



# ERA Review

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*For a just and sustainable society*

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## A national depository system - radical banking alternative

William F. Hummel



A near melt-down of the global financial system in 2008 sparked renewed interest in banking reform as well as alternatives to the current banking system, whose modus operandi is widely believed to be a root cause of the asset price bubbles that can end in debt deflation and deep recessions. The following proposal by William F. Hummel for a national depository as an alternative to the current banking system has been extracted from his website [1]. The original article is set within the framework of the U.S. financial system but the principles discussed by him apply more generally, and so the text has been modified accordingly.

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### A brief overview

The national depository system that is described here can be regarded as the functional equivalent of a full reserve banking system, but simpler and more efficient. It consolidates the transaction deposits of the many thousands of banks and other depositories into a single depository (the Depository), run

as a public service by the central bank (CB). The depository role of banks would no longer exist, but banks would continue to function as profit-seeking financial intermediaries.

The Depository would offer accounts to all who need the payment services of a traditional bank. It would only hold transaction deposits and would pay no interest. The Depository would neither lend nor borrow, but it would execute payment orders and handle the financial accounting.

The deposits themselves would be liabilities of the CB and therefore legal tender. The term reserves (also known as exchange settlement funds) would no longer be relevant and could be dropped from the financial lexicon. The deposits together with the circulating currency would comprise the entire money supply.

One should not confuse the Depository with the CB. The latter would continue to implement monetary policy through open market operations (OMO) and loans to banks. All such transactions

would result in credits or debits to the accounts in the Depository and thus affect the private sector money supply.

### **Transition to the national depository**

Transition to the national depository system would begin after a full reserve system had been in operation long enough to settle into steady state. All reserve accounts at the CB would be transferred to the Depository. Bound reserves would become deposits of the respective owners. Free reserves would become deposits of their respective banks. And at their option, banks could exchange their vault cash for deposits at the Depository. The balance sheets of banks would be downsized by the transfers, but the net worth of each would remain unchanged.

The required infrastructure would have to be built and ready for use. It would consist of a secure computer network of the different central bank branches, and an ATM system to withdraw or deposit currency. The ATMs could be located in banks that offer to provide the service as well as in post offices. The Depository itself would not handle currency.

### **Banking after the transition**

Banks could neither create nor accept transaction deposits. However they could accept fixed-term loans of various maturities and pay interest on them. They could also offer interest-earning savings accounts in the form of indefinite term loans, redeemable on 7-day notice. All loans to banks would be insured by the government. The funds paid by an investor in a loan to a bank would be credited to the bank's account in the Depository, and immediately available to the bank for its own investments.

Being no longer able to create deposits through lending, banks would operate

much like current nonbank intermediaries, borrowing to lend out at a profit. Differences from those intermediaries include privileges in their relationship with the CB, a fiduciary role with clients, and regulatory constraints. Banks could execute payment orders out of client accounts if authorized; offer loans out of their own Depository accounts; offer insured interest-earning investments; and provide on-line banking services and ATMs for cash management. Fees could be charged but a bank would likely provide such services without charge as long as the client held a term loan to the bank.

The computers used by the Depository would be simply an extension of the CB's computer system. Payment orders would be accepted by electronic means via plastic cards, the Internet, CB wire, smart phones, or by telephone. Paper cheques would be phased out, after which verifying balances and making payments would all be done in real time. The time delays and nuisance of cheque float would vanish. Payments would be executed by simply transferring funds between accounts. The only exception would be transactions with the CB which would involve a transfer of funds by wire in or out of the Depository.

### **Managing bank liquidity**

Since money in the Depository would earn no interest, banks would normally hold only what is needed in the near-term for operating expenses, making investments, and redeeming maturing liabilities. Money acquired in excess of that would be invested in Treasury securities and in loans to the CB or the money market.

If a bank had to acquire additional funds in order to issue a loan, it would have several options -- borrow from the CB,

borrow from another bank, borrow from a non-bank, repo securities, or sell securities outright. Borrowing from the CB would increase the total money supply, but the other options would simply move funds between accounts within the Depository.

The CB would offer 7-day loans at its policy interest rate to any bank that can pledge collateral for the amount of the loan while maintaining a capital/asset ratio of at least 10%. Loans could be renewed indefinitely as long as the financial requirements were met. Banks should therefore hold a good supply of Treasury securities to serve as collateral in borrowing from the CB. The CB would also accept 7-day loans from banks at its policy rate. That would provide a secure place to park a bank's unneeded funds in the near term while earning a return. It would also reduce the amount and cost of interbank lending.

The purchase of securities from the non-bank sector by CB OMO would not directly increase bank liquidity. The proceeds of the sales would all flow to the sellers' accounts in the Depository. However the sellers would normally reinvest the proceeds to earn a return rather than leaving them idle in the Depository. Banks should therefore actively seek term loans from the sellers by offering competitive interest rates. Such loans would directly increase bank liquidity and require no pledged collateral since they would be insured.

### **Monetary policy implementation**

The control variable for monetary policy would be the interest rate set by the CB in lending to or borrowing from banks. That determines the cost of funds to banks and, after a mark-up, the interest rate banks would charge on loans to

private sector borrowers. For any given policy rate, the CB would play a passive role in meeting the liquidity demands of the private sector.

Based on the aggregate amount of lending and borrowing with banks, the CB could determine the approximate amount of money to add or drain by OMO to achieve a balance. It would purchase securities in the open market when its lending exceeded its borrowing by some threshold amount, thereby increasing private sector liquidity and decreasing the demand for bank loans.

Conversely the CB would sell securities in the open market when its borrowing exceeded its lending. By maintaining an approximate balance in its borrowing and lending, the money supply would automatically increase in a growing economy. How well that would meet the liquidity needs of the economy depends on the policy interest rate set by the CB.

### **Improving Banking System Stability**

To improve banking system stability, new operating rules and restrictions for banks should be established. For example, a bank's book value plus retained earnings should be at least 10% of its risk-weighted assets. A bank should be required to carry on its own balance sheet at least 10% of each loan it issues so as to share in the risk of a default by the borrower.

Permissible investments should exclude those whose basic purpose is to leverage bets in the financial markets. Since banks could no longer hold demand deposits on their own balance sheets, there is little possibility of a classic bank run in the national depository system.

Each account in the Depository would be labelled to indicate the type of owner, for example: bank; credit union;

non-bank financial; non-bank non-financial; non-profit; Eurodollar bank; foreign central bank; or individual. Without disclosing the account owners or their holdings, the data could be aggregated on a minute by minute basis and made available for economic analysis. That would be particularly useful in times of economic or financial stress.

**1. Source:** William Hummel's website, Money: What it is, How it Works (Oct 2016) <http://wfhummel.net/NDS.html>



**William F. Hummel** has a longstanding interest in money, banking, post-Keynesian economics, and long-term investing.

## Employment for All Asad Zaman

*An article published in the leading Pakistani newspaper Dawn [1] explains, and makes a case for, the Job Guarantee (JG) programme of Modern Monetary Theory (MMT).*



Local agri business for growing food with tunnel farming (source: Flickr cc)

Global experience shows that market economies create massive inequalities, enriching the top one per cent, while leaving the bottom of the population far behind. One key to prosperity is to provide productive jobs for all who would like to participate in the production process. Unfortunately, contemporary macroeconomics, which was blind to the possibility of the global financial crisis, is not equipped with the ideas

and tools required for creating full employment.

Conventional macroeconomics blames the poor for their impoverishment, and recommends education and training to fit them into existing jobs. However, the private sector does not naturally create enough jobs to employ everyone. Our experience with Keynesian remedies shows that expansionary monetary

policy can begin to create inflation a long time before full employment is achieved. MMT provides a genuine solution to this dilemma -- a job guarantee programme.

Instead of preparing people to fit them into existing or potential private sector jobs by providing them with education and training, we must create jobs tailored to the people. Jobs should be provided to take people as and where they are. Skills should be provided via on-the-job training. There are a huge number of jobs which require low levels of skill and education and provide enormous benefits to society, but are not profit-making and so are of no interest to the private sector.

For example, planting trees, building roads, cleaning dams, infrastructure projects, and a range of social services, all of which provide benefits to society and make a measurable impact on appropriate measures of economic progress, but which may not be privately profitable. Engaging the entire working population in productive jobs is a win-win solution since it will add enormously to the productive capacity of the economy, while providing a living wage for all members of society who are able and willing to work. However we must solve a complex set of structural problems to make such a scheme work.

The first problem is institutional. Just as the private sector cannot provide enough jobs, the government too lacks the capacity or capability to productively employ millions of people. Since neither the government nor the private sector has sufficient capacity, we must turn to local communities for the provision of jobs. Fortunately, community-driven development was pioneered by Akhtar Hameed Khan in Pakistan's Comilla Project, and this type of project has now

been replicated across Pakistan. Both the Pakistan Poverty Alleviation Fund and the National Rural Support Programmes have created thousands of living communities across Pakistan. These communities can be given the responsibility of providing productive jobs, for which the funding can be provided by the government.

Next, we must examine the consequences of pumping large quantities of money into the economy by providing millions of jobs to all who wish to work, taking them as they are, where they are. A huge amount of additional demand for goods and services will be created by this additional money being paid to the formerly unemployed. Using household income and expenditure surveys which describe consumption patterns of the poor, we can come up with first-round estimates of the nature of the additional demand generated. To prevent undue inflation, we need to ensure that employment is provided to produce the goods for which we anticipate excess demand will be generated, e.g. if we forecast an additional demand for a million tonnes of food, we must employ the workers to produce that additional million tonnes.

Careful sectoral planning is needed to ensure a match between additional demands generated and the additional production that will be created. However, even if we fail in matching supply to demand, any excess demand which leads to inflation will not necessarily be harmful. Because rising prices signal high demand and set off private mechanisms to create additional capacity to meet new demands. Labour resources made available by the JG programme would facilitate expansion of supply in response to higher prices and profits.

A surfeit of money would create excess demand for imports. With an overvalued currency, all imports are subsidised and we can't afford to increase demand, since that drains the forex reserves. However, an undervalued currency acts as a tax on imports which creates forex reserves. Many economies like Japan, China, and East Asia have used undervaluation to promote domestic industries and accumulate dollars. It is true that essential imports with inelastic demands will become more expensive. However, we can use the surplus generated by undervaluation to subsidise essential imports. This dual exchange rate policy is far more

efficient than a general across-the-board subsidy to all imports, which is created by overvaluation.

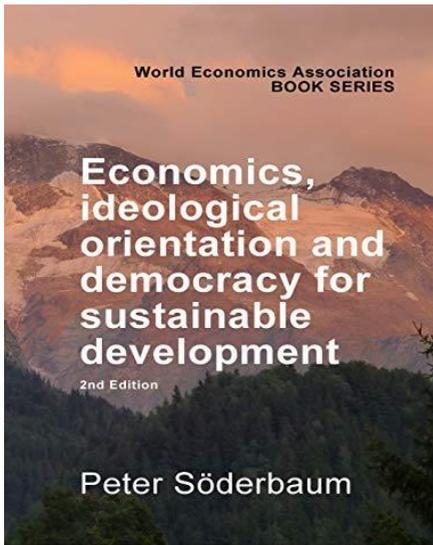
Many aspects of the JG programme require careful planning and adaptation to local social and institutional structure. But the payoff of prosperity for all makes it worthwhile to invest in the required efforts.

1. <https://www.dawn.com/news/1478905>

2. <https://rwer.wordpress.com/2019/05/17/employment-for-all-2/>

**Prof Asad Zaman** is an economist and social scientist, and is currently Vice Chancellor of the Pakistan Institute of Development Economics, Islamabad

**Recommended book: Economics, ideological orientation and democracy for sustainable development, by Peter Söderbaum, 2nd Edn (WEA)**



Sustainable development is a challenge for individuals in their various roles, for organizations, and for communities at local, national and global levels. How can we deal with climate change, biological diversity loss or pollution of land and water? How can social inequality be reduced and democracy strengthen-

ed? Can mainstream (neoclassical) economics be further developed to deal with these issues? While not excluding positive contributions from mainstream economics within a pluralist perspective, the main strategy in this book is based on a judgment that some new conceptual frameworks and a new economics language are needed. It is even argued that the close to monopoly position of neoclassical theory at university departments of economics at a global level may be part of the sustainability problems faced. When compared with neoclassical theory 'economics' and 'the economy' are understood in alternative ways. A 'political economic person' replaces the 'Economic Man' assumptions. Similarly, the neoclassical profit-maximizing firm is replaced by a 'political economic organization' guided by its 'mission'. Decision-making is seen as a "matching" process where optimization becomes a special case. Positional analysis (PA) is proposed as a more open alternative to cost-benefit analysis (CBA). Democracy is looked

upon as an essential part of economics. Value-neutrality is not possible. Instead ideological orientations will have to be articulated and discussed openly. For example, a specific interpretation of 'sustainable development' exemplifies an ideological orientation to be compared with 'market and economic growth' ideology. To get closer to sustainable development, institutional changes of a

more radical kind must be considered

**Peter Söderbaum** is professor emeritus in ecological economics at Mälardalen University, Västerås, Sweden and is the author of books such as *Ecological Economics* (Earthscan, 2000) and *Understanding Sustainability Economics* (Earthscan, 2008). He is an editorial advisory board member of *Ecological Economics* and the *International Journal of Pluralism and Economics Education*

## Should all student loans be waived?

### Editor

The following question, which appeared recently in the forum *Quora* [1], is set in the context of the U.S. but happens to be more generally applicable:

**Q:** The U.S. has 44 million borrowers who owe 1.5 trillion dollars in student loans. Should these loans be forgiven?

Response from Kathryn Acosta:

Points taken from a U.S. study: "The Macro-economic Effects of Student Loan Cancellation" by Scott Fullwiler, Stephanie Kelton, Catherine Ruetschlin, and Marshall Steinbaum [2,3]:

1. The policy of debt cancellation could boost U.S. real GDP by an average of \$86 billion to \$108 billion per year. Over the 10-year forecast, the policy generates between \$861 billion and \$1,083 billion in real GDP (2016 dollars).

2. Eliminating U.S. student debt reduces the average unemployment rate by 0.22% to 0.36% over the 10-year forecast.

3. Peak U.S. job creation in the first few years following the elimination of student loan debt adds roughly 1.2 million to 1.5 million new jobs per year.

4. The inflationary effects of cancelling the debt are macro-economically insignificant. In the Fair model simulations, additional inflation peaks at about 0.3 percentage points and turns negat-

ive in later years. In the Moody's model, the effect is even smaller, with the pick-up in inflation peaking at a trivial 0.09 percentage points.

As you can see from the gist of this study, there are many more positives than negatives. Most of the negatives pertain to a possible backlash from those former students that have already paid off their loans who might complain about how unfair it is for those behind them in the education ladder to get their education free.

There is also an issue of moral hazard - that people will run up debt and then expect it to be cancelled. To these people I would argue that putting such a high price tag on education is robbing our country of needed talent. Demonstrated skill and talent should be the criterion for gaining admission to a college, not wealth and money - as it is today. As a person who has paid off two loans, I say let's cancel all student debt.

### Sources:

1. <https://www.quora.com/The-United-States-has-44-million-borrowers-who-owe-1-5-trillion-dollars-in-student-loans-Should-all-their-loans-be-forgiven?>

2. [http://www.levyinstitute.org/pubs/rpr\\_2\\_6.pdf](http://www.levyinstitute.org/pubs/rpr_2_6.pdf)

3. <https://www.sandersinstitute.com/blog/the-macroeconomic-effects-of-student-debt-cancellation>

Editor's comments: Firstly, education at all levels is an investment in the nation's future. And secondly, in terms of the educational costs, it may be said that those who gain college degrees and diplomas on the whole pay more tax over their lifetime than those who do not gain such qualifications. Therefore, assuming that education can be made

free of tuition and training fees and charges for all students, it may be argued that on the whole those who graduate from college and university courses will more than pay for the cost of their tuition and training by virtue of the extent to which their cumulative tax payments exceed cumulative payments at the average tax rate over the same time span.

## **We wrecked the planet but if the young just read the Washington Post they will only blame us for the national debt!**

**Dean Baker**



Source: Flickr cc

You have to love Robert Samuelson. He writes a column noting that baby boomers are leaving the workforce, and some are dying off, leaving the country to our children and grandchildren. He concludes the piece with a comment on the national debt.

“To boot, there’s also a massive federal debt. Good luck.”

Given the enormous damage that we have done to the environment, our children and grandchildren would be enormously forgiving if all they blamed us for is the national debt. Of course, since we (baby boomers) will all be dead at some point, we will also be passing on the bonds that constitute the national debt to our children and

grandchildren.

Most kids will not be inheriting bonds, due to the inequality of wealth, but at some future point the debt will be held by the children and grandchildren of Bill Gates and his ilk, making the debt an issue of intra-generational inequality, not inter-generational inequality. But even beyond this logical point, the burden of the debt is also relatively low these days, around 1.0 percent of GDP, as opposed to 3.0 percent of GDP in the early 1990s. So it’s hard to see what the big deal is.

Also, Samuelson consistently ignores (like all deficit hawks) the implicit debt that the government creates by granting patent and copyright monopolies.

These government-granted monopolies raise the price of items like prescription drugs, medical equipment, software, and other products by many hundred billion dollars annually above the free market price. Yet, the deficit hawks want us to pay no attention to this burden. If I were more cynical I would think they were getting money from the interest groups that benefit from these

monopolies.

Anyhow, if the only thing our kids think we did was wrong was run up a large government debt, then we failed big-time in giving them a decent education.

**Source:** Real World Econ Rev, 24 May 19  
<https://rwer.wordpress.com/2019/05/24/we-wrecked-the-planet-but-if-the-young-just-read-the-washington-post-they-will-only-blame-us-for-the-national-debt/>

## The wonderful world of free market drugs

Dean Baker

I write about the possibility of producing drugs without patent monopolies frequently for several reasons. First, drugs can be essential for people's health or even life. It should not be a struggle for people to pay for them. Second, there is a huge amount of money at stake, way more than in almost any other realm of public policy. Third, it is such a great example where government intervention, in the form of patents and related monopolies, creates the problem. This is not a situation where we need the government to correct an inequity that is created by the market, but rather we need the government to stop intervening in a way that creates tremendous inequities and inefficiencies.

I find that people (and I mean people engaged in public policy work, not random people grabbed off the bus) have a hard time even understanding what the market for prescription drugs looks like in the absence of patent and related monopolies,[1] so I thought I would devote a blogpost to describing my view of such a world.

The first and most basic point is that in nearly all cases drugs would be cheap. Drugs are very rarely expensive to manufacture. They are expensive for patients because drug companies

have patent or related monopolies and they use these monopolies to charge very high prices to the people who need their drugs. If there were dozens of competing manufacturers producing the same drug, they would be no better position-ed to get away with charging incredibly high prices than a supermarket could get away with charging incredibly high prices for food (we need food to survive too). They would be welcome to try, but almost everyone would simply turn to a competitor, likely driving them out of business.

We know that drugs are cheap in the absence of patent monopolies for two reasons. First, because generic prices in the United States are much less than brand prices. In addition, many of the high-priced drugs sold with patent protection in the United States are sold as generics elsewhere in the world, in some cases for less than one percent of the price in the U.S.

According to data from the Association for Accessible Medicines, the trade group for the generic industry, brand drugs accounted for 74% of spending even though they were only 11% of the prescriptions sold. By contrast, generic drugs accounted for just 26% of spending even though they made up 89% of

sales. This implies that the average generic prescription costs just 3.6% of the price of an average brand prescription, or \$29.70 per prescription in 2017. This figure would mean that we could save 96.4% of the money spent on brand drugs if we immediately got rid of protections and allowed them to be sold as generics.

**Blog Sources:**

1. [http://cepr.net/blogs/beat-the-press/#\\_ftn1](http://cepr.net/blogs/beat-the-press/#_ftn1)
2. <https://twer.wordpress.com/2019/06/01/the-wonderful-world-of-free-market-drugs/>  
Comments from Patrick Newman:  
Yes, drugs are cheap to manufacture and the active ingredient(s) are usually a small proportion of the physical entity. Is it reasonable for the drug companies to claim the large sums that have to be incurred are at the development and testing stage which like any product of a complica-

ated process must be recouped in the sales price?

Generics are usually of 'mature' drugs in use long after the initial launch. Another question is how long should a drug company be given the right of monopoly before the production and sales become a 'free for all'? One solution would be state control/supervision of the drug industry!



Source: Flickr cc

## **Germany will close all 84 of its coal-fired power plants Will rely primarily on renewable energy**

An article by Erik Kirschbaum in the LA Times on 26 Jan 2019 [1] reported a German government commission statement that Germany, currently one of the world's biggest consumers of coal, will shut down all 84 of its coal-fired power plants over the next 19 years to meet its international commitments in the fight against climate change. Coal plants account for 40% of Germany's electricity, itself a reduction from recent years when coal dominated power production.

The plan includes \$(US)45 billion in federal spending to re-employ redundant coal workers and mitigate the pain in coal regions, and the commission's recommendations will almost certainly be adopted by Chancellor Angela Merkel's government.

This decision follows an earlier policy move by the government to shut down

all nuclear power plants by 2022 in the wake of Japan's Fukushima disaster in 2011. At the time of that decision, the move was harshly criticized as reckless by business leaders, who worried that it would raise electricity prices and make their industries less competitive against foreign rivals. They also pointed out the apparent futility of the move because no other major industrial country followed Germany's nuclear exit. Twelve of the country's 19 nuclear plants have been shuttered so far.

The plan to eliminate coal and nuclear plants means that Germany will be counting on renewable energy to provide 65% to 80% of the country's power by 2040. Renewables currently account for 41% of its electricity.

1. <https://www.latimes.com/world/europe/la-fg-germany-coal-power-20190126-story.html>

# The search for an alternative to GDP to measure a nation's progress -- the New Zealand experience

Murray Graham Patterson



Queenstown, New Zealand at night (Source: Flickr cc)

*New Zealand's well-being budget was based on a set of measures that include cultural identity, environment, income and consumption, and social connections.*

There is consensus among the New Zealand policymakers and researchers that GDP is not a good measure of a nation's well-being. But the debate about what metric should replace GDP is ongoing.

The recent well-being NZ budget was based on the Livings Standards Framework (LSF), which is a set of well-being measures that include cultural identity, environment, income and consumption, and social connections. But these provide no overall index of the nation's performance.

Our research uses the GPI (Genuine Progress Indicator). It shows that by that measure, New Zealand may be only half as well off, compared to the conventional measures such as GDP.

## **Accounting for costs and benefits of economic activity**

Globally, the GPI is the most widely used method to replace the GDP. It is essentially a macro-scale analysis of the costs and benefits of activities associated with economic activity. It

includes the personal consumption of goods and services as one of the largest benefits, but it balances this with costs, which may include social factors such as income inequality and environmental factors such as water pollution and the emission of greenhouse gases.

We show [1] that overall, on a per capita basis, New Zealand's GDP has increased by 91% since 1970. But the GPI gives a more accurate measure of the nation's well-being, with an increase of only 53%.

Personal consumption is the highest value in both GPI and the GDP during the 1990s. It grew strongly with an improving economy, but there is a widening gap between GDP and GPI because of the increasing cost of environmental problems and other externalities, such as the high cost of increasing commuting time.

## **Sustainability as the beacon**

The struggle to find something better than GDP has a long history in New Zealand. The first attempts to find a

replacement to the GDP were heavily influenced by the idea of sustainable development as an overarching concept of societal progress. In 2002, the Ministry for the Environment commissioned a review of headline indicators for tracking progress towards sustainability. This identified seven factors considered to be critical for successful indicators of progress. Of the 33 indicators reviewed, two were eventually implemented: the ecological footprint and the genuine progress indicator.

In 2008, towards the end of the Labour government term, Stats NZ developed a conceptual framework for measuring progress towards a “sustainable development approach”. This substantive work did not recommend using a replacement for GDP, but instead listed trends under 15 topic areas, grouped under the themes of environmental responsibility, economic efficiency and social cohesion. From an analytical standpoint, it was hard to see how this

laundry list of indicators explicitly linked to the concept of sustainable development, which this tool set was purportedly measuring.

With the advent of the National Party coming to power in 2009, sustainability literally became a banned concept. All the work on sustainability was halted and, in many cases, annihilated. The Ministry for the Environment removed commissioned reports on ecological footprints from its website.

### Living standards research

From 2011, Treasury began developing the Livings Standards Framework (LSF) as an alternative to GDP. Many took notice as Treasury, one of the last true believers in GDP, was questioning its usefulness as the indicator of progress. The framework is based on the idea that four capitals – human, financial, social and natural – provide the basis for “intergenerational well-being”. It includes 12 measures of well-being.

	Civic engagement and governance		Jobs and earnings
	Cultural identity		Knowledge and skills
	Environment		Time use
	Health		Safety and security
	Housing		Social connections
	Income and consumption		Subjective wellbeing



CC BY-SA

The theoretical underpinnings of this framework are diverse, drawing on concepts of sustainability as well as a capabilities framework, as outlined in economist Amartya Sen's 1985 book *Commodities and Capabilities*. Treasury released the well-being indicators last year.

Unfortunately, when you drill down into the detail of these indicators, you will realise that, in many cases, they are very subjective and dependent on how survey questions are framed. For example, there are subjective questions like "the perceived state of New Zealand's environment on a 1 to 5 scale". In my view, that could be much better answered if hard environmental data, like water quality indicators, were used.

The living standards indicators also provide no guidance on whether the country is worse off or better off in an overall sense. The data is deliberately disaggregated and there is no attempt to come up with an overall index of the nation's performance.

### Progress indicators for the regions

From 2007 onwards, there were a number of useful attempts by central and local government to develop workable progress indicator systems. The Waikato Regional Council, developed a composite index for their region, covering economic, social and environmental aspects of progress. And the

Wellington Regional Council's index was derived by adding up 85 equally weighted indicators covering economic, environmental, social and cultural well-being.

The struggle to find a replacement for GDP has not led to any firm conclusions, and one can't ignore the role of politics at both a government and inter-departmental level.

Governments of various persuasions have attempted to impose their own view of what a GDP replacement would look like. Until this situation stabilises, and there is an enduring and robust replacement that is accepted by all, then by default GDP will continue to be the pre-eminent indicator of the nation's progress.

**1. Source:** <https://theconversation.com/the-search-for-an-alternative-to-gdp-to-measure-a-nations-progress-the-new-zealand-experience-118169>

**Murray Graham Patterson** is Professor in Ecological Economics, Massey University

**Editorial Note:** Assoc Prof Philip Lawn is currently engaged in a project leading to the production of benchmark GPI statistics for almost every country in the world. This has never been attempted before, and would be a significant breakthrough in national accounting. He will be discussing the results of his research, and making recommendations for governments and statistical agencies around the world, at a conference in Adelaide scheduled for early January 2020.



Anyone who believes that exponential growth can go on forever in a finite world is either a madman or an economist. — Kenneth Boulding

Nothing fails like success because we don't learn from it. We learn only from failure. — Kenneth Boulding

## The Reserve Bank Governor is completely wrong about the federal government budget and it matters

Steven Hail

*Australian monetary policy effectiveness is on the decline.  
Steven Hail suggests policies that would get our economy back on track.*



Reserve Bank of Australia Governor, Philip Lowe (Image via Flickr)

This might seem to be a shocking thing to say, but I am going to say it and I challenge anyone to tell me I am wrong.

What the Governor of the RBA (Philip Lowe) and the IMF have to say about Australian fiscal policy at the moment is not only completely incorrect, it is also precisely the opposite of the truth.

They are aware that monetary policy is now even less effective than it might once have been. Further interest rate cuts will do nothing useful for the economy. Quantitative easing didn't work in Europe or Japan and it won't work here. I think they know this. I agree. Some of us were saying this a while ago.

It is their beliefs about the Government budget that are entirely and potentially disastrously wrong. These misconceptions have been driving needless under-employment and inequality, privatisation and deregulation, household debt

and private sector financial crises in many countries over a long period.

They talk about a need for what they call "fiscal discipline". They imagine that fiscal discipline now means the Government will have sufficient fiscal space to support the economy if there is a downturn. By fiscal discipline, they mean cuts in Government spending to provide the Government with a fiscal surplus. They think there is some reason, other than the risk of inflation, for the Australian Government to aim for a surplus. They may not use the "debt and deficit disaster" language of Joe Hockey or Scott Morrison. They may not talk about the Government maxing out on its credit card, like Tony Abbott. They may avoid slogans like "spending like a drunken sailor". But when they talk about fiscal discipline, they mean the same thing.

They are completely wrong. They have still not bothered to even think about

the implications of modern monetary theory and therefore have not learned the lessons it has to teach policymakers operating within a modern monetary system. If they had done so, they would realise that the responsible fiscal policy now would be to increase the fiscal deficit somewhat and not to aspire to a pointless and destructive Government surplus.

The existence and size of the current fiscal balance have no implications for the ability of a government with its own currency, a floating currency and no foreign currency debt to net spend in the future, in the maintenance of non-inflationary full employment.

The Australian Commonwealth Government has no purely financial constraint on its spending and it is ridiculous to suppose it can somehow “save” its own money. It can create money by spending and it can destroy money by taxing. But it cannot save the money it creates and destroys in these ways. That is a nonsensical concept. It cannot even borrow its own currency, in the conventional sense of “borrowing”. Government issuance of debt securities simply gives those of us who hold Australian dollars the option of swapping them for safe, interest-bearing transferable savings accounts at the Reserve Bank. That is all that government bonds are. And the Government doesn’t even need to issue them at all in order to cover its deficits. It chooses to issue them and they play a useful role in our financial system. Their issuance does nothing to pay for government spending today and does nothing to limit the ability of the Government to spend in the future.

The limitation on government and private sector spending is always the supply of real productive resources within our economy. The Government

can never run out of money, within our monetary system. This is the reality and it is a non-problem. To pretend otherwise is to be confused about how the system works, or to mislead people, or perhaps a bit of both.

In fact, so-called fiscal discipline today, if it means running a fiscal surplus, means that the Australian Government is destroying private sector money, thus reducing the net financial assets of the private sector. It means the Government is taking more money away from us in taxation than it is providing us with as a result of its spending. A government surplus is a non-government deficit. It weakens the balance sheets of the private sector. It helps to drive households into debt. It helps to create a more fragile financial system. Or if the private sector is not in a position to run up more debt and the rest of the world does not want to buy any more of our exports, then it just drives the economy into recession.

Far from providing room for the Government to support the economy in the event of a downturn, the fiscal discipline of a fiscal surplus simply makes such a downturn far more likely.

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You can follow Dr Steven Hail on Twitter @StevenHailAus, as well as on Facebook -- at Green Modern Monetary Theory and Practice. His latest book is 'Economics for Sustainable Prosperity'.

The original version of this article appeared on 1st March 2019 in the online publication *Independent Australia*.

**Source:**

<https://independentaustralia.net/politics/politics-display/the-reserve-bank-governor-is-completely-wrong-about-the-budget-and-it-matters,12427>

## Comprehensive study by Cornell University supports public banking model to finance needed infrastructure

posted by **Public Banking Institute**, 14 Feb 2019 [1,2]



BND has funded public school construction projects (Flickr cc)

In honour of the Bank of North Dakota's centennial anniversary, we commend an excellent academic report published by Cornell University [3] that includes a detailed case study of the Bank of North Dakota (BND) 2015 Infrastructure Loan Fund. The report examines the unique benefits of public banks and explores strategies for the implementation of similar structured institutions in New York State and the broader US context. Prepared by Shareef M. Hussam for Professor Mildred Warner at Cornell's Department of City and Regional Planning, it provides academic reinforcement for advocates' testimony, concluding:

"The public banking model (discussed) offers several lessons for governmental entities seeking to affordably and sustainably finance infrastructure. First, funds for infrastructure investment should not be separated by sector, but rather commingled to enable cross-subsidization. Second, by pooling municipal capital and resources into an umbrella institution, local governments

could access cheaper financing and improve their ability to compete for federal and state grants. Third, the institution should have profit motive, market discipline, political independence, and good governance. Through implementation of these strategies, it may be possible to sustainably finance critical infrastructure through public banking."

The report continues:

"Despite being owned and managed by the public sector, the governance structures and aims of BND often mirror those in the private sector - there is a still a profit motive, although driven not by shareholder interests but by citizen interests.

"Although members of the Industrial Commission and Advisory Board are appointed by the state Governor, the management of the BND has been described as "professional, conservative, and independent of political forces, in similar ways to private banks,"

and the BND financial accounts are separate from those of other governmental entities engaged in more politically sensitive projects such as public housing or mass transit (Kodrzycki and Elmatad, 2011).

### **BND's Financing Tools**

“The BND utilizes a variety of financing mechanisms to support development in North Dakota. The most prevalent is in loan participation and loan purchases originated by private community banks, which make up approximately 50% of the BND's business (Kodrzycki and Elmatad, 2011).

“The BND also directly contributes capital to new projects, provides interest rate buy-downs, and loan service guarantees. Historically, BND also purchased municipal bonds, essentially financing governmental debt, although their balance sheets

have now shifted away from securities (Kodrzycki and Elmatad, 2011).

“The Bank places a strong emphasis on sound lending practices, leaving riskier financing activities to private sector entities or other quasi-public entities.

“In addition, the BND also supports the state government's finances and is viewed by the state as a revenue source. BND may even make loans to the state general fund at interest rates set by the Industrial Commission, essentially allowing North Dakota to “loan itself” money in times of fiscal stress.”

#### **Sources:**

1. [http://www.publicbankinginstitute.org/comprehensive\\_study\\_by\\_cornell](http://www.publicbankinginstitute.org/comprehensive_study_by_cornell) strongly supports public banking model
2. <http://www.publicbankinginstitute.org/>
3. <http://cms.mildredwarner.org/summaries/hussam2018>

## **Is money really neutral in the long run?**

**Lars Syll**

Paul Krugman has repeatedly over the years argued that we should continue to use neoclassical hobby horses like IS-LM and Aggregate Supply-Aggregate Demand models. Here's one example:

“ So why do AS-AD? ... We do want, somewhere along the way, to get across the notion of the self-correcting economy, the notion that in the long run, we may all be dead, but that we also have a tendency to return to full employment via price flexibility. Or to put it differently, you do want somehow to make clear the notion (which even fairly Keynesian guys like me share) that money is neutral in the long run. “

I doubt that Keynes would have been impressed by having his theory being characterized by catchwords like “tendency to return to full employment”

and “money is neutral in the long run.” One of Keynes's central tenets, in clear contradistinction to the beliefs of mainstream economists, is that there is no strong automatic tendency for economies to move toward full employment levels in monetary economies.

Money doesn't matter in mainstream macroeconomic models. But in the real world in which we happen to live, money does certainly matter. Money is not neutral and money matters in both the short run and the long run:

“ The theory which I desiderate would deal ... with an economy in which money plays a part of its own and affects motives and decisions, and is, in short, one of the operative factors in the situation, so that the course of events cannot be predicted in either the long

period or in the short, without a knowledge of the behaviour of money between the first state and the last. And it is this which we ought to mean when we speak of a monetary economy.”

- J. M. Keynes A monetary theory of production (1933)

**Source:**

<https://rwer.wordpress.com/2019/01/25/is-money-really-neutral-in-the-long-run/>

## Krugman vs Krugman Editor

The following extract from a blog by J.W. Mason [1] asserts that the state could not actively manage the economy if money was neutral.

[Bank of Sweden prize winner] Paul Krugman wonders why no one listens to academic economists ...

One answer is that economists don't listen to themselves. More precisely, liberal economists like Krugman who want the state to take a more active role in managing the economy, continue to teach an economic theory that has no place for activist policy.

Let me give a concrete example. One of Krugman's bugaboos is the persistence of claims that an expansionary monetary policy must lead to higher inflation ... But where could someone have gotten this idea that an increase in the money supply must always lead to higher inflation? Perhaps from an undergraduate economics class? Very possibly - if that class used Krugman's textbook International Economics. Here is what that book says about money and inflation:

“ A permanent increase in the money supply causes a proportional increase in the price level's long-run value. ... we should expect the data to show a clear-cut positive association between money supplies and price levels. If real-world data did not provide strong evidence that money supplies and price levels move together in the long run, the usefulness of the theory of money demand

we have developed would be in severe doubt ..... A permanent increase in the level of a country's money supply ultimately results in a proportional rise in its price level but has no effect on the long-run values of the interest rate or real output. “

This last sentence is simply the claim that money is neutral in the long run, which Krugman continues to affirm on his blog ... The more thoroughly a student understands the discussion in Krugman's textbook, the stronger should be their belief that sustained expansionary monetary policy must be inflationary. Because if it is not, then Krugman gives you no tools whatsoever to think about policy ...

Liberal Keynesian economists made a deal with the devil decades ago, when they conceded the theoretical high ground. Paul Krugman the textbook author says authoritatively that money is neutral in the long run and that a permanent increase in the money supply can only lead to inflation. Why shouldn't people listen to him, and ignore Paul Krugman the blogger?

**Sources:**

1. <http://slackwire.blogspot.com/2014/07/the-call-is-coming-from-inside-house.html>
2. <https://rwer.wordpress.com/2019/06/10/krugman-vs-krugman-2/>

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The importance of money flows from it being a link between the present and the future. -- J.M. Keynes

## Functional Finance and MMT — Krugman still does not get it! Editor



Prof Stephanie Kelton (Flickr cc)



Prof Paul Krugman (Flickr cc)

*The following extracts made in a recent blog by Lars Syll [1] are from a longer article by Stephanie Kelton [2], in response to Paul Krugman's criticism of Modern Monetary Theory (MMT) and Functional Finance (as described by UK economist Abba Lerner) [3]*

Krugman complains that Lerner was too “cavalier” in his discussion of monetary policy since he called for the interest rate to be set at the level that produces “the most desirable level of investment” without saying exactly what that rate should be.

It's an odd critique, since Krugman himself subscribes to the idea that monetary policy should target an invisible “neutral rate” that supposedly exists when the economy is neither depressed nor overheating. For what it's worth, research suggests the neutral rate “may be flat-out wrong,” and Fed Chairman Jerome Powell has admitted that the Fed has been too cavalier in relying “on variables that cannot be measured directly and which can only be estimated with great uncertainty”.

But Lerner wasn't trying to use interest rates to optimize the economy. That was a job for fiscal policy. He argued

that the government should be prepared to spend whatever is necessary to sustain full employment without raising taxes or borrowing ...

Krugman's other objection is that Lerner “didn't fully address the limitations, both technical and political, on tax hikes/or spending cuts” as a means of fighting inflation.

In fact, Lerner actually had quite a lot to say about this. Here's the opening sentence to an entire chapter on the subject in his 1951 book *The Economics of Employment*: “We have now concluded our treatment of the economics of employment, but a word or two must be added on the politics and the administration of employment policies in general and of Functional Finance in particular” (emphasis in original) ...

Where does that leave us? Now Paul Krugman and I agree on a great many things, but we come at certain quest-

ions from a fundamentally different place.

He believes there are inherent tradeoffs between fiscal and monetary policy. Outside of the so-called liquidity trap, Krugman adopts the standard line that budget deficits crowd out private investment because deficits compete with private borrowing for a limited supply of savings.

The MMT framework rejects this, since government deficits are shown to be a source (not a use!) of private savings. Some careful studies show that crowd-out can occur, but that it tends to happen in countries where the govern-

ment is not a currency issuer with its own central bank.

This seems like a disagreement we should be able to resolve either empirically or intuitively. But who knows? As Lerner wrote, "a man convinced against his will retains the same opinion still."

#### Sources:

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>

## Has neo-liberalism turned us all into psychopaths?

Paul Verhaeghe



We are forever told that we are freer to choose the course of our lives than ever before, but the freedom to choose outside the success narrative is limited. (Photograph: NYC skyline, Flickr cc)

*This article appeared in ERA Review issue v6, n6 (2014). We believe that the issues discussed at that time by Prof Verhaeghe are important enough in the context of what is happening in the world today to justify another printing.*

We tend to perceive our identities as stable and largely separate from outside forces. But over decades of research and therapeutic practice, I have become convinced that economic change is having a profound effect not only on our values but also on our personalities. Thirty years of neoliberalism, free-market forces and privatisation have taken their toll, as relentless pressure to achieve has become normative. If you're skeptical, I will put this simple statement to you: meritocratic neoliberalism favours certain person-

ality traits and penalises others.

There are certain ideal characteristics needed to make a career today. The first is articulateness, the aim being to win over as many people as possible. Contact can be superficial, but since this applies to most human interaction nowadays, this won't really be noticed.

It's important to be able to talk up your own capacities as much as you can - you know a lot of people, you've got plenty of experience under your belt and you recently completed a major

project. Later, people will find out that this was mostly hot air, but the fact that they were initially fooled is down to another personality trait: you can lie convincingly and feel little guilt. That's why you never take responsibility for your own behaviour.

On top of all this, you are flexible and impulsive, always on the lookout for new stimuli and challenges. In practice, this leads to risky behaviour, but never mind, it won't be you who has to pick up the pieces. The source of inspiration for this list? The psychopathy checklist by Robert Hare [3], the best-known specialist on psychopathy today.

This description is, of course, a caricature taken to extremes. Nevertheless, the financial crisis illustrated at a macro-social level (for example, in the conflicts between eurozone countries) what a neoliberal meritocracy does to people. Solidarity becomes an expensive luxury and makes way for temporary alliances, the main preoccupation always being to extract more profit from the situation than your competition. Social ties with colleagues weaken, as does emotional commitment to the enterprise or organization.

Bullying used to be confined to schools; now it is a common feature of the workplace. This is a typical symptom of the impotent venting their frustration on the weak; in psychology it's known as displaced aggression. There is a buried sense of fear, ranging from performance anxiety to a broader social fear of the threatening other.

Constant evaluations at work cause a decline in autonomy and a growing dependence on external, often shifting, norms. This results in what the sociologist Richard Sennett [4] has aptly described as the "infantilisation of the workers." Adults display childish out-

bursts of temper and are jealous about trivialities ("She got a new office chair and I didn't"), tell white lies, resort to deceit, delight in the downfall of others and cherish petty feelings of revenge. This is the consequence of a system that prevents people from thinking independently and that fails to treat employees as adults.

More important, though, is the serious damage to people's self-respect. Self-respect largely depends on the recognition that we receive from the other, as thinkers from Hegel [5] to Lacan [6] have shown. Sennett comes to a similar conclusion when he sees the main question for employees these days as being "Who needs me?" For a growing group of people, the answer is: no one.

Our society constantly proclaims that anyone can make it if they just try hard enough, all the while reinforcing privilege and putting increasing pressure on its overstretched and exhausted citizens. An increasing number of people fail, feeling humiliated, guilty and ashamed. We are forever told that we are freer to choose the course of our lives than ever before, but the freedom to choose outside the success narrative is limited. Furthermore, those who fail are deemed to be losers or scroungers, taking advantage of our social security system.



A neoliberal meritocracy would have us believe that success depends only on individual effort and talents, meaning responsibility lies entirely with the individual and authorities should give people as much freedom as possible to achieve this goal. For those people who believe in the fairytale of unrestricted choice, self-government and self-management are the pre-eminent political messages, especially if they appear to promise freedom. Along with the idea of the perfectible individual, the freedom we perceive ourselves as having in the west is the greatest untruth of this day and age.

Sociologist Zygmunt Bauman [7] neatly summarized the paradox of our era as: "Never have we been so free. Never have we felt so powerless." We are indeed freer than before, in the sense that we can criticize religion, take advantage of the new *laissez-faire* attitude to sex and support any political movement we like. We can do all these things because they no longer have any significance – freedom of this kind is prompted by indifference. Yet, on the other hand, our daily lives have become a constant battle against a bureaucracy that would make Kafka weak at the knees. There are regulations about everything, from the salt content of bread to urban poultry-keeping.

Our presumed freedom is tied to one central condition: we must be success-

ful -- that is, "make" something of ourselves. You don't need to look far for examples. A highly skilled individual who puts parenting before their career comes in for criticism. A person with a good job who turns down a promotion to invest more time in other things is seen as crazy – unless those things ensure success. A young woman who wants to become a primary school teacher is told by her parents that she should start off by getting a master's degree in economics – a primary school teacher, whatever can she be thinking of?

There are constant laments about the so-called loss of norms and values in our culture. Yet our norms and values make up an integral and essential part of our identity. So they cannot be lost, only changed. And that is precisely what has happened: a changed economy reflects changed ethics and brings about changed identity. The current economic system is bringing out the worst in us.

**Source:** Alternet 2 Oct 2014 (the article originally appeared in The Guardian (UK) on 29 Sep 2014). See the original article for details of the numbered references.



At the time of writing this article Dr Paul Verhaeghe was senior professor at Ghent University, holding the chair of counselling and psychoanalysis.

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The fact remains that, if the supply of energy failed, modern civilization would come to an end as abruptly as does the music of an organ deprived of wind. -- Frederick Soddy

The difficulty lies, not in the new ideas, but in escaping from the old ones.  
-- John Maynard Keynes

Future progress simply must be made in terms of the things that really count rather than the things that are merely countable. -- Herman Daly, *Steady-State Economics*

We have always known that heedless self interest was bad morals, we now know that it is bad economics. — Franklin Delano Roosevelt

## Mending hearts: how a 'repair economy' creates a kinder, more caring community

Katherine Wilson

John switches on the power saw he's bought second hand on eBay. The machine "arcs" – shooting out a visible electric charge. So he takes it apart to investigate. He identifies the problem: a faulty field coil - the current-carrying component that generates an electric field. Once fixed, the saw works as new.

I met John during my research into tinkerers -- people who love to adapt and repair things. But many things have become harder to fix.

Just a few decades ago, manufacturers packaged everyday appliances with instructions on how to repair them. Now they come with danger warnings and threats that doing so will void the warranty.

Repair is discouraged by unavailable

replacement parts, glued assemblies and tamper-proof cases that are difficult to open. So we are obliged to discard things rather than fix them.

Much research suggests that this harms more than the natural environment. It also affects our mental environment. There's a connection between the way society treats material objects and the way it treats people.

Returning to an economy of repair could help create a kinder, more inclusive society. By mending broken things we might also help mend what's broken in ourselves.

### **Repair is an investment of ourselves**

The environmental case for a repair economy is obvious. It saves natural resources and reduces waste.



The product of our discard economy: a woman scavenges for recyclable plastics at the Dandora dump near Nairobi, Kenya. Daniel Irungu/EPA

There's also a strong economic case. In his book *Curing Affluenza*, Australian economist Richard Denniss argues a community that repairs its goods "would employ more people, per dollar spent, than a community that instinctively disposes of them". It would create more high-skill jobs and reduce the cost of living.

The social case is as strong. As Europe starts banning the disposal of unsold and returned consumer products, a mounting body of research shows that repair economies can make people happier and more humane.

During research for my 2017 book *Tinkering: Australians Reinvent DIY Culture*, I learned how material repair generates a deep sense of care, pride, belonging and civic participation.

Even solitary acts of repair involve a community of influences. Through acts of repair we recognise and experience products as expressions of our collective knowledge. Repaired products then become bearers and extensions of personhood: like genomes, they carry their pasts within their presence.

By contrast, product obsolescence "blocks our access to the past", argues Francisco Martínez, an ethnographer at the University of Helsinki. His research found repair was "helping people overcome the negative logic that accompanies the abandonment of things and people". Repair has made "late modern societies more balanced, kinder and stronger". It could be thought of as a form of care, of "healing wounds", and of binding generations of humanity together.

In common with the Polish sociologist Zygmunt Bauman, Martínez draws parallels between the displacement and neglect of objects and those of people.

In Estonia, Martínez says, the act of repairing things "establishes continuity, endurance and material sensitivity" in a society that was disrupted by Soviet-style socialism and the subsequent transition to capitalism:

"Contemporary mending and a reluctance to dispose of material possessions can also be a way to resist dispossession and adapt to convoluted changes; the act of throwing away is perceived as a threat to memory, to security, and to historical and ecological preservation. "

Similar observations have been made in different economies.

Studying Londoners who lived in reviled council flats following the years of the Thatcher government, British anthropologist Daniel Miller observed residents who fixed their kitchens. Those with strong and fulfilling social relationships were more likely to do so; those with few and shallow relationships less likely.

Miller is among many of the scholars who have observed that relationships between people and material things tend to be reciprocal. When we restore material things, they serve to restore us.

### **Right to repair movement**

Repair economies don't regard material things as expendable. They relocate value in the workings, relations and meanings of things. By contrast, one can say that consumer economies encourage us to relate with products in ways that damage the planet and promote a kind of learned helplessness.

In response, the global "right to repair" movement has mobilised. Initiatives include community tool libraries and repair cafés, where people take their broken things, share their tools and get expert guidance on how to fix them.

There are swap-meets, Remakeries, Mens' Sheds, visible mending workshops, Hackerspaces, Restart Parties and Commons Transitions enterprises.



The Repair Manifesto. [www.ifixit.com](http://www.ifixit.com)

Such “glocal” — at once global and local — initiatives reinscribe humane

values into mass culture. They encourage participatory citizenship and create informal knowledge exchanges, skills, materials, goodwill and values. They create what sociologists call cultural capital, the benefits of which are recognised in public health funding of initiatives such as Men’s Sheds.

In Europe, environment ministers are pushing laws obliging manufacturers to make appliances repairable and enduring. Many US states are considering “fair repair” laws, and federal authorities have deemed it unlawful for phone and other tech manufacturers to prevent owners repairing their products. In Australia, state governments are considering ways to promote a “circular economy”, in which material resources circulate for as long as possible.

**Source:**

<https://theconversation.com/mending-hearts-how-a-repair-economy-creates-a-kinder-more-caring-community-113547>



**Dr Katherine Wilson** is an author and educator, Swinburne University of Technology. She is a former Overland editor.

**Mark Diesendorf answers questions recently submitted to Quora on the economics of renewable energy Editor**

**Q: Which is the cheaper option for individual customers: renewable energy or traditional electricity?**

In many parts of the world, rooftop solar PV without batteries is cheaper than buying electricity from the grid. For example, in my home town, Sydney Australia, solar electricity costs about one-third of buying retail electricity from the grid. Conditions apply to this statement: (1) sufficient sunshine on the roof; (2) sufficient demand for electricity

in the daytime to make the investment worthwhile.

At present, most household and small business owners of rooftop PV don’t have batteries, which are still expensive. They use the grid as back-up for overcast periods lasting days. However, with the construction of gigafactories making solar modules and the current growth in demand for batteries for both vehicles and solar electricity systems, battery prices will inevitably fall.



Domestic solar panels (Source: Flickr cc)

**Q: If fossil fuels are no longer used, will economies be more stable?**

Except for bioenergy, once renewable energy systems have been constructed, there can be no escalation in fuel costs. Renewable energy sources, which depend directly or indirectly on the Sun, will be available for billions of years. In contrast, as fossil fuels become scarcer and more difficult to extract, energy from fossil fuels becomes inevitably more expensive.

Renewable energy systems have several other advantages over fossil fuels with respect to facilitating a stable economy and society: they produce much less air and water pollution, land degradation and respiratory disease. As batteries become cheaper, rooftop solar and other forms of renewable electricity will allow households and businesses to become more independent.

**Q: For a developing country, which is the better energy option - renewables or nuclear energy?**

If the developing country has renewable energy resources such as solar and wind, then they are by far the least expensive, safest and (with a couple of exceptions) the most environmentally sound. The exceptions are (i) some

large hydro-electric dams, that flood fertile valleys producing the greenhouse gas methane and also displace many people; and (ii) some forms of bio-energy that involve clearing native forests, destroying biodiversity and producing greenhouse gases. The efficient use of energy is the key partner for renewable energy.

Nuclear energy is at least double the price of wind and solar PV, contributes to the proliferation of nuclear weapons, imposes the risk of rare but potentially devastating accidents and generates radioactive wastes that need to be managed for hundreds of thousands of years. Existing nuclear power stations are too big for the electricity grids of many developing countries. Thorium reactors, fast breeders and small modular reactors are not commercially available and may not become so in the foreseeable future.

**Q: Despite its obvious fossil-free energy advantage, why are the number of nuclear power plants decreasing?**

Although it is now heavily subsidised, nuclear energy cannot economically compete with on-shore wind and solar PV, whose subsidies are nowadays

small and decreasing in most countries, and are zero in several South American countries. The levelised cost of energy from nuclear power is typically about double that of on-shore wind and solar, and even higher than off-shore wind in northern Europe. The market is a good indicator of relative economics. In 2017 global investment in nuclear power was

US\$45 billion, while global investment in renewable electricity was US\$310 billion (Source: REN21 report).



**Dr Mark Diesendorf** is an Australian academic known for his work in sustainability and renewable energy, and is attached to the UNSW.

## The Visible Hand we need today

J.D. Alt

According to the “invisible hand” theory -- long celebrated (in America) as the most effective mode of human economics -- private commerce should now be busily directing our efforts and resources toward those things we truly need to prosper as a collective society. Instead, the “invisible hand” seems to be wilfully guiding us in the opposite direction. How can that be? Has something fundamental shifted, causing the mechanism of the Great American Enterprise to steer not just blindly, but recklessly?

The answer appears to be YES. And what has shifted is that the secret formula of the “invisible hand”- the profit-motive - is no longer capable of ignoring, or hiding, the collateral damages (unpaid “costs”) that have floated from its wake for two centuries. Or, to put it more accurately, while the profit-motive and the “invisible hand” continue to both hide and ignore those damages (most dangerously exemplified by carbon pollution) human society (which supposedly is the beneficiary of the “invisible hand”) can no longer allow it to happen.

To come to the point: the damages (which are now far beyond “collateral”) must, at last, be stopped and ameliorated -- but the celebrated “invisible hand,” with its profit-motive guidance

system, is incapable of accomplishing the task for the simple reason that doing so will be UNPROFITABLE.

If you remove its profit-motive guidance system, it turns out, the “invisible hand” doesn’t have a clue what needs to be done. As a result -- and because the current U.S. political-power structure insists that only the “invisible hand” of market economics be allowed to operate the tiller -- the ship “Great American Enterprise” is now floating and bumping around without any rational direction to pursue other than increasing the wealth of the already wealthy.

Let’s take just one example: Something the world desperately needs is a fully operational zero-carbon transportation system -- not fifty years from now, but ten years from now. Short of accomplishing that, we face the unfolding prospect of near certain (and potentially catastrophic) climate-change commencing in the next decade. What is the “invisible hand” doing to confront this issue? Its pinky finger is getting some “market-twitches” that tell Elon Musk and the major auto manufacturers that someday, in the future, there’s “money to be made” in electric vehicles. In the meanwhile, the rest of the invisible digits are busy auctioning off more and more leasing rights for oil and gas drilling -- because that’s where the

profits are today, because fossil-fueled cars, trucks, and buses are what will be making viable profits for the foreseeable future. It's an unbreakable logic.

But modern society has, as of this very moment, run out of the time needed for the "invisible hand" to get to that "future" where the zero-carbon enterprise is profitable! Maybe that, really, is the fundamental change that's happened: There's just not enough time now to reach "profitability" -- because the moving train of climate change is no longer an abstract notation on some future schedule, it's a whistle-blowing reality just on the other side of the hill.

Something has to be done. But what?

Interestingly, the only one moving anywhere close to fast enough -- and decisively enough -- seems to be the Chinese Communist Party. Gerry Shih, of the Washington Post, reports that while the Washington, D.C. Metro recently unveiled (with much fanfare) fourteen electric buses -- making it one of the largest electric-fleet operators in the U.S. -- the Chinese metropolis of Shenzhen has already deployed more than 16,000 electric buses and 12,000 electric taxis, making it the first carbon-free public transport system in the modern world. How did it accomplish this seemingly impossible transformation? ANSWER: It used the VISIBLE hand of intentionally targeted state spending to undertake the accomplishment of an agreed upon goal -- whether it made profits or not.

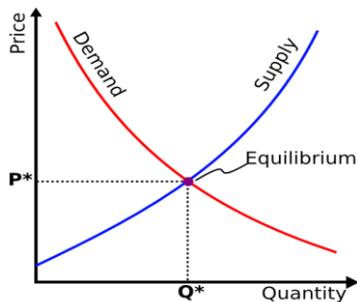
In other words, according to the Trump administration and the "invisible hand" idealists, China cheated. "Government" is not supposed to decide what needs to be done—and is certainly not supposed to create money to pay for doing it. That is not playing fair. That's foul-play. That's illegal! Adam Smith

said something about that a long time ago -- and any one of our mainstream economists can write gleeful gibberish in the Wall Street Journal explaining why the "invisible hand" continues to be the only way to avoid catastrophe.

Ho-hum, answers China: We have a major city with a fully operational zero-carbon public transport system. So far as we're concerned, that's all that matters. The fact that, in getting there, we also created from scratch an electric vehicle manufacturing capability that will enable us, starting right now, to export zero-carbon transport systems all around the world -- we are not complaining about that either. So far as creating money is concerned, what's the difference between you creating money to build things that make profits, and us creating money to build things that we decided we need to have?

Personally, I think if Adam Smith were alive today, he'd say something like this: "The invisible hand works great so long as it's getting great results -- but when it starts making big mistakes that threaten the well-being of all nations, it's time to hand the steering wheel to a visible hand that can see -- and directly steer toward -- what needs to be done."

**Source:** New Economic Perspectives  
<http://neweconomicperspectives.org/2019/06/the-visible-hand-we-need-today.html>



Economic orthodoxy believes an Invisible Hand leads markets to an optimum equilibrium.

## Some aspects of federal government finances

John Hermann

One reason why many find it difficult to believe that federal tax payment entails the destruction of money, while federal government spending entails money creation, is their failure to understand the difference between currency issuers and currency users. Currency users can run out of money, but currency issuers cannot. Another related reason is the common perception that tax payments entail the transfer of money from the payee - or perhaps from the payee's bank - to a federal Treasury account at the central bank (in Australia, the RBA). They are encouraged to believe this because they know that the federal Treasury's account with the central bank increases upon receipt of a tax payment and also decreases when the government spends. Notwithstanding that money appears to be transferred in these ways, the perception that it does so is a carefully cultivated illusion. Here is my justification for these assertions:

1. A monetary sovereign government is one which is responsible for issuing the nation's currency.
2. The nation's currency may be defined as the conjunction of (a) coins and banknotes that are used for the public's buying and selling activities and (b) exchange settlement balances held at the central bank (banking reserves) - which can be used to acquire banknotes and coins on demand.
3. The national money supply may be defined as the conjunction of (a) retail deposits in commercial banking institutions and (b) coins and banknotes in the hands of non-banks.
4. Unlike a currency user, a currency issuer has no need to save or store the currency that it issues (or its proxy -- retail bank deposit money).

5. When a monetary sovereign government spends, the money supply always increases and the supply of banking reserves increases. The part of spending that exceeds taxation receipts, over an accounting period, is often described as deficit spending.

6. Such deficit spending entails the creation and distribution of net financial assets for the non-government sectors.

7. There are two well understood mechanisms by which this deficit spending may occur: (a) The federal government may sell Treasury securities to the private sector, freeing up fiscal space for accommodating that spending, and (b) The federal government's spending may be directly funded by the central bank (which sometimes happens in Australia and other countries, and is usually accounted as an "overdraft", however the practice is discouraged on the grounds of "sound finance").

8. The instruments of federal government debt (Treasury securities) can be more usefully thought of as a component of broad state fiat money, rather than a form of debt.

9. Where there are no legal restrictions on the operation of either 7(a) or 7(b) it may be said that the federal government is unconstrained in its ability to create net financial assets for the non-government sectors. In Australia the operation of both 7(a) and 7(b) is effectively unrestricted.

10. By contrast, in the United States there are restrictions on both 7(a) and 7(b), that is, there are debt limits which can only be raised (or abolished) by the legislature. However this should not be interpreted to mean that the U.S. federal government cannot create net financial assets for the non-government

sectors, even if prohibitions on further borrowing by the federal government happen to be in operation. The reason for this has been explained in an article by John Carney [1].

**11.** Historical evidence indicates that central banks always honour payments made by monetary sovereign governments (i.e. by transferring commensurately banking reserves as assets of the financial institution in which a payee's account is held). We know this is true in Australia, because RBA officers said so in response to a carefully worded question forwarded to the RBA by Damian Penston [ERA Review, v9, n2, 2017]. In regard to the U.S. economy, John Carney has argued [1] that even in the hypothetical situation where federal Treasury's account with the Federal Reserve [Fed] happened to be zero, the Fed would honour Treasury payments in order to fulfil its duty to maintain an acceptable interest rate regime as well as its obligations to the nation in regard to price stability and employment. According to Carney: "... overdrafts on the Fed wouldn't be Treasury securities and they aren't explicitly guaranteed by the U.S. government. They're more like unilateral gifts from the Fed. And guess what? The federal Treasury is allowed to accept gifts that 'reduce the public debt'. Since these overdraft gifts from the Fed would allow the government to spend without incurring additional debt,

it seems very plausible to argue that this kind of extension of U.S. credit would be permitted under the debt ceiling."

**12.** It appears that Treasury's general account with the central bank does not behave in every respect like a transaction account, implying that the credits within it are not a measure of any accepted form of money, notwithstanding that those credits are denominated in the national unit of account (i.e. the dollar). These creditary entities are neither currency nor any part of the money supply. They could only be banking reserves if Treasury was a type of bank, which clearly it is not because it does not take deposits. Some have argued that these credits are a form of transaction money because they are exchangeable with the accepted retail forms of money. However this argument is very weak because there exists a range of non-transactional financial entities that are exchangeable with transaction money (including Treasury securities, bank term deposits, stocks and shares). Consequently it may be held that Treasury's general account should be regarded as an operating account (a record of the government's fiscal operations) rather than a transaction account.

[1] Carney, John: Can the Treasury Department really run out of money?  
<https://www.cnbc.com/id/43899646>

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