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For a just and sustainable society

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IN THIS ISSUE page

Editorial comment: Recent election results in Europe suggest that the EU might be forced to change its economic goals from “austerity, austerity, austerity” and start examining how to provide a just and sustainable society. We expect comments and articles on this theme to appear in the media during the forthcoming month, and will address it in the next issue.

Disclaimer: The views expressed in these articles are the sole responsibility of their authors and do not necessarily reflect those of Economic Reform Australia.

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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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ERA Website: www.era.org.au
Email Network Editor: Dr John Hermann hermann@picknowl.com.au
National Treasurer & Membership Officer: Victoria Powell veepee@lm.net.au
Postal address: P.O. Box 505, Modbury, SA 5092, Australia

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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. Relevant information is located on page 2.

Is Steady-State Capitalism an oxymoron? (part 1)

Richard Corin

The question about the viability of a "steady-state capitalism" is critically important to understand thoroughly before we attempt to transform our current economic systems and institutions. These institutions and the defining assumptions which produced the current arrangements evolved in a world full of resources and relatively empty of people. However, it has become clear that we now need an economic system that optimises the well-being of a world full of people, facing depleted natural resources and struggling life-support systems. If the essence of capitalism is growth, then we do need a whole new 'ism'. But if growth is merely an optional extra, capitalism may only require major surgery.

The End of Physical Growth

Contemporary economic theories and practices are still based on ancient attitudes of plunder. I once described the problem as follows...

> *The rich can no longer assume that the Earth's resources belong to whoever can exploit, consume and convert them into waste faster than anybody else. This is a frenzy of destruction fuelled by competitive greed to grab as much as possible before someone else gets it and before it's all gone. It is a madness which has to end and be replaced by an ethic that recognises an equal right to access the free gifts of nature, so that resources can be respected, conserved and recycled justly and sustainably. If our institutions fail to evolve to meet this requirement, civilisation and its large populations have no future.*

One of the necessary changes is the recognition of natural limits and the creation of economic institutions which ensure the sustainable management of natural assets. The human economy's throughput of natural resources and waste will have to be controlled according to what are sustainable yields for the ecosystems we exploit. It is our consumption of the Earth which has to stop growing and *reverse* in order to preserve the source of everything except solar radiation and cold darkness. There is no sustainable yield for *non-renewable* resources, so the overriding goal should be to ensure that the materials or benefits are not lost from economic recovery. Rather than setting arbitrary limits on the rate of exploiting finite resources, royalties for non-renewable materials should be high enough to maximise recovery from the waste stream. Resource royalties should be continuously adjusted to ensure materials are recaptured and reused before we eat into natural reserves. Long term management will mean resource scarcity in the short term. As a side effect, high resource prices will automatically encourage substitution with renewable alternatives, wherever they are available.

I believe there is enormous scope for recycling the waste materials back into economic inputs, eliminating pollution and reducing our dependence on finite resources. Such resource sustainability is unavoidably energy intensive, so a plentiful supply of renewable energy is fundamental. However, once the economic infrastructure and incentives are installed, accumulated innovations will continuously improve resource efficiency, “de-grow” the material throughput of developed economies, restore ecological health and create ecological “space” for the economic growth of poorer communities. If we are to create a decent quality of life for 9 billion people within 40 years and a steady-state global economy after that, this is the challenge before us. As a first step, the *growth imperative* of the old developed countries has to be identified and remedied to avert chronic depression and a risk of being dragged into global “involuntary population reduction”.

A Common Defining Characteristic for Capitalism?

Philip Lawn’s definition of capitalism (P.A. Lawn, "Is steady-state capitalism viable?", *Annals of the New York Academy of Sciences*, 1219, pp1-25) says:

> “ an economic system, where a large proportion of the human-made capital within it is privately owned…”

He does not mention *natural capital* in his definition, but he subsequently talks about natural resources entering the economy through *cap-auction-trade* mechanisms where sustainably regulated quantities are periodically sold by the public sector. To me, this implies that a steady state economy requires natural capital to be subject to a degree of collective management and control which overrides traditional concepts of private ownership.

Far from an externality, Nature is a major source of wealth. Workers are usually paid for their labour, but Nature’s payment tends to be privatised. Competition may avoid monopoly profits and distribute value to contemporary customers, but nature’s wealth belongs to all and undervalued resources are soon depleted.

I am relieved and encouraged if we agree that *the free gifts of nature belong to no person more than another* – that natural resources should remain collective property, managed by specialists in their particular resources, empowered, entrusted and obliged to serve the common good of current and future generations. When these free gifts of nature do enter the human economy, either as commodity inputs, such as minerals, water or timber, or as natural capital, such as land or managed ecosystems, then, it follows that the *scarcity value* of those collective resources also belongs to everyone. In my view, the revenue from auctioning the year’s sustainable yield, plus the royalties from extraction of non-renewable resources, and from leasing land, should not replace taxation, but be distributed to every living person as a dividend or tax credit before applying a fair taxation regime.

Herman Royce (previous issue of this publication) is silent about property and ownership in his paper, but he makes it clear that the reasons "capitalist economies are *compelled* to grow", "all … revolve around the nature of profit." Phil Lawn agrees that profit is important for capitalism: "…*far from eliminating profits, steady-state capitalism is a pathway to sustained, healthy profits*". I think we can agree that a capitalism without profit would not be capitalism at all. I hope to examine the nature of "profit" in part 2.

What Compels the Economy to Grow?

What lies at the heart of the *growth imperative*? Can an economy with a profit motive survive indefinitely without growth? Is the *growth imperative* merely a temporary artefact of an inessential subsystem that came along for the ride when capitalism started out?

Herman Royce tells us (and I paraphrase) that the growth imperative is an unavoidable consequence of the quest for profits (and interest) and that profits will continue to increase, even as everything else declines in a non-growing capitalist economy. Phil Lawn says the necessity for growth arises from -

> *" the institutional framework that shapes and connects labour markets with product markets and because currency-issuing central governments fail to act as an employer-of–last-resort "*

At first, that sounded like, "I don't really know, but here's a nifty scheme to deal with unemployment". But this ecological economist usually knows what he's talking about, so I kept reading for several days, hoping to find an exposé of the growth demon. I enjoyed reading some excellent work, but never found an explanation of the growth imperative.

Perhaps I'm being obtuse. Perhaps "institutional framework" is widely understood to mean the structure of the banking, finance and money creation organs of this specific version of capitalism. I confess that is where I believe we will find the internal relationships which define an embedded Ponzi scheme that compels our economies to grow in order to stave off collapse.

Growth -> Loans -> Money -> Activity -> Employment

An economy needs a circulating pool of "liquidity" (money & near money) large enough to facilitate and maintain the ordinary transactions of economic activity. It is a balancing act to maintain an appropriate amount of liquidity circulating in the productive economy. Too much money in circulation is inflationary and too little stops people paying each other to produce. Something like 97% of the money supply is actually bank-credit money, much of which is constantly disappearing from circulation on a monthly repayment schedule. As bank loan principals are paid down, this credit money is destroyed. (I am informed that a tiny fraction of interest payments also vanish from circulation to become excess reserves.)

The big picture, cartoon image of the problem looks something like the following. The community's circulating money gets soaked up, hoarded or otherwise removed from circulation, so a continuous stream of new loans is essential to provide new debt-money at a rate fast enough to more than counterbalance the rate at which the community's economic life-blood expires from circulation. Confidence about future growth justifies issuing and borrowing enough credit-money to continue with today's economic activities. Almost all of the liquidity which the economy needs to function is derived from this growth engine, so, when growth slows, the money supply begins to evaporate, taking spending and employment with it. It is a rather ill-conceived design. The stability of the money supply should not depend on growth. At zero growth, for example, the money supply should remain steady. Fix this flaw and the growth dragon will be tamed.

Money (measured as the aggregate M1) is withdrawn from circulation in the productive economy whenever:-

- loan repayments pay down the principal of past loans;
- total savings deposits increase;
- currency-issuing-sovereign-governments spend less than their revenues.

While the circulating pool of M1 money increases whenever:-

- new retail loans are issued by banks;
- existing savings are spent into the economy;
- currency-issuing-sovereign-governments net-spend (a.k.a. "print money").

For the sake of clarity, this description leaves out international trade balance and the "casino economy" of high finance, derivatives and debt-driven asset bubbles. It also ignores delayed circulation, such as when money temporarily rests in piggy banks, kitties and shoe boxes, as well as equivalent delays in the banking system.

It is important to note that past loans are repaid on inflexible schedules, so future trends for loan repayments are largely determined by past trends of lending. In a situation where the overwhelming component of the money supply is debt-money carrying an expiry date for destruction (a repayment schedule) then a previously expanding rate of credit creation pre-commits the economy to a rising rate of repayments. If the volume of credit creation reverses or fails to increase for any reason, there will be an inevitable collapse in the money supply. A failure to dynamically balance such disturbances results in a financial crisis.

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[Steve Keen talks about a "Credit Accelerator" when discussing the rate of change in debt. See www.debtdeflation.com/blogs/2012/01/28/economics-in-the-age-of-deleveraging/]

The grip of the growth imperative ought to diminish as the proportion of private bank-credit money is replaced by debt-free public money. If only half the money supply was credit-money, for example, then the overall rate of money destruction would be halved and the rate of issuing new loans to maintain the existing pool of circulation could also be halved. Naturally, banks would vehemently oppose this.

The above description is compatible with Herman Royce's explanations, provided you assume that profit (and interest) payments remove money from circulation. But that is rarely the case. Profits and interest payments always return into circulation somewhere – *except for that portion which ends up as increased "savings"*. This is also true for wages, so, "distributional issues" aside, there is nothing unsustainable about interest or profits which are eventually spent back to circulation. A fluctuating level of savings is sustainable - but a continuous accumulation of savings is not sustainable without continuous growth, which is, of course, impossible in the long run. Basic physics suggests that the end of growth is likely to coincide with a failure to increase the energy supply or its productivity.

I found Royce's identification of profit with the growth imperative unconvincing because he does not seem to understand circulation. I would be much more agreeable if he had argued that profit (and interest) tended to magnify inequality, and that any unbalanced tendency towards inequality was incompatible with a steady-state economy. I agree with Phil Lawn when he observes that a steady-state economy must somehow mitigate any on-going concentration of wealth and, I would add, power. I am not sure, however, whether his conclusion is based on purely economic or social reasoning. Perhaps a growing disparity produces spiralling savings amounting to claims on real wealth which can never be realised.

Suffice to say, that, in a steady-state economy, savings would not be able to increase indefinitely, and fluctuations in the levels of liquidity in circulation must be rapidly counter-balanced. Changes to government spending and taxes work much faster to adjust the money supply than tweaking interest rates. I mention such matters to make the point that a steady-state economy does not mean *stasis*. It is still a dynamic chaotic system which requires macro-management and perpetual "balancing".

In my view, the growth imperative is not a necessary consequence of private profits generated in a productive economy, but an artefact of the design of the non-productive, parasitic sector we call banking and finance. A well-designed money system is a pre-requisite for a steady-state economy. One candidate is a full reserve banking system like William Hummel's National Depository scheme. Otherwise, zero interest rates may not be low enough to stimulate a sufficient flow of new credit-money to maintain circulation, employment and social stability.

Richard Corin is an ERA member living in SA.

The European Stabilization Mechanism
Or How the Goldman Vampire Squid Just Captured Europe
Ellen Brown

In September 2008, Henry Paulson, former CEO of Goldman Sachs, managed to extort a $700 billion bank bailout from Congress. But to pull it off, he had to fall on his knees and threaten the collapse of the global financial system and the imposition of martial law; and the bailout was a one-time affair. Paulson's plea for a permanent bailout fund - the Troubled Asset Relief Program (TARP) - was opposed by Congress and ultimately rejected.

By December 2011, European Central Bank president Mario Draghi, former vice president of Goldman Sachs Europe, was able to approve a 500 billion euro bailout for European banks without asking anyone's permission. And in January 2012, a permanent rescue funding program called the European Stability Mechanism (ESM) was passed in the dead of night with barely even a mention in the press. The ESM imposes an open-ended debt on EU member governments, putting taxpayers on the hook for whatever the ESM's Eurocrat overseers demand.

The bankers' coup has triumphed in Europe seemingly without a fight. The ESM is cheered by eurozone governments, their creditors, and "the market" alike, because it means investors will keep buying sovereign debt. All is sacrificed to the demands of the creditors, because where else can the money be had to float the crippling debts of the eurozone governments?

There is another alternative to debt slavery to the banks. But first, a closer look at the nefarious underbelly of the ESM and Goldman's silent takeover of the ECB . . . .

The Dark Side of the ESM

The ESM is a permanent rescue facility slated to replace the temporary European Financial Stability Facility and European Financial Stabilization Mechanism as soon as Member States representing 90% of the capital commitments have ratified it, something that is expected to happen in July 2012. A December 2011 youtube video titled "The shocking truth of the pending EU collapse!", originally posted in German, gives such a revealing look at the ESM that it is worth quoting here at length. It states:

The EU is planning a new treaty called the European Stability Mechanism, or ESM: a treaty of debt. . . . The authorized capital stock shall be 700 billion euros. Question: why 700 billion? [Probable answer: it simply mimicked the $700 billion the U.S. Congress bought into in 2008.] . . . .

[Article 9]: ". . . ESM Members hereby irrevocably and unconditionally undertake to pay on demand any capital call made on them . . . within seven days of receipt of such demand." . . . If the ESM needs money, we have seven days to pay. . . . But what does "irrevocably and unconditionally" mean? What if we have a new parliament, one that does not want to transfer money to the ESM? . . . .

[Article 10]: "The Board of Governors may decide to change the authorized capital and amend Article 8 . . . accordingly." Question: . . . 700 billion is just the beginning? The ESM can stock up the fund as much as it wants to, any time it wants to? And we would then be required under Article 9 to irrevocably and unconditionally pay up?

[Article 27, lines 2-3]: "The ESM, its property, funding, and assets . . . shall enjoy immunity from every form of judicial process . . . ." Question: So the ESM program can sue us, but we can't challenge it in court?

[Article 27, line 4]: "The property, funding and assets of the ESM shall . . . be immune from search, requisition, confiscation, expropriation, or any other form of seizure, taking or foreclosure by executive, judicial, administrative or legislative action." Question: . . . [T]his means that neither our governments, nor our legislatures, nor any of our democratic laws have any effect on the ESM organization? That's a pretty powerful treaty!

[Article 30]: "Governors, alternate Governors, Directors, alternate Directors, the Managing Director and staff members shall be immune from legal process with respect to acts performed by them . . . and shall enjoy inviolability in respect of their official papers and documents." Question: So anyone involved in the ESM is off the hook? They can't be held accountable for anything? . . . The treaty establishes a new intergovernmental organization to which we are required to transfer unlimited assets within seven days if it so requests, an organization that can sue us but is immune from all forms of prosecution and whose managers enjoy the same immunity. There are no independent reviewers and no existing laws apply? Governments cannot take action against it? Europe's national budgets in the hands of one single unelected intergovernmental organization? Is that the future of Europe? Is that the new EU – a Europe devoid of sovereign democracies?

The Goldman Squid Captures the ECB

Last November, without fanfare and barely noticed in the press, former Goldman exec Mario Draghi replaced Jean-Claude Trichet as head of the ECB. Draghi wasted no time doing for the banks what the ECB has refused to do for its member governments - lavish money on them at very cheap rates. French blogger Simon Thorpe reports:

> On the 21st of December, the ECB "lent" 489 billion euros to European Banks at the extremely generous rate of just 1% over 3

> years. I say “lent”, but in reality, they just ran the printing presses. The ECB doesn’t have the money to lend. It’s Quantitative Easing again.

The money was gobbled up virtually instantaneously by a total of 523 banks. It’s complete madness. The ECB hopes that the banks will do something useful with it – like lending the money to the Greeks, who are currently paying 18% to the bond markets to get money. But there are absolutely no strings attached. If the banks decide to pay bonuses with the money, that’s fine. Or they might just shift all the money to tax havens.

At 18% interest, debt doubles in just four years. It is this onerous interest burden, not the debt itself, that is crippling Greece and other debtor nations. Thorpe proposes the obvious solution:

> Why not lend the money to the Greek government directly? Or to the Portuguese government, currently having to borrow money at 11.9%? Or the Hungarian government, currently paying 8.53%. Or the Irish government, currently paying 8.51%? Or the Italian government, who are having to pay 7.06%?

The stock objection to that alternative is that Article 123 of the Lisbon Treaty prevents the ECB from lending to governments. But Thorpe reasons:

> My understanding is that Article 123 is there to prevent elected governments from abusing Central Banks by ordering them to print money to finance excessive spending. That, we are told, is why the ECB has to be independent from governments. OK. But what we have now is a million times worse. The ECB is now completely in the hands of the banking sector. “We want half a billion of really cheap money!!” they say. OK, no problem. Mario is here to fix that. And no need to consult anyone.

At least if the ECB was working under the supervision of elected governments, we would have some influence when we elect those governments. But the bunch that now has their grubby hands on the instruments of power are now totally out of control.

Goldman Sachs and the financial technocrats have taken over the European ship. Democracy has gone out the window, all in the name of keeping the central bank independent from the “abuses” of government. Yet *the government is the people*—or it should be. A democratically elected government represents the people. Europeans are being hoodwinked into relinquishing their cherished democracy to a rogue band of financial pirates, and the rest of the world is not far behind.

Rather than ratifying the draconian ESM treaty, Europeans would be better advised to reverse article 123 of the Lisbon treaty. Then the ECB could issue credit directly to its member governments. Alternatively, eurozone governments could re-establish their economic sovereignty by reviving their publicly-owned central banks and using them to issue the credit of the nation for the benefit of the nation, effectively interest-free. This is not a new idea but has been used historically to very good effect, e.g. in Australia through the Commonwealth Bank of Australia and in Canada through the Bank of Canada.

Today the issuance of money and credit has become the private right of vampire renters, who are using it to squeeze the lifeblood out of economies. This right needs to be returned to sovereign governments. Credit should be a public utility, dispensed and managed for the benefit of the people.

Ellen Brown developed her research skills as an attorney practising civil litigation in Los Angeles. In Web of Debt, her latest book, she turns those skills to an analysis of the Federal Reserve and "the money trust." She shows how this private cartel has usurped the power to create money.

Bad Theory, Bad Practice: Bad Ethics

Geoff Davies

The following item is the preamble to an excellent paper presented by Dr Geoff Davies to the 2012 World Economics Association Ethics Conference. The entire paper is too long to be presented here, however the web link is:
http://weaethicsconference.files.wordpress.com/2012/03/davies_badethics.pdf

A profession that claims to understand economies, and that has gained power over the greater part of our societies, has big responsibilities. The fundamental responsibility is to ensure its perception of economies gives some useful guidance to the behaviour of real economies. Here mainstream economics fails utterly, and has been failing for a long time. Worse, it actively resists alternative views that might overcome its failings. Ethics do not come much worse than that. The failings of mainstream economics are multiple. Its central theory, the neoclassical theory, is based on absurd assumptions and its central prediction of equilibrium is plainly contradicted by real economies. It counts the wrong things in the wrong way, using Gross Domestic Product quite inappropriately to measure well being. It is blind to the dominant roles of money and debt in the dynamics of economies. The banking and monetary systems it presides over are highly destabilising.

The financial markets venerated by mainstream economics are also destabilising, and have become parasitic. It assumes a base parody of human beings and undermines social relationships and the health of society. It has become fixated on an impossible goal - eternal growth of GDP - that is rapidly degrading the planet and will soon bring about the collapse of global industrial society. The term "mainstream economics", as I use it here, thus refers to more than the neoclassical stream of economic theory. It refers also to those who preside over finance, banking, public policy and public accounting and drawing on an array of ancient arcane practices, rules of thumb, habits, ideology and untested beliefs, with some presumably sensible methods and ideas mixed in. It includes academics and managers in the public and private sector. It does not include a diverse array of alternative views and people that is sometimes called "heterodox economics". Since about 1980 this form of economics, also known as free-market economics or market fundamentalism, has been imposed on much of the world. I will refer to this period as the neoliberal era.

Contact: Geoffrey F. Davies, Research School of Earth Sciences, Australian National University, Canberra, Australia 0200 (retired Senior Fellow, now Visiting Fellow).
email: geoffd@netspeed.com.au website: http://betternature.wordpress.com/.

Systemic Barter as an alternative to Money

Alan Ecob

1).Full-product Barter

This means the free exchange of usable goods and services by consenting persons as an alternative to money-based buying and selling. Such activity is ferociously suppressed by the ATO as "defrauding the revenue." All the ATO allows as so-called 'barter' is the partial offsetting of overhead margins in such manner that enterprise profitability is not thereby reduced.

2).Examples of Genuine Barter

When I was a boy living in the weekender village of Kurnell (the Birthplace of Australia) seven miles south of Sydney, twelve men, assisted by their families, working only at weekends through one year, built twelve first-class cottages for negligible money. The work atmosphere was fantastic. I'll never forget it. It was a privilege to be allowed to participate.

If they had been 'dobbed in' to the ATO, I was later told (by a no-name Inspector's voice on the phone) they would have been pursued "to the ends of the earth" to extract money from them equal to the market value of the cottages, plus penalties and fines "they just wouldn't believe."

I made the telephone call because during my working career with joinery shops and manufacturing plants, I had become aware of how common it had been for groups of employees (with management approval) to build furniture and even pre-fab housing components 'of a weekend' for personal use. In some cases costs of materials were deducted from holiday-pay entitlements. On one occasion I was so working in the furniture factory of a supplier when I was approached by two employees who had been so working nearby. "Need a hand?" I was asked. I knew what they were really asking. Was I a dinki-di tradesman? "No thanks, not really." I didn't take them long to establish that I complied. Today, with the general adoption of computers, such activity has been rigorously stamped out.

3).The Real Nature of our Money System

May I compound the iniquity of my earlier comment by listing out what I see as ERA reader accepted perceptions as to our now-global money system:
a). 'Money', actually credit simply created by increase in book debt, contributes nothing directly to the production of the real product we all need for

consumption and the building of the infrastructure required for a better world.

b). Through inflation and compound interest, the system secures for itself an ever-increasing share of world economic activity, and pays grossly excessive personal incomes to its 'big hitter' executives.

c). It buys success for political parties who then legislate to further its objectives.

d). Through ownership and advertising it causes media such as newspapers and TV to influence our social perceptions and attitudes in ways it finds to be favourable.

Yet, I suggest, there is more! If by means of consolidated accounts we look at our world as one whole, from the perspective of all humankind as being its ultimate equity interest, then many may be surprised to find that:

a). The system is privately owned! The structure is complex, and some components are established within governmental authority. But strategic elements, giving effective control, are privately owned. Perhaps 100 persons are the ultimate exercisers/owners of this control. Their interests are not quoted in the market-place. But none, we may be sure, would consider selling for less than a trillion dollars. What, anyway, would one do with the money?

b). The system's 'products' – of moneys – cost it nothing! The values which moneys represent are, in the last analysis, nothing other than expressions of community confidence that real value will be conveyed in the future.

Such is the real nature of our money system. Through it, perhaps 100 persons, as unelected trillionaires, control the general direction of human endeavour. Peace or war, boom or bust, the future of the natural world, are all determined by their private preferences and proclivities.

4). What may be Changed?

Clearly, we must accept that the system has become entrenched. It may be not-unreasonably described as a cancer on the body social. From any orthodox direction, it would seem to be ineradicable. With some banks now accepted as being too big to be allowed to fail, there is no prospect whatsoever that the whole game may be directly challenged. The only hope is what may result because the 100 persons are also human beings. The message here presented is that the future of humankind is in their hands. And if they want it to be one of peace, hope, joy, and progress towards an ideal world, then socially-fostered computer-based systemic barter is the way to go. If this is of interest, then as an old-fashioned cost & management accountant, I can say more in detail.

Alan Ecob is a long-standing ERA member living in NSW

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Heterodoxy is important for scientific advance because new ideas and discoveries have to emerge initially as heterodox views, at variance with established understanding. One need reflect only on the history of the scientific contributions of say, Galileo or Newton or Darwin, to see the role of heterodoxy in the process. - Amartya Sen

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Paul Krugman doesn’t understand modern banking

John Hermann

The influential U.S. economist and Nobel Laureate Prof Paul Krugman may think that he understands modern banking, however his comments in two very recent articles – in response to Prof Steve Keen’s criticism of him – reveals that he does not.

For example Paul writes: " If I decide to cut back on my spending and stash the funds in a bank, which lends them out to someone else, this doesn’t have to represent a net increase in demand. "

The simple fact is that none of a bank’s retail deposits are ever loaned out, nor are the associated reserves ever loaned out to retail customers. Banks create new credit money when they advance retail loans. It amazes me that Paul does not understand this fundamental aspect of banking.

References:
http://krugman.blogs.nytimes.com/2012/03/27/minksy-and-methodology-wonkish/
http://krugman.blogs.nytimes.com/2012/03/27/banking-mysticism/

For those who wish to follow details, Steve's criticisms of Paul's understanding of financial economics and financial mechanics are accessible on his website:

"Capital Account Interview on the Keen-Krugman Brawl" (April 9)
http://www.youtube.com/watch?feature=player_embedded&v=iWEq27Ai6ZU
"Marking Krugman" (April 4)
"Minskyian perspective on instability in financial markets" (April 16)
http://www.debtdeflation.com/blogs/page/2/
"Oh My, Paul Krugman" (April 3)
"Blog observations on Krugman" (April 2)
"Ptolemaic Economics in the Age of Einstein" (April 2)
"Krugman on (and maybe off) Keen" (March 29)
http://www.debtdeflation.com/blogs/page/3/
"A Primer on Minsky" (March 21)
http://www.debtdeflation.com/blogs/page/3/

Paul Krugman and other neoclassical economists conceive of banking as an activity in which banks borrow money and then relend that money. Is it any wonder then that they have concluded that banking activity has little or no impact upon demand. I suspect that Krugman and the others have noticed that banks (depositories) both borrow from the commercial markets and make loans to other banks, and have concluded from this that borrowing and relending also occurs in regard to the banks' retail customers. However this is faulty reasoning and such an inference is completely wrong.

If one wishes to understand modern (fractional reserve) banking, it is essential to recognise that no new retail deposits are created as a result of bank borrowing. Moreover retail deposits (which accommodate most of the money supply) are a quite different type of liability to a borrowing. Whenever any form of payment is made to a commercial bank, for any reason whatsoever, any bank credit money associated with that payment is simply removed from the money supply. Only the reserves, which tag along in principle after every deposit, are retained intact. Commercial banks, as the creators and destroyers of bank credit money, have no interest in borrowing the stuff. The form of money that banks use in all of their transactions within both the financial system and with government are the reserves (the creditary form of which is known as exchange settlement funds). Bank interest income takes the form of excess reserves, and is recorded in each bank's operating account (which also lies outside the money supply).

Interview with Paul Moore on what bank CEOs actually understand

Source: Positive Money (UK)

Paul Moore is the man who warned Halifax Bank Of Scotland they were about to go under back in 2005. Naturally the board of HBOS ignored him. The 20 minute interview with Paul Moore (link below) reveals just how the banks operate and why leaving them with the power to create money can be disastrous. He answers some crucial questions like "Do the guys at the top of the banks understand that bank lending creates new money?, "Do they consider the impact they have on the economy?"

Video-Link: http://www.youtube.com/watch?v=Sn_tP87QDnU&list=UU82By0y-2ZdjigNu5bWY4LQ&index=1&feature=plpp_video

Moving from a Failed Growth Economy to Steady-State Economy

Herman Daly

"Scientific and philosophical systems come and go. And each method of limited understanding is at length exhausted. In its prime each system is a triumphant success; in its decay it is an obstructive nuisance." --A. N. Whitehead [1]

A steady-state economy is incompatible with continuous growth - either positive or negative growth. The goal of a steady state is to sustain a constant, sufficient stock of real wealth and people for a long time. A downward spiral of negative growth, a depression, is a failed growth economy, not a steady-state economy. Halting downward spiral is necessary, but is not the same thing as resuming continuous positive growth. The growth economy now fails in two ways: (1) positive growth becomes uneconomic in our full-world economy; (2) negative growth, resulting from the bursting of financial bubbles inflated beyond physical limits, though temporarily necessary, soon

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[1] The epigraph from Whitehead is respectfully repeated from K. William Kapp's prescient book of 1948, *The Social Costs of Private Enterprise*. That the same quotation (as well as Kapp's arguments) should be as relevant in 2012 as it was in 1948, is a sad reflection on economists' predilection for the role of obstructive nuisance.

becomes self-destructive. That leaves a non-growing or steady-state economy as the only long run alternative. The level of physical wealth that the biosphere can sustain in a steady state is almost certainly below the present level. The fact that recent efforts at growth have resulted mainly in bubbles is evidence that this is so. Nevertheless, current policies all aim for the full re-establishment of the growth economy. No one denies that our problems would be easier to solve if we were richer. That rich is better than poor is a definitional truism. The question is, does growth any longer make us richer, or is it now making us poorer?

I will spend a few more minutes cursing the darkness of growth, but will then try to light ten little candles along the path to a steady state. Some advise me to forget the darkness and focus on the policy candles. But I find that without a dark background the light of my little candles is not visible in the false dawn projected by the economists, whose campaigning optimism never gives hope a chance to shine.

We have many problems (poverty, unemployment, environmental destruction, budget deficit, trade deficit, bailouts, bankruptcy, foreclosures, etc.), but apparently only one solution: economic growth, or as the pundits now like to say, "to grow the economy"-- as if it were a potted plant.

But let us stop right there and ask two questions that all students should put to their economics professors.

First, there is a deep theorem in mathematics that says when something grows it gets bigger! So, when the economy grows it too gets bigger. How big can the economy be, Professor? How big is it now? How big should it be? Have economists ever considered these questions? And most pointedly, what makes them think that growth (i.e., physical expansion of the economic subsystem into the finite containing biosphere), is not already increasing environmental and social costs faster than production benefits, thereby becoming <u>uneconomic growth</u>, making us poorer, not richer? After all, real GDP, the measure of "economic" growth so-called, does not separate costs from benefits, but conflates them as "economic" activity. How would we know when growth became uneconomic? Remedial and defensive activity becomes ever greater as we grow from an "empty-world" to a "full-world", (a world full of us and our stuff) characterized by congestion, interference, displacement, depletion and pollution. The defensive expenditures induced by these negatives are all <u>added</u> to GDP, not subtracted. Be prepared, students, for some hand waving, throat clearing, and subject changing. But don't be bluffed.

We must recognize that many developing countries are still in the phase of truly economic growth—their marginal benefits of growth are still greater than their marginal costs. Yet the world as a whole is "full". Therefore the duty of limiting growth, and the policies discussed below, apply first to the richer countries where in fact growth has become uneconomic. The rich must free up ecological space for the poor to grow into, leading to a process of convergence to a common level of resource use that is sufficient for a good (not luxurious) life and sustainable for a long (not infinite) future. Some worry that slowing growth in rich countries will hurt poor countries by reducing their export markets. That just means that developing countries will have to shift from the export-led model back toward the import-substitution model, developing their own internal markets. Nor can rich countries continue to off-shore production and jobs in the face of their own high unemployment rates.

Second question; do you then, Professor, see growth as a continuing process, desirable in itself-- or as a temporary process required to reach a sufficient level of wealth, that would thereafter be maintained more or less in a steady state? At least 99% of modern neoclassical economists hold the growth forever view. We have to go back to John Stuart Mill and the earlier Classical Economists to find serious treatment of the idea of a non-growing economy, the Stationary State. What makes modern economists so sure that the Classical Economists were wrong? Just dropping history of economic thought from the curriculum is not a refutation!

Here are some reasons to think the Classical Economists are right. A long run norm of continuous growth could make sense, only if one of the three following conditions were true:

(a) the economy were not an open subsystem of a finite and non-growing biophysical system,

(b) the economy were growing in a non physical dimension, or

(c) the laws of thermodynamics did not hold.

Let us consider each of these three logical alternatives. (If you can think of a fourth one let me know)

(a) Some economists in fact think of nature as the set of extractive subsectors of the economy (forests, fisheries, mines, wells, pastures, and even agriculture….). The economy, not the ecosystem or biosphere, is seen as the whole; nature is a collection of parts. If the economy is the whole then it is not a part of any larger thing or system that might restrain its expansion. If some extractive natural subsector gets scarce we will just substitute other sectors for it and growth of the whole economy will continue, not into any restraining biospheric envelope, but into sidereal space presumably full of resource-bearing asteroids and friendly highly-evolved aliens eager to teach us how to grow forever into their territory. Sources and sinks are considered infinite.

(b) Some economists say that what is growing in economic growth is value, and value is not reducible to physical units. The latter is true of course, but that does not mean that value is independent of physics! After all, value is price times quantity, and quantity is always basically physical. Even services are always the service of some<u>thing</u> or some<u>body</u> for some time period, and people who render services have to eat. The unit of measure of GDP is not dollars, but dollar's worth. A dollar's worth of gasoline is a physical amount, currently about a fourth of a gallon. The aggregation of the dollar's worth amounts of many different physical commodities (GDP) does not abolish the physicality of the measure even though the aggregate can no longer be expressed in physical units. True, ($/q) x q = $. But the fact that q cancels out mathematically does not mean that the aggregate measure, "dollars' worth", is just a pile of dollars. GDP is a value-weighted index of real quantities. And it doesn't help to speak instead of "value added" (by labor and capital) because we must ask, to what is the value added? And the answer is natural resources, low-entropy matter/energy—not fairy dust or frog's hair! Development (squeezing more welfare from the same throughput of resources) is a good thing. Growth (pushing more resources through a physically larger economy) is the problem. Limiting quantitative growth is the way to force qualitative development as the path of progress.

(c) If resources could be created out of nothing, and wastes could be annihilated into nothing, then we could have an ever-growing resource throughput by which to fuel the continuous growth of the economy. But the first law of thermodynamics says NO. Or if we could just recycle the same matter and energy through the economy faster and faster we could keep growth going. The circular flow diagram of many economics principles texts unfortunately comes very close to affirming this. But the second law of thermodynamics says NO.

So - if we can't grow our way out of all problems, then maybe we should reconsider the logic and virtues of non-growth, the steady-state economy. Why this refusal by neoclassical economists both to face common sense, and to reconsider the ideas of the early Classical Economists?

I think the answer is distressingly simple. Without growth the only way to cure poverty is by sharing. But redistribution is anathema. Without growth to push a hoped for demographic transition, the only way to cure overpopulation is by population control. A second anathema. Without growth the only way to increase funds to invest in environmental repair is by reducing current consumption. Anathema number three. Three anathemas and you are out!

And without growth how will we build up arsenals to protect democracy (and remaining petroleum reserves)? How will we go to Mars and Saturn and "conquer" space? Where can technical progress come from if not from unintended spin-offs from the military and from space research? Gnostic techno-fantasies of colonizing outer space, partially turning off the sun to make more room for greenhouse gasses in the atmosphere, and of abolishing disease and death itself, feed on the perpetual growth myth of no limits. Digital-brained tekkies, who have never heard of the problem of evil, see heaven on earth just around the corner --"let's build a smarter planet", IBM modestly suggests. How about some smarter economists first? Without growth we must face the difficult religious task of finding a different god to worship. The communist growth-god has already failed. Surely the capitalist growth-god will not fail! Let's jump-start the GDP and the Dow-Jones! Let's build another tower of Babel with obfuscating technical terms like sub-prime mortgage, derivative, securitized investment vehicle, collateralized debt obligation, credit default swap, "toxic" assets, etc.

Well, let us <u>not</u> do that. Let us ignore the anathemas and instead think about what policies would be required to move to a steady-state economy. They are a bit radical by present standards, but not insanely unrealistic as are the three alternatives for validating continuous growth, just discussed.

Let us look briefly at ten specific policy proposals for moving from our unsustainable growth economy to a steady-state economy. A steady-state economy is one that develops qualitatively (by improvement in science, technology, and ethics) without growing quantitatively in physical dimensions; it lives on a diet--a constant metabolic flow of resources from depletion to pollution (the entropic throughput) maintained at a level that is within the assimilative and regenerative capacities of the ecosystem of which the economy is a subsystem.

The policies recommended are more sensible than the current policies of "growth forever"—especially after growth has become <u>uneconomic</u> in the basic sense of costing more than it is worth at the margin. Ten is an arbitrary number—just a way to get specific. Although, the whole package fits together in the sense that some policies supplement and balance others, most of them could be adopted singly and gradually.

1. Cap-auction-trade systems for basic resources.

Caps limit biophysical scale by quotas on depletion or pollution, whichever is more limiting. Auctioning the quotas captures scarcity rents for equitable redistribution. Trade allows efficient allocation to highest uses. This policy has the advantage of transparency. There is a limit to the amount and rate of depletion and pollution that the economy can be allowed to impose on the ecosystem. Caps are quotas, limits to the throughput of basic resources, especially fossil fuels. The quota usually should be applied at the input end because depletion is more spatially concentrated than pollution and hence easier to monitor. Also the higher price of basic resources will induce their more economical use at each upstream stage of production, as well as at the final stage of consumption. It may be that the effective limit in use of a resource comes from the pollution it causes rather than from depletion—no matter, we indirectly limit pollution by restricting depletion of the resource that ultimately is converted into wastes. Limiting barrels, tons, and cubic feet of carbon fuels extracted per time period will limit tons of CO_2 emitted per time period. Only very toxic or spatially concentrated wastes require separate (and geographically specific) pollution quotas.

This scale limit serves the goal of biophysical sustainability. Ownership of the quotas is initially public—the government auctions them to the individuals and firms. The revenues go to the treasury and are used to replace regressive taxes, such as the payroll tax, and to reduce income tax on the lowest incomes. Once purchased at auction the quotas can be freely bought and sold by third parties, just as can the resources whose rate of depletion they limit. The trading allows efficient allocation; the auction serves just distribution, and the cap serves the goal of sustainable scale—three goals, three policy instruments. The same logic can be applied to limiting the off-take from renewable resources, such as fisheries and forests. With renewables the quota should be set to approximate sustainable yield. For non renewables sustainable rates of absorption of resulting pollution, or of the development of renewable substitutes may provide a criterion.

2. Ecological tax reform

Shift the tax base from value added (labor and capital) and on to "that to which value is added", namely the entropic throughput of resources extracted from nature (depletion), and returned to nature (pollution). This internalizes external costs as well as raises revenue more equitably. It prices the scarce but previously un-priced contribution of nature. Value added is something we want to encourage, so stop taxing it. Depletion and pollution are things we want to discourage, so tax them. Ecological tax reform can be an alternative or a supplement to cap-auction-trade systems. Value added is simultaneously created and distributed in the very process of production.

Therefore, economists argue that there is no "pie" to be independently distributed according to ethical principles. As Kenneth Boulding put it, instead of a pie, there are only a lot of little "tarts" consisting of the value added by different people or different countries, and blindly aggregated by statisticians into an abstract "pie" that doesn't really exist as an undivided totality. If one wants to redistribute this imaginary "pie" he should appeal to the generosity of those who baked larger tarts to share with those who baked smaller tarts, not to some invidious notion of equal participation in a fictitious common inheritance.

I have considerable sympathy with this view, as far as it goes. But it leaves out something very important.

In our one-eyed focus on value added we economists have neglected "that to which value is added", namely the flow of resources and services from nature. "Value added" by labor and capital has to be added to something, and the quality and quantity of that something is important. Now there is a real and important sense in which the original contribution of nature is indeed a "pie", a pre-existing, undivided totality that we all share as an inheritance. It is not an aggregation of little tarts that we each baked ourselves. Rather it is the seed, soil, air, sunlight, and rain (not to mention the gene pools and suitable climate) from which the wheat and apples grew that we converted into tarts by our labor and capital. The claim for equal access to nature's gifts is not the invidious coveting of what our neighbor accumulated by her own labor and abstinence. The focus of our demands for income to redistribute to the poor, therefore, should be on the value of the contribution of nature, the original value of that to which further value is added by labor and capital. People generally resent seeing the value they added by their own labor and enterprise taxed away, although they accept it to some degree as necessary. But they do not resent seeing the value freely added by nature taxed away. Rather they resent seeing it accrue as unearned income (scarcity rents) to owners who added no value to what nature provided.

3. Limit the range of inequality in income distribution

A minimum income and a maximum income. Without aggregate growth poverty reduction requires redistribution. Complete equality is unfair; unlimited inequality is unfair. Seek fair limits to the range of inequality. The civil service, the military, and the university manage with a range of inequality of a factor of 15 or 20. Corporate America has a range of 500 or more. Many industrial nations are below 25. Could we not limit the range to, say, 100, and see how it works? This might mean a minimum of 20 thousand dollars and a maximum of two million. Is that not more than enough to compensate real differences? People who have reached the limit could either work for nothing at the margin if they enjoy their work, or devote their extra time to hobbies or public service. The demand left unmet by those at the top will be filled by those who are below the maximum. A sense of community, necessary for democracy, is hard to maintain across the vast income differences current in the US. Rich and poor separated by a factor of 500 become almost different species, having few experiences or interests in common. The main justification for such differences has been that they stimulate growth, which will one day make everyone rich. This may have had superficial plausibility in an empty world, but in our full world it is a fairy tale. I have advocated a maximum income as well as a minimum income for a long time. The maximum part has been very unpopular, but thanks to the banksters and their bonuses it is now becoming more acceptable.

4. Free up the length of the working day, week, and year

Allow greater option for part-time or personal work. Full-time external employment for all is hard to provide without growth. Other industrial countries have much longer vacations and maternity leaves than the US. For the Classical Economists the length of the working day was a key variable by which the worker (self-employed yeoman or artisan) balanced the marginal disutility of labor with the marginal utility of income and of leisure so as to maximize enjoyment of life. Under industrialism the length of the working day became a parameter rather than a variable (and for Karl Marx was the key determinant of the rate of exploitation). We need to make it more of a variable subject to choice by the worker. Milton Friedman wanted "Freedom to

Choose"—OK, here is an important choice most of us are not allowed to make! And we should stop biasing the labor–leisure choice by advertising to stimulate more consumption and more labor to pay for it. At a minimum advertising should no longer be treated as a tax-deductible ordinary expense of production. Is it really a good thing to subsidize the expenditure of billions of dollars to convince people buy things they don't need, with money they don't have, to impress people they don't know?

5. Re-regulate international commerce

Move away from free trade, free capital mobility, and globalization. Cap-auction-trade, ecological tax reform and other national measures that internalize environmental costs will raise prices and put us at a competitive disadvantage in international trade with countries that do not internalize costs. We should adopt compensating tariffs to protect, not inefficient firms, but efficient national policies of cost internalization from standards-lowering competition with foreign firms that are not required to pay the social and environmental costs they inflict. This "new protectionism" is very different from the "old protectionism" that was designed to protect a truly inefficient domestic firm from a more efficient foreign firm. We cannot integrate with the global economy and at the same time have higher wages, environmental standards, and social safety nets than the rest of the world. Trade and capital mobility must be balanced and fair, not deregulated or "free". We should recognize the interdependence of separate national economies, but reject integration into a single global economy. The first rule of efficiency is "count all the costs"—not "free trade", which coupled with free capital mobility leads to a standards-lowering competition to count as few costs as possible. Tariffs are also a good source of public revenue. This will run afoul of the WTO-WB-IMF , so….

6. Downgrade the WTO-WB-IMF

To something like Keynes's original plan for a multilateral payments clearing union, charging penalty rates on surplus as well as deficit balances with the union—seek balance on current account, and thereby avoid large foreign debts and capital account transfers. For example, under Keynes's plan the US would pay a penalty charge to the clearing union for its large deficit with the rest of the world, and China would also pay a similar penalty for its surplus. Both sides of the imbalance would be pressured to balance their current accounts by financial penalties, and if need be by exchange rate adjustments relative to the clearing account unit, called the "bancor" by Keynes. The bancor would also serve as world reserve currency, a privilege that should not be enjoyed by any national currency, including the US dollar. Reserve currency status for the dollar is a benefit to the US—rather like a truck load of free heroin is a benefit to an addict. The bancor would be like gold under the gold standard, only you would not have to dig it out of the ground.

The IMF preaches free trade based on comparative advantage, and has done so for a long time. More recently the WTO-WB-IMF have started preaching the gospel of globalization, which, in addition to free trade, means free capital mobility internationally. The classical comparative advantage argument, however, explicitly assumes international immobility of capital.[2] When confronted with this contradiction the IMF waves its hands, suggests that you might be a xenophobe, and changes the subject. The WTO-WB-IMF contradict themselves in service to the interests of transnational corporations and their policy of off-shoring production and falsely calling it "free trade". International capital mobility, coupled with free trade, allows corporations to escape from national regulation in the public interest, playing one nation off against another. Since there is no global government they are in effect uncontrolled. The nearest thing we have to a global government (WTO-WB-IMF) has shown no interest in regulating transnational capital for the common good.

7. Move away from fractional reserve banking toward a system of 100% reserve requirements

This would put control of the money supply and seigniorage (profit made by the issuer of fiat money) in hands of the government rather than private banks, which would no longer be able to live the alchemist's dream by creating money out of nothing and lending it at interest. All quasi-bank financial institutions should be brought under this rule, regulated as commercial banks subject to 100% reserve requirements. Banks would earn their profit by financial intermediation only, lending savers' money for them (charging a loan rate higher than the rate paid to savings or "time-account" depositors) and charging for checking, safekeeping, and other services. With 100% reserves every dollar loaned to a borrower would be a dollar previously saved by a depositor (and not available to him during the period of the loan), thereby re-establishing the classical balance between abstinence and investment. With credit limited by saving (abstinence from consumption) there will be less lending and borrowing and it will be done more carefully---no more easy credit to finance the massive purchase of "assets" that are nothing but bets on dodgy debts. To make up for the decline in bank-created, interest-bearing money the government can pay some of its expenses by issuing more non interest-bearing fiat money. However, it can only do this up to a strict limit imposed by inflation. If the government issues more money than the public voluntarily wants to hold, the public will trade it for goods, driving the price level up. As soon as the price index begins to rise the government must print less and tax more. Thus a policy of maintaining a constant price index would govern the internal value of the dollar. The external value of the dollar could be left to freely fluctuating exchange rates (or preferably to the rate against the bancor in Keynes's clearing union).

[2] See H. Daly,"The Perils of Free Trade", Scientific American, November, 1993, Vol. 269, No. 5, pp. 50-57.

How would the 100% reserve system serve a steady-state economy? First, as just mentioned it would restrict borrowing for new investment to existing savings, greatly reducing speculative growth ventures—for example the leveraging of stock purchases with huge amounts of borrowed money (created by banks *ex nihilo* rather than saved out of past earnings) would be severely limited. Down payment on houses would be much higher, and consumer credit would be greatly diminished. Credit cards would become debit cards. Growth economists will scream, but a steady-state economy does not aim to grow.

Second, the money supply no longer has to grow in order for people to pay back the principal plus the interest required by the loan responsible for the money's very existence in the first place. The repayment of old loans with interest continually threatens to diminish the money supply unless new loans compensate. With 100% reserves money becomes neutral with respect to growth rather than biasing the system toward growth by requiring more loans just to keep the money supply from shrinking.

Third, the financial sector will no longer be able to capture such a large share of the nation's profits (around 40%!), freeing some smart people for more productive, less parasitic, activity.

Fourth, the money supply would no longer expand during a boom, when banks like to loan lots of money, and contract during a recession, when banks try to collect outstanding debts, thereby reinforcing the cyclical tendency of the economy.

Fifth, with 100% reserves there is no danger of a run on the bank leading to failure, and the FDIC could be abolished, along with its consequent moral hazard. The danger of cascading collapse of the whole credit pyramid due to the failure of one or two "too big to fail" banks would be eliminated. Congress then could not be frightened into giving huge bailouts to some banks to avoid the "contagion" of failure.

Sixth, the explicit policy of a constant price index would reduce fears of inflation and the resultant quest to accumulate more as a protection against inflation.

Seventh, a regime of fluctuating exchange rates (or Keynes' clearing union) automatically balances international trade accounts, eliminating big surpluses and deficits. US consumption growth would be reduced without its deficit; Chinese production growth would be reduced without its surplus. By making balance of payments lending unnecessary fluctuating exchange rates would greatly shrink the role of the IMF and its "conditionalities".

To dismiss such sound policies as "extreme" in the face of the demonstrated fraudulence of our current financial system is quite absurd. The idea is not to nationalize banks, but to nationalize money, which is a natural public utility in the first place. The leading economists of the 1920s (Irving Fisher, Frank Knight) favored 100% reserves, along with Frederick Soddy, Nobel Laureate in chemistry and underground economist. The fact that this idea is hardly discussed today is testimony to the power of vested interests over good ideas.

8. Stop treating the scarce as if it were non-scarce, and the non-scarce as if it were scarce

Enclose the remaining open-access commons of rival natural capital (e.g. atmosphere, electromagnetic spectrum, public lands) in public trusts, and price it by a cap-auction–trade systems, or by taxes --- while freeing from private enclosure and prices the non-rival commonwealth of knowledge and information. Knowledge, unlike the resource throughput, is not divided in the sharing, but multiplied. Once knowledge exists, the opportunity cost of sharing it is zero, and its allocative price should be zero. International development aid should more and more take the form of freely and actively shared knowledge, along with small grants, and less and less the form of large interest-bearing loans. Sharing knowledge costs little, does not create un-repayable debts, and it increases the productivity of the truly rival and scarce factors of production. Of course sharing false knowledge (a non rival "bad") is a danger, amply demonstrated by many growth-based "structural adjustment" programs [3]. Existing real knowledge is the most important input to the production of new knowledge, and keeping it artificially scarce and expensive is perverse. Patent monopolies (aka "intellectual property rights") should be given for fewer "inventions", and for fewer years. Costs of production of new knowledge should, more and more, be publicly financed and then the knowledge freely shared. Knowledge is a cumulative social product and we have the discovery of the laws of thermodynamics, the double helix, the polio vaccine, etc without patent monopolies and royalties.

9. Stabilize population

Work toward a balance in which births plus in-migrants equals deaths plus out-migrants. This is controversial and difficult, but as a start contraception should be made available for voluntary use everywhere. And while each nation can debate whether it should accept many or few immigrants, and who should get priority, such a debate is rendered moot if immigration laws are not enforced. We should support voluntary family planning, and enforcement of reasonable immigration laws, democratically enacted. A lot of the pro-natalist and open-borders rhetoric claims to be motivated by generosity. Perhaps it is, but in effect it turns out to be "generosity" at the expense of the US working class and to the benefit of the employing class—an elitist cheap labor policy. The federal government, ever

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[3] See H. Daly, "Growth and Development: Critique of a Credo", in *Population and Development Review*, **34** (3), September, 2008.

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In a time of drastic change it is the learners who inherit the future. The learned usually find themselves equipped to live in a world that no longer exists. - Eric Hoffer sensitive to the interests of the corporate employing class, has done an obligingly poor job of enforcing our immigration laws. Progressives have been slow to understand this. The environmental movement began with a focus on population, but has for some years now given in to "political correctness" on this issue. Ironically our tolerance for illegal immigration seems to have caused a compensatory tightening up on legal immigrants—longer waiting periods and more stringent requirements. In cost-benefit terms it is cheaper to "enforce" our immigration laws against those who obey them than against those who break them—but quite unfair, and perceived as such by many legal immigrants and people attempting to immigrate legally. This is a very perverse selection process for new residents.

10. Reform national accounts

Separate GDP into a cost account and a benefits account. Natural capital consumption and "regrettably necessary defensive expenditures" belong in the cost account. Compare costs & benefits of a growing throughput at the margin, stop throughput growth when marginal costs equal marginal benefits. In addition to this objective approach, recognize the importance of the subjective studies that show that, beyond a threshold, further GDP growth does not increase self-evaluated happiness. Beyond a level already reached in many countries GDP growth delivers no more happiness, but continues to generate depletion and pollution. At a minimum we must not just assume that GDP growth is economic growth, but prove that it is not uneconomic growth.

The conceptual change in vision from the norm of a growth economy to that of a steady state economy is radical, but the policies advocated are subject to gradual application. For example, 100% percent reserves can be approached gradually, the range of distributive inequality can be restricted gradually, caps can be adjusted gradually, etc.

Also these measures are based on the impeccably conservative institutions of private property and decentralized market allocation. The policies advocated simply recognize that: (1) private property loses its legitimacy if too unequally distributed; (2) markets lose their legitimacy if prices do not tell the truth about opportunity costs; and (3) that the macro-economy becomes an absurdity if its scale is required to grow beyond the biophysical limits of the Earth. Well before reaching that radical biophysical limit we are encountering the orthodox economic limit in which extra costs of growth become greater than the extra benefits, ushering in the era of <u>uneconomic growth</u>, so far denied by the regnant growth paradigm, which seems intent on fulfilling the role of obstructive nuisance described in Whitehead's epigraph.

Herman E. Daly is Professor Emeritus at the School of Public Policy, University of Maryland. Source: *Towards an Integrated Paradigm in Heterodox Economics, Julien-François Gerber, et al., eds., Palgrave-Macmillan, 2012.*

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In economics, as in physics, changes are generally continuous. - Alfred Marshall

A World of "Thieving Financiers"
Vendor Arithmetic, Underhanded Capitalism
John Kozy

"The world belongs to humanity, not this leader, that leader, kings or religious leaders ... Each country belongs essentially to their own people." Dalai Lama

At times, something seemingly insignificant, when thought about deeply, reveals truths that the establishment seeks to keep hidden, the most important of which is the real purpose of a nation's existence. Most Americans, for instance, believe that America exists for their benefit and they expect the nation's institutions to serve their needs. But astute observers know that history proves otherwise even though the Constitution clearly states what the nation was established to do.

> "We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America."

Notice that the phrases, "promote business" and "protect property" do not appear in this paragraph, but "promote the general Welfare" does. In fact the Constitution to this day contains nothing about Capitalism or any other economic ideology. The document is completely neutral as Justice Holmes, dissenting in Lochner v New York writes:

> "[A] Constitution is not intended to embody a particular economic theory, whether of paternalism and the organic relation of citizen to the state or of *laissez faire*. It is made for people of fundamentally differing views, and the accident of our finding some opinions natural and familiar, or novel, and even shocking, ought not to conclude our judgment upon the question whether statutes embodying them conflict with the Constitution of the United States."

Nevertheless, the Supreme Court has enshrined *laissez-faire* Capitalism in constitutional law for much of its history, and Justice Powell made it quite clear in his writing that he considered that to be the Court's primary function.

The disingenuousness of the practice has made obvious injustice legal and the American people into mere means to serve the system's nefarious goals. Whenever and wherever necessary, the people must suffer to preserve the system. The practice violates the Constitution on two accounts: it establishes injustice rather than justice and hinders rather than promotes the general welfare.

To see how this works, consider this simple business claim that most readers will have heard or read numerous times in various forms: An executive of a local electricity provider went on television recently complaining about people stealing electricity by tampering with meters. He said the theft costs honest customers thousands of dollars in higher electricity costs and should be stopped. The same claim is made by merchants about shoplifting and automobile insurance companies about insurance fraud. The claim is accepted silently; I have never heard of anyone questioning it. So let's look at it carefully to see what can be learned from it.

The electric company sells electricity at a published rate of usage. If honest customers are being charged for the losses the company experiences because of thieves, the company isn't losing any money. Why are they complaining? What's happening is that the company is charging honest people for the actions of the dishonest. That's neat for the company but it's hardly just. If a person's home is burglarized, the person can't get back the loss from those honest people who had nothing to do with the burglary. What companies are allow to do is steal back what they have lost from honest people. If that were made into a general legal principle, it would read something like, you may steal from the innocent what others have stolen from you. Of course, the judicial system contains no such principle, but it acts as if it does when a business is involved.

To protect ourselves from theft, ordinary people must buy theft insurance. Why aren't companies required to buy it or else tolerate the losses? Is it because the system exists to protect the property of businesses but not the property of ordinary people? How many people seeking office who flat out told their constituents that do you believe would be elected?

But it's even worse. Remember, the electric company has built the expected losses into its current rate. What do you believe happens when the expected losses fail to materialize? Does the electric company rebate its customers the losses they have been charged for that didn't happen? Sure it does!

So this seemingly innocent story that everyone accepts silently hides two common vendor forms of theft that are protected by the legal system whose justices have enshrined an economic bias into law because they have subverted the Constitution from the goals the founding fathers wrote into it to the almost exclusive promotion of *laissez-faire* Capitalism. There are countless other similar unjust business practices that are similarly protected by the system.

Capitalist countries everywhere are similarly unjust and exploitive. The nations that make up the European Union are now twisting themselves into contortions so that creditors can be protected by inflicting actual physical and economic pain on their citizens. But when people must not only suffer but be sacrificed to preserve the system, the only moral conclusion is that the system does not deserve to be preserved.

Until the system is discarded, the Dalai Lama's claims are false. The world does not belong to humanity. It belongs to thieving Capitalists who are protected by biased legal systems. And because the legal systems embody thousands of these little seemingly obvious injustices, changing it is virtually impossible. Underhanded Capitalism picks the pockets of common people during every economic transaction. People, you cannot win! Desiderius Erasmus Roterodamus, the sixteenth century Dutch humanist, called lawyers jackals. Today these wolves are allowed to delineate right from wrong. Try calling that progress!

John Kozy *is a retired professor of philosophy and logic who writes on social, political, and economic issues. After serving in the U.S. Army during the Korean War, he spent 20 years as a university professor and another 20 years working as a writer. He has published a textbook in formal logic commercially, in academic journals and a small number of commercial magazines, and has written a number of guest editorials for newspapers. His on-line pieces can be found on http://www.jkozy.com/ .*The URL of this article is: www.globalresearch.ca/index.php?context=va&aid=30661

Pouring Fuel on the Fire

Nature & extent of federal government subsidies to the mining industry

Matt Grudnoff

The following is the introduction to Policy Brief No 39 (April 2012) of The Australia Institute. The downloadable web source of the entire paper is:

https://www.tai.org.au/file.php?file=/media_releases/PB%2038%20Pouring%20fuel%20on%20the%20fire.pdf

Introduction

The mining industry is receiving substantial assistance from Australian taxpayers worth more than $4 billion per year in subsidies and concessions from the Federal Government alone. Amazingly, this is at a time when the industry is earning record profits. Significantly, the subsidies and tax concessions set out below do not even include the cost of providing the mining industry with infrastructure or the substantial State Government subsidies they also receive.

The mining industry is booming on the back of high mineral prices with many commodity prices having tripled since 2004. This has led to large profits. According to the Australian Bureau of Statistics (ABS) **total pre-tax profits earned by mining firms operating in Australia were more than $51 billion in 2009-10**. The high mineral prices are also feeding a frenzy of investment and expansion with Australian Bureau of Agricultural and Resource Economics (ABARE) estimating that energy and mineral projects worth $173.5 billion have been started or committed to.

With the resources boom in full swing it appears counterintuitive that the government is subsidising the mining industry. Government subsidies are often used as a way of supporting important industries at times when they are financially vulnerable. This is clearly not the case for the mining industry. In turn, there does not seem to be any reason why these subsidies are in the national interest. With the mining industry so profitable these subsidies are not supporting the industry, but instead are simply increasing the size of their profits and placing greater pressure on other industries such as manufacturing, tourism and education. Put simply, these subsidies represent a transfer of funds from taxpayers to the owners of mining companies operating in Australia – most of which are foreign owned. The usual economic justifications for subsidising an industry do not seem to apply to the mining industry in Australia and there has been little justification for such large public generosity.

The Pain in Spain Falls Mainly on the Plain Folks

Lynn Parramore

Lately, European elites have been congratulating themselves for averting disaster in the eurozone. But who, exactly, is breaking out the champagne?

The Banks Got Bailed Out

If you read the mainstream media reporting, you will learn that the ECB (European Central Bank) has "eased pressure" and "given breathing room" to the banks and financial markets, including the markets for sovereign debt. Translation: the bankers in the eurozone were sitting around biting their fingernails as holders of eurozone bank debt headed for the hills at the prospect of default by Greece and other countries. So the ECB gave them a sweetheart deal that allowed them to borrow more than EUR1 trillion for three years at just 1 percent interest. The banks got bailed out and will continue their irresponsible and in some cases criminal activity unchecked. Hooray!

Meanwhile, you will hear that the Italian and Spanish 10-year government bond yields have fallen below 5 percent, which is supposed to be another positive development. What you will not hear: having been given money very cheaply, the banks went on a spending spree. They bought government bonds that they will eventually unload at a handsome profit. Great! For them.

In the long run, it is doubtful that the real crisis has been averted. The economies of the eurozone are still not growing, and the Greek default has probably not been averted. But the bankers and financiers, and the politicians that back them, are feeling good for the moment.

Meanwhile, the full brunt of the crisis falls on the ordinary citizens of vulnerable countries like Spain, which has now emerged as the most worrisome of the so-called PIIGS countries (Portugal, Ireland, Italy Greece, Spain). For them, the present is grim and the future is dark. For those already enduring hardships, life has become a nightmare. Austerity measures, also known a "fiscal discipline" may have saved the euro and the banks. But they have not solved the underlying economic problems, because European elites are acting from two misguided notions. They refuse to recognize that Spain's fiscal difficulties are a consequence of the economic crisis, not the cause. There's a big difference, but this false narrative works to the advantage of the 1%, who would like to see the population in dire straits so that the plundering of the commons and shredding of labor protections and the social safety net can proceed unimpeded.

European elites also fail to acknowledge what Marshall Auerback and Ed Harrison have pointed out repeatedly: the structure of the eurozone is deeply flawed and creates damaging and unsustainable relationships between member countries that share a currency. In the United States, member states like New York and Mississippi have different economies, but because they are part of the same political structure, part of the riches of one state will be transferred to make up the shortfall caused by the less robust economies of the poorer neighbors. That's accepted as the price of keeping a country together. In the eurozone, on the other hand, you've got a shared currency but little sense of shared political purpose, so a country with a stronger economy, like Germany, resents aiding poorer neighbors and therefore focuses on imposing misguided "discipline" on the poorer country as if that will solve the problem. What if the state of New York imposed "discipline" on Mississippi? Pretty soon, a poor state would be even poorer, and its population would experience unrest and would possibly descend into chaos.

The Rest Got Sold Out

Which brings us to Spain. At the moment, unemployment is above 23 percent and one young person in two is out of work. The economic crisis has created widespread hardship, which means that the need for state assistance for people who can't find work or have health problems or other emergencies is rising just at the moment when drastic budget cuts are being imposed. We're talking about cuts to health care, cuts to education, and cuts to other services that are not frills, but vital to any kind of chance for people to have a stable, decent life. In some areas, hospitals have been shut down. School children have been left to attend class without heating or toilet paper. A banker is breaking out the champagne while a child nearby is shivering. This Dickensian scenario is what elites are currently crowing about.

And it goes on. In a recent article, "Spain's safety net frays as care workers go unpaid," Reuters reports that nurses, streetcleaners, and caregivers of the mentally ill and others in desperate need of help are being laid off. Sick people can't get medication. The human costs of austerity measures are cruel and startling.

The eurozone structure and the austerity madness has exacerbated the gap between the more robust northern economies and shrinking southern ones, which is a recipe for growing social unrest. As regular people and workers get increasingly squeezed, protests are bound to follow. Social critics warn of a whole "lost generation" with no hope and nothing to lose.

Even Martin Wolf of the Financial Times (not exactly the paper of record for the 99%) calls this situation "insanity":

"One definition of insanity is to do the same thing over and over again and expect different results. Germany's determination to impose a fiscal hair shirt on its eurozone partners did not work in the "stability and growth pact". Is it going to work in the "treaty on stability, co-ordination and governance" agreed last week? I doubt it. The treaty reflects the view that the crisis was due to fiscal indiscipline and that the solution is more discipline. This is far from the whole truth. Rigorous application of such a misleading idea is dangerous."

A madness is stalking Europe. And it's not the "fiscal irresponsibility" of ordinary citizens. It's the greed and short-sightedness of elites who don't seem to mind that innocent children are made to pay for their excesses. That is surely another definition of insanity.

Lynn Parramore is an AlterNet contributing editor, cofounder of Recessionwire, founding editor of New Deal 2.0, and author of 'Reading the Sphinx: Ancient Egypt in Nineteenth-Century Literary Culture.' Follow her on Twitter @LynnParramore.

Source: AlterNet website
http://www.alternet.org/story/154445/schools_without_toilet_paper_the_pain_in_spain_falls_mainly_on_the_plain_folks

Joseph Stiglitz on financial system instability

Recommended: An excellent lecture by Nobel Laureate economist Prof Joseph Stiglitz, which embraces the entire spectrum of modern financial instability and dysfunctionality. The video link:

http://www.youtube.com/watch?v=kvXCNiwVUsA&feature=player_embedded

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Everyone who has studied money and banking has been introduced to the concept of the money multiplier. The multiplier is a factor which links a change in the monetary base (reserves + currency) to a change in the money supply. The multiplier tells us what multiple of the monetary base is transformed into the money supply (M = m x MB). Since George Washington's portrait first graced the one dollar bill students have listened to the same explanation of the process. No matter what the legally required reserve ratio was, the standard example always assumed 10 percent so the the math was simple enough for college professors. What joy must have spread through the entire financial community when, on April 12, 1992, the Fed, for the first time, set the required reserve ratio at the magical 10 percent. Given the simplicity and widespread understanding of the money multiplier it is a shame that the myth must be laid to rest.

- Warren Mosler

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The government should create, issue, and circulate all the currency and credits needed to satisfy the spending power of the government and the buying power of consumers. By adoption of these principles, the taxpayers will be saved immense sums of interest. Money will cease to be master and become the servant of humanity.

- Abraham Lincoln