Economic Reform Australia Review

For a just and sustainable society

ISSN 1324-5929

Vol 3 No 55 Sept-Oct 2011

A new editorial committee has been formed to ensure continuity of this publication, and consistent with ERA's broader reorganisation its title has changed from Newsletter to Review.

IN THIS ISSUE

Editorial Committee

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ECONOMIC REFORM AUSTRALIA (ERA)

ERA is a non-party-political organization, formed in 1993 as a union of the Economics Review Association and other economic reform groups. Its long-term goal is to achieve a socially, environ-mentally and financially sustainable economic system. ERA's commitment to economic sovereignty seeks to return control of the economic and financial system to the people. This requires full public scrutiny and accountability for all economic processes and a recognition that economic systems must serve the people for the global good.

Membership of ERA is open to all who agree with its objectives and overall philosophy, and may be effected by forwarding A$20.00 per annum (A$15 concession, A$30 joint membership for partners) to the Treasurer (address below), together with address, telephone and fax numbers, and email address. It would be appreciated if new members would calculate the part of the year remaining and remit the appropriate pro-rata amount, with the option of paying for the following year as well. All members are entitled to receive the regular ERA publication *The ERA review*, and are entitled to vote at ERA meetings and participate in organized activities.

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ERA's Patrons Prof Stuart Rees, Prof Frank Stilwell, Prof Michael Pusey, Assoc Prof Evan Jones, Assoc Prof Steve Keen, Prof David Shearman, Dr Ted Trainer, Dr Shann Turnbull

NSW Division Inc

We are committed to maintaining our links and meet twice a year.
Details: Frances or Bruce Milne Ph (02) 9810 7812

SA Division Inc

Meetings are held on the last Saturday of each month at the SA Conservation Centre, 157 Franklin Street, Adelaide, SA 5000 (Level 1). Meetings begin at 2pm. Details: John Hermann Ph (08) 8264 4282

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Please contact the email network editor if you prefer to receive this publication electronically, as an email attachment, instead of as a posted hard copy

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Annual General Meeting of ERA(SA Division)

Notice is given of the Annual General Meeting of the SA Division of Economic Reform Australia, which will take place at the SA Conservation Centre (157 Franklin Street, Adelaide, Level 1) on **Saturday 29 October, 2011**, to begin at 2.00pm. Outgoing officers will report on their activities during the year and any other relevant business will be considered. All positions will then be declared vacant and new officers will be appointed for the following year. The essential positions to be appointed are the following: President, Secretary, Treasurer and Public Officer. Other positions may be created and appointed if it is the will of the meeting.

Tribute to Peter Lock

John Hermann

Peter Lock has contributed immensely to editing this publication during the past two decades, and has now been obliged for health reasons to cease doing so. Members of ERA and other readers of these pages owe him a huge debt of gratitude for the dedicated and selfless way in which he has carried out this task. Communication is the lifeblood of any organisation, particularly one which seeks to inform and educate the community about matters which are not always intuitively obvious. In this context Peter has always been ready to provide opportunities for those with heterodox economic viewpoints to discuss their perceptions of what is needed for reforming our economy. And always at the forefront of his considerations was a recognition that, in the absence of fundamental financial and monetary reform, many of the other desirable economic reforms simply cannot be implemented. No doubt Peter will have been very satisfied to read the many letters of appreciation and support sent to him over previous years. It is out fervent hope that with the newly constructed cooperative editorial arrangement we will be able to produce regular issues of at least the same calibre and level of interest as those that have appeared previously under Peter's editorship.

Population growth a close partner of economic growth

Geoff Mosley

Population growth is a significant factor in economic growth. The world’s population which was 1.5 billion in 1900 had grown to 6.8 billion by 2010. It has doubled in the last 40 years and is growing exponentially. It is expected to rise to over 9 billion by 2050. This population increase with the associated increase in consumption is cancelling out most of the current efforts to control people’s environmental impacts. For instance, in the case of efforts to control carbon emissions through reduced fossil fuel use, over the period during which the population doubled the use of fossil fuels for energy tripled and on present trends this is likely to continue. Population growth also limits the opportunity to increase well being in both developed and developing nations but the supposed benefit of increased demand/consumption is seen by industry and governments as being more important.

Immigration is a major factor in population growth. At the end of the first decade of the twenty first century large numbers of people are annually moving from overpopulated areas such as Africa to Europe, the USA, Canada and Australia increasing the environmental pressure on their new home countries without, as a result of the continuing high birth rates in the places they are emigrating from, relieving the environmental pressure in their former homelands. The recipient nations are willing participants in this because of their overriding belief of their governments that high levels of migration are good because they increase the demand for housing and infrastructure, and goods of all kinds, augment the labour force, keep the mineral export industry going and by boosting economic growth, provide the wealth to develop any alternative energy sources and pay for environmental protection. As with the policy of economic growth there is little or no parliamentary debate about immigration and population policy. Governments take the benefits of population growth as a given. In this way, while there are no new lands to settle, the world is continuing to fill up with people.

[Ch 7 of *Steady State: Alternative to Endless Economic Growth* by Dr Geoff Mosley (Envirobook, 2010) available post-free at $22. See: www.envirobook.com.au]

The Progressive Utilization Theory (PROUT)

Craig Walter

"There is in the living being a thirst for limitlessness. Knowingly or unknowingly humans are indeed running after limitlessness." Shrii P. R. Sarkar

When discussing the problems confronting today's world many people share a common vision: economics based on caring and cooperation, ethically based leadership, a sustainable environment, a strong community base. Following the demise of Communism in Europe those of us concerned about society being split into two distinct groups by the reign of capitalism - the haves and have nots - have sought external solutions to a growing social dilemma. To talk of creating a 'steady-state' economy makes sense yet this remains an elusive quest as the real source of power for change has not been realized.....

Read more: http://ezinearticles.com/?The-Progressive-Utilization-Theory-(PROUT)---Independent-Compilation&id=6380811

Comment on "Population a tool of economic growth"

Richard Giles

The article by Dr Geoff Mosley (ERA July-August 2011) appears to suggest that a ‘steady population’ will limit economic growth. Now that must be true but what troubles me is how this ‘steady population’ is going to be achieved. If one is serious about this it *has* to be achieved by government. And then, like all governments, it will be achieved by a combination of invasive force and persuasion. ‘Persuasion’ by government is an even more insidious form of force than legislation.

Of course there is another approach to the same end. This is by social justice. My reading of the history of countries where there has been an emerging broader prosperity is that they demonstrate a tendency towards a smaller and even negative rate of population growth - and hence a call for immigration. The same study of history suggests that population growth is quite rapid where there is poverty. Thus, the most *natural* way to limit population growth is to allow *more* economic activity.

At the moment governments are attacking economic growth directly by ‘demand management’ (including the carbon tax). But what must happen the more this policy is used is to reduce living standards for the majority. This will bring increasing poverty and the likelihood of the need for larger families to produce the family income.

There must be a better way to conserve the environment than either population control or demand management. And that is the Georgist proposal.

The 2011 IPCC Report on Renewable Energy: Critical Comments

Ted Trainer

This is being referred to as an International panel on Climate Change report from hundreds of experts showing that the world can be running mostly on renewable energy sources by 2050. The press release says,“Close to 80 percent of the world‘s energy supply could be met by renewables by mid-century… a new report shows.”

However I think it is a remarkably unsatisfactory document, and have made some critical discussion available. Here are some of the main points:

It is not a report of an examination by the IPCC of the potential of renewables. It is a summary statement of the conclusions evident in 164 studies, which the IPCC says were not selected at random. The IPCC does not evaluate these studies; we do not know how valid their conclusions are.

What the IPCC actually concludes is that more than half the studies reviewed project that renewables could provide more than 27% of energy in 2050. Again, the IPCC does not inquire as to whether such projections are sound. I have looked carefully at a number of similarly impressive glossy reports saying renewable energy can meet all demands, and have always found them to be seriously flawed. (The main criticisms are:

- The IPCC gives us no reason to assume that the studies it summarises are satisfactory.
- There is no reference to the studies I know of that doubt the potential of renewable energy.

- The Report either does not deal satisfactorily, or at all, with a number of crucial problems limiting the potential contribution renewable can make, including the integration limits imposed by the variability of wind and solar energy, how to deal with periods in which there is no sun or wind, the storage of energy and especially of electricity, the redundant plant needed (e.g., the extra wind turbines needed when there is a cloudy day but which will sit idle when the wind is strong), and whether the total capital cost is likely to be affordable.
- The biomass energy conclusion is challengeable for a number of reasons, especially to do with the increasing pressure on land for food etc., the need to return much land to nature to remedy accelerating species extinction, and the inevitability that biomass energy will take lands on which the poorest one billion people depend.
- Even if the 27% conclusion could be regarded as well-established it would fall far short of solving the greenhouse problem. According to the IPCC's own figures it would leave us with a higher CO2e emission level than we have now. Yet the Report's air is one of optimism.
- The most disturbing aspect of the Report is the fact that in the key Chapter 10 most attention is given to one study which concludes that by 2050 70% of world energy could come from renewables. This is the source of the claim the IPCC repeats, that by 2050 80% of energy could come from renewable. However the Greenpeace Report is little more than the presentation of an imagined "scenario", a description of a desired pattern of supply, which is not derived or established. It is not shown that the required quantities could be provided. It also fails to discuss a number of crucial problems confronting renewable energy.
- The brief reference to investment costs is not derived or supported, and is highly challengeable. I sketch three approaches indicating that the cost would be far higher than claimed, and not affordable.

The document is puzzling. It does not do what it should have done, and is being taken to have done, i.e., <u>critically examine</u> as <u>much of the evidence as possible</u> on the potential and limits of renewable energy <u>in order to derive demonstrably convincing conclusions</u> which <u>deal thoroughly with all the relevant difficulties</u>. It does present a great deal of valuable information, but it does not advance the central issue of potential and limits; it just summarises what some others have said, without assessing the validity of what they have said. Most difficult to understand is why it gives so much attention to one clearly problematic study, and allows its highly optimistic conclusions to be taken as those the IPCC has come to. It is likely that as the Report is examined it will damage the credibility of the IPCC.

The Report reinforces the dominant faith that renewable energy can save us and there is no need to question the commitment to affluent living standards and the pursuit of limitless economic growth. In my opinion that belief is seriously mistaken and this report will make it less likely that attention will be given to a sound analysis of our situation and what to do about it.

My view is that consumer-capitalist society is so grossly unsustainable and unjust that it cannot be fixed. Its major structures must be scrapped and replaced, most obviously the growth economy, domination by market forces, and a culture of competitive individualistic acquisitiveness. A vision of a workable and enjoyable alternative is detailed in Trainer 2010 and 2011. This IPCC report will be seen as confirming that it is not necessary to think about such an alternative.

I should make it clear that my comments do not cast doubt on the IPCC's statements re climate science. It is also my view that we should transition to full dependence on renewables as soon as possible...but this will not be possible in a consumer-capitalist society. I would appreciate critical feedback on my discussion accessible at http://ssis.arts.unsw.edu.au/tsw/IPCCcrit.html

Intergovernmental Panel on Climate Change, Working Group 111, *Mitigation of Climate Change, Special Report on Renewable Energy Sources and Climate Mitigation*. June, 2011 (http:www.srren.ipcc-wg3.de/report)

Trainer, T., (2010), *The Transition to a Sustainable and Just World*, Envirobook, Syd.

Trainer, T., (2011), The Simpler Way website: http://www.ssis.arts.unsw.edu.au/tsw/

[Dr Ted Trainer is a Visiting Fellow in the Faculty of Arts at the University of NSW]

Bipartisan "Russian Roulette" and America's Federal Debt: The Debt Ceiling Is Unconstitutional

Ellen Brown

The debt ceiling crisis can be averted by enforcing the 14th Amendment, which mandates the government to pay its debts already incurred, including pensions. That means Social Security, which IS an "entitlement," in the original sense of the word. We're entitled to it because we've paid for it with taxes.

The game of Russian roulette being played with the U.S. federal debt has been called a "grotesque political carnival" and political blackmail. The uproar stems from a statute that is unique to the United States and never did make much sense. First passed in 1917 and revised multiple times since, it imposes a dollar limit on the federal debt. What doesn't make sense is that the same Congress that voted on the statute votes on the budget, which periodically exceeds the limit, requiring the statute to be revised. The debt ceiling has been raised 74 times since 1962, 10 of them since 2001. The most recent increase, to $14.294 trillion by H. J. Res. 45, was signed into law on February 12, 2010.

Taxes aren't collected until after the budget is passed, so Congress can't know in advance whether or how much additional borrowing will be required. Inevitably, there will be years where the budget pushes the debt over the limit, requiring new legislation. Inevitably, now that this tactic has been discovered, there will be a costly battle over the increase, wasting congressional time, destabilizing markets, and rattling faith in the American financial and political systems. There will be continual blackmail, arm-twisting and concessions. The situation is untenable and cries out for a definitive resolution.

Fortunately, there is one. A bevy of legal scholars are recommending that the issue be eliminated altogether by playing the Constitutional trump card <http://www.outsidethebeltway.com/is-the-debt-ceiling-unconstitutional/>. The 14th Amendment provides at Section 4:

> The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned.

Where statute and the Constitution collide, the Constitution prevails. Whether the government should pay the bills it has already incurred is not a matter of negotiation. It is a Constitutional mandate. And those are the bills we are talking about here, as President Obama stressed in his recent remarks on the issue <http://www.whitehouse.gov/the-press-office/2011/07/29/remarks-president-status-debt-ceiling-negotiations>. He said: "Raising the debt ceiling simply gives our country the ability to pay the bills that Congress has already racked up. I want to emphasize that. The debt ceiling does not determine how much more money we can spend, it simply authorizes us to pay the bills we already have racked up. It gives the United States of America the ability to keep its word."

Ignoring the debt ceiling on Constitutional grounds would not, as Michelle Bachmann declares, make President Obama a "dictator." It would simply mean he is complying with his Constitutional mandate to pay the government's bills on time and in full. Social Security Is Not Welfare. It Is a Debt Due and Owing. The President could have a clean resolution of the issue, but he is not jumping at the opportunity. Rather, he appears to be ready to throw Granny under the bus by slashing Social Security, Medicare and Medicaid, all in the name of "compromise."

The Fourteenth Amendment says debts already incurred shall not be questioned, "including debts incurred for payment of pensions." That includes Social Security, which is an "entitlement" in the true sense of the word: we're entitled to it because we've already paid for it. In fact, the Social Security Act was originally sold to Congress and the nation in 1935 not as a government benefit, but as a retirement savings program. Earlier, the Urban Institute published <http://www.urban.org/UploadedPDF/social-security-medicare-benefits-over-lifetime.pdf> a study evaluating the program in this way, concluding that the average worker who retires today will withdraw from Social Security just about the same amount he put in over the years, with a modest 2% real interest rate (after inflation).

A deal is a deal. We paid for it, we are owed it, and the U.S. government is good for it. To change the terms of the deal ex post facto is both a breach of contract and a violation of the Constitution.

Where to Get the Money: Ron Paul's Creative Plan

A sovereign nation can always find the money to pay debts owed in its own currency. The U.S. could, if it wished, pay its bills using debt-free U.S. Notes or Greenbacks, just as President Lincoln did to avoid a crippling debt during the Civil War. Alternatively, it could eliminate the deficit with Ron Paul's plan, which amounts to the same thing. As Stephen Gandel explains Paul's solution in Time Magazine:

"In the last year or two the Fed has been buying up U.S. Treasury bonds in an effort to lower interest rates and boost the economy. The most recent round of that buying has been dubbed QE2, and has come under a good deal of criticism, though most economists agree that it was a generally helpful policy. The result is that the Fed now holds nearly $1.7 trillion in U.S. debt. But that is really phony debt. The Treasury pays the interest on the debt on behalf of the U.S. government to the Fed, which in turn returns 90 percent of the payments it gets back to the Treasury. Nonetheless, that $1.7 trillion in U.S. bonds that the Fed owns, despite the shell game of payments, is still counted in the debt ceiling number, which caps that amount of total federal debt at $14.3 trillion.

Paul's plan: Get the Fed and the Treasury to rip up that debt. It's fake debt anyway. And the Fed is legally allowed to return the debt to the Treasury to be destroyed. A trillion and a half dollars is currently about what spending is expected to exceed tax revenue in 2011."

The biggest drawback to the plan, says Gandel, is just that it "looks bad." It looks as if the government is paying off its debts by printing money. But that is what government-issued money is: a note acknowledging a debt due and owed from the public, good for an equivalent value from the public, traded in the marketplace. A U.S. Note or Greenback and a Federal Reserve Note or dollar bill are both forms of promissory notes. The government can as easily issue a dollar bill as a dollar note or a dollar bond, as Thomas Edison pointed out in the 1920s.

The objection to that solution is that it would be inflationary, but as economist Richard Koo graphically demonstrates <http://www.businessinsider.com/richard-koo-recession-2010-4#-20>, the Fed's quantitative easing has had virtually no inflationary effect on the money supply to date:

Misdirected Fed policy has instead caused $1.6 trillion in "excess reserves" to sit on bank balance sheets, as explained in an earlier article <http://www.webofdebt.com/articles/why_banks.php>. Conveniently, excess reserves can be used as collateral for futures and derivatives contracts, and that is what some banks appear to be doing with the money: backing trades <http://www.contraryinvestor.com/2011archives/mojun11.htm> in the financial markets. This sort of speculation, involving money making money without increasing productivity, can and does drive up prices.

If the money had been delivered directly to the government to be spent on the national budget, it might have gotten into the real economy where it could do some good. The government's budget is spent not on speculation but on goods and services. Increased government "demand" stimulates an increase in "supply," causing supply and demand to increase together, avoiding price inflation while stimulating economic activity.

Time to Close the Debt Ceiling Loophole

The debt crisis was created, not by a social safety net bought and paid for by the taxpayers, but by a banking system taken over by Wall Street gamblers. The gamblers lost their bets and were bailed out at the expense of the taxpayers; and if anyone should be held to account, it is these gamblers.

The debt ceiling crisis is a manufactured one, engineered to extort concessions that will lock the middle class in debt peonage for decades to come. Congress is empowered by the Constitution to issue the money it needs to pay its debts. Abraham Lincoln did it; Barack Obama could do it. He probably won't, but he does need to follow his Constitutional mandate to pay the government's bills as and when due. The statute imposing a ceiling on the national debt is trumped by the Fourteenth Amendment, making it redundant and unnecessary. The statute should be repealed.

Ellen Brown is an attorney and president of the Public Banking Institute. This article appeared in her website <http://webofdebt.com>.

Bizarre Results of Suppressing Our History

William Krehm

The Western world had learned the lessons of the Great Depression the hard way. The banks had brought on the hungry 1950s in most instances allowing stepped-up financial gambles until the whole structure caved in, and it required a world war, and the reform movements that rose out of it, to compel the banks to stick to banking, and leaving major banking to government controlled banks that would be barred from engaging in other financial pillars: these were brokerage firms, insurance and mortgage companies. Canada and New Zealand, in particular, having nationalized their central banks, did a praiseworthy job of seeing that a more democratic financial arrangement was made.

That and the Second World War taught governments the hard way what banks should be allowed to do, and what should be forbidden them. Above all to convince the millions of workers - in armed forces - that the post-war world had to be something worth risking their lives to defend. In leading Western countries, drastic restraints were imposed on what banks could be allowed to do. They were not to be allowed to take over the non-banking financial pillars - to wit, stock, brokerages, insurance, and mortgage companies. In the absence of such restraints, banks would buy those “other financial pillars” and make a beeline for the funds they used for their own businesses, and with them gamble ever more daringly if not more wisely.

So what resulted was that governments turned their backs on the grim lessons of the 1930s, and set about to bring back the conditions that had produced the 1930s. Finding a way to resume the highly speculative banking of the 1920s that had brought on the depression of the 1930s had to be an outside job. It was undertaken by the International Monetary Fund - that had originally been set up to handle the syndication of the reparations demanded from the defeated German government who offered to send workers into France and Belgium to make good the war damage, but the French and Belgians insisted that it be paid in a strong currency.

Hence, the International Monetary Fund was entrusted with the exchange of the German reparations into a strong currency. That happened in no great hurry, but meanwhile the Bank for International Settlements had rendered the Hitler government some chosen services. When the German army entered Prague shortly before WII, the BIS surrendered the gold deposited with it by the Czechoslovak government precisely to keep it from the Germans.

Source: COMER Journal, vol 23, issue no 6 (June 2011)

The Tea Party hasn't a clue about macroeconomics

John Hermann

It has become increasingly clear that the irrational U.S. tea party movement, now fully integrated into the structures of the Republican Party, has an almost hysterical preoccupation with the supposed evils of public debt. What their very vocal advocates never address (perhaps do not realise?) is that we all live and work within a debt-driven economy, in which most of our money supply is created as debt by the private sector. So-called public debt is not, and never has been, the problem. The real problem is private debt, whose magnitude has always far exceeded the level of public debt, and still does.

It was the explosion of private debt on the back of asset inflation during the past decade - as a deliberate economic policy engineered by Fed Chairman Alan Greenspan - followed by the inevitable contractionary phase (the great recession), which subsequently persuaded the U.S. administration and other governments around the world to engage in stimulus spending (much of which was wasted because it was used for bailing out commercial banks and investment banks, but that's another story) in an attempt to avoid massive deflation on the scale of the 1930s depression.

The current "problem" of large public deficits is in reality not a problem at all in circumstances where there are idle workers looking for employment and idle productive capacity. However its existence may be regarded as an inevitable response to (and symptomatic of) the real problem. Within the context of a debt-driven economic system, whenever budget deficits begin to rise significantly this is because private spending is weak and output growth is weak or contracting. Such rising budget deficits are inevitable in these circumstances. They are systemic within any debt-driven system, meaning that they are not engineered (contrary to what Tea Party members believe) as a direct result of government policies or government spendthrift tendencies. The Tea Party interpretation of how public debt operates is a myth, believed only by those who have very little understanding of macroeconomics.

Iceland's Ongoing Revolution

Why Iceland is not in the news any more

Deena Stryker

An Italian radio program's story about Iceland's on-going revolution is a stunning example of how little our media tells us about the rest of the world. Americans may remember that at the start of the 2008 financial crisis, Iceland literally went bankrupt. The reasons were mentioned only in passing, and since then, this little-known member of the European Union fell back into oblivion.

As one European country after another fails or risks failing, imperilling the Euro, with repercussions for the entire world, the last thing the powers that be want is for Iceland to become an example. Here's why:

Five years of a neo-liberal regime had made Iceland, (population 320 thousand, no army), one of the richest countries in the world. In 2003 all the country's banks were privatized, and in an effort to attract foreign investors, they offered on-line banking whose minimal costs allowed them to offer relatively high rates of return. The accounts, called IceSave, attracted many English and Dutch small investors. But as investments grew, so did the banks' foreign debt. The 2008 world financial crisis was the coup de grace. The three main Icelandic banks, Landbanki, Kapthing and Glitnir, went belly up and were nationalized, while the Kroner lost 85% of its value with respect to the Euro. At the end of the year Iceland declared bankruptcy.

Contrary to what could be expected, the crisis resulted in Icelanders recovering their sovereign rights, through a process of direct participatory democracy that eventually led to a new Constitution. But only after much pain.

Geir Haarde, who is the Prime Minister of a Social Democratic coalition government, negotiated a loan of over two billion dollars, to which the Nordic countries added another two and a half billion. But the foreign financial community pressured Iceland to impose drastic measures. The FMI and the European Union wanted to take over its debt, claiming this was the only way for the country to pay back Holland and Great Britain, who had promised to reimburse their citizens.

Protests and riots continued, eventually forcing the government to resign. Elections were brought forward to April 2009, resulting in a left-wing coalition which condemned the neoliberal economic agenda, but immediately gave in to its demands that Iceland pay off a large part of its foreign debt. This required each Icelandic citizen to pay 100 Euros a month (or about $130) for fifteen years, at 5.5% interest, to pay off the debt. It was the straw that broke the reindeer's back.

What happened next was extraordinary. The belief that citizens had to pay for the mistakes of a financial monopoly, that an entire nation must be taxed to pay off private sector debts was shattered, transforming the relationship between citizens and their political institutions and eventually driving Iceland's leaders to the side of their constituents. The Head of State, Olafur Ragnar Grimsson, refused to ratify the law that would have made Iceland's citizens responsible for its bankers' debts, and accepted calls for a referendum.

Of course the international community only increased the pressure on Iceland. Great Britain and Holland threatened dire reprisals that would isolate the country. As Icelanders went to vote, foreign bankers threatened to block any aid from the IMF. The British government threatened to freeze Icelander savings and checking accounts. As Grimsson said: "We were told that if we refused the international community's conditions, we would become the Cuba of the North. But if we had accepted, we would have become the Haiti of the North." (How many times have I written that when Cubans see the dire state of their neighbor, Haiti, they count themselves lucky.)

In the March 2010 referendum, 93% voted against repayment of the debt. The IMF immediately froze its loan. But the revolution (though not televised in the United States), would not be intimidated. With the support of a furious citizenry, the government launched civil and penal investigations into those responsible for the financial crisis. Interpol put out an international arrest warrant for the ex-president of Kaupthing, Sigurdur Einarsson, as the other bankers implicated in the crash fled the country.

But Icelanders didn't stop there: they decided to draft a new constitution that would free the country from the exaggerated power of international finance and virtual money. (The one in use had been written when Iceland gained its independence from Denmark, in 1918, the only difference with the Danish constitution being that the word 'president' replaced the word 'king'.)

To write the new constitution, the people of Iceland elected twenty-five citizens from among 522 adults not belonging to any political party but recommended by at least thirty citizens. This document was not the work of a handful of politicians, but was written on the internet. The constituent's meetings are streamed on-line, and citizens can send their comments and suggestions, witnessing the document as it takes shape. The constitution that eventually emerges from this participatory democratic process will be submitted to parliament for approval after the next elections.

Some readers will remember that Iceland's ninth century agrarian collapse was featured in Jared Diamond's book by the same name. Today, that country is recovering from its financial collapse in ways just the opposite of those generally considered unavoidable, as confirmed yesterday by the new head of the IMF, Christine Lagarde to Fareed Zakaria. The people of Greece have been told that the privatization of their public sector is the only solution. And those of Italy, Spain and Portugal are facing the same threat. They should look to Iceland. Refusing to bow to foreign interests, that small country stated loud and clear that the people are sovereign. That's why it is not in the news anymore. Source: Daily Kos Community Site

http://www.dailykos.com/story/2011/08/01/1001662/-Icelands-On-going-Revolution

European eyes see US "debt deal" costing the earth

Tim Bastable

The rest of the world has watched the theatre of the "debt ceiling saga" in Washington with growing disbelief. It seems to have stunned a few Americans too. Paul Craig Roberts, an ex-Wall Street Journal editor and one of the driving forces behind "Reganomics", hardly a raging lefty, sums up in an OpEdNews editorial:

"after... ...witnessing the stupidity of the US government, the rest of the world is struck dumbfounded by the immaturity of the "world's only superpower."

Reading through the US media there's a distinct air of despondency from the right as well as the left. More than anything its the feeling that with the rise of the Koch funded Tea Party, the lunatics have finally taken over the asylum .

It's not just financial stability or the jobs and pensions of millions of Americans that are at stake with the growing influence of the Tea Party. Their record on the environment is truly appalling.

Koch has funded climate change denial and created a climate in the USA where no republican hopeful for next years presidential elections can even admit to the existence of climate change . The fundamentalist, science denial of the extreme right has led to a congress that's been described as the " most anti-environmental house in history ". The cuts to America's Environmental Protection Agency (EPA) will affect monitoring of water standards, air quality and carbon pollution.

Energy & Environment Fallout from the Debt Deal

Amongst the areas that will be hit will be the EPA's power to exert any regulatory control over the Keystone Tar Sand pipeline. It's a key project that will allow the USA to exploit Canada's oil sands and one that concerns us all. Canadian tar sands contain as much carbon as the entire Saudi Arabian oil field past and present. If the USA use this oil, it will mean " game over " for any attempt to limit carbon emissions. The EPA can't stop the project, but as things stand they may not even be able to provide a true picture of its impacts on the environment.

While Europe strides towards massive cuts in carbon emissions government in the USA is being held hostage by an extreme right wing out of touch with the American people. What's truly frightening is that the energy industry has empowered far more than pliant lobby fodder. For tea-party fanatics anti-environmentalism is an ideology.

Slashing research into renewable energy and stopping desperately needed investment in the creaking US grid just about fits into a party increasingly committed reigning in the powers of the state. Attempting to reverse the decision to phase out incandescent light-bulbs and threatening a senate investigation into the recent deal to reduce average fuel consumption to 54 mpg by 2025 is irrational stupidity of the highest order and one that will cost ordinary Americans billions of dollars .

The winners of the debt ceiling deal will be the fossil fuel industry in the USA. The losers -- all of us -- as the republicans follow through an insane mission to make the USA, already the worlds biggest per capita emitter of carbon, even dirtier and less efficient and make runaway climate change an inevitability...

... and the lesson? Every great technological change in history has met with resistance from the old order - whether it was coaching companies fighting the advent of rail or Luddites smashing machinery, the most resistance comes from those with most to lose. The republican right may well be on the lunatic fringe but it's the new age Luddites like Koch and Exxon who pull their strings.

The fossil energy industry is using its massive wealth to wage a dirty war. It fabricating news, misinformation and fake science and funding a cadre of anti-science fanatics to keep its coffers full. It may be being fought across the Atlantic but catastrophic climate change knows no borders. It a war that the rest of the world can't afford to ignore.

Tim Bastable is a writer for *GreenOctober* (www.greenoctober.co.uk) which is being developed as a public gateway to stories and information about sustainability. Hands on interest in the issues started over 30 years ago with a chance encounter with Dave McTaggart on Rainbow Warrior on the quayside of Lerwick Harbour. Been passionate about the issues ever since. Source: http://www.opednews.com/articles/European-eyes-see-US-debt-by-Tim-Bastable-110806-371.html

The Market Has Spoken: Austerity Is Bad for Business
Ellen Brown

It used to be that when the Fed Chairman spoke, the market listened; but the Chairman has lost his mystique. Now when the market speaks, politicians listen. Hopefully they heard what the market just said: government cutbacks are bad for business. The government needs to spend more, not less. Fortunately, there are viable ways to do this while still balancing the budget.

On Thursday, August 4, 2011, the Dow Jones Industrial Average fell 512 points, the biggest stock market drop since the collapse of September 2008. Why? Weren't the markets supposed to rebound after the debt ceiling agreement was reached on Monday, avoiding U.S. default and a downgrade of U.S. debt? So we were told, but the market apparently understands what politicians don't: the debt deal is a death deal for the economy. Reducing government spending by $2.2 trillion over a decade, as Congress just agreed to do, will kill any hopes of economic recovery. We're looking at a double-dip recession.

The figure is actually more than $2.2 trillion. As Jack Rasmus pointed out on Truthout on August 4th:

"Economists estimate the "multiplier" from government spending at about 1.5. That means for every $1 cut in government spending, about $1.5 dollars are taken out of the economy. The first year of cuts are therefore $375 billion to $400 billion in terms of their economic effect. Ironically, that's about equal to the spending increase from Obama's 2009 initial stimulus package. In other words, we are about to extract from the economy - now showing multiple signs of weakening badly - the original spending stimulus of 2009!

As others have pointed out, that magnitude of spending contraction will result in 1.5 million to 2 million more jobs lost. That's also about all the jobs created since the trough of the recession in June 2009. In other words, the job market will be thrown back two years as well."

We're not moving forward. We're moving backward. The hand-wringing is all about the "debt crisis," but the national debt is not what has stalled the economy, and the crisis was not created by Social Security or Medicare, which are being set up to take the fall. It was created by Wall Street, which has squeezed trillions in bailout money from the government and the taxpayers; and by the military, which has squeezed trillions more for an amorphous and unending "War on Terror." But the hits are slated to fall on the so-called "entitlements" -- a social safety net that we the people are actually entitled to, because we paid for them with taxes.

The Problem Is Not Debt But a Shrinking Money Supply

The markets are not reacting to a "debt crisis." They do not look at charts ten years out. They look at present indicators of jobs and sales, which have turned persistently negative. Jobs and sales are both dependent on "demand," which means getting money into the pockets of consumers; and the money supply today has shrunk.

We don't see this shrinkage because it is primarily in the "shadow banking system," the thing that collapsed in 2008. The shadow banking system used to be reflected in M3, but the Fed no longer reports it. In July 2010, however, the New York Fed posted on its website a staff report titled "Shadow Banking." It said that the shadow banking system had shrunk by $5 trillion since its peak in March 2008, when it was valued at about $20 trillion -- actually larger than the traditional banking system. In July 2010, the shadow system was down to about $15 trillion, compared to $13 trillion for the traditional banking system.

Only about $2 trillion of this shrinkage has been replaced with the Fed's quantitative easing programs, leaving a $3 trillion hole to be filled; and only the government is in a position to fill it. We have been sold the idea that there is a "debt crisis" when there is really a liquidity crisis. Paying down the federal debt when money is already scarce just makes matters worse. Historically, when the deficit has been reduced, the money supply has been reduced along with it, throwing the economy into recession.

Most of our money now comes into the world as debt, which is created on the books of banks and *lent* into the economy. If there were no debt, there would be no money to run the economy; and today, private debt has collapsed. Encouraged by Fed policy, banks have tightened up lending and are sitting on their money, shrinking the circulating money supply and the economy.

Creative Ways to Balance the Budget

The federal debt has not been paid off since the days of Andrew Jackson, and it does not need to be paid off. It is just rolled over from year to year. The only real danger posed by a growing federal debt is the interest burden, but that has not been a problem yet. The Congressional Budget Office reported in December 2010:

"[A] sharp drop in interest rates has held down the amount of interest that the government pays on [the national] debt. In 2010, net interest outlays totalled $197 billion, or 1.4 percent of GDP--a smaller share of GDP than they accounted for during most of the past decade."

The interest burden will increase if the federal debt continues to grow, but that problem can be solved by mandating the Federal Reserve to buy the government's debt. The Fed rebates its profits to the government after deducting its costs, making the money nearly interest-free. The Fed is already doing this with its quantitative easing programs and now holds nearly $1.7 trillion in federal securities.

If Congress must maintain its debt ceiling, there are other ways to balance the budget and avoid a growing debt. Ron Paul has brought a creative bill that would eliminate the $1.7 trillion deficit simply by having the Fed tear up its federal securities. No creditors would be harmed, since the money was generated with a computer keystroke in the first place. The government would just be cancelling a debt to itself and saving the interest.

The Trillion Dollar Coin Alternative

The most direct solution to the debt problem is for the government to fund its budget with government-issued money. One alternative would be for the Treasury to issue U.S. Notes, as was done in the Civil War by President Lincoln.

Another alternative was suggested in my book Web of Debt in 2007: the government could simply mint some trillion dollar coins. Congress has the Constitutional power to "coin money," and no limit is put on the value of the coins it creates, as was pointed out by a chairman of the House Coinage Subcommittee in the 1980s. This idea is now getting some attention from economists. According to a July 29th article in the Johnsville News titled "Coin trick: the trillion dollar coin":

"The idea just started to get serious traction very recently as the debt stalemate has grown more intense and partisan. Yale constitutional law professor Jack Balkin floated it as an option in a CNN op-ed (July 28th).

Today the idea has gone mainstream. It is covered by NY Magazine, CNBC, and The Economist. Even Nobel economist Paul Krugman of the NY Times has weighed in. Annie Lowrey of Slate discusses it as one of several gimmicks the government could use to resolve the debt-ceiling debacle. Krugman added:

These things [like coin seigniorage] sound ridiculous -- but so is the behavior of Congressional Republicans. So why not fight back using legal tricks?"

The debt ceiling itself was a legal trick, a form of extortion based on a century-old statute that conflicts with the Constitution. However, said the Johnsville News article, "coin seigniorage is not a scam. It is legal ... This plan looks like it might be Obama's ace in the hole ..."

The article cites Warren Mosler, founder of MMT (Modern Monetary Theory), who reviewed the idea in a January 20th blog post and concluded it would work operationally. Scott Fullwiler, associate professor of economics at Wartburg College, also did a comprehensive analysis and concluded that the trillion dollar coin alternative was unlikely to result in inflation. Comparing it to Ron Paul's plan, he wrote:

> "This option is much like Ron Paul's proposal -- actually identical in terms of the effect on the debt ceiling and the Treasury -- except that his proposal would destroy all of the Fed's capital (and then some), which is a potential problem politically ... though not operationally, and which the Fed is therefore very unlikely to agree to."

On the inflation question, just because the Treasury has money in its account doesn't mean it can spend the funds. It needs the usual Congressional approval. To keep a lid on spending, Congress just needs to be instructed in basic economics. They can spend on goods and services up to full employment without creating price inflation (since supply and demand will rise together). After that, they need to tax -- not to fund the budget, but to pull excess money back in and avoid driving up prices.

Spending More While Borrowing Less

In an economic downturn, the government needs to spend more, not less, as history shows. This can be done while still balancing the budget, simply by taking back government's Constitutional power to issue money. The budget crisis is an artificial one, and the current "solution" will only guarantee a deeper recession and more widespread suffering. Rather than obsessing over deficits and debt, the government needs to focus on jobs, sales and quality of life.

Ellen Brown is president of the Public Banking Institute and the author of eleven books. She developed her research skills as an attorney practicing civil litigation in Los Angeles. In *Web of Debt*, she turns those skills to an analysis of the Federal Reserve and "the money trust." Source: http://www.opednews.com/articles/1/The-Market-Has-Spoken-Aus-by-Ellen-Brown-110807-617.html

There is no federal public debt problem in the U.S.

Bill Mitchell

I would have thought the role of a Professor of Journalism at a university would be to teach students how to write copy and to research issues in the field of journalism. I would not assume that such a person would claim expertise in macroeconomics and start pontificating about national economic policy. But I was wrong – again. In this article (July 31, 2011) – *American dream comes with a heavy cost* – which was published in the Melbourne Age (but previously the UK Guardian) one Rosalind Coward proves how little she knows about economics. Contrary to the sway of media opinion from these "tin pot" experts – there is no federal public debt problem in the US.

Coward, a professor at Roehamption University (near London) starts like this:

> The US debt debate reveals a nation living beyond its means.

The US debt debate in the US Congress is solely focused on public debt. In fact, the propositions advanced by both sides of politics – to cut net public spending indicate that the politicians are in denial of private debt.

Why do I say that? Answer: given the current account deficit which is not going to be eliminated in the foreseeable future, a cut in movement towards a budget surplus will simultaneously be a move towards a private domestic sector deficit. Further, by cutting aggregate demand at a time when the private sector is trying to save to reduce its debt exposure, the government will be undermining the private efforts.

So if we are focusing on the public debt, then the debate in Congress is not about "living beyond its means". As I have noted in the past, a sovereign government has no means by which I mean real resources. What such a government has is its monopoly over currency issuance which means simply that it can **always** purchase whatever is for sale in that currency. Always means always. I know some will say the debt debate proves otherwise – that the Government is bound by the rules of Congress, which can stop it spending. Yes, the government can stop the government spending. I don't want to get into debates here about what the government is in the US. Clearly, the combination of the legislature and the Administration forms the government.

Further, even if we considered the US government to be the Administration, the statement that there are no financial constraints on its spending hold. I think the discussions over the last few weeks have shown that if the US

President had the will he (in this case) could ignore the US Congress and continue to spend without further debt accumulation (a vastly preferred option from the perspective of MMT).

This article – *3 ways Obama could bypass Congress* by a US constitutional lawyer is interesting. The discussions (growing) that I have read in the last week confirm to me that the US Treasury could just ignore Congress and spend anyway. That would mean that all these elaborate voluntary accounting conventions that have given life to the “debt ceiling” debate are just a hoax and provide fiscal conservatives with a soapbox.

Anyway, the only “means” that the government has are those that it can tease out of the private sector via public spending. The role of taxation, in part, is to provide the incentive for the private sector to “accept” this spending and transfer real productive resources (labour, goods and services) into the public sector. This is the way a government can pursue its socio-economic charter.

Then we ask – what might signify that a nation is living beyond its means – where nation means include all the productive resources that are available to it. In other words, I am asking who is “its”?

While we might debate that at the margin what means are available, the US as a whole is so far from being at that margin that I think we can agree that with 9 per cent unemployment, about double that in idle marginal workers (the US Bureau of Labor statistics U6 measure) and vast quantities of idle capacity (productive equipment) the “nation” is hardly stretching its means.

For many Americans they are living well and truly within their means at present because their productive capacities are being squandered by a government intent on giving breath to the irrational Tea Party demands for small government. The author then claimed that:

> ONE word is missing in the American debate over the debt crisis: austerity. It’s a revealing absence. In spite of the vast deficit, and despite the US being the home of individualism, no way is being offered for individuals to make a difference by changing their lifestyles. People in Britain have become familiar with talk of the “new age of austerity”. Politicians of both left and right use the expression to frame the narrative about the cuts Britain is now facing. While both sides “warn” about this coming era, austerity is not negative in the British psyche. Associations with wartime Britain soften it. Austerity is associated with personal changes that benefited society and made sense to people who learned to tackle wastefulness, to “make do and mend”.

I actually thought that austerity was the centrepiece of the “debt debate” at present. The irrational belief that fiscal austerity – that is, lower spending overall – will actually spawn higher spending overall is what is driving the positions on both sides. Both sides of politics share that religious conviction – the differences are only about so-called equity issues – should the rich be subjected to higher taxes or not etc.

In that context, I found the description of the US debate and the British example to be mind-numbing and confused. The vast deficit – by which I presume she means the Federal budget deficit in the US is a sign that “individuals” have adopted a path of austerity themselves after a decade or more of credit-binged consumption.

She appears to be implying that a “vast” budget deficit is a sign that the government is spending too much relative to its income. While that representation is common among ill-informed commentators it is a complete mis-representation of what budget deficits are and what they do.

How would we know if the US government was spending too much overall in net terms (that is, relative to its tax revenue)? Answer: if there was full employment, full capacity utilisation and inflation was being driven by nominal aggregate demand growth outstripping the real capacity of the economy to respond by increasing output.

A deficit *per se* – large or small – has no independent scale – by which I mean that one cannot say that it is excessive or deficient without reference to balance between nominal aggregate growth and the growth and utilisation of real productive capacity. Using descriptors such as “vast” just reflect one’s ignorance of what a deficit is.

It is quite clear that the US federal budget deficit is way too small at the moment and the “deficit-cutting” agreement the leaders in Congress signed off to today (Monday Australian time) proves they are intent on damaging the economic prospects of their nation. The irony is that the “agreement” once enacted (if) might not even deliver lower deficits. If the damage to the private sector of the public spending withdrawal is such that tax revenue slumps even further we could see a rising budget deficit on the back of the automatic stabilisers. We are seeing that in Ireland, the UK, and elsewhere at present.

The other point to note is that the proposed fiscal austerity is offering “individuals” the path “to make a difference by changing their lifestyles”. But it will the wrong individuals and there will not be any volition. The proposed cutbacks will impact mainly on the most disadvantaged individuals in America and work the damage up into the ranks of the middle classes. The rich will be largely untouched.

Arguably, if we are worried about reduced private sector “spending” then a policy position that mainly attacks the unemployed and lower income earners is not a very effective way to reduce overall private spending. The author links “austerity” to the:

> … environmental issues of recycling, cutting consumption and reducing our carbon footprint.

I support the moves to reduce our carbon footprint and they should be at the forefront of public policy. But the fiscal austerity being imposed in the UK is not aiming to reduce the private use of resources in any systematic way.

The answer to the challenge to reduce our carbon footprint is not to create unemployment and impoverish individuals accordingly. Yes, that is the surefire way of reducing consumption but it doesn't make much sense in terms of humanity. We could significantly reduce the carbon footprint by killing off millions of people in nations that haven't the capacity to militarily defend themselves.

What is needed is a clever re-appraisal of resource usage and a expenditure-switching fiscal intervention to ensure we steer resources away from carbon-intensive uses towards production of goods and services that use less carbon.

Market systems fail to do that unless taxes or regulations are introduced which force producers to "price" the carbon created as well as the other real resources used in the production process.

Further, we have much better chance of reducing carbon if we steer resources into the public sector in the form of personal care and environment care services. These activities are unlikely to be "profitable" in the narrow private cost-benefit calculus sense but have the potential to increase our welfare and sustain our lives on the planet for longer. That implies that over time public activity will become more important and that budget deficits will be higher than in past decades – independent of the state of the cycle. The author however claims that she has:

> … never heard the word austerity in political discussion. There was nothing about individuals living beyond their means. Yet the US deficit is founded on overconsumption, made possible by too much consumer credit and, less well recognised, too much environmental credit. In the current war of words in Congress, there is no reference to the immoral lending that encouraged people who could not afford it to invest in the American dream. Yet that is what led to the property crash and the financial crisis. From individuals I heard nothing about the need for prosperous people to change their ways. There are, of course, many worthy "green shoots", such as the "locavore" movement or the "greening the campus" initiative at the university I was visiting, where a newly appointed sustainability officer tries to cut energy use. But people like him have their work cut out.

Once again the public deficit has risen because the private sector are finally cutting back its spending. I agree that the the private sector spending patterns – driven by crooked Wall Street financial engineers – was unsustainable both financially and environmentally. I agree that the private sector could not continue to accumulate debt as its consumption binge continued.

That was always going to come to an end and it was only a question of time and how bad the crash was. It took longer than I expected but the crash was commensurate with my expectation – very big. So I support policy that encourages private agents to reduce their debts and be more circumspect in their spending. But that requires several changes that are totally absent in the current discussions:

1. Real wages have to grow in line with productivity growth to ensure that the spoils of real growth are spread among the real producers (workers) and to ensure that aggregate demand grows in proportion to output growth thus reducing the need for credit to underpin consumption. The neo-liberal years were characterised by the gap between real wages growth and productivity growth widening which redistributed billions towards the top-end-of-town who then channelled this largesse into the Wall Street casino – and the rest is history. There has to be a fundamental redistribution of national income back to workers for the reliance on credit to be broken and full employment returned.

2. Budget deficits will remain indefinitely (unless the nation has substantial net exports). In most nations, given the unemployment, budget deficits have to be larger. Moreover, the demand for more environmentally-suitable activity suggests more public activity and less private activity.

Some might argue that public funding of suitable private activity is a preferred way of achieving this. I do not support the public subsidy of private activity in a market economy. If there is an opportunity to pursue environmentally-good activities and the private sector does not want to do that within an appropriate set of market prices (so true costs and benefits) then the public sector should take up the “space”.

I have no pre-conceived ideas that private is more “efficient” than public or whatever. It all depends on how activities are managed and implemented. The financial crisis (and Enron etc before that) clearly demonstrate that the private sector doesn’t have a monopoly on efficient production.

If one wants the private sector to cut back (for environmental then to achieve and sustain full employment the public sector will have to fill the gap. Yes, we might get to a point where we will be so productive that we can work less and enjoy life more (with less demand on real resources). That state of Shangri-La is a long way off yet. Millions of people need to work more and eat more! That requires aggregate demand to be focused on activities that will achieve higher employment levels and income levels for those millions in need. If the inflation barrier is reached in achieving that end then taxation hikes and targetted spending cutbacks are needed – perhaps on top income earners who are also big spenders in absolute terms. But that sort of approach is not the fiscal austerity being pursued at present. The author notes of the US that:

> The whole of the east coast and the rust belt are vast, shocking landscapes to which many Americans seem oblivious. This is a society that has lived not just beyond its economic means but beyond its environmental ones, too, as the hundreds of miles of abandoned buildings, abandoned cars, and endless highways bear witness to. Yet the American dream survives. You’re either in it, or out of it. Being out means destitution. In Britain I know many people who reject consumerism, getting involved in poorly paid environmental or political work. We regard them as rather honourable. In the US, if you don’t have money you don’t count.

I have sympathy for the view that the human footprint has become too heavy. In relation to the US, when I go to Florida and see the concrete everywhere I conclude as much. When I see the inner city of places like Baltimore I conclude that urban policy is poorly set and implemented.

But sustainable lifestyle changes are not facilitated by cutting budget deficits when a nation has high and chronic unemployment. The lifestyle changes that occur when fiscal austerity is imposed are brutal and counter-productive and do not get to the heart of the problem of over-consumption and waste.

Marx said when there is a generalised overproduction the producers themselves are underconsuming. Which was a neat way of capturing the idea that generalised overproduction indicates an aggregate demand failure and the unemployed who lose their incomes and are forced to stop consuming are the very workers that had created the "flow of income" which is sitting idle.

The theme of over-consumption was also taken up by the UK Guardian economics writer Larry Elliot (July 31, 2011) in his article – *US economy needs to rid itself of debt addiction* – which stated:

> The US can solve its debt crisis but sustainable prosperity lies in improved productivity and real wage growth not asset bubbles

Elliot recognises that the "high levels of public borrowing are symptomatic of a problem of private-sector debt addiction". The debt crisis in the US is a private debt crisis. There is no public debt crisis given that the US government is fully sovereign in its own currency.

The press and politicians have wrongly cast the issue as a sovereign debt crisis and in doing so are missing the point which Elliot acknowledges – the future has to be characterised by stronger productivity growth and real wages growing in line with that growth.

America will only be able to regain sustained prosperity if it redirects the largesse currently going to profits back to workers (the ones who produce the real output). That would require a significant reduction in the command over real resources by Wall Street which tells you how big the problem really is in the US. The issue is not that the budget deficit or public debt are too large. The issue is that Wall Street is too large.

Unfortunately, Elliot then eulogises the Clinton surpluses but seems to ignore they were followed by a major recession. He wants the US private sector to reduce its reliance on debt but fails to recognise that the Clinton surpluses were only possible while the asset boom was being driven by ridiculous private sector borrowing.

You cannot have it both ways. Either you have a growth strategy supported by sustainable private spending (that is, allowing for some saving) and budget deficits or growth driven by private accumulation of debt fighting against the fiscal drag created by budget surpluses. The former approach is indefinitely sustainable the latter blows up.

Elliot also quotes some National Australia Bank who demonstrates how little he knows about budget deficits:

> Even now there are Americans still in denial about how big a hole they are in. Some take comfort in the fact that the United States is not Greece. But as Nick Parsons, of National Australia Bank, points out, many individual US states – California, for example – are exactly like Greece in that they have high levels of personal indebtedness, public spending that exceeds income by a considerable margin, lots of people out of work and are locked into a monetary union with no exchange rate flexibility and where decisions are taken thousands of miles away. "A similar picture can be done for many of the States and literally thousands of municipalities and cities across the country," Parsons said. "In this respect, the debt concerns in peripheral Europe are set to replayed right across America; the significant difference being that instead of relying on the generosity of Germans to bail them out, the US is dependent on Chinese goodwill."

What? California could be bailed out any time the federal US government desired as part of the federal system. There is no financial constraint on the US federal government giving each US state a demogrant to assist their ailing economies. Such a boost to aggregate demand would quickly restore private activity and improve the budget situations of each state. Ideology is the only thing stopping this from happening.

The EMU is a different kettle of fish altogether. There is no federal fiscal authority. Instead they have been relying on the ECB to play a quasi-fiscal role which has saved the day but at the cost of pernicious and unnecessary austerity. Everyone would have been better off in the EMU if the EU bosses had have recognised that the scale of the private spending collapse was such that deficits in most countries had to rise significantly and be maintained at the higher level for as long as it took for private spending to recover. The ECB could have avoided all the bond market dramas in Greece, Portugal, Italy etc by just funding those higher deficits accordingly. The give with one hand (buying public debt in secondary markets)-but take with the other hand (enforcing fiscal austerity) approach the ECB and the EU have adopted has made the situation much worse than it should ever have been.

Finally, Chinese goodwill has nothing to do with the capacity of the US government to help the states in the Federal system. China does not issue US dollars. Only the US federal government has that capacity and it can always help its ailing states independent of whether the Chinese or anyone desires to accumulate financial assets in US dollar denominations.

The National Australia Bank spokesperson doesn't know what he is talking about and shame on Elliot for perpetuating that nonsense. The rest of Elliot's article is a litany of spurious arguments about the need for fiscal restraint in America. It doesn't warrant any further comment.

From Prof Bill Mitchell's website: http://bilbo.economicoutlook.net/blog/?p=15490
Bill is Director of the Centre of Full Employment and Equity, and holds the Research Chair in Economics at the University of Newcastle.

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The Marketplace

Peter Lock

The Great Social Questions

There are two fundamental questions arising from marketplace situations which are the concern of social morality and justice.

The first can be stated as The Great Social Question: Who is the rightful owner of the financial credit or monetized estimate of the real wealth of a community or nation? Does it not belong in justice to the people by whose toil of mind and body, sweat and tears, real wealth was produced? Have they not an intrinsic title to its ownership? Or does it belong to the banking system by whose virtually costless signature the money or make-believe ticket entitlement to real wealth is begotten out of nothing and put into circulation as their very own price-inflated debt-commodity and their monopoly in the distribution of all wealth?

The second fundamental question relates to the attitude and way the banking system itself operates in the marketplace. The banks have usurped the business function of both monetizing and also demonetizing the real wealth of the community. In claiming that the money they beget out of nothing is their own and must be repaid to them, they are perpetrating a fraud.. In demanding repayment, they are holding both industry and the community to ransom**.** In taking possession of the real wealth goods of others in default of the payment of debt-money loaned and begotten out of nothing, do not banks become legalized robbers?

Bank loans should reflect the community's capacity to produce and deliver consumable goods and services. Banks thwart production and consumption by charging the community interest for the community's use of its own real basic wealth and turn the true credit of the nation into debt.

The Fear of Poverty

Much has been written last century about Social Justice. However, it is one thing to expound logically consistent ideas which validate hypotheses like that of Gaia. It is another thing to predict how they will be implemented. But one thing is certain. An over-populated and debt-enslaved world is on the brink of ecological and economic disaster.

Socialism has not succeeded in its goal of a new social order of equality. At the very opposite extreme, a laissez faire capitalist economy with to-day’s financial system, is a sure recipe for social inequality. It ensures those enslaved by poverty and debt will increase until ordinary people find out how the banking system really works.

Reward and punishment have been, and still are, the positive and negative motivating forces for an infantile popular morality. Getting something for nothing, legally or illegally, is still the fundamental consideration of banks, robbers, usurers, counterfeiters and pickpockets. Retired people, living off either their super-annuation or other interest-bearing capital investments, and also the aged and unemployed living on doled out pensions (as is the author), are all living at the community's expense. Honourably or dishonourably, proudly or humbly, they all get their something for nothing.

Some people have more business acumen than others and commercial success comes easily to them. However, it denigrates human nature to say that all people are worshippers of Mammon and that most business folk are unscrupulous money-grabbers. The fundamental, if not the sole cause of much apparent selfish activity is the fear of poverty and the consequent inability to provide for one's dependents. Financial insecurity is brought about by the abuse of the role of money from being a costless, interest free, vehicle for the exchange and distribution of the community's real wealth of goods and services.

Financial anxiety will only be banished from a society whose members are guaranteed a modest yet adequate income-dividend by right of their being shareholders in the community's common wealth. Superannuation funds will then become obsolete and unnecessary and the mere hoarding of money, as contrasted with savings for future spending, will become a socio-economic evil. As the means of exchange and distribution of the real wealth throughout society, credit-money would be created to be spent and once spent will be removed from circulation to achieve a steady state economy.

Henry George and Land Ownership

It is over one hundred years since Henry George, a US economist, wrote his book *Progress and Poverty*. His theories on wealth and taxation, unlike those of most of his contemporaries are still vigorously debated. He advocated abolishing all forms of taxation except land tax. In essence, Henry George argued that the introduction of a single tax based on unimproved land values would allow the lifting of all other taxes and solve the recurring problems of poverty, unemployment and recession.

The survival of Henry George's ideas says something about their appeal, particularly since his radical views appear to strike at the very roots of the private ownership of land. Support for George's views were far from socialistic. The philosophical base for his economic views was simply that a landholder had no more right to charge rent for land that he did not create than he would have to monopolise the air and charge others for the right to breathe it.

"It is not necessary to confiscate land: it is only necessary to confiscate rent." The rent to be confiscated was the amount the owner could collect by renting out unimproved land, or if he had improved or built on it, that part of the rent attributable to the land alone. George argued that the owner should not be taxed on the improvements because they were the products of his own efforts. Thus society would recapture the land values society itself had created and the owner would be forced to put the land to its best use or give it up, since hoarding land would no longer be profitable.

The Purpose of an Economic System

Any properly functioning economic system has as its purpose the provision of goods and services for a community. It is putting the cart before the horse if the money supply is allowed to govern production. The financial needs of production and distribution should determine the money supply. However, money is treated erroneously as a commodity and its additional intrinsic interest cost impairs its effectiveness at its very source. It is not the actual use of money in bank-functioning that is the root cause of the problems, but rather the usurious abuse of debt-money in the bank-owned monopoly of credit and the resultant enslavement of the community with increasing debt.

Ecology and Growth

Most industrial expansion is now only achieved by the mindless expansion of an economy which uses the limited resources of the planet. There is no greater misconception blocking progress towards a just and sustainable world order than the notion that all socio-economic problems can be solved through economic growth. In the short term an increase in economic turnover promises more employment but this is only temporary if it is at the expense of the planet's finite resources. Sooner or later the destruction of the earth's non-renewable resources will bring economic growth to a standstill. A stable zero growth economy does not preclude progressive innovative techniques and social improvements. A truly sustainable economy envisages growth in the quality of life for all, rather than a mere increase in the quantity of possessions and power over others by a selfish few.

Continued reliance on economic growth is justified on the basis that it is needed to create wealth. Yet the definition of wealth, which has always been the touchstone of economic understanding, after centuries of effort still eludes most people. Aristotle tried to clarify the issues by defining wealth as all things whose value can be measured in money. The Roman jurists, in their practical fashion, followed suit in defining wealth as what can he bought and sold with money.

As a means to an end, money must not be allowed to become an end in itself. As long as money is treated as a commodity, periodic chaotic crises of bankruptcy and insolvency will result. In a sense money must be priceless for there is nothing in Nature analogous to the interest-burdened debt which destroys national economies like terminal cancer. There can be no adequate understanding of the suicidal or survival alternatives facing humanity, without a proper perception that it is the abuse of the role of money which is the root cause of economic evil and of most of the social disorders which threaten the future of society.

[Extracted and edited from Ch 7 of Peter Lock's latest book *All Things Anew*]

"Could anything be more insane than for the human race to die out because we couldn't afford to save ourselves?" Prof John Hotson, T.O.E.S. Conference 1993