds also appeal to “socially responsible” investors, who have the assurance with these simple and transparent bonds that their money is going where they want it to. The bonds are financed by KfW from the proceeds of its loans, which are also in high demand due to their low interest rates, which the bank can offer because its high ratings allow it to cheaply mobilize funds from capital markets and its public policy-oriented loans qualify it for targeted subsidies.

### **Roosevelt’s Development Bank: The Reconstruction Finance Corporation**

KfW’s role in implementing government policy parallels that of the Reconstruction Finance Corporation (RFC) in funding the New Deal in the 1930s. At that time, US banks were bankrupt and

incapable of financing the country’s recovery. President Franklin Roosevelt attempted to set up a system of 12 public “industrial banks” through the Fed, but the measure failed. Roosevelt then made an end run around his opponents by using the RFC that had been set up earlier by President Herbert Hoover, expanding it to address the nation’s financing needs.

The RFC Act of 1932 provided the RFC with capital stock of \$500 million and the authority to extend credit up to \$1.5 billion (subsequently increased several times). With those resources, from 1932 to 1957 the RFC loaned or invested more than \$40 billion. As with KfW’s loans, its funding source was the sale of bonds, mostly to the Treasury itself. Proceeds from the loans repaid the bonds, leaving the RFC with net profit. The RFC was able to finance bridges, roads, dams, post offices, universities, electrical power, mortgages, farms and much more; and it funded all of this while generating government income.

The RFC was so successful that it became America’s largest corporation and the world’s largest banking organization. Its success, however, may have been its nemesis. Without the emergencies of depression and war, it was a too-powerful competitor of the private banking establishment; and in 1957 it was disbanded under President Dwight Eisenhower. That’s how the US was left without the benefit of a development bank while Germany and some other countries were hitting the ground running with theirs.

Today some US states have infrastructure and development banks, including California, but their reach is very small. One way they could be expanded to meet state infrastructure needs would be to turn them into depositories for

state and municipal revenue. Rather than lending their capital directly in a revolving fund, this would allow them to leverage their capital into 10 times that sum in loans, as all depository banks are able to do.

The most profitable and efficient way for national and local governments to finance public infrastructure and development is with their own banks, as the impressive track records of KfW and other national development banks have shown. The RFC showed what could be done even by a country that was in dire economic straits, simply by mobilizing its own resources through a publicly owned financial institution. We need to resurrect that public funding engine today, not only to address the national

and global crises we are facing now but for the ongoing development that the country needs in order to manifest its true potential.

**Source:** The Web of Debt, 26 Jan 2019  
<https://ellenbrown.com/2019/01/26/why-germany-leads-in-renewables-it-has-its-own-green-bank/>

The material in this article was published also in Truthdig.com, with a different title.

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## **The U.S. bank bailout of 2008 was unnecessary** **Dean Baker**

It is more than ten years since the harrowing descent into the financial crisis -- when the huge investment bank Lehman Bros. went into bankruptcy, with the largest US insurer, AIG, about to follow. No one was sure which financial institution might be next to fall.

The US banking system then started to freeze up. Banks typically extend short-term credit to one another for a few hundredths of a percentage point more than the cost of borrowing from the federal government. This gap exploded to 4 or 5 percentage points following Lehman's collapse. Federal Reserve Chair Ben Bernanke -- along with the Treasury Secretary Henry Paulson and Federal Reserve Bank of New York President Timothy Geithner -- rushed to Congress to get \$700 billion to bail out the banks. "If we don't do this today we won't have an economy on Monday" is the line often attributed to Bernanke.

The trio argued to the US Congress that

without the bailout, the United States faced a catastrophic collapse of the financial system and a second Great Depression.

Neither part of that story was true.

Still, news reports on the crisis raised the prospect of empty ATMs and checks uncashed. There were stories in major media outlets about the bank runs of 1929.

No such scenario was in the cards in 2008. Unlike 1929, we have the US Federal Deposit Insurance Corporation. The FDIC was created precisely to prevent the sort of bank runs that were common during the Great Depression and earlier financial panics. The FDIC is very good at taking over a failed bank to ensure that checks are honoured and ATMs keep working. In fact, the FDIC took over several major banks and many minor ones during the Great Recession. Business carried on as



Source: Flickr cc

normal and most customers -- unless they were following the news closely -- remained unaware.

Had bank collapses been more widespread, stretching the FDIC staff thin, it is certainly possible that there would be glitches. This could have led to inability to access some bank accounts immediately, but that inconvenience would most likely have lasted days, not weeks or months.

Following the collapse of Lehman Bros., however, the trio promoting the banking bailout pointed to a specific panic point: the commercial paper market. Now commercial paper is short-term debt (30 to 90 days) that companies typically use to finance their operations. Without being able to borrow in this market even healthy companies not directly affected by the financial crisis such as Boeing or Verizon would have been unable to meet their payroll or pay their suppliers. That really would have been a disaster for the economy.

However, a \$700-billion bank bailout wasn't required to restore the commerc-

ial paper market. The country discovered this fact during the weekend after Congress approved the bailout when the Fed announced a special lending facility to buy commercial paper, ensuring the availability of business credit.

Without the bailout, yes, bank failures would have been more widespread and the initial downturn in 2008 and 2009 would have been worse. We were losing 700,000 jobs a month following the collapse of Lehman. Perhaps this would have been 800,000 or 900,000 a month. That is a very bad story, but still not the makings of an unavoidable depression with a decade of double-digit unemployment.

The Great Depression ended because of the massive government spending needed to fight World War II. But we don't need a war to spend money. If the private sector is not creating enough demand for workers, the government can fill the gap by spending money on infrastructure, education, healthcare, child care or many other needs.

There is no plausible story where a

series of bank collapses in 2008-2009 would have prevented the US federal government from spending the money needed to restore full employment. The prospect of Great Depression-style joblessness and bread lines was just a scare tactic used by Bernanke, Paulson and other proponents of the bailout to get the political support needed to save the Wall Street banks.

This kept the bloated financial structure that had developed over the last three decades in place. And it allowed the bankers who got rich off of the risky financial practices that led to the crisis to avoid the consequences of their actions.

While an orderly transition would have been best, if the market had been allowed to work its magic, we could have quickly eliminated bloat in the financial sector and sent the unscrupulous Wall Street banks into the dust bin of history. Instead, millions of US citizens still suffered through the Great Recession, losing homes and jobs, and the big banks are bigger than ever. Saving the banks became the priority of the president and Congress. Saving people's homes and jobs mattered much less or not at all.

**Source:** Real World Econ Rev, 19 Sep 2018  
<https://rwer.wordpress.com/2018/09/19/the-bank-bailout-of-2008-was-unnecessary/>

## War and peace and the steady-state economy Herman Daly



Source: Flickr cc

My parents were children during WW I, the so-called “war to end all wars.” I was a child in WW II, an adolescent in the Korean War, and except for a physical disability would likely have been drafted for combat in the Vietnam War. Then came Afghanistan, Iraq, ISIS, the continuous Arab-Israeli conflict, Syria, Ukraine, etc. Now as a senior citizen, I see that war has metastasized into terrorism. It is hard to conceive of a country at war, or threatened by terrorism, moving to a steady state economy. Peace is necessary for real progress, including progress toward a steady state economy. While peace should be our priority, might it nevertheless be the case that working toward a steady state

economy would further the goal of peace? Might growth be a major cause of war, and the steady state a necessity for eliminating that cause? I think so.

A greater number of people requires more space (lebensraum) and more resources. More things per person also requires more space and resources. Recently I learned that the word “rival” derives from the same root as “river”. People who get their water from the same river are rivals – at least when too many of them are each drawing too much.

For a while, the resource demands of growth can be met from within national borders. Then there develops pressure

to exploit or appropriate the global commons. Then comes the peaceful penetration of other nations' ecological space by trade. The uneven geographic distribution of resources (petroleum, fertile soil, water) causes specialization among nations and interdependence along with trade. Are interdependent nations more or less likely to go to war? That has been argued both ways, but when one growing nation has what another thinks it absolutely needs for its growth, conflict easily displaces trade.

As interdependence becomes more acute, trade becomes less voluntary – more like an offer you can't refuse. Unless trade is voluntary, it is not likely to be mutually beneficial. Top down global economic integration replaces trade among separate interdependent national economies. We have been told on highest authority that because the American way of life requires foreign oil, we will have it one way or another.

International "free trade pacts" (NAFTA, TPP, TAFTA) are supposed to increase global GDP, thereby making everyone richer and effectively expanding the size of the earth and easing conflict. But growth on the entire planet has become uneconomic – increasing costs faster than benefits. It now makes us poorer, not richer. These secretly negotiated agreements among the economic elites are designed to benefit private global corporations, often at the expense of the public good of nations. Some think that strengthening global corporations by erasing national boundaries will reduce the likelihood of war.

More likely we will just shift to feudal corporate wars within a post-national global commons, with corporate fiefdoms effectively buying national governments and their armies, supplemented by already existing

private mercenaries.

It is hard to imagine a steady state economy without peace; it is hard to imagine peace in a full world without a steady state economy. Those who work for peace are promoting the steady state, and those who work for a steady state are promoting peace. This implicit alliance needs to be made explicit.

Contrary to popular belief, growth in a finite and full world is not the path to peace, but to further conflict. It is an illusion to think that we can buy peace with growth. The growth economy and warfare are now natural allies. It is time for peacemakers and steady staters to recognize their natural alliance.

It would be naïve, however, to think that growth in the face of our environmental limits is the only cause of war. Obviously relevant are evil ideologies, religious conflict, and the "clash of civilizations" which also cause wars. And so national defence is necessary, but uneconomic growth does not serve to make any country stronger.

The secular western nations have a hard time understanding that religious conviction can motivate people to both to kill and die for their beliefs. Modern devotion to the Secular God of Growth, who promises heaven on earth, has itself become a fanatical religion that inspires violence as much as any ancient Moloch. The 2nd Commandment, forbidding the worship of false gods (idolatry) is not outdated. Our modern idols are new versions of Mammon and Mars.

**Source:** Real World Econ Rev, 2 May 2015  
<https://rwer.wordpress.com/2015/05/02/war-and-peace-and-the-steady-state-economy/#more-18806>

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## Reforming Australia's banking system

Steven Hail

*The economist Hyman Minsky told us that stability is destabilising so how do we build an anti-fragile financial system that serves the real economy?*



Source: Flickr cc

Scientists have told us that the degree of complexity and disorder in a closed system naturally increases over time, and that energy must be drawn from outside the system if one wishes to reverse the natural tendency to disorder and complexity.

This is true not only in the natural world, but also in economic systems, and especially in banking and finance, as we should surely by now have learned from experience.

By 2008, the global financial system had become so large and complex, with so many layers, types of institutions and contracts, and so many interactions, feedback loops and potential sources of contagion, complexity and even fraud, that virtually nobody fully understood how fragile and likely to crash the whole system had become.

The word 'virtually' is appropriate here because almost all of those who were

aware of the causes and consequences of the evolution of the financial system into more and more complex states were people with a deep understanding of the life's work of a single economist – Hyman P. Minsky. And by 2008 the work of this great economist, who had died in 1996, were almost universally neglected by economists and other who claimed to have expertise in banking and finance, and almost all out of print.

We all know what happened next.

### **A banking system resting on four pillars**

But I don't want to rehearse the causes and consequence of the Global Financial Crisis (GFC) here, rather I'd like to instead focus on Australia's commercial banking sector.

You might think Australia's commercial banking is a relatively non-complex sub-system. You would be wrong.

Australia's banks are, today, in some ways less connected to the rest of the global financial system than they were before the GFC, and are therefore in some ways insulated from international financial crises. Less connected in the sense that they rely less heavily on the short-term international money market for funding, and more on their domestic deposits, and in addition they have reduced their international investments (for example, NAB sold off its Scottish subsidiary Clydesdale Bank in 2016).

But Australia's financial system is more concentrated, complex and fragile than it needs to be, and has been becoming more and more of an oligopoly. We now have one of the world's most concentrated banking systems, with a four firm concentration ratio of about 80%. If you are an Australian, you might not even be aware that you bank with the 'big 4'. You may not know Bank West is owned by the Commonwealth Bank. You may not realise that St. George's (once Australia's fifth largest bank), Bank SA, and the Bank of Melbourne are now just Westpac, by another name. Or that UBank is owned by NAB.

The UK and US banking systems are much less concentrated than ours, but of course they are far bigger systems, with more banks of systemic importance to not only their national economies, and to the global economy. And in 2008, those systemic banks needed saving, and in most cases were saved and revived with government money, with little or no significant reform.

Australia missed the worst of that crisis, but now has a potentially fragile system likely to turn what should be relatively mild economic shocks – small increases in interest rates, a minor recession in a trading partner, a minor inflation uptick, or a not unprecedented increase

in unemployment – into a major crisis.

Or perhaps even cause the crash with no external stimulus? We are close to the point now where the scale of our mortgage lending and the size of the property bubble alone could trigger an economic downturn, without requiring any discernible external shock. These concerns are shared by Australian economist Prof Steve Keen (formerly Head of Economics, History and Politics at London's Kingston University), who claims, in *Debunking Economics*, that the banking system itself could be the cause of the downturn. We may be close to that point in Australia, in that defaults may rise without there being an obvious cause, and this could trigger a recession on its own.

Australian banking is dominated by four megabanks which are essentially financial supermarkets, whose influence is found all over the financial and political systems. The 'four pillars' policy designed to prevent the four oligopolies from merging encouraged their diversification, so that there is now no sector of the Australian economy in which they are uninvested. Consequently, there is no sector of the financial system which has not been designed to be consistent with their interests.

Politicians and a range of investigative bodies will, from time-to-time investigate, castigate and where unavoidable, regulate (at least superficially) these four very profitable and enormously powerful institutions. Occasionally they might even be taxed.

The problem is that no new tax, or even the recent Royal Commission, will be able to change Australian banking in any good or fundamental way.

Government has become a commodity in and of itself. The Big Four banks

(plus Macquarie) are so deeply invested and tightly connected to it and the Opposition through funding, lobbying, political donations, think-tanks and enticements of well-paid post-Parliamentary positions, that the banking industry has bought itself a get out of jail free card. It has bought for itself between \$1.9 billion and \$3.7 billion get-out-of-jail-free cards, according to a 2015 report of the Reserve Bank of Australia, (RBA).

The Big Four are amongst the largest companies listed on the Australian Securities Exchange, and feature heavily in the asset portfolios of most superannuation funds. We are (nearly) all their customers, and many of us are their shareholders. The banks are at the very heart of our monetary and financial system, from running the payments systems on which the entirety of our economy depends, to providing essential credit money to households, to small and medium-sized businesses, and for some purposes to large corporations.

They are too big to be allowed to fail, as has often been said. They are also too influential for politicians on the whole to confront, except *in extremis*. Most, if not all confrontation is designed to placate the public, forever seeking re-election, rather than for the purpose of any real and significant systemic reform which might make our financial system less fragile. Even the long - and in many respects explosive - Royal Commission revelations does not seem likely to lead to any significant restructuring or re-regulation of the major Australian banks beyond selling off some of their more peripheral and embarrassing interests.

There is as little genuine desire to reduce household debt and to promote business growth and the capital development of our economy (i.e. capital

investment in business) as there is to make transparent to voters the workings of our monetary system.

To reduce the complexity and fragility of our financial system, we must necessarily facilitate a transition away from an economy based on household debt and towards an economy in which a greater number of people are invested in gainful employment.

Commercial banking in Australia requires fundamental reform, in a way which might seem shocking.

### **Back to basics**

Traditionally, the purpose of commercial banking has been to administer the payments system and to decide which businesses and households should be advanced credit.

Hardly anyone seems to have noticed, but we no longer need banks for the first of these two functions.

It is perfectly feasible for the Reserve Bank of Australia (RBA) to offer every Australian the opportunity to hold transaction, saving and term deposit accounts directly with itself.

It would be relatively easy to achieve, and while not advocating that Australia should emulate Ecuador's financial system, if something like this can be done in Ecuador - as it has been - then it is certainly possible for Australia. Why would it not be?

If the RBA administered the payments system instead of the commercial banks, our transactions with each other could be cleared person to person, or business to business, in real time. The technology to do this already exists. It would not be difficult to do.

I repeat: we no longer need to use our massive commercial banks to run our payments system. If this was their main



Source: <https://creditscoregeek.com/> (cc permission )

function, then they would be seen as a tremendous waste of this country's national resources. The banks have privatised a public service that could be more easily and efficiently handled centrally by a public institution.

Within the confines of commercial banking activities, beyond controlling payments systems, the only significant purpose the banks serve is underwriting of private credit ('underwriting' in this context means assessing the default risk of potential borrowers, and then once credit has been created, carrying that risk until a loan is repaid).

Whether they do a good job of this, in the light of increasingly risky lending practices in what appears to be a property bubble (at least in parts of the Sydney and Melbourne markets), is a perfectly legitimate question. It isn't obvious the banks are doing a great job of assessing credit risk. It's not clear that the regulator APRA sees things that way at all. For example, only this February the chairman of APRA felt the need to remind the banks they should be 'under no illusion' that regulatory intervention would be necessary if

lenders continued to increase growth in their interest-only mortgage lending. Fund managers have described many of these mortgages as 'Australia's sub-prime mortgages', in a reference to the triggers for the US property crash which triggered the GFC, and at least one such fund has recently backed out of Australian investments, due to the risk of an 'impending calamity'.

In principle, there is no reason why credit cannot be created by a public institution, in which case there is very little left for Australia's big four banks to do, in terms of their core functions. Perhaps we don't need them. Maybe they are obsolete. I would certainly advocate the formation of at least one public investment bank, like the government-owned *KfW* in Germany, with the role of providing funding for business investment within specific sectors of the economy.

However, it is generally accepted that properly regulated for-profit commercial banks play a useful role in business finance more generally, and in lending to the household sector (who wants public servants deciding on loan

applications?). But this role can best be played by relatively small financial institutions. The small, local banks are more likely to provide finance to small businesses and to develop long-term relationships with those they support.

This is consistent with research in 2015 based on the Sagemworks Bank Information data set indicating that larger US banks (those with assets of over \$1bn) devoted less than 30% of their assets to small business lending, while smaller US banks (assets below \$1bn) often had 30-60% of assets in this market. This indicates the relative significance of small businesses to these banks.

Such small banks would allocate credit while simultaneously creating deposit liabilities for themselves (as banks do now), backed by a supply of liquidity at the cash rate from the RBA.

In return for this supply of cash – which is more or less how the current system works anyway – these banks would be closely regulated in terms of what they are permitted to do. Their role in the economy would be very clear.

There should be a cap on the size of the balance sheets of any new banking organisations who should, naturally, be tightly regulated. I won't speculate as to what that limit should be, but in my view no Australian bank needs to be larger than the Bank of Queensland, Bendigo and Adelaide Bank are today. We don't need megabanks the size of the ANZ, CBA, Westpac, or NAB any more. They should be broken up. They are not champions of the Australian economy, needing to compete on the world stage. It's not what our banks should be doing.

### **Not just Australia**

This is not just a problem confined to Australia. It is one which exists in all modern economies. Immediately after

the Financial Crisis, there was talk of limiting bank size in the USA, and a number of other countries, including Switzerland. But it never happened. As Robert Reich said, in a blog post on 21st October 2008,

*“The business models and financial activities of the big banking companies are simply riskier than those of smaller, more traditional banks”.*

He put the optimal size of a commercial bank at an asset value of between \$500m and \$1bn. Just in terms of loans made, the Commonwealth Bank is about 500 times this size. Even the relative ‘minnow’ Bank of Queensland is perhaps 30 times as big as this. Gary Stern and Ron Feldman, in *Too Big to Fail: The Hazards of Bank Bailouts*, said ‘policymakers will have to consider the loss of scale benefits when they determine the net benefits of breaking up firms in the first place.’ Even if Professor De Young is grossly underestimating economies of scale in banking, it isn't clear that banks need to be as large as they are.

Banks exist to assess who should-and-should-not be given credit. They exist due to a belief that it can be done more efficiently in the private sector, by for-profit institutions. In a system working to protect the interests of customers, the banks would still have depositors, but they would always have the option of holding deposits directly at the RBA. Smaller banks would always have the option of being partially funded from the RBA, as long as their balance sheets were strong enough to meet regulatory requirements.

Securitisation of finance contributed to the GFC and should simply be banned. There is no justification for its continued existence, particularly in Australia which likes to pretend it is more tightly regul-

ated than the US but is actually just as vulnerable to an economic event of unprecedented proportions. However, at the moment there is, comparatively speaking, very little securitisation in Australia, and the market for asset backed securities was greatly reduced as a result of events elsewhere in the world in 2008/9. It isn't the main issue in Australia in 2019. The main issue in Australia is the unnecessary size and scope and excessive power of the major banks, and the impact they have on our economic discourse and our policies, and the direction of our asset markets and economy. The Royal Commission has suggested nothing which would change this.

An economy replete with upper, middle and working-class financial insecurity (particularly one leveraged up to the eyeballs in private debt) likewise makes the impact of a crisis more crushing, more widely felt and would likewise take longer to recover from. Moreover, economic insecurity prevents more people from even having the capital to create businesses in the first place.

We certainly do not need mortgage backed securities, or any other form of securitised bank lending. In this model, all bank loans would remain on bank balance sheets, banks would engage in derivatives transactions only when meeting the legitimate risk-management needs of business customers, and such derivatives would be both limited in scope and highly regulated.

As for the areas of financial services beyond narrow commercial banking into which the long tentacles of the 'Big Four' still stretch, I won't address them here – but they would best be separated from commercial banking itself and provided through independent and separate institutions.

What I have described above is a far simpler, less complex, more easily regulated and supervised system. No bank would be 'too big to be allowed to fail', and no single institution or group of institutions would be in a position to intimidate governments or excessively influence government policies.

And who is at the peak of the Australian monetary pyramid would be crystal clear to everyone – who rules the roost in our monetary system. The answer to that question is 'the owner of the central bank'. The Australian Commonwealth Government owns the RBA and therefore sits at the top of our monetary system. The Australian Commonwealth Government is the monetary sovereign, currency-issuing central government, and the only institution with a limitless ability to create Australian dollars. The same applies to the Bank of England - the UK government owned central bank. And the Federal Reserve in the US, despite its unusual legal status, is also a 'creature of Congress', and part of the state.

This shocking fact is obscure to most people today, but it is a fact, even now. If we could summon the energy outside our banking and financial system, to simplify and demystify the workings of Australian banking, we could make this crystal clear to all.

That might well be the greatest benefit of all, from greatly simplifying and strengthening our national financial architecture.

**Dr Steven Hail** is a lecturer in economics at Adelaide University and is an ERA member.

**Editor's note:** The proposal for a centralised payments system is also encapsulated in William Hummel's national depository scheme (<http://wfhummel.net/NDS.html>), in which the depository manages credit money payments but neither borrows nor lends.

## Recommended book: **Economics and Reality (1997)** by Tony Lawson Lars Syll

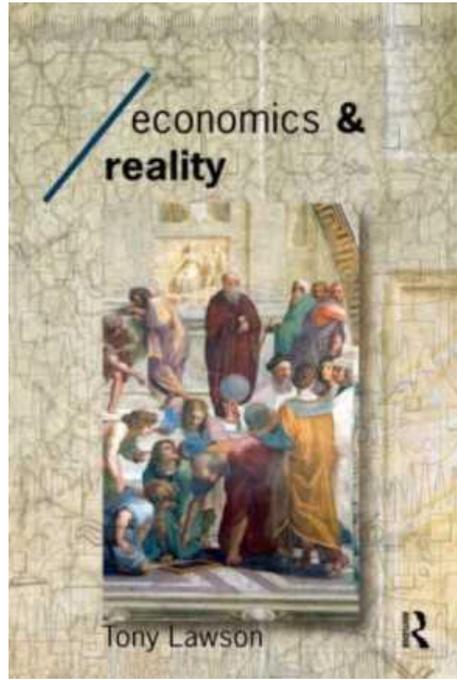
The study of 'modern' economics has become increasingly irrelevant to the understanding of the real world. In his seminal book *Economics and Reality* (1997), Tony Lawson traced this irrelevance to the failure of most economists to match their deductive-axiomatic methods with their subject.

It is - sad to say - as relevant today as it was twenty years ago.

It is still a fact that within mainstream economics internal validity is everything and external validity nothing. Why anyone should be interested in that kind of theorising and modelling is beyond imagination. As long as mainstream economists do not come up with any export licenses for their theories and models to the real world in which we live, they really should not be surprised if people say that this is not science, but autism!

Studying mathematics and logic is interesting and fun. It sharpens the mind. In pure mathematics and logic, we do not have to worry about external validity. But economics is not pure mathematics or logic. It's about society. The real world.

*Economics and Reality* was a great inspiration to me twenty years ago, and still is.



**Source:** Real World Econ Rev, 1 Feb 2019  
<https://rwer.wordpress.com/2019/02/01/economics-and-reality/>

### **Coming Event: Really Ending Poverty - A Job Guarantee and An Income Guarantee An invitation from Dr Steven Hail (University of Adelaide)**

Dr Alice Clark, from Shelter SA, will be talking about homelessness in South Australia, at our Really Ending Poverty event at the University of Adelaide on the evening of Monday 4th March. Claudia Ienco, from the Anti-Poverty Network, will be talking about what it is to be poor in South Australia. I'll be talking, briefly, about the role a Job Guarantee could play. If you are in or

near Adelaide, and can come along, I hope you will do so. Bring your friends too.

**Details:** Really Ending Poverty - A Job Guarantee and An Income Guarantee.

Monday, March 4, 2019 timed for 6:30pm to 8.00pm

The Napier Building, Room GO4,  
University of Adelaide, North Terrace.

## The explicable mystery of the national debt

J.D. Alt

This is one of several recent essays by J.D. Alt appearing in *New Economic Perspectives* which discuss U.S. “national debt” [1]. The general discussion also applies to Australia and other countries, so we have taken the liberty of changing national references accordingly, where appropriate.



US National Debt Clock (source: Flickr cc)

The United States' current “national debt” is tallied to be \$21.5 trillion. When U.S. politicians and economic pundits talk (worry, fret, wring their hands, gnash their teeth) about this “debt” they implicitly assume -- along with their listeners, readers, and potential voters -- that this fantastic sum will eventually have to be paid back. That's what happens with debts, right? Someone calls them due! Everyone also assumes the U.S. tax-payer will have to do the paying. (Quick calculation to save you the trouble: Each U.S. citizen is in hock for \$65,950!)

Depending on which political football is being tossed around, the “national debt” is either a crisis that must be address-ed *first* (before any other item can be paid for!) or it's something that we can simply ignore for the time being -- until the promised “economic growth”

comes along that will somehow enable the federal government to collect that extra “debt” from each of us. So long as we promise that Yes! someday we'll pay it off, we can feel okay about going one more day, or month, or year without even starting to do so. In the meantime, of course, the “national debt” somehow keeps growing! At least *that* must stop, we declare! Our government must stop borrowing even *more!*

So, we resolve to put a cap on the “national debt.” Which everyone feels good about until the federal government starts running out of tax-dollars needed to accommodate the expenses that our legislature has already committed it to meet. When that happens, the federal government - or crucial parts of it - painfully shut down. And the fault lies with whoever voted for all that spending in the first place - or whoever voted for

all those tax-cuts that made the spending impossible. In the end, after everyone has been thoroughly blamed, the cap on the “national debt” is, of necessity, raised a little higher into the clouds, like Jack’s beanstalk.

Meanwhile, of course, it’s impossible to even discuss the need to spend *new* dollars to address any of the dire and critical things we confront as a collective society. We can’t repair our dangerously impaired highway bridges. We can’t modernize our air-traffic control system. We can’t replace our failing, lead-polluted, water-systems. We can’t clean-up the super-fund sites leaching toxins into our ground-water. We can’t provide free pre-school day-care to every mother who wants to secure a job. We can’t modernize and guard from cyber-attack our national electric grid. We can’t provide healthy food and safe accommodations for homeless families. We can’t provide Medicare for every citizen. We can’t build affordable housing for families earning the minimum wage. We can’t provide adequate post-school education for our nation’s workforce. We can’t build modern transit systems that relieve the congestion and gridlock of our urban centers and corridors. We cannot even *begin* to plan for the relocation and/or rebuilding of millions of square miles of human infrastructure and habitation that will, beginning in the next decades, be flooded by rising sea levels.

There is simply not enough money to even think about doing all these things - and the fact we can’t even begin paying off our “national debt” is a constant reminder of that “reality.”

The mystery is, while all this perpetual haggling and hand-wringing is happening, no one seems to be knocking on

the nation’s door asking to be repaid. Unlike Greece and Italy who are constantly being squeezed by the EU central bank and the IMF to repay their debts, no one seems to be squeezing our country at all. Unlike Spain, which gets an earful from Germany if it even hints at increasing its national borrowing, we hear nothing from anybody (except our own politicians and pundits) when we vote to raise the beanstalk one cap higher. How can that be? It’s almost as if – weirdly - there isn’t anyone out there *expecting* to be paid back.

### **Could that be true?**

This mystery can, in fact, be explained. More importantly, the explaining - if you accept the explanation - will change your understanding of what our economy is capable of accomplishing. And it’s far more than you’d ever imagined.

The mystery lies in the use of the term “borrow”. As it’s commonly understood, when you borrow something, you take temporary possession of it from its owner (the lender) - and when you “repay” what you’ve borrowed, you give it back. What is often not considered in thinking about this transaction is that the lender’s possession is always replaced - either implicitly or explicitly - with a “promise” (i.e. the promise to return the possession, often with an additional premium to compensate the lender for his/her trouble.)

What is unique about federal government “borrowing” - and what gives the term, applied in that context, its confusing ambiguity - is the fact that the “promise” which replaces a borrowed dollar is simply another kind of “dollar”. Specifically, the federal government borrows non-interest-bearing dollars from the economy, and replaces them with a “federal treasury bond or note” which is, in effect, a special form of

“dollars” that earn interest. The federal treasury bond or note has the same tradability within the economy as the regular dollars it has replaced; therefore, the amount of [broad] “money” in the private sector doesn’t fall by the amount taken out by the “borrowing” but remains the same as before the “borrowing” occurred.

In conventionally understood “borrowing,” when the borrowed thing is returned, the “promise” that was being held by the lender (either implicitly or explicitly) is simply cancelled. In federal government “borrowing,” however, the borrowed thing is *NEVER* returned to the government because, by logic, the promise being held in its place *is already a form of money*. For example a \$1000 federal treasury bond is just as valuable as 1000 dollars in currency - only better, because it earns interest! When that treasury bond “matures,” the dollars it “contains” are simply converted to “regular” dollars or, more often than not, they are rolled into a new treasury bond.

This is why there is nobody squeezing the federal government to repay what the government has “borrowed.” They have *already* been repaid by the federal treasury bonds they took in exchange for the dollars they “loaned”. (As you can see, the term “loan” applied to this transaction has the same paradoxical ambiguity as the term “borrow.” What’s really happening is that one kind of money is simply being traded for another.)

The surprising result of this transaction is that when the federal government subsequently *spends* the “borrowed” dollars back into the economy, there is a net *increase* in the monetary assets in the private sector equal to the

number of dollars “borrowed.” In effect, the federal treasury bond auction process creates “new” dollars that previously did not exist - *dollars which the federal government now has possession of and authorization to spend*. And that’s exactly what it does: it spends the new dollars to pay for things that the federal government has determined will be of benefit to society.

### **The consequences of this explanation**

First, the “national debt” is functionally not a debt at all. It is simply a tally of the federal treasury bonds which the federal government has issued and then traded for dollar currency which already existed in the private sector. These federal treasury bonds are in effect interest-paying, time-deposit savings accounts for the bond holders. You personally may have traded some of your retirement dollars for one of these “savings accounts” and you know, first-hand, that they definitely contain real money! The “national debt,” then, is really a “national savings account”.

This is, to say the least, a startling and liberating perspective. It means all the political drama and hand-wringing about how we are going to repay our “national debt” can just go away. Even better, all the haggling can be replaced with an entirely different conversation: What shall our government spend the new dollars - created by the treasury bond auction process - to accomplish? The short list of deferred needs, recited earlier, could be a start.

The most extraordinary consequence, however, is that the explanation we’ve just outlined constructs an overarching view of our modern economy that has never been clear before:

The economy - that is to say, the creat-

ion and spending of dollars to undertake and accomplish humanly defined goals - is composed of not one, *but two*, money-creation processes. The first (and most commonly understood) process is the banking system: Banks "create" new dollars when they issue loans. This is the engine of capitalism, and the new dollars sent into circulation by the banking system are specifically (and exclusively) targeted to accomplish goals associated with the generating of personal or corporate financial profits in the market economy.

The second money-creation process, as our explanation above has made clear, is the process we have been habitually calling "federal government borrowing." The issuing and auctioning of federal treasury bonds, as we've just discovered, is not "borrowing" money at all, but *creating* it. Most important, the dollars generated by this process, which are then spent by the federal government, are not spent in the pursuit of personal or corporate financial profits. *They are spent to pursue the collective goals - and to*

*address the collective needs - of society at large.*

The problem that we are struggling with today is that while we continue to encourage the first money-creating process -- the banking system -- to "create" as many dollars as enterprise and consumers can profitably spend, we have habitually constrained the second money-creating process by labelling it our "national debt" and falsely believing it is encumbering us. In doing so, we severely - and unnecessarily - limit and constrain what we undertake to accomplish for the benefit of what could be called our collective "social economy." This is a mistake we must now stop making.

Note: I am indebted to Thornton Parker for planting the seed of this essay in my mind and, of course, to Warren Mosler who was the first, I believe, to see and understand the true character of sovereign treasury securities.

1. New Economic Perspectives, 1 Aug 2018  
<http://neweconomicperspectives.org/2018/08/the-explicable-mystery-of-the-national-debt.html>

## **Green New Deal Editor**

The following extract [1] was obtained from Wikipedia, internet encyclopedia:

"The Green New Deal (GND) is a proposed economic stimulus program in the US [and other countries] aiming to address inequality and climate change. The name New Deal refers to a combination of social and economic reforms and public works projects undertaken by US President Franklin Roosevelt in response to the Great Depression [GND supporters advocate a mix of Roosevelt's economic approach with modern ideas such as renewable energy and resource efficiency ]."

A UK report "A Green New Deal: Joined-up policies to solve the triple crunch of the credit crisis, climate change and high oil prices", released on 21 July 2008 by the Green New Deal Group and published by the New Economics Foundation, outlines a series of policy proposals to tackle global warming, the current financial crisis, and peak oil. The report calls for the re-regulation of finance and taxation, and also major government investment in renewable energy sources. Its recommendations:

1. Government investment in energy efficiency and microgeneration which



Dec 11, 2018 at San Francisco UN Plaza and Federal Building. Hundreds gather with the Sunrise Movement to call on house speaker Nancy Pelosi to support forming a Select Committee to advance a Green New Deal. (source: Flickr cc)

would make 'every building a power station'.

2. The creation of thousands of green jobs to enable low-carbon infrastructure reconstruction.
3. A windfall tax on the profits of oil and gas companies - as has been established in Norway - so as to provide revenue for government spending on renewable energy and energy efficiency.
4. Developing financial incentives for green investment and reduced energy usage.
5. Changes to the financial system, including the reduction of the central bank's interest rate, to support green

Investment.

6. Large financial institutions - 'mega banks' - to be broken up into smaller units and green banking.
7. The re-regulation of international finance: ensuring that the financial sector does not dominate the rest of the economy. This would involve the re-introduction of capital controls.
8. Increased official scrutiny of exotic financial products such as derivatives.
9. Prevention of corporate tax evasion by demanding financial reporting and by clamping down on tax havens.

**1. Source:** Wikipedia  
[https://en.wikipedia.org/wiki/Green\\_New\\_Deal](https://en.wikipedia.org/wiki/Green_New_Deal)



Noam Chomsky quotes:

1. If we choose, we can live in a world of comforting illusion.
2. Debt is a trap, especially student debt, which is enormous, far larger than credit card debt. It's a trap for the rest of your life because the laws are designed so that you can't get out of it. If a business, say, gets in too much debt, it can declare bankruptcy, but individuals can almost never be relieved of student debt through bankruptcy.

## The Green New Deal is happening in China

Dean Baker



Chinese electric bus (source: Flickr cc)

One of the Trump administration's talking points about global warming is that the US is reducing greenhouse gas emissions, while those countries that remain in the Paris accord are not.

Well, the first part of this story is clearly not true, as data for 2018 show a large rise in emissions for the United States. The second part is also not accurate, as most of the other countries are taking large steps to reduce emissions.

At the top of the list is China, which has undertaken a massive push to convert to electric powered vehicles and clean energy sources.

China's progress in this effort is truly extraordinary. In the case of electric cars, it has used a carrot-and-stick approach where it offers consumers large subsidies for buying electric cars while also requiring manufacturers to meet quotas for electric car production as a percent of their total fleet of cars. It has also invested in the necessary infrastructure, ensuring that there are a

large number of charging stations which are widely dispersed across the country so that drivers don't need to worry about being unable to recharge.

The result has been a massive increase in the sale of electric cars. Electric car sales are projected to be 1.1 million this year, almost equal to sales in the rest of the world combined. And sales are expected to continue to rise rapidly, with annual sales hitting 11.5 million in 2030. By comparison, electric car sales are expected to be just 480,000 in the United States this year, less than half the number in China.

There is a similar story in regard to solar and wind energy. China added more solar capacity last year than the rest of the world combined. In 2018 it had already surpassed the goal that it set for 2020. It is now looking to double its capacity over the next two years.

China also has almost as much wind power capacity as the rest of the world

combined. Its capacity is more than 3 times as great as in the US. However, even with the extraordinary growth in clean energy, wind and solar together still account for less than 20 percent of China's generation capacity and less than half the amount of electricity it produces by burning coal.

Nonetheless, China's enormous progress in promoting electric cars and clean energy should tell us a great deal about the potential that exists in these areas in the US [and elsewhere]. While the economy of China has grown rapidly during the last four decades, on a per person basis its income is still less than one-third that of the US.

This means that a relatively poor nation can make massive gains in reducing greenhouse gas emissions compared with its baseline growth path. The focus on electric cars and clean energy also did not impair China's economic growth in any obvious way.

Over the last decade, the GDP growth of China has averaged 7.9% annually. Perhaps there is a story where China's economy would have grown even more rapidly without the subsidies and other measures designed to promote green growth, but obviously, these measures were not serious impediments if the country could still sustain one of the fastest growth stretches the world has ever seen.

If China could make such enormous progress in a relatively short period of time, surely it would be possible for the US to make comparable gains with the resources at its disposal. This doesn't mean that the necessary reductions in greenhouse gas emissions will be costless: people will have to change lifestyles. This would include doing without SUVs and eating much less meat. But China's success so far is an

impressive example.

This brings up another issue directly related to Donald Trump's trade war with China. One of the biggest complaints that Trump has is that China is "stealing" US technology. Most media commentators have widely endorsed this complaint.

China already spends almost as much as the US on research and development. With a much more rapidly growing economy, China is virtually certain to pass the US in research and development spending in the very near future, if it has not already done so.

Rather than spending so much effort worrying about what China is taking from the US, we should be thinking about what the US can get from China, especially in the area of green technologies where it has made such enormous progress. Rather than looking to lock up our technologies to maximize the profits US corporations get from their patent and copyright monopolies, a modern trade deal would look to maximize the flow of technology across national borders.

That would be the focus of a trade deal if there is genuine concern for economic prosperity and the future of the planet. Unfortunately, that is unlikely to be the agenda of the trade negotiators.

**Source:** Real World Econ Rev, 20 Jan 19  
<https://rwer.wordpress.com/2019/01/20/the-green-new-deal-is-happening-in-china/>

**Editor's comment:** Owing to the fact that electricity in China still comes primarily from burning coal, and notwithstanding China's impressive growth of renewables energy technology, some are cynical about whether its long-term objective is to replace coal-powered power stations with renewable energy alternatives. However there is clear motivation to do so because China is the planet's most heavily polluted country.

## Letters

### From John Rawson (New Zealand) Why recession

How interesting that we are getting more and more “dire warnings” about imminent economic recession from sources like the IMF, along with advice to governments that would ensure that this does not happen.

Even a number of orthodox economists now recognise that, if a government runs “balanced budgets” for any length of time, its nation will likely drop into recession.

A secondary effect will be that private debt will grow to the stage where business no longer has the confidence to borrow to increase production, thus accelerating the downturn.

As pointed out by the founder of Social Credit, C.H. Douglas, the question that should always be asked in situations

like this is “who stands to benefit?”. A recession certainly won’t help the great mass of people who lose their livelihood and/or their homes, and who in many cases will be reduced to starvation in a world that can’t sell its production of foodstuffs.

It would however enable big business, particularly those with ready access to money created out of nothing, to take over smaller failing concerns, with a greater prevalence of monopolies.

Present “neoliberal” doctrines are aimed at taking power away from elected governments and passing it to giant international corporations. A major recession, promoted from false advice, would give an immense boost to this unfortunate trend.

### From Richard Giles (NSW) Nothing wrong with markets

*What should be the purpose of economic policy?* (ERA Nov-Dec 2018, pp 14-21) is a good question and the final answer “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” sets worthy goals for economic policy.

The article is quite definite that it is the responsibility of economists to advise governments about how to do these things. However, the article also suggests that economists have a long way to go both to accept this responsibility and to give effective advice to policy makers. In other words, economists themselves need a lot of educating.

From this we perceive that the article is about doing things to the economy. For, it is from the good advice of economists that governments are able to provide for their citizens.

Neoclassical economists are apparently an obstacle to doing this. They have the “belief that markets will function well, and naturally reach a self-sustaining equilibrium ...” This “is not the best way to consider economic policy” (p15).

Economists advise in order to achieve the purposes of economic policy. But it is noteworthy that it was in that great age of optimistic economic management in Australia in the 1980s, that Paul Keating had to admit anomalously in 1986 that the government had lost

control of the economy and to then say, famously in 1990, that we were enduring “the recession that we had to have”. We had, after all, to leave it to the recession to cure itself!

But the task for economists is really a little easier than the article suggests. Rather than making ongoing policies that repair markets so as to provide economic opportunity, social equality, and a sustainable environment, they merely have to provide a framework in which market will do all this by itself.

But the task for economists is really a little easier than the article suggests. Rather than making ongoing policies that repair markets so as to provide economic opportunity, social equality, and a sustainable environment, they merely have to provide a framework in which market will do all this by itself.

That is, economists have to do more than our neoclassical economists but certainly far less than the article seems to be suggesting. Adam Smith (1776) merely described what he saw: an economy filled with the spontaneous action of millions of individuals, each working to improve their own condition, yet at the same time providing for the needs of everyone.

But, as von Hayek pointed out in *The Road to Serfdom* (1944), the classical economists had not completed the task. The failing of his book is that it does not say what has to be done to provide this framework.

Von Hayek described two models that faced off against each other; each well able to perpetuate itself by pointing to the weaknesses of the other.

These models were ‘laissez-faire capitalism’ and collectivism either as fascism or as socialism. George Orwell (1944), reviewing the book, wrote that

he did not have great confidence in either though he rather hoped that democratic socialism might do the job.

The socialist Richard Tawney in *The Acquisitive Society* (1921) had no confidence in any mixture of the two. He wrote “Hybrids are apt to be sterile. It may be questioned whether, in drawing the teeth of private capitalism, this type of compromise does not also extract most of its virtues as well”.

Henry George did propose a framework by which society could have the best of both models, both security and freedom. One simply assigned land values (the largest value in any modern community) to its source, the presence and activities of the community. Wherever there was genuine ‘market failure’, that is, in those natural monopolies providing basic services, government would provide them.

George had developed this economic conclusion from an elementary but irrefutable proposition: that each of us has a right to use land. As Leo Tolstoy pointed out in *A Great Iniquity* in 1905 this reasoning, leading to the ‘single tax’ on land values, could only be refuted by ignoring it. Professor Mason Gaffney added in *The Corruption of Economics* (1994) that, if by chance someone did hear of it, it could always be dismissed by ridicule.

Interestingly, neither the laissez-faire liberals nor the socialists liked it. After all, both their ideologies emphasised only two factors of production -- capital and labour.

If you looked hard enough at the social teaching of the Church you could see the same thing. *Rerum Novarum* (1891) spends considerable time at its beginning ‘proving’ that land was private property, viz. an item of capital.

Thus, the largest and most important market in our community remains dysfunctional poisoning the labour market, and encumbering government with unnecessary problems for which it has no answers. Finally, the irresistible increase of these problems goes on wasting lives and resources on a gigantic scale.

George's solution to achieving the ends for which an economy exists does not require any enforced dedication by the population to a government implanted common purpose or General Will. It simply means that everyone gets on with their individual lives under a framework of equal rights as the indispensable basis of society's laws and institutions.

This way, as George puts it in *Social Problems* (1883), we will cease to be "Political children, [who] attribute to bad

men or wicked parties what really springs from deep general causes". In its place we will have a 'rule of law' built upon the principle that "the good of all can only be gained by securing the equal rights of each" (*To Workingmen*, 1888).

**Editorial comment:** In our view, basically, "land" has to be restored to its full economic definition, which is "all natural resources". But even with a wide definition of land to enable the just sharing of the value of natural resources, there are good reasons for sharing the value of labour with those who cannot work for whatever reason. Hence, there is a good case for supporting some taxation of labour, but mostly taxes on natural resources and profits, particularly those which are derived from economic rents other than those derived from the ownership of "land". For example, interest is a rent on the community's money supply. More problematic are the high rewards for entertainment, sports stars and the naturally beautiful.

### Comment from Elan (COMER journal, v30, n5)

#### Re: How big does the fire need to be? (ERA Review v10 n6 2018, p2)

Alas, there are those who seem unable to appreciate the crisis until it sings their eyebrows. But they are few. Most of us can at least smell smoke, and too many are already experiencing a personal sense of urgency.

The biggest barricade to meaningful action is the mistaken idea that we can't afford to move forward to a sustainable future.

Understanding that we can, is our most urgent need. History is proof that, to quote a famous wartime song: "we did it

before, and we can do it again!"

The "old enemies of peace" will never admit it, but we *can buy* a 21st-century political economy serving society and maintaining a sustainable environment.

Money should be recognized as a public utility, and fiat money put to work to fund a political economy appropriate to the 21st century.

"Anything physically possible and desirable can be made financially possible"  
-- *Graham Towers, first Governor of the Bank of Canada.*

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Environmental degradation is an iatrogenic disease induced by economic physicians who treat the basic malady of unlimited wants by prescribing unlimited growth. Yet one certainly does not cure treatment-induced disease by increasing treatment dosage. – Hermann Daly

While the invisible hand looks after the private sector, the invisible foot kicks the public sector to pieces. -- Herman Daly

**From Dr John Coulter (SA)**

## **Bank corruption revealed by Royal Commission is not new**

Former Democrat Senator Paul McLean repeatedly raised in the Senate the issue of banking corruption through the period 1989-90 and called for a Royal Commission which was refused by the then Hawke/Keating government. In 1991 he published a book, 'Bankers and Bastards' in which he catalogued much of what has now been revealed in the just completed Banking Royal Commission. Australians have suffered the criminal illegality of the banks for a quarter of a century longer than was necessary through failure to act on what

was already evident in the late 1980s. Both major parties are complicit. It must also be remembered that the Commonwealth Bank was a creation of the Labor Party early in the 20th Century but was later privatised by the Hawke/Keating government. If this had remained a government owned bank there would have been clear insight into what the banks were doing. I invite readers to read Paul McLean's book to understand what was already known in 1991 and on which successive governments failed to act.

## **Economic Reform Australia Discussion Group**

A discussion group for ERA members has been created on Facebook, called Economic Reform Australia Discussion Group. It can be found at the web address <https://www.facebook.com/groups/964374837074171/>. To join it one must have a Facebook account. We recognise that some members who are not on Facebook may have privacy concerns about doing this. However, a Facebook account can be set up using minimal personal data (i.e., first name, last name, email address, gender and birth date) and a pseudonym may be used if desired. In addition, more information about how to restrict Facebook privacy settings can be found in this YouTube tutorial: <https://youtu.be/6VyoouopcDY>

## **ERA blogsite - erablog**

A blogsite was set up by ERA in 2015, and its operation was renewed in 2019. It may be accessed at the web address: <https://era-blog.com/>. The main purpose of this facility is to provide copies (mainly for the benefit of non-members) of some of the articles by Australian authors that have appeared in ERA Review, along with the opportunity for readers to provide responding comments. This blogsite is moderated.

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# ECONOMIC REFORM AUSTRALIA (ERA) INC

Economic Reform Australia (ERA) is a not-for-profit, non-political organisation established in 1993 to offer a broader understanding of how economics affects the lives of Australians. ERA educates and advises decision-makers and the wider community about the economic foundations of a society characterised by social justice and ecological sustainability.

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