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Economic Reform Australia Review

For a just and sustainable society

ISSN 1324-5929

Vol 4 No 2 Mar-Apr 2012

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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.

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Please renew your ERA membership

If you have not done so yet, we invite you to consider renewing your ERA membership as soon as possible. This will save us from having to send you a reminder notice down the track. Relevant information is located on page 2.

Nicole Foss on the coming global economic contraction
John Coulter

[Ed: Nicole Foss, who recently toured Australia, made an interesting presentation to an enthusiastic audience at the Hawke Center in Adelaide on Thursday 23 February, which was co-sponsored by four organisations, including Economic Reform Australia]

I found Nicole's approach to the present human predicament very interesting with two points standing out more clearly than the others:

- Humans face a number of hurdles in a quest for a more sustainable and equitable future. The first hurdle is the economic hurdle given that economies can collapse far more quickly than the other ones such as those posed by energy availability and cost. If we fail to clear the first hurdle we are out of the race toward the others.
- Bubbles look good while they are growing and look best when they are at their maximum, but that is when they are about to burst. Australia and Canada are now sitting close to the top of their respective bubbles.

If we accept this analysis then all of us have to pay some attention to the economic bubble that is about to burst as well as the other more environmental factors which are the main concern of at least three of the organisations. One problem I have with the analysis is that I don't see the race as a straight line race with hurdles along it. It's a bit of a to and fro race. Nicole identified the second hurdle as the energy hurdle - availability and cost of energy. It seems to me that if we manage to clear the economic hurdle then the second hurdle with have major implications for the economy and we shall have to renegotiate the first hurdle. And so with all the factors impacting human social survival and welfare.

In my view we need a very comprehensive understanding of all these factors, how they interact and how we can best manage that complex interaction.

Taming the wild beast
Doris Phelps

Ever since someone first thought of the idea of man-made robots, there has been speculation as to whether it would be possible for man to invent a robot more powerful than himself, which would then be able to rule the world. The present financial system, which also is man-made, seems to be something like that. In September 2011, Kevin Rudd MP said "The global economy is a wild beast. We must tame the wild beast."

Thus the public is encouraged to believe that the economy has acquired a life of its own, and that booms and depressions are inevitable, and nothing can be done about it. it's a natural part of the system.

But inflation and recession are not natural, nor are they related to the seasons or the amount of production that the nation is capable of. This was demonstrated most clearly during the depression of the 1930s, when goods were piling up for lack of buyers, while people starved because of lack of money to buy the goods. Inflation and recession have no relation to reality. They are related to manipulations of the money system.

It used to be implied by both capitalists and socialists that there was a set amount of money in the world. The socialists claimed that some people were poor because the rich ones had cornered most of the money. The capitalists were sure that if they were allowed to have control of the money, some of it would somehow "trickle down" to the masses.

By now it must be clear to most people that the amount of money is not fixed. It can be increased or decreased as wished by those with the power to do so.

lt seems to be accepted that the Reserve Bank can to a certain extent manipulate the money in circulation by raising or lowering the official cash rate and through this other interest rates, thereby encouraging or discouraging people's borrowing and spending. When interest rates are lowered and people feel confident enough to borrow more, this increases the amount of money in circulation.

When Mr. Rudd came to power as Prime Minister, he was very careful to emphasise (Dec. 2007) that he believed that the Reserve Bank should be independent of the government. He said he would move quickly to shore up the independence of the Bank, and would introduce statutory requirements making the position of the Governor of the Bank more independent. l wonder why?

How can politicians govern properly if they have no power over the money supply and interest rates? It seems clear that the Federal Government should have control of the Reserve Bank, as it once did of The Commonwealth Bank. Then, perhaps those who go into politics with the best of intentions could do the good that they want to do, instead of having to make up excuses as to why they are breaking their well-meant promises, as they battle helplessly with the "wild beast" which ties their hands behind their backs.

There must, of course, be sensible limits to the money supply, but the limits should be decided by our elected representatives, not by an independent body. And in a democracy, if our representatives went beyond sensible limits, they could be voted out. An independent body cannot be voted out.

I look forward to the day when politicians can listen to the voters, rather than being influenced by independent bodies or man-created wild beasts.

Doris Phelps is an ERA member residing in SA, and a regular contributor.

Supporting innovation in Australia
Craig Walter

On 21st February the South Australian government announced that it intended to discontinue funding the body known as InnovateSA after June of this year, notwithstanding that it was getting ‘runs on the board'. This news item took my mind back to a short paper that I wrote in 2004 entitled ‘The Need for an Entrepreneurial Bank’. The following comments are based on an addendum to that paper.

Politicians, community and business leaders use the cry of innovation as one way to garner public support about funding for education, something that is always on the public's mind. However that high sounding rhetoric is far removed from the practical matter of providing actual support for the entrepreneurial framework required for exploiting innovation.

The proposal, which I support, to set up an entrepreneurial bank for the purpose of funding innovative and bold projects has been denounced recently by government representatives as implausible. Citing that various 'professors' have studied this proposal and see no pathway - as intimated by the SA Venture Capital Board at a meeting in 2004.

However it may be argued that Australia requires public funding and/or national business funding as a springboard to set innovation in motion owing to its specific demographics, unlike (say) the USA or China, each of which has its own powerful driving forces.

It is only necessary to turn to a country like Sweden to see how readily innovation can be embraced and supported, despite that country's dearth of physical resources and its relatively small population.

A real collaboration between Government (society) and industry is required. Eight years has elapsed since this paper was written and programs like InnovateSA have now lost their funding. Does this indicate that no more than lip-service is being given to this vital issue and that we are resigning ourselves to only the 'mining pit' option?

Different models of monetary reform
John Hermann

The terms 'financial reform', 'banking reform' and ‘monetary reform’ mean different things to different people. Within a heterodox perspective they might include items as diverse as (a) bank nationalisation, (b) establishment of public banks in competition with private banks, (c) increased regulation of the financial system, (d) demarcation of commercial banking from investment banking, (e) government loans for socially useful projects funded by the central bank (long advocated by ERA), (f) financial transactions taxes (also long advocated by ERA), and (g) abolition of fractional reserve banking.

In using the term 'monetary reform' I mean implementing a new monetary system in which no commercial financial institutions are able to practice fractional reserve deposit expansion. There is nothing new about this idea; it was around in the early part of the 20th century – notably in the economic reform proposals of Frederick Soddy – and later during the 1930s in the writings of the great American economist Irving Fisher. Towards the latter end of the 20th century the idea also was revived by the Chicago school economist Milton Friedman. Also by economists attached to the Canadian based Committee on Monetary and Economic Reform (COMER) — notably John Hotson, Henry Pope and William Hixson. And more recently the idea has been advocated by a range of other organisations, including in particular the American Monetary Institute and Positive Money (UK).

There is no universally accepted version of monetary reform. The basic proposal to abolish fractional reserve banking is often described as ‘full reserve’ banking. However this description could refer to a system in which every loan advanced is matched by reserves on a one for one basis, or alternatively to a system in which there are no reserves at all and money is exclusively created by a central monetary authority – with financial institutions disempowered from creating bank credit money (and thus only capable of acting in a truly intermediary capacity). A variant of the latter system has been proposed by Ellen Brown — namely, that only publicly-owned banks should be allowed to practice fractional reserve deposit expansion, but operating in parallel with private sector financial institutions who are disempowered from doing so. Her basis for trusting public banks to behave with due prudence, and for believing them incapable of falling into the mode of reckless lending behaviour displayed by many private banks in recent times, is that they are controlled by civil servants who presumably would have no incentives for supporting Ponzi schemes or the casino.

One of the primary criticisms of ‘full reserve’ banking is that it is more difficult for capital accumulation to occur, making it difficult for entrepreneurs to raise start-up capital for large projects. However there are ways of addressing the issue of capital accumulation in the context of a “full reserve” financial system, such as appropriately structured investment trusts, without the sort of leverage that characterises fractional reserve banking. And the leverage currently placed in the hands of the large banks is often misused. Thus far too much bank lending in recent times has gone into supporting purely speculative activity in the financial markets, which distorts the markets, inflates asset prices, encourages financial fraud, and increases the fragility of the banking system.

This discussion will be restricted to a ‘full reserve’ monetary system in which all money is created by the central bank (or a central monetary authority) and there are no reserves. Indeed, under such a system the concept and use of the word “reserves” would disappear from the economic lexicon.

The exogenous model

The first type is the exogenous route, in which new money created by a central monetary authority is spent and/or lent into the economy. The primary monetary driver is direct control of the volume of money, and interest rates are a residual. This is the basis for the monetary reform proposals put forward by the American Monetary Institute (AMI), and also form the basis of the recent bill introduced into the US House of Representatives by Congressman Dennis Kucinich.

In expositions of the exogenous model there is usually a recognition that some form of taxation is desirable or necessary as a tool for exerting control over aggregate demand and inflation, and secondarily as a possible tool for manipulating the distribution of wealth and income. However there seems to be less tolerance of the idea that central governments can issue public debt instruments, and that running a budget deficit via the issue of public debt would serve the purpose of authorising the government to spend newly created money into the private sector.

The most common criticism of this reform model is that government cannot be trusted with the responsibility of getting the creation of money right at all times. The proponents of the model counter this argument with the claim that adequate checks and balances may be implemented to ensure that the power to create money is not abused.

The endogenous model

The second type of monetary reform model embraces the endogenous route. The primary monetary driver is the manipulation of interest rates, and the volume of money then becomes a residual. In an endogenously driven system the government is not in the driving seat when it comes to the creation of new money, even if technically the mechanics of money creation involves the government spending or lending newly created money into the economy. Thus it is the demand for new loans (in a debt-driven economic system) in line with the perceived needs of the overall economy, that drives monetary expansion. The central bank merely creates new reserves and introduces them into the banking system in response to those pressures, perhaps via the mechanism of achieving the interest rate targets which it perceives to be necessary for attaining an acceptable rate of inflation.

For a reformed monetary system in which all money is fiat money created by a central monetary authority, there is no obvious reason for assuming that monetary expansion would no longer be endogenously controlled. The basic mechanics of how such a system can be made to work in an endogenous manner has been proposed by William Hummel (see his website on money:

http://wfhummel.net/nationaldepository.html). The Hummel model would work in much the same way that the current banking system operates, involving the implementation of monetary policy via the manipulation of interest rates, with the important difference that there would be no reserves and no bank credit money (therefore no money would be created as debt to the private sector).

Hummel has proposed – as a central feature of his approach – the creation of **a single national depository**. Such a depository institution would neither borrow nor lend, and would only facilitate monetary transactions. Commercial financial institutions and post offices could act as agencies of this single national depository. Although suitably structured banking institutions could combine the roles of intermediary and depository, Hummel thinks that a national depository would separate these functions more efficiently.

Demarcation of the intermediary and depository functions

In both the endogenous and exogenous models, the intermediary function would need to be demarcated from the depository function. This is because a workable payments system requires that any institutional account which allows borrowing and lending cannot simultaneously operate as a deposit account. Borrowing and lending entail significant risk, but deposits need to be risk free.

In order to better understand the nature of this imperative, we need to have a clear grasp of what a banking deposit consists of. The first aspect of retail banking deposits is that they are a very special type of bank liability, and different from a borrowing. The jurisprudential term is ‘bailment’, meaning that they are a form of money (albeit bank credit money, under a fractional reserve system) which must be held by the bank in trust and safekeeping. And this is what gives the payments system its stability. The public needs to have confidence that their cheques will be cleared efficiently and without undue delay. I am aware of various isolated legal rulings to the contrary, which have determined that bank deposits do not have special status and are mere borrowings. However IMHO these instances merely reflect the economic ignorance of the judges concerned. Moreover it is interesting that in practice no retail deposits are ever loaned out. If they were merely borrowings then this would not be the case at all.

The second relevant aspect of retail banking is that customers' deposits are always accounted as being part of the ‘money supply’. The money supply is simply money accessible to, recognized by and used by the general public. That is why reserves have never been regarded as part of the money supply (nor are inter-bank deposits, nor are bank operating accounts, nor are central government deposits in holding accounts with commercial banks, nor is Treasury’s deposit account with the central bank). Thus it is important to differentiate between the public’s banking deposits (which I designate ‘retail deposits’) from all other types of deposit.

The third thing to be said about retail deposits is that commercial banks have no need for retail deposits as useful assets. Fundamentally this is because the commercial banking system both creates and destroys bank credit money as it deems appropriate. Banks are only interested in acquiring the reserves which tag along in principle after all retail deposits, and have no interest in acquiring bank credit money itself. This is consistent with the fact that payments to a commercial bank – for any purpose whatsoever – entail the destruction of bank credit money and a temporary reduction in the money supply. Only the associated reserves are retained intact.

This background helps to place into proper perspective the Hummel proposal to create a single national depository - which is basically incompatible with a fractional reserve system. Such a national depository would contain deposits of government-created money only, and would be unable to operate in parallel with existing banks issuing credit money deposits. If banks were to become transformed into true intermediaries then they would lose the power to create credit money, and the basic reason for their acting as depositories of the nation's money would be diminished.

The Greek elite prefers to eat its children
Bill Mitchell

The press has been increasingly highlighting the on-going Greece situation. What is important to note is that the neo-liberals are no longer honey-coating the fiscal austerity in terms of "fiscal contraction expansion". The Greek finance minister is now saying that the Greeks have a choice between disaster and total disaster. Other are juxtaposing sacrifice with chaos. I have noted that in recent months that a lot of commentators have been asserting that an exit would be a disaster – far worse than the current "disaster" of 4 years recession and more to come. But rarely do you read any coherent analysis of what might happen should Greece exit the Eurozone. My view is that while the dislocation would be intense and costly it would, in the longer-term, be less costly than the current alternative – which is persistent recession for the foreseeable future and a savage erosion of living standards, especially for the next generation. As on commentator put it recently – the current austerity approach with "deep structural inequalities and its rigid adherence to a failed economic ideology, protects neither democracy nor human rights. Stiff-necked and punitive, it prefers to eat its children".

It is ironic that the fiscal austerity argument is often phrased in terms of needing to take the "crippling" debt burden off future generations. However, the damage that the bailout packages are doing to those generations is highly significant yet that irony is never noted.

The UK Guardian article (Feb 12, 2012) '*As Greece stares into the abyss, Europe must choose*' made this point emphatically:

> Six inches from the riot policeman's shield outside the Greek parliament last Friday, a tall, pale boy was shouting at a man who could have been his uncle: "It's your generation that brought us to this point, but it's mine that has to pay for it. You have to take responsibility for what's happening here".

It should be noted that bankruptcy only applies to the nation's status as a user of a foreign currency (Euro) and becomes irrelevant once the nation restores its own currency. As I discuss below, under those terms, it can duly re-denominate all foreign-currency obligations in terms of its new currency and solvency then becomes guaranteed.

It is interesting that there is horror expressed by commentators about the possibility that the Greek government could enforce creditors to accept Drachma instead of Euros, the same horror is not expressed when the Troika propose a PSI arrangement that could carve up to 75 per cent off the value of current Greek bond investments (in Euros).

I will come back to the political assessments later but you note that they are no longer making the mainstream macroeconomic argument that has been justifying the imposition of austerity – that growth is just around the corner once the private sector realises that the deficit cutting will reduce future tax burdens and as a consequence they stop saving and start to spend again.

That nonsense - was always nonsense - and its bald-facedness is now being exposed. The future for Greece under current policy is bleak and the private sector know it.

The Troika (EC/IMF/ECB) operating through the agency of the Finance Ministers Summit initially wanted Greece to impose further - huge - cuts in net public spending in return for the next bailout installment that would see that nation pay up on its impending debt commitments.

The ridiculousness of the whole deal was that the Greeks were expected to achieve certain fiscal targets by this time. The progress of the Greek cutbacks is reviewed every three months by the baleful bureaucrats within the EC and the IMF. What they expected to happen each three months is of some confusion. The indications are that they actually expected the fiscal situation to improve.

But it was always obvious that under current conditions - fiscal austerity would lead to an increasing budget deficit and rising public debt ratio - as aggregate demand continued to contract.

All the real GDP estimates of the Troika have been shown by unfolding events to be over-optimistic. The Greek economy is in a severe downward spiral and has been getting worse for the last 4 years.

The deep recession is now entirely self-imposed by the Troika and its henchmen/women in the Greek polity.

But it is now well-known that the Finance Ministers acting turned nasty on Greece last week and demanded even harsher cuts including a 22 per cent cut in the nominal money wage (a much larger cut in real terms), drastic cuts in pensions and public sector employment cuts of up to 15,000 workers by 2015.

These additional cutbacks are the equivalent of about 7 per cent of GDP over the next three years and under those circumstances the Greek economy will remain in recession at least over that period.

It seems inconceivable that a nation would tolerate seven or eight years of enforced recession when it is largely unnecessary.

The Germans have been claiming that even with these latest proposed cuts the public debt ratio will remain above 120 per cent of GDP.

The media are also perpetuating the claim that chaos would follow a Greek-exit from the Eurozone.

The UK Guardian article (February 12, 2012) --*There's talk of an exit - but default would have catastrophic consequences* -- claimed that the "break-up would bring banking chaos".

The article said that a "Grexit … would send shockwaves throughout the world economy". Apparently:

> … default and "re-drachmatisation" would be a costly and chaotic process … in the short term banks across the eurozone might have to be closed to prevent a run on the single currency as investors speculated about which country might be next. A new wave of bank nationalisations would be likely to follow as lenders counted their losses on now worthless Greek debt.
>
> Capital controls would have to be imposed and borders shut to stop money flooding out of Greece. Portugal, Italy and Spain would come under intense pressure from investors wary about the risk of another victim. Banks everywhere, already reluctant to lend, would cut back hard, nervous about their exposure to the bonds of all Europe's crisis-hit states.
>
> For Greece, a drastic devaluation … could at least provide the hope of an export-led recovery. But unlike Argentina, which defaulted on its debts in 2001 after a wrenching political and economic crisis, Greece has neither the advantage of plentiful natural resources nor a boom in the world economy to ride.

So you get the message - chaos - drastic devaluations etc. No mention of the recent ECB initiatives to provide at virtually zero cost massive long-term funding to European banks.

No mention of the growth that the Greek government could engender immediately if it regained currency-sovereignty.

Further, the implication that capital controls are chaotic would not sit with Malaysia during the Asian crisis. The IMF has also released research showing that capital controls are effective and beneficial.

One hypothesis about the behaviour of the Germans and French (and other northern European leaders) over the last few years in relation to Greece it that they have been buying time. The process of grinding Greece into the ground has allowed the rest of the Eurozone to shore up the dykes!

This point is made by the UK Guardian's economics editor Larry Elliot in his article (February 10, 2012) – *European debt crisis pitches Germany against Greece.* He says that "(t)he Germans want the Greeks out. That is the clear message from the decision by Europe's finance ministers to reject the offer of a fresh package of austerity measures".

He considers that the time is now ripe to get rid of the Greeks because the Germans now have the view that "the actions taken by the European Central Bank over the past couple of months have been sufficient to ensure no contagion effects from Greece to the other debt-stricken eurozone members and, just as importantly, to the fragile European banking system". I tend to agree with that assessment.

It is probable that what has been taken to be bumbling by the political leadership in the Eurozone has also been a process of buying time while the European banks – assisted by the ECB – have been reducing their exposure to the Greek economy.

In that context, are these claims of chaos justified? I think not unless Greek society is so unstable that it is likely to disintegrate anyway.

The Citibank recently released a Report (I cannot link to it because it is subscription only) which introduced the term Grexit into the lexicon. More importantly, the discussion acknowledges that the financial markets are now openly considering the exit of Greece from the Eurozone.

Conclusion

No-one is denying that the Greek economy has structural issues which predicate it to imported inflation. Even with the harsh fiscal austerity which has seen its unemployment rate rise to above 18 per cent with no ceiling in sight, the current account deficit has risen.

Its export base is narrow and it imports a wide variety of consumer goods including food.

But those problems are not going to be solved more quickly by impoverishing the nation. A freely floating exchange rate will be a more effective way of attenuating the imbalances that have emerged between northern and southern Europe with respect to trade.

However, the real bonus that an exit would bring is that the Greek government could unambiguously concentrate on a domestic growth strategy and put an end to its recession.

The last four years have brought the need for some reforms – to the taxation and pension system – into relief. Within a growth context, the Greek government would probably have a better change of brokering these changes with its population than under the current conditions which are fermenting total social breakdown and open rebellion.

The UK Guardian article (February 12, 2012) – *As Greece stares into the abyss, Europe must choose* – brings home the reality of the fiscal austerity:

> When you ask people on the street if they would rather Greece went bankrupt than submit to further measures, many now point out that it is already bankrupt, that public sector workers have gone unpaid for months, that hospitals have no supplies, that the poor are being wrung dry in order to pay the banks. "Let's get it over with," a woman who works for the education ministry said to me. "Then we'd know we only had €250 a month and we could start again. This is not the people's Europe we dreamed of." The fact that Poul Thomsen of the IMF, the eurozone's poster boy Mario Monti, the markets and countless economists agree that more austerity will deepen Greece's depression without making the debt sustainable adds weight to her argument … [and the current fiscal austerity] … with its deep structural inequalities and its rigid adherence to a failed economic ideology, protects neither democracy nor human rights. Stiff-necked and punitive, it prefers to eat its children.

Extracted from a blog by Prof Bill Mitchell, University of Newcastle, NSW
The reference for the full blog is: http://bilbo.economicoutlook.net/blog/?p=18172

How Greece could take down Wall Street

Ellen Brown

In an article titled "Still No End to 'Too Big to Fail,'" William Greider wrote in *The Nation* on February 15th:

> Financial market cynics have assumed all along that Dodd-Frank did not end "too big to fail" but instead created a charmed circle of protected banks labeled "systemically important" that will not be allowed to fail, no matter how badly they behave.

That may be, but there is one bit of bad behavior that Uncle Sam himself does not have the funds to underwrite: the $32 trillion market in credit default swaps (CDS). Thirty-two trillion dollars is more than twice the U.S. GDP and more than twice the national debt.

CDS are a form of derivative taken out by investors as insurance against default. According to the Comptroller of the Currency, nearly 95% of the banking industry's total exposure to derivatives contracts is held by the nation's five largest banks: JPMorgan Chase, Citigroup, Bank of America, HSBC, and Goldman Sachs. The CDS market is unregulated, and there is no requirement that the "insurer" actually have the funds to pay up. CDS are more like bets, and a massive loss at the casino could bring the house down.

It could, at least, unless the casino is rigged. Whether a "credit event" is a "default" triggering a payout is determined by the International Swaps and Derivatives Association (ISDA), and it seems that the ISDA is owned by the world's largest banks and hedge funds. That means the house determines whether the house has to pay.

The Houses of Morgan, Goldman and the other Big Five are justifiably worried right now, because an “event of default” declared on European sovereign debt could jeopardize their $32 trillion derivatives scheme. According to Rudy Avizius in an article on *The Market Oracle (UK)* on Feb 15th, that explains what happened at MF Global, and why the 50% Greek bond write-down was not declared an event of default.

If you paid only 50% of your mortgage every month, these same banks would quickly declare you in default. But the rules are quite different when the banks are the insurers underwriting the deal.

MF Global: Canary in the Coal Mine?

MF Global was a major global financial derivatives broker until it met its unseemly demise on October 30, 2011, when it filed the eighth-largest U.S. bankruptcy after reporting a “material shortfall” of hundreds of millions of dollars in segregated customer funds. The brokerage used a large number of complex and controversial repurchase agreements, or "repos," for funding and for leveraging profit. Among its losing bets was something described as a wrong-way $6.3 billion trade the brokerage made on its own behalf on bonds of some of Europe’s most indebted nations. Avizius writes:

> [A]n agreement was reached in Europe that investors would have to take a write-down of 50% on Greek Bond debt. Now MF Global was leveraged anywhere from 40 to 1, to 80 to 1 depending on whose figures you believe. Let’s assume that MF Global was leveraged 40 to 1, this means that they could not even absorb a small 3% loss, so when the “haircut” of 50% was agreed to, MF Global was finished. It tried to stem its losses by criminally dipping into segregated client accounts, and we all know how that ended with clients losing their money. . . .
>
> However, MF Global thought that they had risk-free speculation because they had bought these CDS from these big banks to protect themselves in case their bets on European Debt went bad. MF Global should have been protected by its CDS, but since the ISDA would not declare the Greek “credit event” to be a default, MF Global could not cover its losses, causing its collapse.

The house won because it was able to define what “ winning” was. But what happens when Greece or another country simply walks away and refuses to pay? That is hardly a “haircut.” It is a decapitation. The asset is in rigor mortis. By no dictionary definition could it not qualify as a “default.”

That sort of definitive Greek default is thought by some analysts to be quite likely, and to be coming soon. Dr. Irwin Stelzer, a senior fellow and director of Hudson Institute’s economic policy studies group, was quoted in Saturday’s *Yorkshire Post (UK)* as saying:

> It’s only a matter of time before they go bankrupt. They are bankrupt now, it’s only a question of how you recognise it and what you call it.

> Certainly they will default . . . maybe as early as March. If I were them I'd get out [of the euro].

The Midas Touch Gone Bad

In an article in *The Observer (UK)* on February 11th titled "The Mathematical Equation That Caused the Banks to Crash," Ian Stewart wrote of the Black-Scholes equation that opened up the world of derivatives:

> The financial sector called it the Midas Formula and saw it as a recipe for making everything turn to gold. But the markets forgot how the story of King Midas ended.

As Aristotle told this ancient Greek tale, Midas died of hunger as a result of his vain prayer for the golden touch. Today, the Greek people are going hungry to protect a rigged $32 trillion Wall Street casino. Avizius writes:

> The money made by selling these derivatives is directly responsible for the huge profits and bonuses we now see on Wall Street. The money masters have reaped obscene profits from this scheme, but now they live in fear that it will all unravel and the gravy train will end. What these banks have done is to leverage the system to such an extreme, that the entire house of cards is threatened by a small country of only 11 million people. Greece could bring the entire world economy down. If a default was declared, the resulting payouts would start a chain reaction that would cause widespread worldwide bank failures, making the Lehman collapse look small by comparison.

Some observers question whether a Greek default would be that bad. According to a comment on Forbes on October 10, 2011:

> [T]he gross notional value of Greek CDS contracts as of last week was €54.34 billion, according to the latest report from data repository Depository Trust & Clearing Corporation (DTCC). DTCC is able to undertake internal netting analysis due to having data on essentially all of the CDS market. And it reported that the net losses would be an order of magnitude lower, with the maximum amount of funds that would move from one bank to another in connection with the settlement of CDS claims in a default being just €2.68 billion, total. If DTCC's analysis is correct, the CDS market for Greek debt would not much magnify the consequences of a Greek default—unless it stimulated contagion that affected other European countries.

It is the "contagion," however, that seems to be the concern. Players who have hedged their bets by betting both ways cannot collect on their winning bets; and that means they cannot afford to pay their losing bets, causing other players to also default on their bets. The dominos go down in a cascade of cross-defaults that infects the whole banking industry and jeopardizes the global pyramid scheme. The potential for this sort of nuclear reaction was what prompted billionaire investor Warren Buffett to call derivatives "weapons of financial mass destruction." It is also why the banking system cannot let a major derivatives player—such as Bear Stearns or Lehman Brothers—go down. What is in jeopardy is the derivatives scheme itself. According to an article in *The Wall Street Journal* on January 20th:

> Hanging in the balance is the reputation of CDS as an instrument for hedgers and speculators—a $32.4 trillion market as of June last year; the value that may be assigned to sovereign debt, and $2.9 trillion of sovereign CDS, if the protection isn't seen as reliable in eliciting payouts; as well as the impact a messy Greek default could have on the global banking system.

Players in the future may simply refuse to play. When the house is so obviously rigged, the legitimacy of the whole CDS scheme is called into question. As MF Global found out the hard way, there is no such thing as "risk-free speculation" protected with derivatives.

Ellen Brown is an attorney and president of the Public Banking Institute, http://PublicBankingInstitute.org*. In Web of Debt, her latest of eleven books, she shows how a private cartel has usurped the power to create money from the people, and how people can retrieve it. Her websites:* http:/WebofDebt.com *and* http://EllenBrown.com*.*

Icelandic anger brings debt forgiveness
Omar R. Valdimarsson

A cyclist passes a national flag hanging in a street in Reykjavik (Paul Taggart/Bloomberg)

Icelanders who pelted parliament with rocks in 2009 demanding their leaders and bankers answer for the country's economic and financial collapse are reaping the benefits of their anger.

Since the end of 2008, the island's banks have forgiven loans equivalent to 13 percent of gross domestic product, easing the debt burdens of more than a quarter of the population, according to a report published this month by the Icelandic Financial Services Association.

"You could safely say that Iceland holds the world record in household debt relief," said Lars Christensen, chief emerging markets economist at Danske Bank A/S in Copenhagen."Iceland followed the textbook example of what is required in a crisis. Any economist would agree with that."

The island's steps to resurrect itself since 2008, when its banks defaulted on $85 billion, are proving effective. Iceland's economy will this year outgrow the euro area and the developed world on average, the Organization for Economic Cooperation and Development estimates. It costs about the same to insure against an Icelandic default as it does to guard against a credit event in Belgium. Most polls now show Icelanders don't want to join the European Union, where the debt crisis is in its third year.

The island's households were helped by an agreement between the government and the banks, which are still partly controlled by the state, to forgive debt exceeding 110 percent of home values. On top of that, a Supreme Court ruling in June 2010 found loans indexed to foreign currencies were illegal, meaning households no longer need to cover krona losses.

Crisis Lessons

"The lesson to be learned from Iceland's crisis is that if other countries think it's necessary to write down debts, they should look at how successful the 110 percent agreement was here," said Thorolfur Matthiasson, an economics professor at the University of Iceland in Reykjavik, in an interview. "It's the broadest agreement that's been undertaken."

Without the relief, homeowners would have buckled under the weight of their loans after the ratio of debt to incomes surged to 240 percent in 2008, Matthiasson said.

Iceland's $13 billion economy, which shrank 6.7 percent in 2009, grew 2.9 percent last year and will expand 2.4 percent this year and next, the Paris-based OECD estimates. The euro area will grow 0.2 percent this year and the OECD area will expand 1.6 percent, according to November estimates.

Housing, measured as a subcomponent in the consumer price index, is now only about 3 percent below values in September 2008, just before the collapse. Fitch Ratings last week raised Iceland to investment grade, with a stable outlook, and said the island's "unorthodox crisis policy response has succeeded."

People vs Markets

Iceland's approach to dealing with the meltdown has put the needs of its population ahead of the markets at every turn.

Once it became clear back in October 2008 that the island's banks were beyond saving, the government stepped in, ring-fenced the domestic accounts, and left international creditors in the lurch. The central bank imposed capital controls to halt the ensuing sell-off of the krona and new state-controlled banks were created from the remnants of the lenders that failed.

Activists say the banks should go even further in their debt relief. Andrea J. Olafsdottir, chairman of the Icelandic Homes Coalition, said she doubts the numbers provided by the banks are reliable.

"There are indications that some of the financial institutions in question haven't lost a penny with the measures that they've undertaken," she said.

Fresh Demands

According to Kristjan Kristjansson, a spokesman for Landsbankinn hf, the amount written off by the banks is probably larger than the 196.4 billion kronur ($1.6 billion) that the Financial Services Association estimates, since that figure only includes debt relief required by the courts or the government.

"There are still a lot of people facing difficulties; at the same time there are a lot of people doing fine,"Kristjansson said. "It's nearly impossible to say when enough is enough; alongside every measure that is taken, there are fresh demands for further action."

As a precursor to the global Occupy Wall Street movement and austerity protests across Europe, Icelanders took to the streets after the economic collapse in 2008. Protests escalated in early 2009, forcing police to use teargas to disperse crowds throwing rocks at parliament and the offices of then Prime Minister Geir Haarde. Parliament is still deciding whether to press ahead with an indictment that was brought against him in September 2009 for his role in the crisis.

A new coalition government, led by Social Democrat Prime Minister Johanna Sigurdardottir, was voted into office in early 2009. The authorities are now investigating most of the main protagonists of the banking meltdown.

Legal Aftermath

Iceland's special prosecutor has said it may indict as many as 90 people, while more than 200, including the former chief executives at the three biggest banks, face criminal charges.

Larus Welding, the former CEO of Glitnir Bank hf, once Iceland's second biggest, was indicted in December for granting illegal loans and is now waiting to stand trial. The former CEO of Landsbanki Islands hf, Sigurjon Arnason, has endured stints of solitary confinement as his criminal investigation continues.

That compares with the U.S., where no top bank executives have faced criminal prosecution for their roles in the subprime mortgage meltdown. The Securities and Exchange Commission said last year it had sanctioned 39 senior officers for conduct related to the housing market meltdown.

The U.S. subprime crisis sent home prices plunging 33 percent from a 2006 peak. While households there don't face the same degree of debt relief as that pushed through in Iceland, President Barack Obama this month proposed plans to expand loan modifications, including some principal reductions. According to Christensen at Danske Bank, "the bottom line is that if households are insolvent, then the banks just have to go along with it, regardless of the interests of the banks."

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Source: http://www.bloomberg.com/news/2012-02-20/icelandic-anger-brings-record-debt-relief-in-best-crisis-recovery-story.html

Is a steady-state economy compatible with capitalism?

Herman Royce

There are several reasons why capitalist economies are *compelled* to grow – why, as James Gustave Speth put it, "the capitalist economy, to the degree it is successful, is *inherently* an exponential growth economy." [1] All of those reasons revolve around the nature of profit…

Profits

Competition for profits compels growth because businesses that gain profits are obliged to invest much or all of them in new ventures intended to *increase* their profits, thus boosting production and spending, which means economic growth. If businesses don't reinvest, they risk shrinking profits and ultimate loss, because either their markets will become 'saturated' with too many consumers already having purchased their goods, or newer products will supersede theirs, or they will be out-competed by other businesses that do grow.

Jobs

But not only businesses have compelling reasons to want economies to grow, so do wage earners. If an economy does not grow, if instead its spending reduces, it has less need for production and work – and because less work almost invariably means less income, this causes obvious problems, not only for those whose income reduces, but also for producers of the goods that might otherwise have sold if income had not reduced. Failure to grow thus encourages more of the same. Or as Tim Jackson put it: "Growth is *necessary* within this system just to prevent collapse." [2]

Debt

As well as businesses and workers, banks and other financial institutions have a vested interest in the creation of jobs and maintenance of growth: for loans to producers to be repaid, they must finance enterprises that eventually make sufficient profits to cover the costs of servicing the loans, which means more spending. Similarly, if consumers spend less, not only do they have less need to borrow money, but also fewer sales happen, and therefore profits reduce, leaving businesses with less money to repay debts. So, like any profit-seeking business, lenders want growth.

Compelled to Grow

So, any economy which involves market competition for profits is *compelled* to grow. But because capitalism is more or less defined by market competition for profits, this means that *the compulsion to grow is built into capitalism's game rules.* Now if a capitalist economy must grow, whereas a steady-state economy, by definition, does not grow, then a capitalist steady-state is an oxymoron.

An Unsteady State

Jackson claimed that "The capitalist model has no easy route to a steady-state position. Its natural dynamics push it towards one of two possible states: expansion or collapse."[3] I would agree with this completely if the word "easy" had been left out.

Consider what would happen if a capitalist economy's spending somehow did stay static for an extended period, neither growing nor contracting: efforts to gain profits would still eventually unleash productivity improvements that reduce the need for workers, meaning less money distributed as wages to afford the same amount of output (or more) – but this would mean *less* spending ie. contraction, which, as explained, threatens collapse for a capitalist economy. Borrowing could compensate for reduced wages, but only temporarily, because paying back a loan with interest requires saving more than what the loan allows to be spent – so, the eventual effect would still be less spending. *Mounting* debt might maintain a steady-state, but sustaining an appropriate rate of increase of debt is not an easy task; more fundamentally, a steady-state with mounting debt is a contradiction in terms.

So, to avoid collapse, a capitalist steady-state would require some other approach to compensate for the effects of productivity improvements. One such approach has been proposed…

A Model Future?

An economic model by Peter Victor (cited by Jackson [4] and a recent Steady State Economy Conference (SSEC) report [5]) gains a roughly steady-state after 25 years, by shifting "investment from private to public goods", redistributing income to reduce inequality, sharing work, and lowering working hours as productivity increases (as it is assumed to do [6]). These seem worthwhile goals, but hardly natural outcomes of market competition (even with the role of government clearly expanded to make for a more regulated economy than today's). Even so, after 25 years the modelled steady-state still retains sixty percent of initial unemployment, half the initial poverty levels (for the last 15 or more of its 25 years), and slowly mounting government debt, all of which strike me as inadequate outcomes.

More crucially, while Victor's model is tailored to achieve no growth, it does so without including "a monetary sector", [7] and without addressing the consequences for business profits: with higher productivity still leading to less income (albeit more evenly shared) to afford the same output, spending must *reduce*, which, along with less business investment, must reduce profits – an outcome directly opposed to standard business goals, and, as previously explained, encouraging collapse, *not* a steady-state.

Jackson rightly suggests that the model's results should be viewed "with caution", [8] and the SSEC report advises similarly, but the failure to include profits in the model [9] puts its results in doubt. Furthermore, the model, like the SSEC report, has not considered a crucial but generally overlooked profit-driven dynamic of competitive market economies…

The Profit Paradox

Although the subject has been largely ignored since the Great Depression, luminaries such as Marx and Keynes long struggled to explain the 'profit paradox': money distributed during production of goods – the payments made to do the producing – sums to less than the money required to buy those goods, because prices include a profit margin, an amount over and above the cost of the goods. So how can producers profit in aggregate? In my view, and those of some economists, [10] they can't: if any competitor profits, another must lose.

Loss can be delayed by consumers taking on debt to afford profit-inclusive prices of producers otherwise doomed to lose because others profit – but repaying consumer debt requires *eventually* foregoing some other purchase, which again means that eventually not every producer profits, or else the consumer defaults on the debt and the lender fails to profit. In the long run then, overall, taking producers' *and* lenders' profits and losses into account, aggregate profits still must be zero.

Therefore the only way for profits to consistently exceed losses is via *mounting* consumer debt, but as mentioned, not only is this incompatible with a steady-state, it is also unsustainable – even in a growth economy, as demonstrated by the credit crisis that unleashed the Great Recession. Ultimately, even mounting debt does not solve the profit paradox.

So, because profits make losses inevitable – and losses encourage unemployment, bankruptcy and reduced spending – whether a profit-based economy aspires to growth *or* a steady-state, instability is guaranteed. Profit-inclusive prices also fail to ensure efficient use of resources: even ignoring how prices function so poorly as market signals (because, among other reasons, they exclude externalities and government subsidies, but include market waste and excess), an efficient producer can still lose if another equally efficient producer wins. Although efficiency undoubtedly plays a role, the nature of profit ensures that so too does chance.

Flawed Motive

A steady-state and profit are diametrically opposed: the former aims for balance, the latter for gain – for obtaining something *extra*. Indeed, with capitalism, just as for a Ponzi scheme, the aim is to get more money back than is put in – not just for businesses via profit and banks via interest, but also for investors via their invested money. But just as Ponzi schemes eventually unravel, so too must capitalist expectations be disappointed: to have more returned than is contributed overall cannot be maintained, indeed, ultimately makes no sense.

Biting the Bullet

Capitalism and a steady-state economy are not compatible, either philosophically or practically. Although necessary for true sustainability, a steady-state economy cannot be achieved if businesses compete for profits. A steady-state economy requires the abolition of profit (and interest) – indeed, it requires a *new* ‘ism’.

[1] James Gustave Speth, *The Bridge at the End of the World: Capitalism, the Environment, and Crossing from Crisis to Sustainability* (Yale University Press, New Haven & London, 2008), p.59 (my italic)
[2] Tim Jackson, *Prosperity without Growth? The Transition To A Sustainable Economy* (Sustainable Development Commission, 2009, available at http://www.sd-commission.org.uk/publications/downloads/prosperity_without_growth_report.pdf), p.8
[3] Jackson, *Prosperity Without Growth*, p.46
[4] Jackson, *Prosperity Without Growth*, pp.79-81
[5] O’Neill, D.W., Dietz, R., Jones, N. (Editors), 2010. *Enough is Enough: Ideas for asustainable economy in a world of finite resources. The report of the Steady State Economy Conference.* Center for the Advancement of the Steady State Economy and Economic Justice for All, Leeds, UK, p.37
[6] Jackson, *Prosperity Without Growth*, p.80
[7] Jackson, *Prosperity Without Growth*, note 28, p.81
[8] Jackson, *Prosperity Without Growth*, note 28, p.81
[9] Victor, P. and Rosenbluth, G. 2007. Managing without growth. *Ecological Economics* 61:492-504 (available at http://steadystate.org/wp-content/uploads/Victor_ManagingWithoutGrowth_EE_Paper.pdf) explains that the model includes a “corporation profits tax” rate, but makes no other reference to profits.
[10] Many ‘Circuitist’ economists. Also, see Gunnar Tomasson & Dirk J. Bezemer, *“What is the Source of Profit and Interest? A Classical Conundrum Reconsidered” (*University Library of Munich MPRA Paper #20320, 2010, available at http://ideas.repec.org/p/pra/mprapa/20320.html).

ERA Survey responses (optional answers)

John Hermann

ERA members and associates were invited during December 2011 to complete a questionnaire survey, aimed at gathering their views and ideas on issues perceived to be relevant to shaping ERA's future directions.

The following list provides the percentage statistics for those ERA Survey questions which required either a "numerical" answer or a "yes/no/uncertain" answer. I have added the results obtained from the 14 responses forwarded by post to the 55 recorded online responses, making a data set of 69 items. It is intended that an analysis of the responses to the questions requiring individual commentary will be presented at a later date.

The "no answer", "not completed" and "not displayed" responses have been combined together as a single statistic, simply labelled "no answer".

Have you recommended ERA membership to your friends/colleagues?

Yes	76.8
No	18.8
No answer	4.4

Do you believe ERA should more actively lobby for policy change?

Yes	73.9
No	10.1
Uncertain	7.2
No answer	8.7

Do you believe ERA should work more closely with other groups?

Yes	65.2
No	10.1
Uncertain	15.9
No answer	8.7

Do you believe ERA should provide more support for academic research?

Yes	47.8
No	15.9
Uncertain	27.5
No answer	8.7

Do you believe ERA should connect better with political parties?

Yes	55.6
No	25.4
Uncertain	19.0
No answer	8.7

Do you believe ERA should participate more strongly in public debate?

Yes	81.2
No	1.4
Uncertain	8.7
No answer	8.7

Do you believe ERA should produce more media releases?

Increase	63.3
Same	20.3
Reduce	7.2
No answer	10.1

Do you believe ERA should organise/host more public seminars?

Increase	66.7
Same	14.5
Reduce	10.1
No answer	8.7

Do you believe ERA should find more speakers for other organisations?

Increase	56.5
Same	20.3
Reduce	14.5
No answer	8.7

Do you believe ERA should run a more active online discussion forum?

Increase	53.6
Same	29.0
Reduce	8.7
No answer	8.7

Do you believe ERA should do more to maintain a public blog?

Increase	49.3
Same	27.5
Reduce	11.6
No answer	11.6

Do you believe ERA should produce more publications?

Increase	31.9
Same	44.9
Reduce	14.5
No answer	8.7

Do you believe ERA should organise more meetings with leading economic thinkers?

Increase	60.9
Same	14.5
Reduce	14.5
No answer	10.1

Do you believe ERA should do more to facilitate access to books at reduced cost?

Increase	37.7
Same	39.1
Reduce	14.5
No answer	8.7

Do you usually read the ERA review?

Yes	75.4
No	10.1
No answer	14.5

Have you visited the ERA website?

Yes	34.8
No	52.2
No answer	13.0

If you have visited the ERA website, what did you think about it? Did it satisfy you?

Very satisfied	1.4
Satisfied	10.1
Neutral	13.0
Dissatisfied	7.2
Very dissatisfied	1.4
No answer	66.7
Comments	20.3

Do you believe ERA should be an active user of social media, like Facebook, Google Plus, Twitter and YouTube?

Yes	27.5
No	20.3
No answer	52.2

Do you think it would be desirable to have an annual meeting of ERA members who live in different states?

Yes	39.1
No	13.0
No answer	47.8

In the longer term, do you believe ERA should seek to establish local chapters in other countries and use this avenue to raise funds for the Australian foundation organisation?

Yes	21.7

No	34.8
No answer	43.5

The following items record the level of concern for issues, ranked from categories 1 to 5 (1 = no concern, 3 = moderate importance, 5 = major concern or priority).

Ecological sustainability and economic growth

1	11.6
2	0.0
3	5.8
4	5.8
5	65.2
No answer	11.6

Financial re-regulation and banking system reform

1	5.8
2	2.9
3	4.3
4	11.6
5	59.4
No answer	10.1

Fiscal policy, taxation and Govt spending

1	5.8
2	4.3
3	21.7
4	21.7
5	31.9
No answer	14.5

Social inequality, poverty and unemployment

1	7.2
2	1.4
3	10.1
4	17.4
5	50.7
No answer	13.0

Private and public debt

1	4.3
2	1.4
3	27.5
4	15.9
5	34.8
No answer	15.9

Infrastructure and military spending

1	2.9
2	8.7
3	24.6
4	21.7
5	24.6
No answer	17.4

Peak oil, minerals and water

1	7.2
2	5.8
3	7.2
4	21.7
5	42.0
No answer	14.5

Comparative energy economics

1	7.2
2	4.3
3	18.8
4	23.2
5	30.4
No answer	15.9

Housing, real estate and land tax/rent

1	2.9
2	7.2
3	33.3
4	15.9
5	24.6
No answer	15.9

The financial casino and transaction taxes

1	7.2
2	11.6
3	11.6
4	17.4
5	36.2
No answer	15.9

Smoothing the inflation-deflation cycle

1	4.3
2	15.9
3	36.2
4	8.7
5	17.4
No answer	15.9

Balancing imports and exports

1	7.2
2	15.9
3	23.2
4	20.3
5	15.9
No answer	17.4

National dividend and retail discount

1	11.6
2	15.9
3	33.3
4	7.2
5	13.0
No answer	18.8

Prosecuting financial fraud

1	15.9
2	7.2
3	18.8
4	15.9
5	24.6
No answer	17.4

Public banks competing with private banks

1	8.7
2	5.8
3	14.5
4	26.1
5	30.4
No answer	14.5

National vs private ownership

1	7.2
2	2.9
3	17.4
4	24.6
5	34.8
No answer	13.0

Population and economic growth

1	7.2
2	5.8
3	8.7
4	11.6
5	53.6
No answer	13.0

Local and competing currencies

1	8.7
2	14.5
3	30.3
4	15.9
5	24.6
No answer	15.9

Development indices as alternative to GDP

1	8.7
2	8.7
3	20.3
4	21.7
5	26.1
No answer	14.5

Redefining economic principles and policies

1	11.6
2	2.9
3	4.3
4	14.5
5	50.7
No answer	15.9

New economic theories and models

1	5.8
2	1.4
3	2.9
4	15.9
5	58.0
No answer	15.9

Major trends

The issues of major concern in this survey (question 9) have been taken to be those for which the combined percentages of categories 4 and 5 exceed 52%. These issues are, in order of statistical importance:

1.	Need for new economic theories and models	73.9
2.	Ecological sustainability and economic growth	71.0
3.	Financial reregulation and banking system reform	71.0
4.	Social inequality, poverty and unemployment	68.1
5.	Population and economic growth	65.2
6.	Redefining economic principles and policies	65.2
7.	Peak oil, minerals and water	63.7
8.	National vs private ownership	59.4
9.	Public banks competing with private banks	56.5
10.	The financial casino and transaction taxes	53.6
11.	Fiscal policy, taxation and government spending	53.6

Other trends to emerge from this survey include a perceived need for ERA to become more proactive in disseminating its views, participating in public debate, working cooperatively with other groups, helping to organise meetings involving leading economic thinkers, and lobbying for policy changes.

Most respondents have read the ERA Review (although it seems 25% have not!). However it is clear that most respondents have not yet visited the ERA website. Some of the latter do not possess internet facilities, and an indicator to this possibility lies in the fact that many respondents seem to be unaware of the existence of social media. And some of the questions had a majority in the "no answer" category, an indicator of unawareness or passivity.

Models for Money in Western Economies

Peter Lock

Two fundamentally different models for money as purchasing power are:

1. In the model of money as a **bartering device**, the money exists as a **stable extrinsic measure of worth** for a community as a whole to use. In any measuring operation, the standard used must be extrinsic in its functioning to the assigned operation. It would be considered absurd if an engineer’s ruler were made of a type of concertina material which contracted or expanded according to the whim of its user.

2. In the model of money as a **commodity** which can be bought or sold in the

marketplace, the money exists as an **unstable intrinsic measure of the purchasing power of money itself.** As such, its functioning can be abused by individuals in their exploitation of the whole global community for their own personal aggrandizement and exercise of usurped power.

If money is to serve as the efficient means of exchange and distribution of all commodities in the marketplace, it is essential that money itself be not an element of the set of all commodities that money can buy. As a means to an end, money must not be allowed to become a real end in itself. As a stand-in value-token or intermediary bartering ticket, its sole reason for existence lies in its essential otherness as a measure of relative wealth-worth. Its own worth must remain independent of and aloof from the transactions and reactions it catalyses in the chemistry of commerce.

The definition of a *commodity* needs to be modified if it is to be consistent and to avoid all circular logic. An economic commodity is any type of marketable goods or services which has an intrinsic value in itself and whose value can be relatively assessed using an extrinsic suitable stable non-commodity money standard and hence bought and sold. In other words, an economic commodity is any marketable entity, **other than money,** which money itself can buy.

There is nothing in Nature which corresponds to the consensus notion of interest-burdened debt. Debt money only exists as a contrived fiction in the human mind. The western economies will either repudiate their slavery to privatized debt-money or they will drown in their own sea of despair.

UK green money working group (formed 20 October 2011)
Relayed by Shann Turnbull

The objective of the Green Money Working Group (GMWG) is to develop a form of green money that allows markets to allocate resources according to prices established by local renewable endowments of nature so as to allow society to become sustainable.

Green money would be cost carrying to give it a limited life like all living things. Ecological money eliminates the ability of money to be a store of value. This removes the ability of money to create: inequality from money making money, the creation of financial asset bubbles, and "financialization" of the economy.

Green money could become a global unit of account whose value is determined by local renewable services of nature. Its development involves:

1. Digitization to allow money to be transacted through cell phones;
2. Introduction of a "rusting", "depreciating" cost carrying feature;
3. Anchoring monetary values in a renewable local service of nature such as renewable energy (KiloWattHours).

Establishing the first two stages is now a matter of urgency to provide local supplementary currencies in the event the financial system freezes up again as did in 2008. Financial stress and/or a major recession could provide a compelling reason for governments to facilitate, if not introduce themselves, a supplementary self-liquidating currency. Yale Professor Irving Fisher (1933) prepared draft legislation in the Appendix of his book on Stamp Scrip written in the Great Depression. Keynes (1936) supported Stamp Scrip in Chapter 23, part VI of his General Theory.

To stimulate the economy the UK government is considering "Quantitative Easing" (printing money) to finance securitized loans to Small and Medium Enterprises (SMEs), which would expose the government to the risk of loan losses. Cost carrying money, which could be given to qualified enterprises, would avoid this risk . The usage fee attached to the money could on average be less than credit card commissions, and be sufficient to redeem the money after a year. In this way cost-carrying money becomes self-liquidating.

Bernanke's Son Will Graduate With $400,000 Of Student Loan Debt

Michael, Editor of The Economic Collapse website
http://theeconomiccollapseblog.com/

Who ever imagined that Ben Bernanke would become a poster child for the student loan debt problem in America? Recently Bernanke told Congress that his son will graduate from medical school with about $400,000 of student loan debt. For most Americans, such a staggering level of debt would almost certainly guarantee a lifetime of debt slavery. Unfortunately, Bernanke's son is not alone. The Federal Reserve Bank of New York has revealed that around 167,000 Americans have more than $200,000 of student loan debt. The cost of a college education has increased much more rapidly than the rate of inflation over the past several decades, and most students enter the "real world" today with a debt burden that will stay with them for the remainder of their working lives. In an economy where there are so few good jobs for college graduates, it can be incredibly difficult to get married, buy a house or afford to have children when you are drowning in student loan debt. It would be hard to overstate the financial pain that student loans are causing many young adults in America today. The student loan debt problem is a national crisis and it is not going away any time soon.

The Federal Reserve Bank of New York says that the total amount of student loan debt in America now exceeds the total of all credit card debt in the country. It also exceeds the total of all auto loans. The New York Fed also says that there is a total of $870 billion owed on student loans in the United States right now. Other sources claim that the total amount of student loan debt in the United States will soon exceed one trillion dollars. Either way, we are talking about an extraordinary amount of money.

Sadly, approximately two-thirds of all U.S. college students graduate with student loan debt these days, the average at graduation being approximately $25,000. That might not be so bad if the economy was full of good paying jobs for college graduates, but that simply is not the case. As college attendance continues to soar, the student loan debt problem continues to get worse. U.S. college students are borrowing about twice as much money as they did a decade ago after adjusting for inflation. The system is failing our young people.

Many young college graduates have found themselves unable to make their payments or have simply decided to quit making payments. Officially, the student loan default rate has nearly doubled since 2005. And a report from the Federal Reserve Bank of New York says that approximately one out of every four student loan balances are past-due at this point.

But it isn't just young people getting into trouble with student loan debt. These days, financial institutions are increasingly targeting parents. Federal student loans often do not cover all of the expenses of college in this day and age, and so increasingly loans are being made to parents to make up the difference. Student loans made to directly to parents have increased by 75 percent since the 2005-2006 academic year.

Unfortunately, what students and parents are getting in return for all of this money is not that great. I spent eight years of my life studying at U.S. colleges and universities. The institutions that I attended were supposed to be better than most. But most of the classes that I took were a total joke. A 6-year-old child could have passed most of them. Almost everyone agrees that the quality of college education in America is in a serious state of decline. The goal is to get these kids through the system and to keep collecting the big tuition checks. If only more parents realized what was really going on.

Young people in America are under intense financial pressure right now. Many are unable to make it at all and have moved back in with Mom and Dad.

As I wrote about recently, approximately 25 million American adults are living with their parents at this point. The system of higher education in the U.S. is badly broken and desperately needs to be fixed.

The economic heresy of Herman Daly

Lissa Harris

If economics is a religion, the World Bank is perhaps its grandest church. For the last half century, the venerable institution in Washington D.C. has been dispatching its missionaries around the globe, spreading the theology of the free market to the heathens.

And if economics is a religion, Herman Daly is its arch-heretic, a member of the high priesthood turned renegade. From 1988 to 1994, Daly was the World Bank's senior environmental economist, a voice of dissent in an organization which frowns on unbelievers. During his six-year tenure, Daly, the economist-turned-ecovisionary whose works established ecological economics as a discipline, succeeded in getting the WB to take notice of the environment in its policies and programs. But he made little headway persuading his colleagues to adopt his more radical views on economic cosmology, which - in his vision - placed the economy within the global ecosystem, instead of vice versa.

At last, frustrated with the institution's unwieldy bureaucracy and antiquated policies, he resigned. In his farewell speech to his World Bank colleagues, he advised that they take “a few antacids and laxatives to cure the combination of managerial flatulence and organizational constipation” and prescribed for good measure, “new glasses and a hearing aid” to aid the WB in dealing with the outside world.

It was Daly's parting shot not only at the World Bank, but at the entire edifice of neoclassical economics. First a believer, then a reformer, he is now content to remain outside the fold as a professor at the University of Maryland, working not in its economics department but in its school of public policy. “That's not accidental,” he says. “They [the economists] would not have me, and I would not go.”

Speaking with me on the telephone from his home in Hyattsville, Md., Daly seems an unlikely rebel. He is affable and soft-spoken — but unswerving in his conviction that it is high time for a new world order. “Rather than redemption of the WB, I think it's probably time to have a model of death and resurrection,” he says. “Kill them off and start over again with something new.”

Source: Extracted from Independent Green News
<http://grist.org/business-technology/bank/>

"A new scientific truth does not triumph by convincing its opponents and making them see the light, but rather because its opponents die and a new generation grows up that is familiar with it" Max Planck