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For a just and sustainable society

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Paradigm shift: the great machine of capitalism starts to heave

Kalle Lasn

Source: Flickr cc

It seems that our current economic approaches are collapsing under the weight of their own premises, a result of their failure to account for the finiteness of resources and the realization that "our human money economy is a sub-set of the Earth's larger bio-economy rather than the other way around." Interesting stuff - I wonder if anyone with the power to effect changes is listening.

There's a tectonic mind shift going on in the science of economics right now, but you would not know it by tuning in to the likes of Martin Wolf, Paul Krugman, Andrew Sorkin, Lawrence Summers, Tim Geithner, Dominique Strauss-Kahn, Ben Bernanke or most of the professors teaching Economics 101 around the world. These old-school practitioners of neoclassicism are stuck in past, versed in only one language: the language of pure, unadulterated money.

As oil reserves dwindle and climate tipping points loom, they babble on endlessly about liquidity, stimulus, derivatives, bond markets, sovereign debt, AAA ratings and investment banker bonuses. They never say a word about melting glaciers, eroding coral reefs, rising sea levels, fizzing oceans or the methane that's bubbling out of the arctic tundra. Like medieval theologians who argued endlessly about how many angels can dance on the head of a pin, today's economists argue incessantly about how economic growth can be sustained forever on a finite planet. Ten years from now, as the blowback from the externalities of their way of doing business repeatedly hammers us and global warming kicks in with a vengeance, we'll look back in shock and awe – and wonder what it was about these logic freaks and their money narratives that mesmerized us.

Five hundred years ago astronomers following Ptolemy's geocentric model of the universe were tearing their hair out trying to make sense of all their calcul-ations of the sun, moon and stars that appeared to be moving around above us in the night sky. It was only when Copernicus pointed out that we are not

the centre of the universe – the sun does not revolve around the Earth but rather the other way around – that all their convoluted calculations began to make sense.

And today something eerily similar is happening in the science of economics: economists and lay people alike are realizing that our monetary economy is a subset of the Earth's bio-economy rather than the other way around. Over the next few years, as this monumental shift of perspective kicks in, all of the economic, ecological and financial craziness of the industrial era will evaporate, and a new sustainable way of running our planetary household will fall magically into place.

Economics students, especially PhD students, in departments around the world have a crucial role to play in ushering in this new paradigm.

Sources

1. COMER journal, vol 30, no 6, 2018, p2
2. Kalle Lasn, integral-options, 15 Feb 2011 http://integral-options.blogspot.com/2011/02/kalle-lasn-paradigm-shift-great-machine.html

Comment from COMER Editor (Élan):

This mind shift is indeed tectonic, reflecting an evolutionary leap in purpose and design. Today's dominant economic model is purported, by its champions, to be a science like physics, whose immutable laws can be understood and implemented through the language of mathematics. It puts money at the centre of the universe, and dismisses as "externalities" all environmental and social consequences of economic policies. It depends on growth in a finite world, and is deaf to growing concerns about its cost/benefits record. It fails to appreciate the interconnectedness and the interdependence of related factors and downplays the political role in determining economic policies. The Oxford dictionary defines economics as "the branch of knowledge concerned with the production, consumption, and transfer of wealth."

"These old-school practitioners of neo-classicism" would have us believe that the 'market' can be relied upon to regulate matters concerning these dimensions of economics. The shift is to a model that realises "that our human money economy is a subset of the earth's larger bio-economy" and seeks to honour the priority of planetary welfare. That change of perspective prompts us to question many aspects of our current system. The following quotations from Thomas Piketty's outstanding work, *Capital In The Twenty-First Century*, are highly pertinent to the subject of this paradigm shift.

1. "By patiently searching for facts and patterns and calmly analysing the economic, social, and political mechanisms that might explain them, it can inform democratic debate and focus attention on the right questions. It can help to redefine the terms of debate, unmask certain preconceived or fraudulent notions, and subject all positions to constant critical scrutiny" (p. 3).
2. "Economists of the nineteenth century deserve immense credit for placing the distributional question at the heart of economic analysis and for seeking to study long-term trends" (p. 16).
3. "It is long since past the time when we should have put the question of inequality back at the centre of economic analysis and begun asking questions first raised in the nineteenth century" (p. 16).
4. "The distribution of wealth is too important an issue to be left to economists, sociologists, historians, and philosophers. It is of interest to everyone and that is a good thing" (p. 2).
5. "There will always be a fundamentally subjective and psychological dimension to inequality, which inevitably gives rise to political conflict that no purportedly scientific analysis can alleviate. Democracy will never be supplanted by a republic of experts – and that is a very good thing" (p. 2).
6. "The history of inequality is shaped by the way economic, social, and political actors view what is just and what is not, as well as by the relative power of those actors and the collective choices that result. It is the joined product of relevant actors combined" (p. 20).

7. “The discipline of economics has yet to get over its childish passion for mathematics and for purely theoretical and often highly ideological speculation, at the expense of historical research and collaboration with the other social sciences. Economists are all too often preoccupied with petty mathematical problems of interest only to themselves. This obsession with mathematics is an easy way of acquiring the appearance of scientificity without having to answer the far more complex questions posed by the world we live in…. The truth is that economics should never have sought to divorce itself from the other social sciences and can advance only in conjunction with them” (p. 32).

A winner: Alexandria Ocasio-Cortez's green new deal

Steven Hail

Green New Deal offers a unique chance to stop the worst effects of climate change

Alexandria Ocasio-Cortez has drawn much attention during her short time in office (screenshot via YouTube)

You must have noticed the emergence of a new political phenomenon within Washington D.C. – Alexandria Ocasio-Cortez. As the youngest Congress-woman ever, she has the values, the attitude and the agenda you might expect from a progressive millennial from the Bronx. More than that, she has charisma. For many of us, she is a beacon of hope.

For the Trumpian Republicans, she is their worst nightmare.

Her most important contribution so far is the Green New Deal. Its objective is to, finally, confront the threat of imminent and potentially catastrophic climate change, and the role the U.S. economy and its energy system are playing in driving global carbon emissions and the resulting apparently inexorable increase in the concentration of carbon dioxide and other greenhouse gases in our atmosphere.

You have probably also read numerous articles referring to the Green New Deal – some enthusiastic and supportive; some aggressively dismissive; and some (from the establishment democrat side) affirming its ideals, but bemoaning its lack of realism, and offering to devise a more "pragmatic" approach. What does the Green New Deal actually involve? You can read it for yourself. It is House Resolution 109 in

the 116th Congress (2019-20).

This resolution accepts the evidence from climate scientists that climate change is driven by human activity. It accepts that warming of more than two degrees over pre-industrial levels will have a series of catastrophic consequences, which it lists. It accepts the scientific evidence that major emissions reductions are needed within ten years and that net-zero emissions worldwide must be achieved within thirty years if we are to be confident of avoiding this outcome.

It is wise to ignore those who claim we have more time than this, as they are almost always betting our civilisation on the development of highly speculative technologies which may never be available to justify increasing our available carbon budget and delaying the adjustments we need to make.

The Green New Deal advocates for a reduction in the inequality of income and wealth, for a variety of reasons, one of which is that the 1 per cent (and the 10 per cent) are responsible for a disproportionate share of carbon emissions, both in the U.S. and worldwide.

Carbon pricing (or carbon taxes) can play a role in changing behaviour – changing what is consumed and how it is produced – to move us incrementally towards sustainability. Regulations on energy efficiency are also very helpful.

But, as the leading climate change scientist Kevin Anderson has said many times, if we are to meet this existential challenge with a good chance of success, we need a fundamental shift in our economic system. In his words, we need "a shift in the productive capacity of society akin to that in World War Two".

Ocasio-Cortez does not duck or obfuscate this reality. Resolution 109 talks of:

a. Repairing and upgrading the infrastructure of the U.S.;
b. Meeting 100% of the power demand in the U.S. through clean, renewable, and zero-emission energy sources;
c. Working collaboratively with farmers and ranchers in the U.S. to remove pollution and greenhouse emissions from the agricultural sector as much as is technologically feasible;
d. Overhauling transportation systems in the U.S. to remove pollution and greenhouse gas emissions from the transportation sector as much as is technologically feasible;
e. Restoring and protecting threatened, endangered, and fragile ecosystems;
f. Making the U.S. the international leader on climate action.

It may be that Donald Trump and Tony Abbott genuinely don’t understand the problem, or it may be that they don’t want to understand.

However there are also establishment politicians within both of the major U.S. parties, and within the Coalition and Labor parties in the Australian federal parliament, who would dismiss a Green New Deal because they think it more realistic to gamble the world’s future on a technology fairy than to seize the challenge laid down by Ocasio-Cortez and others.

If the world as a whole needs to cut its emissions to zero by the 2050s, which is what a prudent interpretation of the science indicates, then the rich countries which have created the lion’s share of the problem since the 1850s, in the interest of equity and to offer the leadership which the richest owe to everyone else, should be doing this by the 2030s.

Hundreds gather in San Francisco (Dec 11, 2018) calling on House Leader Nancy Pelosi to help form a Select Committee for a Green New Deal addressing Climate Change (source: Flickr cc)

How are we going at the moment? Our global emissions of carbon dioxide are currently higher than they have ever been, almost thirty years after the first global conference aimed at reducing them.

Even the most progressive of the rich countries have not cut their emissions significantly compared to 1990 levels. And Australia and the U.S. are very far from being the most progressive of the rich countries.

We are the ecological delinquents. We have the furthest to go.

Falling emissions in the U.S. over time have been purely the result of exporting those emissions to other countries while importing the resulting goods.

Emissions have been rising in Australia in recent years, even relative to their already very high levels. We have not much more than a decade to save ourselves, according to scientists.

This doesn’t mean there will be no jobs.

Prof Anderson speaks of two generations of good job opportunities as we transition our economies to a sustainable future.

Ocasio-Cortez talks of a Federal Job Guarantee, informed by economists from the modern monetary theory school of thought. We can pay for the investments we have to make, she points out. The money is not the issue. It is the real resources, which must be re-deployed in some cases and created in others, which are the issue.

Some talk about moving to a "steady-state economy" in the future. In so far as this means living within our ecological limits more generally, which includes but is not limited to climate change, the need for a future sustainable steady-state is undeniable. To deny it would be to deny the laws of science.

This does not exclude some form of

growth in the gross domestic product (GDP), at least in principle. It means that future growth must be the result of increases in knowledge in an increasingly service-based economy and a shift away from increasing the volume of what is produced towards increasing its quality.

GDP is not a pure measure of quantity and will rise over time if we use a fixed quantity of resources to produce a greater quality stream of services and goods.

In principle, this is perfectly valid. In practice, it has yet to be demonstrated. So far, there has been no genuine decoupling of economic activity from carbon emissions. We have driven our economies on fossil fuels. And we are still doing so.

If we are to have a bright and sustainable future – if our children and those who follow them are to have better and longer lives than we enjoy, in a healthy and pleasant environment – then we must decouple economic activity from carbon emissions and from ecological destruction. We must restore ecosystems. We must seek to limit the extent of the great extinction which is well underway and for which we are responsible.

We will need something like Ocasio-Cortez's Green New Deal. Come to think of it, we need it now.

We needed it in 1990. We need it now. It will soon be too late. This is no time to be dismissive of House Resolution 109. It is time to fill in the details and get on with implementing them.

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Source: Independent Australia, 24 Feb 19
https://independentaustralia.net/environment/environment-display/a-winner-alexandria-ocasio-cortezs-green-new-deal,12393

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Mainstream economics versus Minsky

Asad Zaman

The following blog item by Asad Zaiman [1] is an extract from a longer article by the same author [2]:

Krugman fails to understand Minsky

On the one hand, Minsky has been transformed from an eclectic outcast to a darling of the mainstream after the crisis. On the other hand, Krugman and others have failed to appreciate the central insights of Minsky, just as they did with Keynes. While Keynes had completely rejected mainstream theories on solid grounds, Hicks and Samuelson constructed a neoclassical synthesis which conceded the short-run to Keynes on the basis of short run wage rigidities, but kept the fundamentals of mainstream theories intact.

Similarly, today mainstream economists like Krugman admit to being at fault in not predicting the GFC, but blame it on external factors, rather than on central weaknesses in mainstream theories. Three external factors which account for the failure of economists to "see it coming" are:

1. The GFC was a black swan event. A period of stability led to under-estimation of risks and a discounting of the probabilities of crisis.
2. The Fed kept interest rates low for too long. This allowed massive levels of credit creation, which led to bubbles.
3. The rise of the shadow banking industry went unnoticed. The unregulated financial sector created a crisis by

making high leverage gambles, using derivatives as insurance.

Accordingly, mainstream economists have proposed three solutions, none of which require any re-thinking traditional macroeconomics:

1. We should pay more attention to the possibility of black swan events, and allow for distributions with fat tails in our stock market models.
2. We should pay more attention to monetary policy.
3. We should do more regulation of shadow banking (macro-prudential regulations).

In fact, this analysis fails to understand the central insights of Minsky. The mainstream, deluded by theories of intermediation, does not understand the central role of private sector credit creation in generating crises. Even more important, Minsky attacks the central religious belief in "equilibrium". While Krugman believes that market forces are stabilizing, Minsky promotes the heresy that "equilibria" are inherently unstable. In modern financial economies, the very stability of the equilibria generates the forces which de-stabilize the economy. Very briefly, stability encourages risk taking behaviour, which increases until a crisis occurs. This viewpoint is truly deeply heretical because it attacks the founding pillars (optimization/equilibrium) of the mainstream orthodoxy.

Source: WEA Pedagogy Blog, 23 Mar 19
1. https://rwer.wordpress.com/2019/03/26/mainstream-versus-minsky/
2. https://weapedagogy.wordpress.com/2019/03/23/mainstream-versus-minsky/

The purpose and function of Treasury bonds

Ellis Winningham

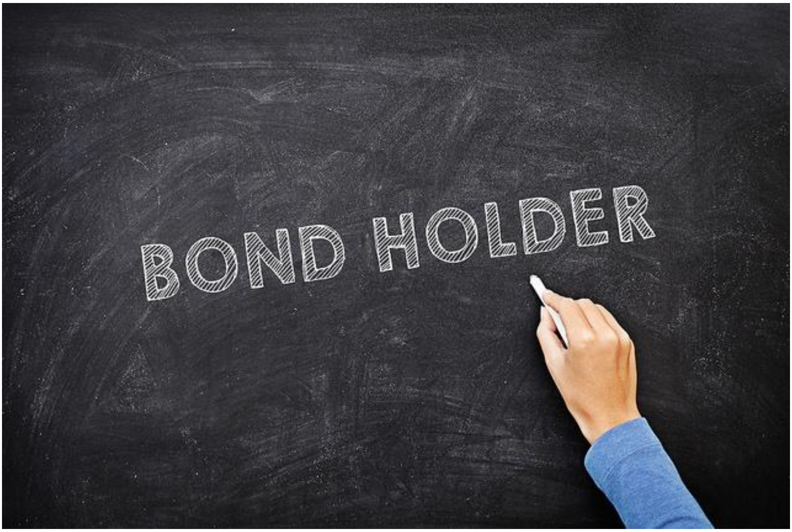
There are really only two reasons for Treasury bond issuance in any nation that issues a free-floating, inconvertible currency: one primary reason and one secondary, and neither are a necessity whatsoever.

The primary reason for bond issuance relates to the mechanics of establishing and defending a particular benchmark interest rate, and the secondary is to provide a risk-free savings vehicle for investors which is a consequence – a by-product – of the primary reason. Because a bond acts as an interest-bearing savings account, it allows bond issuance to be used for political purposes (corporate welfare).

Since the secondary reason is quite obvious, I'll explore the primary reason. To understand the function of bonds as they relate to interest rate management, we need to understand the use of bonds in a former era. But first, let's be clear that Treasury bonds, regardless of the era being considered, are a defence mechanism and are not a financing mechanism.

During the gold standard era, Treasury bonds were employed as a means to defend the supply of gold available to the national government. How bonds achieved this feat is relatively simple to understand. The government would issue bonds with various maturity dates, and offer to pay interest to anyone that held the bond; the interest payment being crucial because it acted as the incentive to entice holders of currency to buy bonds. There is a big reason why the government would want to entice currency holders to buy bonds which I will explain momentarily.

If the government wanted to participate in the gold standard, it simply had to



Source: creditscoregeek.com/ (CC)

exchange its currency for gold on demand, otherwise, the gold standard wouldn't work. The government would "fix" an exchange rate by officially declaring that one unit of its currency was equal to a certain amount of gold. The government would then exchange its currency presented to it for gold at that fixed exchange rate. At no point in time could the currency-issuing government run out of its own currency, or said in common speak, it couldn't run out of "money", but it could run out of gold to exchange its currency for. Such a thing is highly problematic since gold acted as the price anchor, and if the government wished to deficit spend, it certainly couldn't just print money under these conditions because doing so would increase the amount of circulating currency above the amount of gold in supply. In other words, there would be more dollars/pounds out there than the government could exchange gold for at the fixed exchange rate. So, to deficit spend, the government had two choices: Print more money and risk the negative effects, or offer bonds as a means to entice currency holders to delay conversion to gold. The interest incentive is straight-forward: Either choose to take gold now, or buy a bond, wait for a for a few years and be given more currency via interest earned to exchange for even more gold in the future.

So, the national government would "borrow" back its own currency from those who purchased bonds and in doing so, the government halted attempts by currency holders to obtain gold for a time, and, thus, it defended the gold supply. But, unlike today's fiat regime where the government always controls the amount of interest that it pays across the entire yield curve, during the gold standard, market forces determined the government's "cost of borrowing". The reason why is simple.

In a fiat regime, the government does not agree to exchange its currency for anything but its own currency. If you give Treasury a $10 note, it will only give you $10 in return as currency. With a gold standard there is a commodity

involved here, that the government cannot produce or control, which can be exchanged for currency. That situation complicates matters.

In a fiat currency regime, if you don't want to have dollars, well, that's too bad. That's all there is. But, with a gold standard, if you don't want dollars, well, the government will give you some of its gold. All the government can do here is try to entice people not to convert from dollar currency to gold. That leaves the amount of interest the government must pay in the control of the market. Say the government offers 2% interest but the currency holders say, "Nah. I'd rather have the gold now, thanks." In this situation the government must offer a higher rate of interest to entice currency holders to give up wanting to convert.

And so - it goes - if investors are determined to obtain gold from the government, then no rate of interest offered by the government, no matter how high, will stop the demand for conversion - the government's "cost of borrowing" takes off like a Saturn V rocket bound for the moon. All the government can do now is to officially end the gold standard by ending convertibility.

Incidentally, this is where the nonsense comes from that you hear from "wise", "respected" orthodox US economists like Paul Krugman and Larry Summers concerning the government's "cost of borrowing" skyrocketing if investors become displeased with the government's spending habits. However you can safely ignore their narrative - it's anti-knowledge. Pay it no mind.

So, defence of the gold supply was the purpose of treasury bonds during the gold standard. In today's fiat regime, bonds play yet another defensive role - defending the central bank's target interest rate.

Sovereign currency-issuing national governments today are determined to rely on monetary policy as the primary aggregate demand management tool. The idea behind monetary policy is to rely on bank lending rather than government spending to drive the economy. To accomplish that, the central bank establishes the price of bank credit by setting a target interest rate. This is done by declaration. The problem, however, is that you cannot just declare a target interest rate and all is well – you have to also defend the rate from a fall in the overnight rate (in the US, it is called the FFR "Federal Funds Rate") which happens because of competition between banks for excess reserves in the banking system. The central bank uses the bonds to drain off excess reserves, halting the competition, and just like the government defended the gold supply, the government now defends its selected target interest rate.

But, since the legislature in the US – the Congress - forbids treasury to sell bonds directly to the central bank (note: this is not the case in Australia and most other countries –Ed), accounting acrobatics are required to achieve the defence: Treasury issues bonds into the primary market, the primary market pawns them off to investors in the secondary market and then, once in the secondary market, the central bank can obtain the bonds via open market operations. In this manner, Congress provides the public with the grand illusion that the bond market is financing government deficit spending. And on top of that, by Congress demanding that treasury issue bonds when the government deficit spends, and since bonds act as interest-bearing savings accounts, Congress also provides an endless corporate welfare gravy train for corporations and the wealthy.

Three cheers for political baloney: Huzzah! Huzzah! Huzzah! But none of this structured game-playing is necessary for a sovereign currency-issuing government to operate a monetary economy.

The government has two choices other than bond issuance completely at its disposal:

1.) The government could uselessly continue to rely on monetary policy and instruct the central bank to pay interest on reserves (IOR) which achieves the same objective as the issue of Treasury bonds: It defends the target interest rate by enticing those banks with a surplus of reserves to hold on to them rather than lend them to other banks on the interbank market, thus preventing competition for excess reserves and, therefore, the Treasury could stop issuing bonds altogether, or

2.) The government could put an end to its monetary policy fetish and instead rely on fiscal policy to manage aggregate demand by directing the central bank to maintain a zero percent interest rate target, which would allow Treasury the option ending the issue of bonds altogether.

The effect of doing this being straightforward. In a zero percent interest rate policy regime, when competition for excess reserves on the interbank market causes the overnight rate to fall, there is nothing to defend. Which means that a zero percent interest rate policy does the same thing that Treasury bonds do – it defends a target rate of zero.

Source: Facebook posting, 12 Mar 2019 https://www.facebook.com/ellis.winningham/posts/2221930797865756

Federal government deficits and surpluses

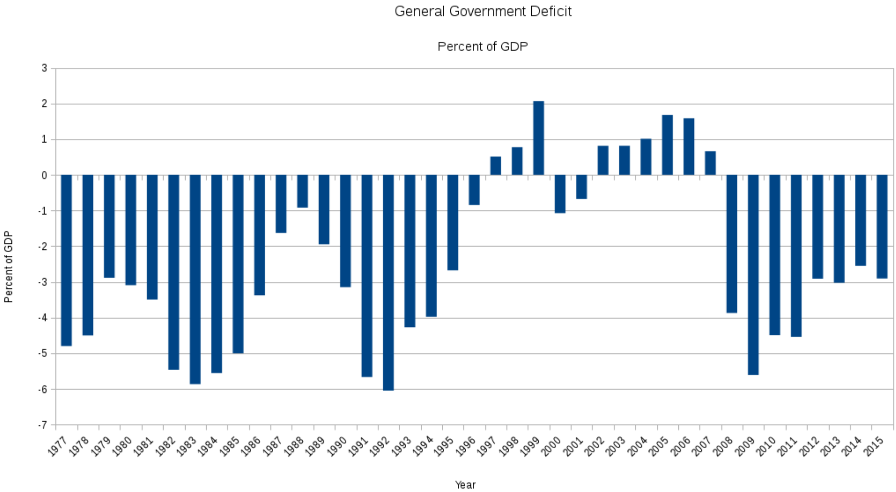
Editor

It is commonplace these days to hear media commentators, politicians, Q&A panellists and others regurgitating the mantra that federal budget surpluses represent sound financial practice while federal budget deficits do not. However the reality is that the reverse relationship generally applies, The belief that surpluses are always good and desirable represents nothing other than a perception -- supported by dangerously flawed doctrine adhered to by mainstream (neoclassical) economists -- that monetary sovereign governments are able and willing to save or store the money they create for the operation of the real economy. However this belief is logically and factually absurd.

Unfortunately, many of these same economists are so out of touch with monetary mechanics that they do not even recognise what MMT economists well understand - that each monetary sovereign government creates new money when it spends, and that money goes out of existence when taxes are paid to that government.

In this respect, the finances of state governments differ in a fundamental way from federal government finances. State governments are not monetary sovereigns, and so they do indeed need to store the money that they receive from tax payments and other sources. The problem is that politicians and members of the public generally do not understand this important difference.

The new money created by the federal government when it "deficit spends" into the real economy can be alternatively



described as net financial assets held by the non-government sectors. This money is absolutely required by these sectors for the purposes of saving, investing and spending. And this is why the secular trend in our economy is for budget deficits, not surpluses. Over the past hundred years, federal budget deficits have appeared for over 80% of the time, and it should be obvious that such a preponderance of deficits has occurred for a good reason. Moreover, the history of our economy reveals that every regime of budget surpluses has been followed in turn by recession. This statistic tells us something important about how our economy operates, and it should not be too surprising when we recognise that the federal government's deficit spending represents the addition of liquidity and purchasing power to the real economy - while budget surpluses represent its withdrawal.

The answer to the question "from whom does the federal government borrow?" is that it currently borrows mainly from primary bond dealers, and secondarily from commercial banks and other large institutional investors. It does have the ability to borrow directly from the central bank (RBA) - which is effectively not borrowing at all - but "sound financial practice" has inhibited it from going down this path. The borrowing process merely replaces one financial asset with another, and the Treasury securities attract interest (i.e. unlike bank demand deposits, but note that the associated reserves – the exchange settlement balances – do currently pay interest).

Such borrowing should not be regarded as real debt, because Treasury bonds and notes can be thought of as a form of "broad" state fiat money, and also because in normal circumstances the government maintains the aggregate of its securities on issue at a prescribed level by issuing new bonds and notes in replacement of any that happen to be cashed in. Lastly, and contrary to popular belief, the interest paid on these securities does not come from taxation.

Economics is the only field in which two people can get a Nobel Prize for saying exactly the opposite thing. - Anon

Some fallacies of financial fundamentalism

Lars Syll

In some recent critiques of functional finance and modern monetary theory, prominent US economist Paul Krugman has claimed that Stephanie Kelton and other MMT economists have gotten things terribly wrong:

" Anyway, what actually happens at least much of the time – although, crucially, not when we're at the zero lower [interest] bound – is more or less the opposite: the political trade-offs determine taxes and spending, and monetary policy adjusts the interest rate to achieve full employment without inflation. Under those conditions budget deficits do crowd out private spending, because tax cuts or spending increases will lead to higher interest rates. "

And this comes from someone who calls himself a Keynesian economist! The problem with his view is, of course, that it has nothing at all in common with the views of Keynes.

What Krugman is reiterating here is nothing but his version of Say's law, basically saying that savings have to equal investments and that if the state increases investments, then private investments have to come down (i.e. 'crowding out'). As an accounting identity, there is, of course, nothing to say about the law, but as such, it is also totally uninteresting from an economic point of view. As some of my Swedish forerunners — Gunnar Myrdal and Erik Lindahl — stressed more than 80 years ago, it's really a question of ex-ante and ex-post adjustments. And as further stressed by Keynes about the same time, what happens when ex-ante savings and investments differ, is that we basically get output adjustments. GDP changes and so makes saving and investments equal ex-post. And this, nota bene, says nothing at all about the success or failure of fiscal policies!

For the benefit of Krugman and other latter-day mainstream economists, let's see what a real Keynesian economist has to say about crowding out and government deficits. The following two extracts are from "*Fifteen Fatal Fallacies of Financial Fundamentalism*" by William Vickrey:

Fallacy 2: *Urging or providing incentives for individuals to try to save more is said to stimulate investment and economic growth.*

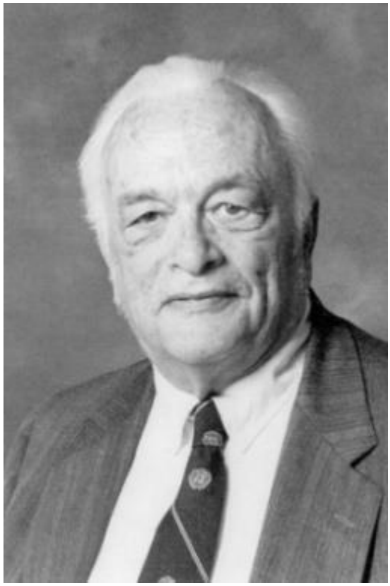
Actually the exact reverse is true. In a money economy, for most individuals a decision to try to save more means a decision to spend less; less spending by a saver means less income and less saving for the vendors and producers, and aggregate saving is not increased, but diminished as the vendors in turn reduce their purchases, national income is reduced and with it national saving. A given individual may indeed succeed in increasing his/her own saving, but only at the expense of reducing the income and saving of others by even more …

Saving does not create "loanable funds" out of thin air. There is no presumption that the additional bank balance of the saver will increase the ability of his bank to extend credit by more than the credit supplying ability of the vendor's bank will be reduced … Attempted saving, with corresponding reduction in spending, does nothing to enhance the willingness of banks and other lenders to finance adequately promising investment projects. With idle or unemployed resources available, saving is neither a

prerequisite nor a stimulus to, but a consequence of capital formation, as the income generated by capital formation provides a source of additional savings.

Fallacy 3: *Government borrowing is supposed to "crowd out" private investment.*

On the contrary, the current reality is that the expenditure of the borrowed funds (unlike the expenditure of tax revenues) will generate added disposable income, enhance the demand for the products of private industry, and make private investment more profitable. As long as there are plenty of idle resources lying around, and monetary authorities behave sensibly (instead of trying to counter the supposedly inflationary effect of the government budget deficit), those with a prospect for profitable investment can be enabled to obtain financing. Under these circumstances, each additional dollar of deficit will - in the medium long run - induce two or more additional dollars of private investment. The capital created is an increment to someone's wealth and ipso facto someone's saving. "Supply creates its own demand" fails as soon as some of the income generated by the supply is saved, but investment does create its own saving, and more. Any crowding out that may occur is the result, not of underlying economic reality, but of inappropriate restrictive reactions on the part of a monetary authority in response to the deficit.



William Vickrey

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1. Real World Econ Rev, 7 Feb 2019 https://rwer.wordpress.com/2019/02/07/fallacies-of-financial-fundamentalism/

2. Real World Econ Rev, 8 Mar 2019 https://rwer.wordpress.com/2019/03/08/krugman-a-keynesian-no-way/

Editor's comments:

The background to the dispute between Krugman and Kelton may be found in a recent blog by Lars Syll [1] as well as a longer article by Stephanie Kelton [2] produced in response to Paul Krugman's criticism of modern monetary theory and functional finance (as described by British economist Abba Lerner) [3]:

1. https://rwer.wordpress.com/2019/02/24/mmt-krugman-still-does-not-get-it/
2. https://www.bloomberg.com/opinion/articles/2019-02-21/modern-monetary-theory-is-not-a-recipe-for-doom
3. https://www.nytimes.com/2019/02/12/opinion/whats-wrong-with-functional-finance-wonkish.html

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What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom. — Adam Smith

Krugman vs Kelton on the fiscal-monetary trade-off

The loanable funds fallacy

Lars Syll

US economist Prof Stephanie Kelton

The US economist Paul Krugman is back again telling us that he doesn’t really want to spend time on arguing about MMT — and then complains that well-known MMT economist Stephanie Kelton says things “obviously indefensible”. The self-proclaimed ‘conventional’ Keynesian is especially irritated that Kelton “seems to claim that expansionary fiscal policy … will lead to lower, not higher interest rates.”

The logic of Krugman’s “conventional Keynesian” loanable-funds-IS-LM-theory is that if the government is going to pursue an expansionary fiscal policy it will have to borrow money and thereby increase the demand for loanable funds which will — “other things equal” — lead to higher interest rates and less private investment.

The loanable funds theory is in many regards nothing but an approach where the ruling rate of interest in society is — purely and simply — conceived as nothing else than the price of loans or credits set by banks and determined by supply and demand in the same way as the price of cars and raincoats.

It is a beautiful fairy tale, however the problem is that banks are not barter institutions that transfer pre-existing loanable funds from depositors to borrowers. Why? Because, in the real world, there simply are no pre-existing loanable funds. Banks create new funds – credit or deposit money – whenever people they do business with require payment. Banks are therefore monetary institutions, not barter vehicles.

In the traditional loanable funds theory - as presented in Krugman’s textbooks - the quantity of loans and credit money available for financing investment is constrained by the quantity of available savings. According to this narrative, saving represents the supply of loanable funds, while investment represents the demand for loanable funds and is assumed to be negatively related to the interest rate.

The loanable funds theory in the ‘New

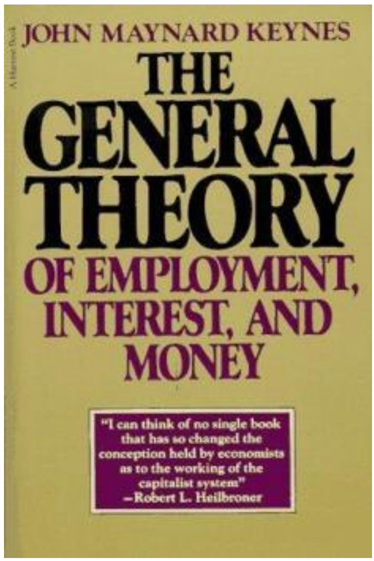
Keynesian' approach means that the average interest rate is endogenized by assuming that Central Bank can (try to) adjust it in response to an eventual output gap. This, of course, is essentially nothing but an assumption of Walras' law being valid and applicable, and that a fortiori the attainment of equilibrium is secured by the Central Bank's interest rate adjustments. From a Keynes-Minsky-MMT point of view, this can be considered to be a belief resting on nothing but sheer hope.

The traditional loanable funds theory is that it assumes that saving and investment can be treated as independent entities. According to Keynes, this is seriously wrong:

" The classical theory of the rate of interest [the loanable funds theory] seems to suppose that, if the demand curve for capital shifts or if the curve relating the rate of interest to the amounts saved out of a given income shifts or if both these curves shift, the new rate of interest will be given by the point of intersection of the new positions of the two curves. But this is a nonsense theory. For the assumption that income is constant is inconsistent with the assumption that these two curves can shift independently of one another. If either of them shifts, then, in general, income will change; with the result that the whole schematism based on the assumption of a given income breaks down … In truth, the classical theory has not been alive to the relevance of changes in the level of income or to the possibility of the level of income being actually a function of the rate of the investment. "

Savers and investors have different liquidity preferences and face different choices - and their interactions usually only take place by the intervention of financial institutions. This, importantly, also means that there is no 'direct and immediate' automatic interest mechanism at work in modern monetary economies. What happens at the microeconomic level is not always compatible with the macroeconomic outcome. The 'atomistic fallacy' has many faces – the loanable funds story being one of them.

We have to free ourselves from the loanable funds theory - and scholastic gibbering about ZLB - and start using good old Keynesian fiscal policies. Keynes – along with Lerner, Kaldor, Kalecki, and Robinson - showed that it was possible to promote economic development with an "appropriate size of the budget deficit." The stimulus that a well-functioning fiscal policy aimed at full employment may have on investment and productivity does not necessarily have to be offset by higher interest rates.



Source. Real World Econ Rev, 1 Mar 2019 https://rwer.wordpress.com/2019/03/01/krugman-vs-kelton-on-the-fiscal-monetary-tradeoff/

A novel idea: harness the economy to good cause

Geoff Davies

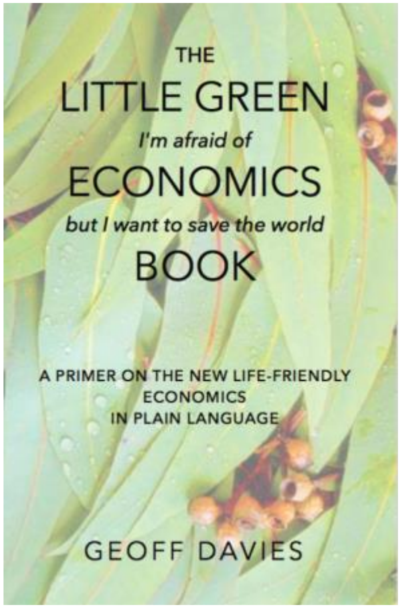
The following has been extracted from Chapter One of Geoff Davies' latest book *The Little Green Economics Book*.

The economy could be run in a dramatically different way, with more benefit to everyone and far less harm to many people and the planet. Whereas there are many critiques of current economic management, few seem to appreciate just how fundamentally misguided are the ideas on which it is based. Central economic ideas and practices are wrong, irrelevant or perverse in various combinations.

If we clarify our ideas of what an economy is and how it works then a far more positive prospect emerges. This short book is to alert people to this prospect, and to help them avoid being intimidated by the expert 'econobabble' and false authority of mainstream economists.

There are today many good people pursuing many causes and doing a lot of good for the world. They promote tolerance, reduce conflict, enshrine principles and help the needy. They defend environments and promote farming methods, products and lifestyles that are healthy for people and the planet.

Yet we still seem to be going backwards. The land and the planet are degrading at an alarming rate, politics just seems to get nastier, and intolerance and conflict continue. Part of the reason for this is that there are fearful people in influential roles who spread their loathing in their efforts to assuage their own fear. But a deeper reason is that our economic system promotes division, exploitation and insecurity. So long as that is true the fearful will find fertile ground for their alarmism and the good works will be trampled and subverted.



If it seems economists make no sense, you are right. That's not just because economists speak a strange language that normal people can't understand. It is also because their economic ideas are nonsense. Example one, the central theory of free markets is an irrelevant abstraction. Example two, the Federal Government creates money, it doesn't borrow it, so the so-called budget deficit problem is a misunderstanding and a beat-up. Examples three to five, private banks are incentivised to maximise our debts, financial markets are far too big and have become parasitic, and the poorly-regulated financial sector destabilises the whole economy. Nor are these the only important problems – we'll work our way through others in the following chapters.

The current regime has come to be called neoliberalism. It has also been called economic rationalism, market fundamentalism, Thatcherism (in the UK), and Reaganism (in the US) among other labels.

And how is it working, the economic management based on all the neo-liberal misconceptions and myths? Fantastic, we're told ad nauseam.

Perhaps, on the other hand, you feel we're not actually doing so well, what with the stagnation of wages, the astronomical price of housing, the cost of education not far behind, dramatically rising inequality and increasing dissension and conflict in our once easy-going, fair-go land of Oz.

Source: http://betternaturebooks.net.au/index.php/my-books/little-green/

Economists and climate change

David Shearman

Economies "prosper" at the expense of our planet (source: Flickr cc)

News bulletins throughout the day are smattered with the progress of the ASX, NASDAQ and the value of the dollar. Every night on ABC News the hushed voice of the cleric-like economist Alan Kohler issues the day's mini-sermon on humanity's financial future.

At the start of January each year, a raging tsunami of shoppers consumes all before them in New Year sales -- excellent news for business and for the reinforcement of current economic thinking as well as for the government's "jobs and growth" mantra. Government leaders proudly pronounce huge sales, and even if they happen to understand that perpetual growth is impossible on a finite planet, it's all acceptable to them because the planet's demise seems unlikely on their watch.

Neoclassical Economics, the creed of the world's current economic gurus and especially those within national and global financial institutions, morphs with the agendas of governments to deliver their mutual needs. The practices of these players rule society and reminds one of the unsinkable Titanic sailing to

its doom while the orchestra played "Nearer my God to Thee" as the ship sank. The upper social crust - bankers, industrialists and other well-healed souls - who resided on the upper decks were soon seated in life boats whilst the working poor on the lower decks went to their watery grave

The cause? Disregard for the safety of passengers by Company management, and national and economic imperatives to sail with a known coal fire burning in a bunker. Equally fatal flaws present today in the priorities of governments.

Community climate change action

Today's iceberg threatening the ship of humanity is climate change, and continuing economic growth is a significant cause of the problem of rising greenhouse emissions and loss of the pillars of life -- water, productive land, clean air and biodiversity. And coal continues to be burnt without any regard for the consequences.

Many sectors of the community and the professions are organising themselves to address this problem. While governments have failed, some doctors have recognised and spoken about the profound health impacts, an alliance of environmental groups has recognised that secure environmental regulations are essential for humanity's future, and the organisation Farmers for Climate Change recognises that the outlook for both continuing land productivity and for their own mental health remains poor. It is difficult to find economists who are prepared to address climate change.

Current economics a "triumph of ideology over science"

For decades a few individual economists have recognised the dangers of unbridled consumerism, which is now a huge factor in generating emissions. However note that Victor Lebow, a Marketing Consultant, wrote in 1955 "Our enormously productive economy demands that we make consumption our way of life, we need things consumed, burned up, worn out, replaced and discarded at ever-increasing pace." [1]

Although some university economics students disagree with this paradigm, their views have been suppressed. And as noted by Prof Joseph Stiglitz, many former students of graduate economics programmes now act as policymakers in their respective countries, and the inevitable outcomes may be viewed as a "triumph of ideology over science" [2]

There are voices for change in organisations such as the Institute for New Economic Thinking. [3] However, sadly economists such as these with the ability to assist the vital creation of truly sustainable economies remain outside the main stream of governance.

The report of the Global Commission on the Economy and Climate "The New Climate Economy" (2018) noted that "Disasters triggered by weather and climate-related hazards were responsible for thousands of deaths and for US$320 billion in losses in 2017" and said "we need a new class of economic models that can capture .. preservation of essential natural capital, and the full health benefits of cleaner air and a safer climate including the containment of pandemic diseases. Bold action could yield a direct economic gain of US$26 trillion through to 2030 compared with business-as-usual"

Economic action needed now

The Global Commission mentioned the need for economies to adopt full cost accounting to include the costs of the harmful consequences of manufactured products to the environment and health.

Australian economists could commence their reforms with proposals for phasing out the burning of coal, which in reality is expensive if the prodigious costs of ill-health and death from its polluting effects are included in the accounting. This obvious solution to this problem has not been implemented owing to the current neoliberal ideology adhered to by governments, and their subservience to the fossil fuel industry - which provides both employment and income to government coffers. Currently some community organisations (like DEA) are working to have an increase in levies placed on air pollution from coal fired power stations.

The usage of plastic in Australia also urgently requires economic examination for the external costs which are identifiable in collection, land fill and ocean pollution. The means must be found to include these factors in the cost of commonly used products.

The current economic ship is sailing to calamity, which perhaps has motivated one well known wealthy entrepreneur to have ready his rocket ship for soaring into space and containing a group of powerful growth proponents -- once fire has begun to consume the Earth. The passenger list to be headed by Trump and his mate Putin, together with many other owners of the world economy.

Meanwhile, on Earth, the population expert Paul Ehrlich pleads *"Help is wanted from the economists"* and the current Australian Treasurer tells us knowingly that *"the invisible hand of capitalism delivers far more than the dead hand of socialism"*. Wow, what expertise we have!

Those who understand the meaning of the word "sustainability" need to seize the economic ship.

1. http://www.gcafh.org/edlab/Lebow.pdf
2. https://larspsyll.wordpress.com/2017/09/29/rational-expectations-the-triumph-of-ideology-over-science/
3. https://www.ineteconomics.org/about

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Dr David Shearman is a medical doctor, and is E/Professor of Medicine (University of Adelaide). He was previously attached to the faculties at Edinburgh and Yale Universities. He is also an ERA patron.

Dr Evan Jones has been a keen observer of banking practices over many years. He has closely monitored the Australian bank sector, analysing its financial twists and turns and its impacts on the lives of ordinary people.

The Banking Royal Commission as Theatre - the character and background of bank corruption

Guest Speaker – Dr Evan Jones

Eminent political economist Dr Evan Jones will take us on a fascinating trip through the vagaries of the Australian financial sector and the recent Banking Royal Commission.

When: Friday 17 May, 2019.
Where: Mitchell Theatre, Sydney Mechanics Institute, 280 Pitt Street, Sydney.
Time: 6:30pm to 8:00pm
Cost: \$15 non-members, \$10 REA members and students

Organised by Rethinking Economics Australia (REA)

The Venezuela myth keeping us from transforming our economy
Ellen Brown

Extracted from a recent blog by Ellen Brown, this article discusses the economic and political issues surrounding Venezuela's current difficulties and its hyperinflation.

This is a twenty billion dollar note from Zimbabwe, which experienced hyperinflation after the country's civil war and confiscation of private farms. Zimbabwe abandoned its currency in 2009 and currencies from other countries are now used. (Flickr cc)

Modern Monetary Theory (MMT) is getting significant media attention these days, after Alexandria Ocasio-Cortez (AOC) said in an interview that it should "be a larger part of our conversation" when it comes to funding the Green New Deal. According to MMT, the government can spend what it needs without worrying unduly about deficits. MMT economist, and Bernie Sanders advisor, Prof Stephanie Kelton says the federal government actually creates money when it spends. The real limit on spending is not an artificially imposed debt ceiling but a lack of labour and materials to do the work, which can lead to generalized price inflation. Only when that real ceiling is hit does money spent into the economy by government need to be taxed back, and then not to fund government spending but to limit the money supply in an economy that has run out of resources to put all of that money to work.

Predictably, critics have been quick to rebut, calling the trend to endorse MMT "disturbing" and "a joke that's not funny". In a February 1st post on *The Daily Reckoning*, Brian Maher darkly envisioned Bernie Sanders being elected in 2020 and implementing "quantitative easing for the people" - based on MMT principles. To debunk the notion that governments can just "print the money" to solve their econ-omic problems, he raised the spectre of Venezuela, where "money" is every-

where but the bare essentials are out of reach for many, storefronts are empty, and unemployment is at 33%, with inflation predicted to hit 1,000,000%.

What Is Different About Venezuela

Venezuela's problems are not the result of the government issuing money and using it to hire people to build infrastructure, provide essential services and expand economic development. If it were, unemployment would not be at 33 percent and climbing. Venezuela has a problem that the US does not have and will never have: it owes massive debts in a currency it cannot print, namely US dollars. When oil (its principal resource) was booming, Venezuela was able to meet its repayment schedule. But when oil plummeted, the government was reduced to printing Venezuelan Bolivars and selling them for US dollars on the international currency exchanges. As speculators drove up the price of US dollars, more and more printing was required by the government, massively deflating the national currency.

It was the same problem suffered by Weimar Germany and Zimbabwe, the two classic examples of hyperinflation typically raised to silence proponents of government expansion of the money supply before Venezuela suffered the same fate. Prof. Michael Hudson, an economic rock star who supports MMT principles, has studied the hyperinflation question extensively. He confirms that those disasters were not due to governments issuing money to stimulate the economy. Rather, he writes, "Every hyperinflation in history has been caused by foreign debt service collapsing the exchange rate. The problem almost always has resulted from wartime foreign currency strains, not domestic spending."

Venezuela and other countries that are. carrying massive debts in currencies that are not their own are not sovereign. Governments that are sovereign can and have engaged in issuing their own currencies for infrastructure and development quite successfully. A number of contemporary and historical examples were discussed in my earlier articles, including in Japan, China, Canada and Australia.

Although Venezuela is not technically at war, it is suffering from foreign currency strains triggered by aggressive attacks by a foreign power. The US economic sanctions have been going on for years, causing at least $20 billion in losses to the country. Around $7 billion of its assets are now being held hostage by the US, which has waged an undeclared war against Venezuela ever since George W. Bush's failed military coup against President Hugo Chavez in 2002. Chavez boldly announced the "Bolivarian Revolution," a series of economic and social reforms that dramatically reduced poverty and illiteracy and improved health and living conditions for millions of Venezuelans. The reforms, which included nationalizing key components of the nation's economy, made Chavez a hero to millions of people and the enemy of Venezuela's oligarchs.

Nicolas Maduro was elected president following Chavez's death in 2013 and vowed to continue the Bolivarian Revolution. Like Saddam Hussein and Omar Qaddafi earlier, he defiantly announced that Venezuela would not be trading oil using US dollars, following sanctions imposed by President Trump.

The notorious Elliott Abrams has now been appointed as special envoy to Venezuela. Considered a criminal by many for covering up the massacres committed by US-backed death squads

in Central America, Abrams was among the prominent neocons closely linked to Bush's failed Venezuelan coup in 2002. National Security Advisor John Bolton is another key neocon architect advocating regime change in Venezuela. At a January 28 press conference, he held a yellow legal pad prominently displaying the words "5,000 troops to Colombia," a country which shares a border with Venezuela. Apparently the neocon contingent feels they have unfinished business there.

Bolton does not even pretend that it's all about restoring "democracy." He said on Fox News, "It will make a big difference to the United States economically if we could have US oil companies invest in and produce the oil capabilities in Venezuela." As Pres Richard Nixon said of US tactics adopted against Allende's government in Chile, the point of sanctions and military threats is to squeeze the country economically.

Killing the public banking revolution in Venezuela

It may be about more than oil, which recently hit record lows in the market. The US hardly needs to invade a country to replenish its supplies. As with Libya and Iraq, another motive may be to suppress the banking revolution initiated by Venezuela's upstart leaders.

The banking crisis of 2009-10 exposed the corruption and systemic weakness of Venezuelan banks. Some banks were engaged in questionable business practices. Others were seriously undercapitalized. Others were apparently lending top executives large sums of money. At least one financier could not prove where he got the money to buy the banks he owned.

Rather than bailing out the culprits, as was done in the US, in 2009 the government nationalized seven of the Venezuelan banks, accounting for 12% of the nation's bank deposits. In 2010, more were taken over. The government arrested at least 16 bankers and issued more than 40 corruption-related arrest warrants for others who had fled the country. By the end of March 2011, only 37 banks were left, down from 59 at the end of November 2009. State-owned institutions took a larger role, holding 35% of assets as of March 2011, while foreign institutions held just 13.2% of assets

Over the howls of the media, in 2010 Chavez took the bold step of passing legislation defining the banking industry as one of "public service". The legislation specified that 5% of the banks' net profits must contribute towards funding community council projects, designed and implemented by communities for the benefit of communities. The Venezuelan government directed the allocation of bank credit to preferred sectors of the economy, and it increasingly became involved in the operations of private financial institutions. By law, nearly half the lending portfolios of Venezuelan banks had to be directed to particular mandated sectors of the economy, including small business and agriculture.

In a 2012 article entitled "Venezuela Increases Banks' Obligatory Social Contributions, U.S. and Europe Do Not," Rachael Boothroyd said that the Venezuelan government was requiring the banks to give back. Housing was declared a constitutional right, and Venezuelan banks were obliged to contribute 15% of their yearly earnings to securing it. The government's Great Housing Mission aimed to build 2.7 million free houses for low-income families before 2019. The goal was to

create a social banking system that contributed to the development of society rather than simply siphoning off its wealth. Boothroyd wrote:

" … Venezuelans are in the fortunate position of having a national government which prioritizes their life quality, wellbeing and development over the health of bankers' and lobbyists' pay checks. If the 2009 financial crisis demonstrated anything, it was that capitalism is quite simply incapable of regulating itself, and that is precisely where progressive governments and progressive government legislation needs to step in.

Source: Web of Debt, 9 Feb 2019 https://ellenbrown.com/2019/02/09/the-venezuela-myth-keeping-us-from-transforming-our-economy/

Ellen Brown is an attorney, founder of the Public Banking Institute, and author of twelve books including Web of Debt and The Public Bank Solution.

Anti-social economics

Peter Radford

Source: Flickr cc

Some jumbled thoughts prompted by my recent reading of Robert Skidelsky's book, "Money and Government"

Just how anti-social is economics?

I don't think the question is difficult to answer: economics in its modern mainstream form is, at its heart, designed to undermine democratic government. It is, therefore, profoundly anti-social.

The genesis of this antipathy towards democracy is all the way back in the beginning moments of economics as an intellectual discipline when its earliest proponents had a specific objective, which was to build an argument for the elimination of politics from the social space we now refer to as the "market". This effort to de-politicize commerce was driven by the perceived need to rid it of the constant interference of whimsical and debt-ridden monarchs. So the discipline's founders built a new framework to denigrate or demean government, where government could be equated with an authoritarian despot.

The problem with this is that the same sentiment grips modern economics even though the presence of authoritarian despots is minimal, and many more governments are comprised of democratically elected officials who represent the very same people who are lionized as ‘rational agents’ in the economic domain. To undermine the legitimacy of democracy, economists had to construct a theory to eliminate any socially inspired action on the part of those officials and relegate them, instead, to just another group off self-serving agents incapable of acting on behalf of others.

The central premise of economics became that social issues were best resolved within the market and that government was, at best, inevitably an imposition on the pursuit of liberty, and, at worst, deleterious to, or destructive of, that same liberty. Oddly in order to prove that politics ought to be eliminated from commerce and that markets ought simply be set free, economics had to become politically committed to an ideology. Economics had to engulf politics in order to make sure it was the ‘correct’ politics of the rugged individual rather than anything tainted by social activity.

The problem for economics is that politics did not disappear. Nor was the need for it obviated by the wonders of the market. On the contrary, as individual liberty became more and more synonymous with what we now loosely call capitalism, economic theory was driven into ever increasing efforts to express that liberty in quasi-scientific terms. The early critiques of capitalism produced a counter-movement expressed as ‘marginalism’ and eventually as general equilibrium. In each case the ideological intent was to prove that defiance of markets was futile. Markets, inevitably so the story went, provide the most social welfare, whereas governments can only muck things up.

Great efforts went into erecting proofs to support these conclusions. Maximization and optimization were seen as inevitable outcomes of individual agents interacting freely, with their interaction producing no sullying or inconvenient result dependent upon their cooperation. Indeed, cooperation disappeared altogether from theory.

Still politics refused to cooperate with economics. The steady rise of industrialized populations with their attendant problems and demands forced the extension of democratic politics into all corners of society. Despite the best efforts of economists, social organization outside of the market continued to gather strength. Society actually existed beyond the borders of the market.

In the middle of the 1900s this gathering strength triggered a crisis in economics. The evident failures of markets around the world during the 1930s produced economic theories that incorporated or tolerated a social view. But in the eyes of ideologically committed economists even the most benign of these new theories were seen as simply the beginning of a slippery slope into oblivion.

Thus there was a renewed attack on social activity in commerce.

Planning of the kind undertaken by the Soviet era governments was attacked as irretrievably flawed by dint of the cognitive incapacity of the planners to absorb all the information available in an economy. Any effort at planning was thought to be bound to produce sub-optimal results because of this cognitive incapacity. The defence of markets and the attack on democracy

then became one of a least worst kind. Economists argued that we knew for certain that planners could not digest and act on all the information available and were thus condemned to fail lamentably. So we ought let the market do the digesting and acting: it could do no worse, and was surely more able since all that locally held, and centrally indigestible, information was represented in the actions of individuals in the marketplace. Magically individuals in markets have super cognitive powers not available to government employees.

This cognitive argument was ultimately successful. Theorizing at a social or macro level was regarded as ineffective or counterproductive. Instead all theory had to start from the perspective of an individual. Theory went back to its anti-democratic roots in order to preserve the sanctity of individual liberty. The anti-social ideology of economics managed to squeeze out any vestiges of social action from mainstream theory. Everything became an expression of individual choice. At its most appalling yet logical extreme came the pronouncement that all unemployment is voluntary and that variations in the business cycle are simply representations of the latest rationally expressed information. Thus was useful content sacrificed in the defence of ideology and logical consistency.

The cost was that economics rapidly lost relevance, with its last claims to such evaporating after the 2008 crisis: a crisis which theory said could not occur.

A modern economy is riven through with interconnected processes that need extensive oversight and organization. Such oversight and organization lies beyond the reach of even the most committed rational individual. Hence the rise of modern corporate bureaucracy and its wholesale adoption of planning as a technology for governing production, distribution, and most of the other elements of commerce. The original model of individual action upon which the anti-social attitudes of economics was based is obsolete. Explanations of modern economies inevitably require accommodation with social activity since most commerce is entirely social. Society manifestly exists even in the private sector where organization dominates activity and belies the notion that everything can be resolved back down to acts of individuals.

Yet economics doggedly plods on denying the political landscape and the social advances of the past couple of centuries. It still privileges individuals over the social. It still cannot comment usefully on organization other than that of markets. And it steadfastly looks aghast at any form of democratic governance because it cannot tell the difference between a democracy and an authoritarian despot. All government is simply lumped together in one malign bucket whether it expresses the will of the people or not. And great efforts go into ensuring that important economic decisions are moved beyond the reach of elected officials. This is even if the technocrats that economists entrust with those decisions are manifestly wrong. Apparently, it is better to deny society than to re-invent economics.

No matter what gloss economists put on their efforts, at its core economics remains anti-democratic - by design.

Source: Real World Econ Rev, 6 Mar 2019
https://rwer.wordpress.com/2019/03/06/anti-social-economics/

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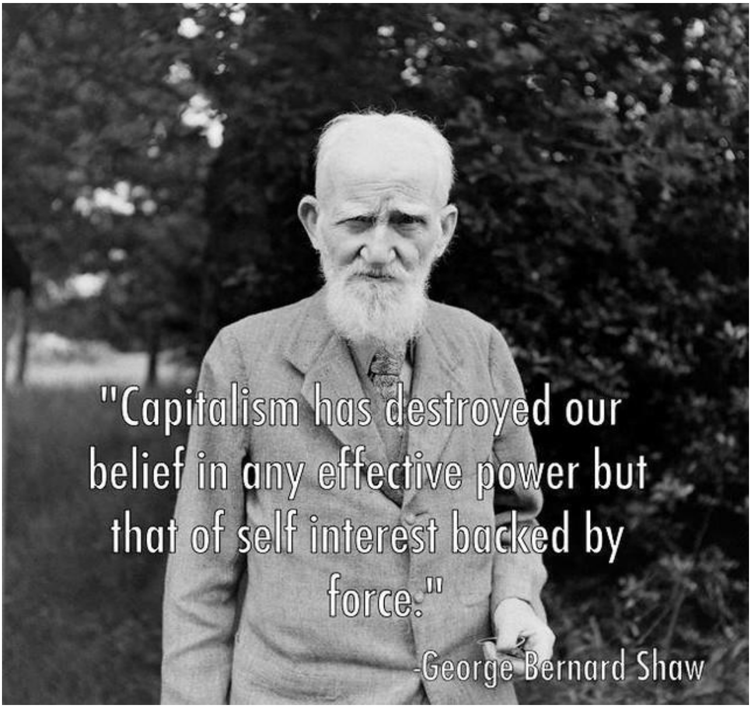
In economics the majority is always wrong. -- John Kenneth Galbraith

Capitalist utopia has become a dystopia

Editor

American elites have ruined their society in a way the world hasn't seen since Weimar Germany



Source: Flickr cc

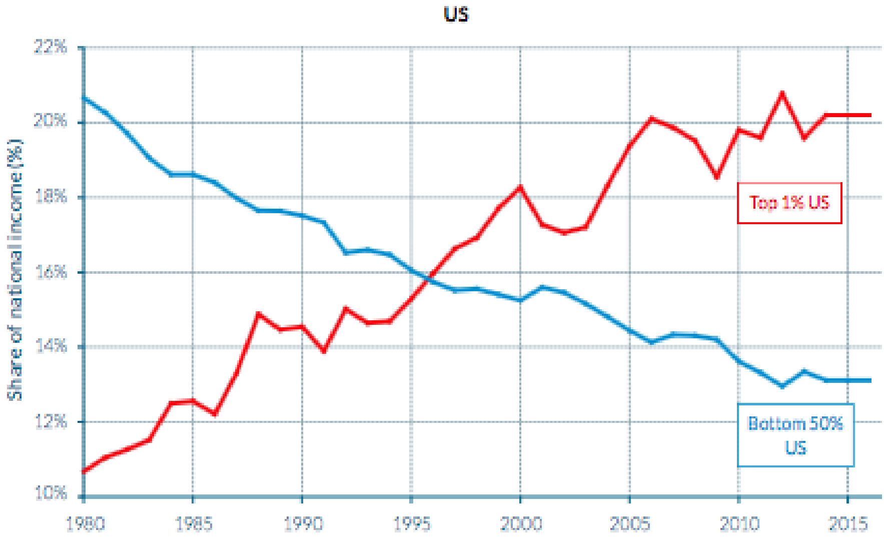
In a previous issue of ERA Review we presented (v10, n4, p6) graphs displaying income inequality for the U.S. and France. The contrast between the two economies is indeed stark, however it's important to recognise that the contrast is not confined to France. In figures 1 and 2 we show the percentage national income shares of the top 1% and the bottom 50% for the populations of the U.S. and Western Europe as a whole. This data was extracted from a recent article by Umair Haque [1] which has discussed the failure of U.S. capitalism to provide prosperity for the overwhelming majority of that country's citizens. According to the author:

" [these two charts display] American collapse in four lines. They say that American elites mismanaged their economy so badly, so fatally, so totally, that the rich world hasn't seen the like since Weimar Germany. They created a capitalist utopia [for the wealthy] - but the problem is that it's everyone else's dystopia.

"To understand the story of this gargantuan, historic failure - not managing a society in any way resembling "well", or even "sanely" - it's probably best to understand what Europe did right - and then come back to what America did wrong. Which is that it embarked on

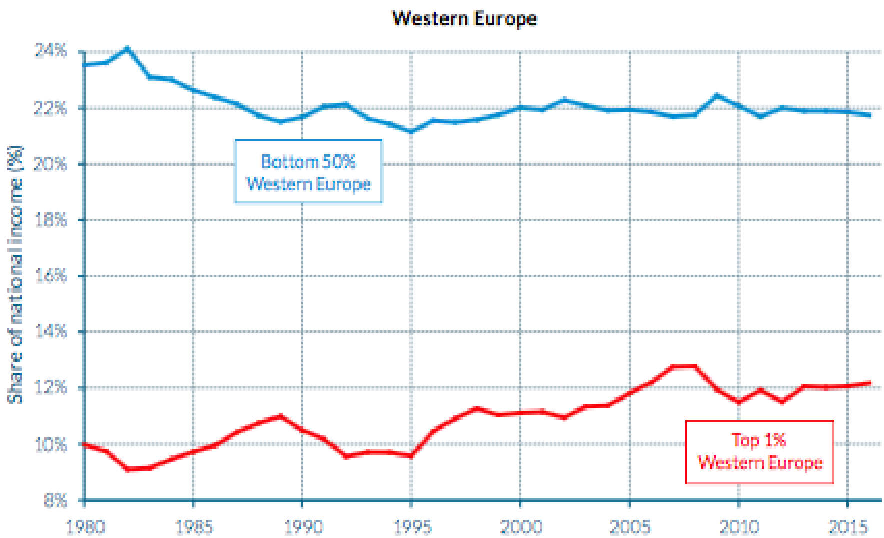
Figure E3

Top 1% vs. Bottom 50% national income shares in the US and Western Europe, 1980–2016: Diverging income inequality trajectories



Source: WID.world (2017). See wir2018.wid.world for data series and notes.

In 2016, 12% of national income was received by the top 1% in Western Europe, compared to 20% in the United States. In 1980, 10% of national income was received by the top 1% in Western Europe, compared to 11% in the United States.



Source: WID.world (2017). See wir2018.wid.world for data series and notes.

In 2016, 22% of national income was received by the Bottom 50% in Western Europe.

one of history's greatest fools' quests since alchemy, a utopian mission to turn the lead of capitalism into the gold of prosperity for everyone. But lead doesn't turn into gold.

" Why didn't Europe's "labour share of income" - that is, how much regular people receive - decline, like in the States? The simple answer, of course, is "more social democracy, and less capitalism". But what does that mean? It means that European structures and institutions are radically different from American ones - so different, that many Americans have little idea such things even exist.

" Both sides of American economics had devolved into something analogous to alchemy. They were on a quest to turn lead into gold - that is, to turn a capitalist society into a prosperous one. The right advocated something like totalitarian capitalism, capitalism as the only force in society - and the left, something slightly less than totalitarian capitalism. Hence, not a single U.S. economist of renown, left or right, said something like: "Hey everyone! We should have a national health service! A French-style sectoral bargaining for everyone! And also a BBC! Those would employ people, raise incomes and reverse the big problem in the economy." Don't you think that's strange?

" Yet America's elites never questioned themselves once. They never looked at the world. They were too busy mesmerized by the alchemists who were telling them fantastic tales of turning lead into gold. Of capitalism becoming a promised land of prosperity. It did - for a tiny handful of people, whom, today, are richer and more powerful than the kings of old. But for everyone else, America became a gruesome, bizarre dystopia. A land where children are sold bulletproof backpacks because no one can rein in the gun lobby. Where people choose between chemotherapy and bankruptcy. Where billionaires plan to flee to Mars - but a single space ship could pay for a thousand teachers, or the drinkable water, healthcare, and income that millions don't have.

" Like all utopian dreams, America's failed catastrophically. Not because it didn't try hard enough at turning lead into gold. But because it did. Lead does not turn into gold. Capitalism, alone, does not turn into prosperity. It was a fools' quest from the beginning. But there they still are, the wise men, wearing their suits, nodding their heads, stroking their chins, wagging their fingers - have they learned anything yet? "

1. https://eand.co/how-capitalist-utopia-became-everyone-elses-dystopia-a25a88713956

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He studies the economics of the future: the impact that new technologies, management innovations, and shifting consumer preferences will exert tomorrow on the industries and markets of today.

The general public doesn't know what's happening and it doesn't even know that it doesn't know. – Noam Chomsky

I don't think most of the US Congress understands how economics works. -- Alexandria Ocasio-Cortez

Commissioner Hayne's recommendations

Editor

A recent article by Andrew Linden and Warren Staples [1] lists recommendations made in the 1000-page report by the recent Banking Royal Commission headed by Kenneth Haynes. According to the authors: " .. the recommendations are a patchwork of measures that if implemented will over time be eaten away – and at some point dismantled – because the rationale for their adoption will be forgotten". Moreover they find that "the deepest flaw lies unaddressed" – unwillingness to put the public interest first, ahead of shareholders' interests. The limited terms of reference mean that another crisis is likely in the future.

1. Source: The Conversation, 5 Feb 2019 https://theconversation.com/haynes-failure-to-tackle-bank-structure-means-that-in-a-decade-or-so-another-treasurer-will-have-to-call-another-royal-commission-110437

Four lessons not learned from the 2008-9 financial crisis

Editor

Remembering the subprime crisis
one decade later. (Getty Royalty Free)

An article by John Harvey published in late 2018 [1] discussed four lessons that should have been learned from the 2008-9 global financial crisis.

It's more than a decade after Lehman Brothers collapsed, and things appear to look much better in the U.S. today in many respects. After unemployment peaked at 10% in Oct 2009, it fell to 4.8% by the end of the Obama administration and today is 3.9%. Meanwhile, Eurozone unemployment hit about the same level as the U.S. in 2009 but then continued to rise to over 12% and is currently just over 8%. Sounds like the U.S. did something right and Europe did something wrong! The key difference was that the U.S. rolled out a big fiscal stimulus package while the Europeans embraced austerity. It was the Obama administration that implemented the American Recovery and Reinvestment Act of 2009. President Bush had also enacted a similar (but smaller) program and had generally approved of the 2009 bill, written while he was still president.

So what was not fixed that could still cause a catastrophic future outcome? Too much. Here's a short list of what should have been learned but wasn't:

a. If you are going to bail someone out, bail out the debtor and not the creditor.
b. Financial institutions should be very closely supervised.
c. The market is not always right.
d. Deficit spending doesn't cause inflation or bankruptcy.

The bilge pumps are working hard but the holes are still there. They are a lot easier to patch when we aren't under water. Let's not wait too long … again.

1. John T Harvey, Forbes, 17 Sept 2018
https://www.forbes.com/sites/johntharvey/2018/09/17/four-lessons-not-learned-from-the-financial-crisis/#13f8d35247bc

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