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For a just and sustainable society

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IN THIS ISSUE page

Congratulations to our colleague and co-editor Frances Milne, who was awarded the honour AM (Member, Australia), as notified in the recent Queen's honours list, for her service to multicultural communities and for her contributions to human rights, social justice and economic reform.

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Eight Elementary Errors of Economics

Geoff Davies

The Global Financial Crisis, the extreme inequality of wealth world-wide, the materialism of modern life and the dire state of the planet are not accidents, nor just unavoidable consequences of the nature of things. They are the result of the modern practice of economics, which makes elementary errors of accounting, evidence, perception and theory.

Many of these errors have been noted for decades, but only by a dissenting fringe of economists and informed others. Their message is drowned out by the relentless repetition of the mainstream free-market mantra. Though many people are uncomfortable with economists' pronouncements, and some are aware of some of the errors, few seem to realise how many and how basic the errors are, nor how far-reaching are the consequences. Here are some of the main errors, spelt out in simple terms.

- The measure of success is growth of the Gross Domestic Product. Yet the GDP is simply the total of all activity involving money, with no account taken of whether the activity is useful, useless or harmful. The costs of disasters, pollution and “defensive expenditures” like insurance are added to the GDP. A proper accounting would use a balance sheet and subtract the costs from the income, as every shopkeeper understands. As a result unpaid activities like volunteer work, growing backyard vegetables or a mother's loving care are neglected and implicitly discouraged, though they may contribute something like a third of net national benefit. Exploitative and polluting activities are implicitly encouraged because they boost GDP.

- Clear evidence of poor performance is ignored. Growth, unemployment and inflation measures in the neoliberal era, since 1980, have never been as good as those in the 1950s and 1960s, when governments involved themselves substantially in the economy. From 1953 to 1974 unemployment averaged 1.3% and inflation averaged 3.3%, and from 1960 to 1974 growth averaged 5.2%. If free-market fundamentalists were right then government intervention would have kept the economy well below this performance. In fact such figures are now treated as impossible even with free markets.

- Money and debt are excluded from economic models. I'm not making this up. Money is excluded because economists treat economic exchange as barter, claiming money is only a neutral intermediary. Debt is excluded because private debt is claimed to have little influence on economic performance. Economists claim “one person's debt is another person's asset”, so net spending power is not changed by loans. That would only be true in a barter economy, or if banks only loaned from savings deposits. Yet it is easily verifiable that banks create new money to make loans, so purchasing power is boosted and money is no longer neutral. Because banks have been deregulated and the banks' incentive is to increase debt, private debt has increased dramatically over recent decades. It was the collapse of a mortgage debt bubble in the US that triggered the GFC. Their discounting of debt is why most economists failed to see the GFC coming, and have little idea how to recover from it, as they are demonstrating in Europe.

- Modern free-market theory, called the neoclassical theory, predicts the economy will always be close to equilibrium. If that were true it should tick along steadily and sudden changes should only occur in response to large external events like natural disasters or wars. Yet many times over the past two centuries financial markets have suddenly collapsed without any external cause. Some of the more recent examples occurred in 1987, 1997, 2001 and 2007. In 1987 stock prices dropped by 30-40% in a day, though thirty percent of the world's factories had not been bombed overnight.

- The neoclassical theory is based on assumptions that are patently absurd or clearly shown by other disciplines to be untrue. Among the patently absurd, it is assumed our collective guesses about the future are accurate, yet people in 1890 could not have conceived how aeroplanes, two world wars, nuclear weapons, computers and digital communication would radically transform the world.

- Economists assume there are no economies of scale beyond a point of diminishing returns, ignoring the lesson of Henry Ford's assembly lines. Economies of scale allow the biggest firm to undercut other firms and grow faster, until it dominates a market. The existence of many such dominating firms, such as Microsoft, McDonald's and Facebook, is also ignored.

- It is assumed that people are innately individualistic and competitive, but psychologists have clearly documented our tendency to favour cooperation by punishing cheaters, even at a personal cost. Almost every mammalian species lives in groups, and social groups have an innate, and healthy, tension between individualism and cooperation. Most people understand they are better off if they balance their own wishes with those of their family and community. Economists treat us like reptiles.

- It is assumed we are coldly "rational" calculators, yet we are obviously strongly motivated by love, envy, fashion and insecurity, and marketers ruthlessly exploit these foibles. Psychologists have also clearly documented our tendency to other "non-rational" behaviours such as being risk averse. Neither the fashion industry nor the marketing industry would exist if economists were right.

The consequences of these errors are not trivial, they radically distort our perception of the behaviour of economies. Free-market theorists allow that there are "market imperfections", but don't appreciate that abandoning any of their central assumptions leads to radically different predictions of pervasive instability and erratic behaviour.

If we use more defensible assumptions we are led to expect a quite different kind of system, a complex self-organising system, that is always far from equilibrium. Such systems are more like living systems in being unpredictable in detail yet having fairly clear general character. Economic management needs to recognise quite different points for effective intervention. Markets are indeed powerful, but they need to be carefully nudged and guided into behaviour that is beneficial.

This is not socialism, which is government ownership of large parts of the economy. Rather, it is the use of incentives like taxes and subsidies more coherently and with better understanding than we do now. Government is the obvious means to effect this management. There is also a case for “natural monopolies” to be returned to government ownership. The market-fundamentalist claim that government is always inefficient is clearly nonsense. Any large organisation is prone to inefficiencies, and plenty of private examples can be placed next to public examples. Try calling Telstra.

The subject of economics needs to be fundamentally re-thought. Free-market theorists think they are doing science because they use mathematics. Yet to real scientists mathematics is only a tool. The essence of science is the perception of patterns in the world, which are expressed as hypotheses, and the testing of the predictions of hypotheses against new observations of the world. The perception of a pattern is not a rational process, it is a creative process. Mathematics is useful to draw out the implications of hypotheses after they have been conceived.

Economics got infatuated with the mathematical part of science and completely missed the testing part. The equilibrium prediction clearly fails the test of comparing to real economies, as the examples of market crashes and economies of scale show. To continue with this failed theory is to practice pseudo-science.

The highly influential economist Milton Friedman even claimed that good theories can result from obviously wrong assumptions, and that in fact the better the theory the more incorrect are its assumptions. Scientists can only be astonished by his confusion. Scientists do understand that every theory is only an approximation to observed reality, but the art of good science is to find theories that economically yield predictions that are usefully accurate over a broad range of conditions. Theories based on inappropriate or absurd assumptions can only have superficial or limited coincidental resemblances to reality, as further investigation will reveal.

A new conception of economic behaviour based on complex systems is developing rapidly on the fringes of economics. Many useful detailed insights are recounted in Eric Beinhocker’s book *The Origin of Wealth* (Harvard Business School, 2006). There are also immediate overarching implications. For example, there is not just one way to organise economies, there are many ways, and they can be tailored to the wishes of each human culture. Economies can be subordinate to societies, and treat people humanely.

Economies could even be brought into compatibility with the living world, on whose health our survival totally depends. The larger implications are developed in my book *The Nature of the Beast: How economists mistook wild horses for a rocking chair* (eBook)

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How Economists Contributed to the Financial Crisis
John Harvey

A lot of blame has been spread around regarding the financial collapse and the onset of the Great Recession. Greedy speculators, big banks, Wall Street executives, and Fannie Mae and Freddie Mac have all taken turns as whipping boys. But one group has largely avoided their fair share of attention: economists.

They were the ones who provided the intellectual justification for the transformation of our economy over the past thirty years. They stood idly by as jobs went overseas, demand was sapped by increasingly uneven distributions of income, competition was destroyed by lax attitudes towards antitrust laws, and safeguards were discarded in the financial sector. More than that, many actually praised these events. This is not insignificant. Much of the financialization of the U.S. economy (the shift from producing goods and services to managing financial wealth that played such a central role in our collapse) could not have occurred without economists offering their tacit and open approval. Opposition would have slowed, if not stopped, these trends.

There was actually a poll among economists to determine which of their brethren they thought most responsible for our current debacle. The “winners” were as follows:

1. Alan Greenspan (5,061 votes): As Chairman of the Federal Reserve System from 1987 to 2006, Alan Greenspan both led the over expansion of money and credit that created the bubble that burst and aggressively promoted the view that financial markets are naturally efficient and in no need of regulation.

2. Milton Friedman (3,349 votes): Friedman propagated the delusion, through his misunderstanding of the scientific method, that an economy can be accurately modeled using counterfactual propositions about its nature. This, together with his simplistic model of money, encouraged the development of fantasy-based theories of economics and finance that facilitated the Global Financial Collapse.

3. Larry Summers (3,023 votes): As US Secretary of the Treasury (formerly an economist at Harvard and the World Bank), Summers worked successfully for the repeal of the Glass-Steagall Act, which since the Great Crash of 1929 had kept deposit banking separate from casino banking. He also helped Greenspan and Wall Street torpedo efforts to regulate derivatives.

One might wonder how there could be such a disconnect between the theories employed by these economists and the real world. But, to those of us in the profession, it comes as no surprise. Some of us have been worried to death about it for years.

The short answer is, the incentive structure in mainstream (or neoclassical) economics is skewed towards rewarding people for building complex mathematical models, not for explaining how the actual economy works. You might assume those two things are connected in some tangible way, but that's not necessarily the case. I think the non-economist would be absolutely shocked by some of the things we learn in graduate school. For example, I wonder how many people know the formal Monetarist (Milton Friedman's school of thought) explanation of how the Great Depression occurred? Their analysis depends on the existence of something called money illusion on the part of workers. The idea is that laborers are never quite certain what the current cost of living is since they do not keep a careful accounting of their expenditures. Meanwhile, firms are pretty darn sure what prices are because it is so important to their livelihood to pay close attention. Now imagine the following. Let's say there is a massive collapse in the supply of money, leading to a fall in prices (which is, as I have pointed out elsewhere (albeit, in terms of the opposite direction), based on a very poor understanding of the modern financial system; but, in the interest of keeping things simple, I'll concede the point here). The fall in prices, because it means they are earning lower profits, leads firms offer lower wages to their employees. But - and here's what they say happened in the Great Depression - workers, not realizing because of money illusion that the cost of living has declined (and that firms' offer is therefore not unreasonable), quit their jobs. And that, apparently, is how unemployment rose to 25% in the 1930s: the money supply fell, lowering prices, leading firms to offer lower wages, and causing workers to **voluntarily quit their jobs! I** don't know about you, but that's one of the most ridiculous explanations I have ever heard in my entire life. It also puts into perspective the above quote criticizing Friedman's approach.

This is not completely atypical. It is a function of the fact that economists spend too much time developing complex thought experiments and clever stories and not working to understand the complexities of the real-world economy. A famous book published in 1990 showed evidence of this in the top graduate programs in our discipline (*The Making of an Economist* by Arjo Klamer and David Colander, Westview Press). When asked what was most important to success as an economist, students ranked these skills in this order (page 18):

1. Being smart in the sense of being good at problem solving.
2. Excellence in mathematics.
3. Being very knowledgeable about one particular field.
4. Ability to make connections with prominent professors.
5. Being interested in, and being good at, empirical research.
6. Having a broad knowledge of the economics literature.
7. Having a thorough knowledge of the economy.

No, I did not accidentally type the list backwards! And, if anything, the relegation of "knowledge of the economy" to dead last has become worse. Courses that would have provided context and empirical grounding to theory have been slowly replaced over the past thirty years by those teaching more mathematical methods. Today, students learn more about set theory than they do about the merger movements of the late 19th and early 20th centuries–if they hear about the latter at all, which is increasingly unlikely. Moreover, winning the publishing game means writing articles that are more general, theoretical, and mathematical. The author of a piece on the evolution of the specific institutional structure of the financial sector in the United States from 1980 to 1990, for example, even if well-written and firmly grounded in theory, would find it difficult to publish in any of the "top" journals. This would hurt the career advancement of a middle- to senior-level economics professor and could be a death sentence for the junior one, needing, as they do, to earn tenure in order to keep their job.

Not that I have anything against mathematics. My first college major was physics and I have always enjoyed the subject. I was one of those strange kids who loved word problems and derived great joy from figuring out the underlying logic of mathematical relationships (no, I didn't date very much!). But for economists, math should be no more than a tool, not the end in itself. I'm afraid that's not the case, so much so that today a common pattern is for a student to earn a math degree as an undergraduate and then pursue an economics PhD. Are they really interested in understanding unemployment, inflation, poverty, pricing, consumer choice, etc., or have they found a place where doing what they do best is rewarded?

This doesn't mean that nothing useful gets done, but there are built-in incentives against it. Nor do I mean to implicate all of economists. Many DID raise the alarm and tried very hard to get the attention of the powers that be.

But, they were in the minority and members of schools of thought largely dismissed by mainstream economics (Institutionalism, Post Keynesianism, and Modern Monetary Theory in particular). Their graduate programs DO force students to learn about the structure of the actual economy (although still with plenty of math, but this time as the means rather than the end) and their journals DO reward authors who tackle the extremely complex and much messier task of figuring out what caused real-world economic disasters and successes. This is the sort of work that needs to be encouraged.

There was, incidentally, a second poll asking who most accurately forecast the financial crisis. The winner was, by a wide margin, Prof Steve Keen of the University of Western Sydney. The page announcing the award says this about Prof Keen's work:

> In December 2005, drawing heavily on his 1995 theoretical paper and convinced that a financial crisis was fast approaching, Keen went high-profile public with his analysis and predictions. He registered the webpage www.debtdeflation.com dedicated to analyzing the "global debt bubble", which soon attracted a large international audience. At the same time he began appearing on Australian radio and television with his message of approaching financial collapse and how to avoid it. In November 2006 he began publishing his monthly DebtWatch Reports (33 in total). These were substantial papers (upwards of 20 pages on average) that applied his previously developed analytical framework to large amounts of empirical data. Initially these papers analyzed the Global Financial Collapse that he was predicting and then its realization.

In the 1995 article referenced above, Keen takes pains to model explicitly the features of a modern financial system (see Steve Keen, "Finance and Economic Breakdown: Modeling Minsky's 'Financial Instability Hypothesis,'" Journal of Post Keynesian Economics, vol.17, no.4, Summer 1995, pp.607-635). For him, there are no helicopters increasing the money supply by dropping cash, no households with perfect working models of the economy in the backs of their heads, no depressions caused by the fact that workers suddenly and voluntarily quit their jobs en masse, no speculators who know the future (all of these are actually features of popular mainstream economic approaches). His paper contains a great deal of math, but as a tool rather than an end. Among his key conclusions are:

> • "…capitalist expectations of profit during booms can lead them to incur more debt than the system is capable of financing" (p.633).
> • a breakdown results when there is a debt-induced recession, leading some capitalists to go bankrupt and lenders to "write off bad debts and suffer capital losses" (p.633).
> • "…a rise in income inequality (between workers and capitalists) leads to a period of instability and then collapse" (p.633).
> • "…a long period of apparent stability is in fact illusory, and the crisis, when it hits, is sudden–occurring too quickly to be reversible by changes to discretionary policy at the time" (p.633).

- the weight of the collapse may be so great that monetary (he specifically mentions lowering interest rates) and fiscal policy are powerless to reverse the trend.

All this was written in the midst of the longest peacetime expansion in US economic history, a period when some mainstream economists were declaring it a “New Economy” with recession banished forever. His predictions - and this is just a small subset of his work - were eerily accurate and based on work well outside of what is recognized as worthwhile in mainstream economics. He has constantly updated his work in his blog: http://www.debtdeflation.com/blogs/.

If you have never heard of him, that’s not surprising. You probably don’t read too many academic journals. The real problem is, most economists have never heard of him either. If we are to truly recover and put ourselves back on the track to prosperity, that has to change. It is vital that our profession revise its incentive structure such that models that more closely reflect the complex institutional structures and behaviors in the real world are valued above those that look pretty, but tell us nothing.

Source: http://www.forbes.com/sites/johntharvey/2012/02/06/economics-crisis/2/

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Time to stop rewarding economists for bad behaviour

Philip Soos

Since the beginning of the global financial crises in 2007, there have occurred numerous economic and financial crises around the globe, plunging often prosperous nations into hardship and even near bankruptcy. These crises, typically generated by overlending by the financial sector and crashing housing bubbles, are often blamed upon two parties – governments and banks – with considerable justification.

There is, however, a third villain bearing primary responsibility for these disasters. While politicians and government bureaucrats, financiers, bankers and the real estate lobby have come under withering assault in the eyes of enraged publics, the economics profession has largely escaped the fury. Given the importance of this profession in structuring economic and financial policy, the lack of attention and accountability poses an interesting question as to why this is.

Governments rely upon the advice of economists to implement policies that will advance economies in the conventional terms of growth, stability and productivity, on matters from the important to the mundane. It is these experts, with a wealth of experience, who have the greatest influence on public policy.

It should be predictable that if a particular policy was successfully implemented and incurred the expected outcomes, then the economists in charge will have their careers advanced. If the opposite occurs, then it is expected that the economists responsible should be subject to severe penalties.

Unfortunately, recent outcomes have ensured the former, but not the latter. For instance, the largest bubbles in US history – dot-com and housing – were followed by sharp economic downturns. Both times, the overwhelming majority of economists missed and/or denied the existence of the bubbles.

The aftermath of the tech bubble was a recession, and the collapse of the housing bubble could well have resulted in another Great Depression if not for the record-breaking bailout of the financial system and continued deficit spending.

According to conventional economic theory that the majority of economists advocate (neoclassical economics), these assets bubbles should not be forming. Supposedly, the more market-oriented an economy becomes, through deregulation and privatisation, the more efficient it becomes at pricing assets, resources, goods, services and labor. Thus, there should be little to no bubble activity within a freer market economy. History, however, has revealed the opposite.

One would think that given the wide gulf between theory and reality, the economics profession should have performed some sort of self-assessment. Instead, they seem to have fervently congratulated one another for having saved economies.

There is, of course, some truth to this assertion: economies would likely have been worse off had the government not intervened and allowed the banks to collapse. Clearly, this is not the point being made – the point is that if economists were not asleep at the wheel, economies would not have been driven into a brick wall, requiring bailouts in the first place.

It is outrageous those economists in important policy-making and influential positions even keep their jobs. What comprises these positions is obvious: senior economists within the central bank, treasury, the financial regulator, commercial lenders, investment banks, and supranational organizations.

If a taxi driver was to crash while drunk driving, injuring passengers, they would be fired and can be charged by the authorities. A nurse that continually gives patients the wrong medicines, resulting in suffering or even death, will lose their job in short order. A cook that leaves the stove on after finishing work, burning down the restaurant, will predictably lose their job.

On the other hand, economists who are complicit in the collapse of multi-billion dollar corporations and trillion-dollar economies are still employed, often working in the highest levels of government, industry and academia, while unemployment, bankruptcies, and general misery blows out of all proportion among the public.

Given the extraordinary level of incompetence shown by these economists, one may ask why they are still employed. Surely the economics profession should be treated similarly to other professions: incompetence on the job should result in disciplinary measures and penalties.

One explanation can be found within economic theory itself. Economists believe that the prices of goods and services within an economy are determined by the impersonal forces of supply and demand; everything, that is, except for the supply and demand of economic theory itself.

The rich and powerful create strong demand for economic ideology that justifies their wealth and power. Thus, those economists who supply such ideology will be rewarded regardless of performance. This observation goes unheeded among economists for obvious reasons.

Another explanation is what has been satirically called “academic choice theory”, a play upon public choice theory that argues politicians will follow specific behaviors to maximise their own economic benefits.

Thus, wealth-maximising economists will serve monied interests in order to enrich themselves, regardless of the effects upon others. Within modern economies, the wealthy are increasingly invested in the financial rather than industrial sectors. Accordingly, economists seek to work at the behest of financial institutions: commercial lenders, investment banks, hedge funds, money management funds, etc. The owners and managers of these institutions, dedicated to maximising short-term profit and power, naturally seek that economists advocate theories and policies that empower them economically and politically.

Within the economics field, there exists a substantial literature on the capture of institutions: for instance, government capturing producers, or industry capturing government regulators, for the purpose of empowering the institutions performing the capturing. Less well-known is the capture of the economics profession, whether it is individual economists or entire schools and departments at universities.

Universities are often dependent on outside funding to keep their economics and business schools functioning. Corporate-friendly businesses, think-tanks and wealthy individuals will meet this need and provided the necessary funding. Although there may be no strings attached legally, the entire funding is an enormous string in itself. Crafting theories and policies that run counter to what the funders want to hear will not ingratiate them to the recipients.

The phrase “don’t bite the hand that feeds you” is rather apt to this situation. The course of action to pursue, therefore, is to speak the words pleasing to the funders, which often means pro-corporate theories and policies.

Economic policy tends to run in a similar fashion, with a clique of leading economic thinkers chosen to reform policy in accordance with best practice – or so we are told. For those less burdened with such delusions, best practice means not what is in the best interests of the public, but rather what benefits the narrow sectors of concentrated private wealth and privilege that huddle behind the conservative nanny state, including the mainstream economists who are devising these policies.

As history has shown, these policies, primarily the financialisation of the economy, have greatly harmed the public while enriching the fortunate few beyond avarice.

There is no natural law that says that the economic equivalents of Doctor Death should continue to devise policies that have shown to be detrimental. If other professions can be held accountable for poor job performance, why not economists?

Economists are fond of examining the role of incentives. Providing a set of penalties in the form of fines, loss of employment, and even imprisonment in the worst cases of financial and economic crisis, can provide economists the incentive to advocate policies based upon scientific theory of how the economy does function in the real world, rather than how it ought to work in a textbook.

Source: Debtwatch <http://www.debtdeflation.com/blogs/> 27 May 2012

Follow-up queries on systemic barter as an alternative to money (Alan Ecob article in May-June issue)

John Hermann: I have a question Alan. Is it realistically possible to operate a large society (embracing both large population and large spatial areas) and a modern economy, using exclusively some form of barter -- for trading and payment purposes? For example, how could the public sector be made to operate effectively under a barter system?

Alan Ecob: Good question. I like good questions. I see three key words in it:

Realistically ?

That telephone call I received from the no-name ATO Inspector was in 1978. It responded to a letter I had submitted. This had been inspired by my having become aware that seven companies, all significant manufacturers, had begun to act as a Group to facilitate weekend work by employees, including by managers and owners personally. The initiator had been a metalwork supplier to the building industry. An air conditioning contractor and at least one furniture manufacturer were involved. Most had installation teams available to fix their products. What they could ‘knock up’ as a Group was quite amazing. Furnished holiday homes would have been no problem. It was a major expansion of what as a boy I had seen at Kurnell.

What this demonstrated to me was the *demand* for such arrangements. In my letter, I advised that a tradesman associate and I, over a couple of weekends, had each swapped 4 hours of work to mutual satisfaction. No money had passed. Would it be OK if I began to offer a market service to tradesmen to do similarly? Two months later I received that call. End of my initiative. A year or so later, I heard through the grapevine that the Group had been 'blown' to the ATO and had been forced to pay big $ as fines and penalties.

I suggest however that, particularly with the general availability of computers, systemic barter can be realistic.

Exclusively?

No, I don't see this becoming the case – at least for several generations. But properly structured and managed national Barterbanks, under federal government aegis, could I believe capitalise on the incipient demand and provide *credible competition* to the present money system. There could even be a supervised exchange rate between the unit of barter currency (the Ausbuy ?) and the $A. The real social advantages would be long-term:

1. Lower costs for consumer needs.
2. Real purchasing power of (Ausbuy) savings increasing over time, not diminishing.
3. Improved cultural attitudes.

The Public Sector?

A very interesting one. Correctly managed, the prospect by say generation three would become one of people deciding nationally what scales and levels of government they wanted and were prepared to pay for! What a radical idea!

John Hermann: OK, thanks Alan. My next question is, could the entries (computer or otherwise) in barter banks be regarded as a form of money? I realise that the tax office requires payment of tax obligations - in regard to income - using a very specific form of money. But this does not alter the meaning or import of my question.

Alan Ecob: Another good question. I will adopt the same strategy as last, yet also anticipate a couple more questions.

Ausbuys as Money?

Yes, of course. If they are to do the job, they will constitute currency – in the original meaning of the term as being a current and convenient means to purchase things, particularly in the market place. Once the national barter system has grown to a suitable scale, this would include buying and selling $A. With, as I have indicated, a supervised exchange rate, and, for an introductory period, perhaps limited to domestic transactions only. Currency exchange with other national Barterbanks would, certainly after a time, be encouraged and facilitated.

We may note that the Australian Barterbank would maintain a catalogue of product for sale at Ausbuy prices plus minimum $A (initially, to cover 'external' material costs). As the system grew, and the range of its products increased, the amount of necessary $A would continually diminish. Ultimately, as the barter system proved to be superior, money currency would become unnecessary.

Tax to meet Authority Costs?

A level of authority will always be necessary, and need to be paid for. Some generations 'up the track', it would become possible in a substantial barter-sectored national economy for the citizens as a body to decide (as I have indicated) what levels, structure and policies of government they wanted, and at what cost. Decision could be made annually by a process of political proposals and national referenda, founded on a principle of National Income (for government purposes) distribution (entitlement) such perhaps as constant $ per citizen, as resident within a hierarchical structure of governmental areas. I have described such a solution in my 1997 Master's Thesis. This approach would supersede most present taxes.

One way to get the system going in Australia could be, in lieu of payment of taxes, for the Barterbank organization to undertake responsibility for much of the welfare system. It could handle unemployment, job training, handicapped and aged employment, and offer assistance/support (including free product) to many needing it.

The Essential Difference between the two Systems?

The primary objective is for level playing-field competition between the two systems to enable user preference to become the ultimate determinant of winner. This raises the question – what is the essential difference?

OK, we know the present money system is, in the last analysis, privately owned. To some, this is a 'turn-off'. But this is not necessarily a rational objection. I believe it was Pareto who enunciated the basis for maximum societal efficiency – that price be proportional to marginal social cost. For the world as a whole, the only *actual* social cost is human labour. Materials need to be conserved, etc. But our Creator doesn't charge us for them – they cost us nothing. And the only other category of cost is expense, which in principle is simply a convenience conglomeration of materials and labour. So in consolidated global accounts, we are left with labour alone, (being the cost of capital as well as consumer product) which may be distributed through the market place by such as Ausbuys as they become reflective of weighted person-time worked.

If the foregoing become the basis of the global economy, and human ingenuity yields ever-improving productivity, then ultimately the final product will become virtually free, and work (which used to require labour) will become a highly sought-after privilege. Then, persons may become truly human.

The Globalization of Protest
Joseph Stiglitz

The protest movement that began in Tunisia in January, subsequently spreading to Egypt, and then to Spain, has now become global, with the protests engulfing Wall Street and cities across America. Globalization and modern technology now enables social movements to transcend borders as rapidly as ideas can. And social protest has found fertile ground everywhere: a sense that the "system" has failed, and the conviction that even in a democracy, the electoral process will not set things right—at least not without strong pressure from the street.

In May I went to the site of the Tunisian protests; in July I talked to Spain's *indignados*; from there, I went to meet the young Egyptian revolutionaries in Cairo's Tahrir Square; and, a few weeks ago, I talked with Occupy Wall Street protesters in New York. There is a common theme, expressed by the OWS movement in a simple phrase: "We are the 99 percent."

That slogan echoes the title of an article that I recently published, entitled "*Of the 1%, for the 1%, and by the 1%*," describing the enormous increase in inequality in the United States: 1 percent of the population controls more than 40 percent of the wealth and receives more than 20 percent of the income. And those in this rarefied stratum often are rewarded so richly not because they have contributed more to society - bonuses and bailouts neatly gutted that justification for inequality - but because they are, to put it bluntly, successful (and sometimes corrupt) rent-seekers.

This is not to deny that some of the 1 percent have contributed a great deal. Indeed, the social benefits of many real innovations (as opposed to the novel financial "products" that ended up unleashing havoc on the world economy) typically far exceed what their innovators receive.
The social benefits of real innovations, as opposed to financial products, typically exceed what their innovators receive.

But, around the world, political influence and anti-competitive practices (often sustained through politics) have been central to the increase in economic inequality. And tax systems in which a billionaire like Warren Buffett pays less tax (as a percentage of his income) than his secretary, or in which speculators, who helped to bring down the global economy, are taxed at lower rates than those who work for their income, have reinforced the trend.

Research in recent years has shown how important and ingrained notions of fairness are. Spain's protesters, and those in other countries, are right to be indignant: Here is a system in which the bankers got bailed out, while those whom they preyed upon have been left to fend for themselves. Worse, the bankers are now back at their desks, earning bonuses that amount to more than most workers hope to earn in a lifetime, while young people who studied hard and played by the rules see no prospects for fulfilling employment.

The rise in inequality is the product of a vicious spiral: The rich rent-seekers use their wealth to shape legislation in order to protect and increase their wealth - and their influence. The US Supreme Court, in its notorious *Citizens United* decision, has given corporations free rein to use their money to influence the direction of politics. But, while the wealthy can use their money to amplify their views, back on the street, police wouldn't allow me to address the OWS protesters through a megaphone.

The contrast between overregulated democracy and unregulated bankers did not go unnoticed. But the protesters are ingenious: They echoed what I said through the crowd, so that all could hear. And, to avoid interrupting the "dialogue" by clapping, they used forceful hand signals to express their agreement.

They are right that something is wrong about our "system." Around the world, we have underutilized resources - people who want to work, machines that lie idle, buildings that are empty - and huge unmet needs: fighting poverty, promoting development, and retrofitting the economy for global warming, to name just a few. In America, after more than 7 million home foreclosures in recent years, we have empty homes and homeless people.

The protesters have been criticized for not having an agenda. But this misses the point of protest movements. They are an expression of frustration with the electoral process. They are an alarm.

Today's protesters are asking for: a chance to use their skills, the right to decent work at decent pay, a *fairer* economy and society.

The anti-globalization protests in Seattle in 1999, at what was supposed to be the inauguration of a new round of trade talks, called attention to the failures of globalization and the international institutions and agreements that govern it. When the press looked into the protesters' allegations, they found that there was more than a grain of truth in them. The trade negotiations that followed were different - at least in principle, they were supposed to be a *development round*, to make up for some of the deficiencies highlighted by protesters - and the International Monetary Fund subsequently undertook significant reforms.

So, too, in the United States, the civil-rights protesters of the 1960s called attention to pervasive institutionalized racism in American society. That legacy has not yet been overcome, but the election of President Barack Obama shows how far those protests moved America.

On one level, today's protesters are asking for little: a chance to use their skills, the right to decent work at decent pay, a *fairer* economy and society. Their hope is evolutionary, not revolutionary. But, on another level, they are asking for a great deal: a democracy where people, not dollars, matter, and a market economy that delivers on what it is supposed to do.

The two are related: As we have seen, unfettered markets lead to economic and political crises. Markets work the way they should only when they operate within a framework of appropriate government regulations; and that framework can be erected only in a democracy that reflects the general interest - not the interests of the 1 percent. The best government that money can buy is no longer good enough.

Relayed by Alan Ecob. Source: http://www.policyinnovations.org/ideas/commentary/data/000227 © 2011 Project Syndicate, Nov 4, 2011 (republished with kind permission)

Cooperative Banking, the Exciting Wave of the Future
Ellen Brown

As our political system sputters, a wave of innovative thinking and bold experimentation is quietly sweeping away outmoded economic models. In 'New Economic Visions', a special Alternet series edited by Economics Editor Lynn Parramore in partnership with political economist Gar Alperovitz of the Democracy Collaborative, creative thinkers come together to explore the exciting ideas and projects that are shaping the philosophical and political vision of the movement that could take our economy back.

According to both the Mayan and Hindu calendars, 2012 (or something very close) marks the transition from an age of darkness, violence and greed to one of enlightenment, justice and peace. It's hard to see that change just yet in the events relayed in the major media, but a shift does seem to be happening behind the scenes; and this is particularly true in the once-boring world of banking.

In the dark age of Kali Yuga, money rules; and it is through banks that the moneyed interests have gotten their power. Banking in an age of greed is fraught with usury, fraud and gaming the system for private ends. But there is another way to do banking; the neighborly approach of George Bailey in the classic movie It's a Wonderful Life. Rather than feeding off the community, banking can feed the community and the local economy.

Today, the massive too-big-to-fail banks are hardly doing George Bailey-style loans at all. They are not interested in community lending. They are doing their own proprietary trading - trading for their own accounts - which generally means speculating against local interests. They engage in high-frequency program trading that creams profits off the top-of-stock market trades; speculation in commodities that drives up commodity prices; leveraged buyouts with borrowed money that can result in mass layoffs and factory closures; and investment in foreign companies that compete against our local companies.

We can’t do much to stop them. They've got the power, especially at the federal level. But we can quietly set up an alternative model, and that's what is happening on various local fronts.

Most visible are the Move Your Money and Occupy Wall Street movements. According to the Web site of the Move Your Money campaign, an estimated 10 million accounts have left the largest banks since 2010. Credit unions have enjoyed a surge in business as a result. The Credit Union National Association reported that in 2012, for the first time ever, credit union assets rose above $1 trillion. Credit unions are non-profit, community-minded organizations with fewer fees and less fine print than the big risk-taking banks, and their patrons are not just customers but owners, sharing partnership in a cooperative business.

Move "Our" Money: The Public Bank Movement

The Move Your Money campaign has been wildly successful in mobilizing people and raising awareness of the issues, but it has not made much of a dent in the reserves of Wall Street banks, which already had $1.6 trillion sitting in reserve accounts as a result of the Fed’s second round of quantitative easing in 2010. What might make a louder statement would be for local governments to divest their funds from Wall Street, and some local governments are now doing this. Local governments collectively have well over a trillion dollars deposited in Wall Street banks.

A major problem with the divestment process is finding local banks large enough to take the deposits. One proposed solution is for states, counties and cities to establish their own banks, capitalized with their own rainy day funds and funded with their own revenues as a deposit base.

Today only one state actually does this: North Dakota. North Dakota is also the only state to have escaped the credit crisis of 2008, sporting a sizeable budget surplus every year since. It has the lowest unemployment rate in the country, the lowest default rate on credit card debt, and no state government debt at all. The Bank of North Dakota (BND) has an excellent credit rating and returns a hefty dividend to the state every year.

The BND model hasn’t yet been duplicated in other states, but a movement is afoot. Since 2010, 18 states have introduced legislation of one sort or another for a state-owned bank.

Values-based Banking: Too Sustainable to Fail

Meanwhile, there is a strong movement at the local level for sustainable, "values-based" banking - conventional banks committed to responsible lending and service to the local community. These are George Bailey-style banks, which base their decisions first and foremost on the needs of people and the environment.

One of the leaders internationally is Triodos Bank, which has local offices in the Netherlands, Belgium, the United Kingdom, Spain, and Germany. Its Web site says that it makes socially responsible investments that are selected according to strict sustainability criteria and overseen by an international panel of "stakeholder" representatives representing community, environmental, and worker interest groups. Investments include the financing of more than 1,000 organic and sustainable food production projects, more than 300 renewable energy projects, 33 fair trade agricultural exporters in 22 different countries, 85 microfinance institutions in 43 countries, and 398 cultural and arts projects.

Two U.S. banks exemplifying the model are One PacificCoast Bank and New Resource Bank. Operating in California, Oregon and Washington, One PacificCoast is comprised of a sustainable community development bank with around $300 million in assets and a non-profit foundation (One PacificCoast Foundation). Its commercial lending business focuses on such sectors as specialty agriculture, renewable energy, green building, low-income housing. Foundation activities include programs to "help eliminate discrimination, encourage affordable housing, alleviate economic pain, stimulate community development and increase financial literacy."

New Resource Bank is a California based B-corporation ("Benefit") with $171 million in assets, which focuses its lending and banking services on local green and sustainable businesses. New Resource was recognized in 2012 as one of the "Best for the World" businesses, being in the top 10 percent of all certified B-Corporations and scoring more than 50% higher than 2,000 other sustainable businesses in overall positive social and environmental impact.

All this might be good for the world, but isn’t investing locally in a values-based bank riskier and less profitable than putting your money on Wall Street? Not according to a study commissioned by the Global Alliance for Banking on Values (GABV). The 2012 study compared the financial profiles between 2007 and 2010 of 17 values-based banks with 27 Globally Systemically Important Financial Institutions (GSIFIs) - basically the too-big-to-fail banks, including Bank of America, JPMorgan, Barclays, Citicorp and Deutsche Bank. According to the GABV report, values-based banks delivered higher financial returns than some of the world’s largest financial institutions, with a return on assets averaging above 0.50 percent, compared to just 0.33 percent for the GSIFIs; and returns on equity averaging 7.1 percent, compared to 6.6 percent for the GSIFIs. They appeared to be stronger financially, with both higher levels of and better quality capital; and they were twice as likely to invest their assets in loans.

CDFIs

Along with the values-based banks, community investment is undertaken in the US by Community Development Financial Institutions (CDFIs), including community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. According to the CDFI Coalition, there are over 800 CDFIs certified by the CDFI Fund, operating in every state in the nation and the District of Columbia. In 2008 (the last year for which a report is available), CDFIs invested $5.53 billion "to create economic opportunity in the form of new jobs, affordable housing units, community facilities, and financial services for low-income citizens."

Two of many interesting examples are the Alternatives Federal Credit Union and Boston Community Capital. Alternatives FCU, located in Ithaca, New York, is committed to community development and social change and is part of the Alternatives Group, which includes a non-profit corporation (Alternatives Community Ventures); a 40-year old trade association of community groups, cooperatives, worker-owned businesses and individuals (Alternatives Fund); and a not-for-profit organization that facilitates secondary capital investment in the credit union (Tomkins County Friends of Alternatives, Inc.). The credit union has over $70 million in assets and offers many innovative financial products, including individual development accounts - special savings accounts for low-income residents that offer matching deposits of two to one up to a certain amount - in addition to more traditional services such as loans for minority and women-owned businesses, and affordable mortgages. The credit union also offers small business development (classes, seminars, consultation, and networking programs), free tax preparation, and a student credit union.

Although its lending programs focus on lower-income borrowers, Alternatives FCU has had lower delinquency and charge-off rates than many major banks that avoid these types of customers. Boston Community Capital (BCC) is a CDFI that is not actually a bank but invests in projects that provide affordable housing and jobs in lower-income neighborhoods. BCC includes a loan fund, a venture fund, a mortgage lender, a real estate consultation organization, a solar energy fund, and a federal New Markets Tax Credit investment vehicle. Since 1985, it has invested over $700 million in local organizations and businesses. These funds have helped build or preserve more than 12,800 affordable housing units, as well as child care facilities for almost 9,000 children and healthcare facilities that reach 56,000 people. Their investments have helped renovate 850,000 square feet of commercial real estate, generate 5.9 million KW hours of solar energy capacity, and create more than 1,500 jobs.

Less Money for Banks, More for Workers: Models of Germany and Japan

Values-based banks and CDFIs are a move in the right direction, but their market share in the U.S. remains small. To see the possibilities of a banking system with a mandate to serve the public, we need to look abroad.

Germany and Japan are export powerhouses, in second and third place globally for net exports. (The U.S. trails at 192nd.) One competitive advantage for both of these countries is that their companies have ready access to low-cost funding from cooperatively owned banks.

In Germany, about half the total assets of the banking system are in the public sector, while another substantial chunk is in cooperative savings banks. Germany's strong public banking system includes 11 regional public banks (Landesbanken) and thousands of municipally owned savings banks (Sparkassen). After the Second World War, it was the publicly owned Landesbanks that helped family-run provincial companies get a foothold in world markets. The Landesbanks are key tools of German industrial policy, specializing in loans to the Mittelstand, the small-to-medium size businesses that drive the country's export engine.

Because of the Landesbanks, small firms in Germany have as much access to capital as large firms. Workers in the small business sector earn the same wages as those in big corporations, have the same skills and training, and are just as productive. In January 2011, the net value of Germany's exports over its imports was 7 percent of GDP, the highest of any nation. But it hasn't had to outsource its labor force to get that result. The average hourly compensation (wages plus benefits) of German manufacturing workers is $48 - a full 50 percent more than the $32 hourly average for their American counterparts.

In Japan, the banks are principally owned not by shareholders but by other companies in the same keiretsu or industrial group, in a circular arrangement in which the companies basically own each other. Even when there are nominal outside owners, corporations are managed so that the bulk of the wealth generated by the corporation flows either to the workers as income or to investment in the company, making the workers and the company the beneficial owners.

Since the 1980s, U.S. companies have focused on maximizing short-term profits at the expense of workers and longer-term goals. This trend stems in part from the fact that they are now funded largely by capital from shareholders who own the company and want simply to grow their returns. According to a 2005 report from the Center for European Policy Studies in Brussels, equity financing is more than twice as important in the U.S. as in Europe, accounting for 116 percent of GDP compared with 62 percent in Japan and 54 percent in the eurozone countries. In both Europe and Japan, the majority of corporate funding comes not from investors but from borrowing, either from banks or from the bond market.

Funding with low-interest loans from cooperatively owned banks leaves greater control of the company in the hands of employees who either own it or have much more say in its operation. Access to low-interest loans can also slash production costs. According to German researcher Margrit Kennedy, when interest charges are added up at every level of production, 40 percent of the cost of goods, on average, comes from interest.

Globally, the burgeoning movement for local, cooperatively owned and community-oriented banks is blazing the trail toward a new, sustainable form of banking. The results may not yet qualify as the Golden Age prophesied by Hindu cosmology, but they are a major step in that direction.

Alternet, 26 May 2012. Ellen Brown is a well known U.S. advocate of banking reform. Source: http://readersupportednews.org/opinion2/279-82/11616-focus-cooperative-banking-the-exciting-wave-of-the-future

Greece and the Rest of the Eurozone Remain on the Road to Hell

Marshall Auerback

So for the short term, it appears we won't have a "Grexit", which has led many commentators to suggest (laughably) that a crisis has been averted. Typical of this sentiment is a headline in Bloomberg (18/6/12) *"Greece avoids chaos; Big Hurdles Loom".* To paraphrase Pete Townsend, meet the new chaos, same as the old chaos. It is worth pondering how acceptance of the Troika's program (even if cosmetic adjustments are made) will help hospitals get access to essential medical supplies, whilst the government persists in enforcing a program which is killing its private sector by cutting spending and not paying legitimate bills, and an unemployment rate creeps towards 25 per cent and 50 per cent for youth.

Prior to the June 17th vote, Greek voters were intimidated with a massive number of threats of what would happen if they didn't vote "the right way" (i.e. anybody but the "radical leftists" in Syriza). Even then the conservatives on just led the vote count from their main anti-austerity rival. Amazingly, New Democracy leader Antonis Samaris suggested in his victory speech that the results reflected a vote for "growth." There is more than a touch of Orwell at work when one can redefine the kinds of programs which the Greeks will be forced to swallow as conducive to "growth" and "prosperity".

So the Greek government will continue to plug away at austerity and the Troika will continue to pretend that such policies will ultimately lead to a Greek economic recovery. There will be some fake advertising about Europe making it easier on the Greeks, but it will be something without substance. Then things will get worse to the point where Samaras might have to take a helicopter to flee the crowds.

From the Opposition Syriza's perspective this is not the worst outcome, since the 3rd place Pasok (Greece's ostensible "socialist" party) is likely to join New Democracy (despite some posturing last night which suggested that they wouldn't join a coalition in the absence of Syriza's participation, thereby ensuring that all parties are tarred with these awful austerity policies). Then both Pasok and New Democracy will have to watch as Syrizai leads the opposition and probably wipes them out in another election within a year. Maybe even, within the year.

In the meantime nothing fundamental will change in Greece. It can't, given that the circuits of credit in Greece are so badly damaged that even efficient, profitable firms have been cut out of the capital markets but also out of the international markets (their suppliers will no longer accept the Greek bank guarantees without which Greek firms cannot import raw materials, as Yanis Varoufakis has pointed out). I asked Yanis why those profitable Greek businesses don't simply shift their deposits to, say, a German bank, in order to get "reputable" letters of credit, and his response was that a German bank would simply not issue a guarantee on these businesses if they are registered in Greece.

The upshot will be that even profitable businesses will be forced to sell out to outside interests, after which the letters of credit will be forthcoming. If this isn't an example of "hit man economics", it's hard to know what is.

As all of us on this blog have argued repeatedly, in the eurozone we have a solvency problem and a crisis of deficient aggregate demand. Unfortunately, within the European Monetary Union these twin crisis ultimately fall entirely in the realm of the issuer of the currency- the ECB, and not the users of the currency- the euro member nations. So without the ECB, directly or indirectly, underwriting the currency union, solvency is always an issue, whether that be Greece, Portugal, Spain, Italy or, indeed, Germany. Likewise deficient spending power has been exacerbated via the austerity imposed as a condition of the ECB's help. It is akin to putting a patient on a drip feed, allowing him to recover, then breaking his legs again so that he remains bed-ridden.

That includes the banking system, which, to serve public purpose, requires credible deposit insurance, again meaning support from the issuer of currency. Warren Mosler noted (http://moslereconomics.com/2012/06/18/greece-after-math/):

> *"The last few weeks have demonstrated that the ECB does 'write the check' for bank liquidity even though it's not legally required to do that, (and even though some think it's not acting within legal limits) but it won't just come out and say it. And, apart perhaps from the Greek PSI (100 billion euro bond tax), which they still call 'voluntary', no government has missed a payment, also with indirect ECB support either through bond buying or via the banking system, but, again, it won't just come out and say it's an ongoing policy."*

So while the ECB has continued to underwrite the Greek (and now Spanish) banking systems, via all sorts of programs – LTRO, ELA, etc., the bank (and the member nations of the EMU) refuse to make explicit commitment of the kind that it will continue to backstop the system and thereby ensure its solvency – i.e. the long awaited "bazooka". The ECB argues that this is a "fiscal role" which cannot be undertaken by the central bank, conveniently omitting the fact that there is no relevant fiscal authority in the Eurozone, which could take up this role. The ECB is the issuer of the currency and only they have the capacity to create unlimited quantities of euros. Paradoxically, by making this commitment explicit, they would find less need to use the "bazooka", once the markets became convinced that they were serious. Instead, the ECB effectively plays poker with the markets by exposing its hand from the start, encouraging speculators to persistently call their bluff.

Of course, nobody in Brussels actually acknowledges that the problem rests on the Eurozone's fundamental architectural flaw (which is to say that there is no corresponding supranational fiscal authority), and they continue to castigate "profligate" governments, which run large budget deficits almost inevitably as a consequence of the collapse in private sector economic activity.

That has been the story of Greece, the rest of the European periphery and now the disease is spreading into the core (Dutch April retail sales were down 11% year-over-year, so this is no longer a "north vs south" problem in the euro zone). A good economy with rising public deficits and ECB support to keep it all going isn't even a consideration at this point. They have painted themselves into an ideological corner, as Europe's banking system continues to suffer from the throes of a massive bank run. The Greek election results won't change that fact.

Contrary to arguments that she doesn't "get it", one has the sense from reading her recent remarks that Chancellor Angela Merkel actually does understand the nature of the problem. More to the point, it is likely that she is also aware (via her economic advisors) of the extent of the Eurozone's deposit run, which is now massive (probably in the trillions of euros). But to draw attention to the real problem risks highlighting Germany's legal conundrum.

It seems clear that the German Constitutional Court ruling on the Greek bailout in 2010 was quite explicit in terms of its meaning: According to this court ruling Target 2 and various other forms of the ECBs lender of last resort programs are unconstitutional, because they involve an open ended indeterminate exposure of the German people to losses involved in the bailout of the periphery. Yes, these are contingent liabilities, but the irony is that the more that Mrs. Merkel says "Nein" to any genuine proposal which could avert a solvency crisis, the more likely that these counterparty risks become real, rather than contingent. And the German parliament has no say in the disbursements.

And that's just Target 2. The deposit insurance program, which is now supposedly being discussed at the G-20 summit in Mexico represents a new initiative. That might be more readily challenged before the constitutional court as it is more readily understandable than the arcane and highly technical workings of, say, Target 2.. Chancellor Merkel may realize this. She may realize that a challenge to a deposit insurance initiative might bring to light the issue of the constitutionality of Target 2 and thereby threaten an even more intense run on the banks of the periphery of Europe.

So consider the following: there may well be a constitutional court challenge were the ECB to respond to the challenges posed by Greece and other members of the periphery via a deposit insurance scheme which they backstopped. Unfortunately, the day that a court challenge happens and becomes public the bank run should accelerate greatly. regardless of the ultimate result. If I'm a depositor in a Greek, Spanish or Italian bank and I think there is even the slightest possibility that an ECB-directed deposit insurance scheme could be nullified by a German court ruling, then I'll raise to take my money elsewhere as quickly as I can. No wonder the issue of capital controls is now being quietly discussed.

This is the real reason why Mrs Merkel says that there are limits to what Germany can do on its own and why she has continued to take such a hard line with Athens over the course of the Greek election campaign.. Of course, she rejects the alternatives because they are politically unpalatable, in part because she hasn't been honest with her own electorate in spelling out what the real implications of Germany's position is if the Eurozone blows up. She's in a corner. This also explains why the Germans are so keen to involve entities like the IMF, because it helps get around this legal conundrum.

Back to Greece. it looks like the economic 'torture chamber' of mass unemployment can, operationally, persist indefinitely, even as, politically, it's showing signs of coming apart. There has been increasing evidence in the last few weeks or so that suggest that the public deficits across the EU are propping up demand just enough to stop the currency union from blowing up.

But the actions of the Troika are neither politically desirable, nor sustainable over the longer term as the recent election results, not just in Greece, but all across Europe continue to demonstrate. Note that the Socialists claimed a huge majority in France's Parliamentary elections held this past weekend, which suggests that the French too are getting fed up with the austerity led policies championed by Berlin.

Fiscal austerity of the kind imposed on Greece is in its death throes. And thank goodness for that. Because if this form of Kevorkian economics continues, the crisis will surely spread to America's shores, just at a time when the American ideological soulmates of Europe's austerian brigade are seeking to shred what's left of our own social safety net via a manufactured fiscal crisis. As the great Greek tragedian Euripides wrote, ""Whom the gods would destroy, they first make mad"

Source: http://neweconomicperspectives.org/2012/06/greece-and-the-rest-of-the-eurozone-remain-on-the-road-to-hell.html#more-2506

The philosophy and analysis of C.H. Douglas
John Rawson

In view of the fact that numerous economists seem to be drawing conclusions similar to those of the founder of the Social Credit movement, it is timely now to have a look at the analysis and proposals he put forward ninety years ago.

Clifford Hugh Douglas was an engineer with an international practice, particularly in railways. During World War 1, the British government appointed him to improve the organisation of their aircraft industry. His personal philosophy was strongly individualistic. “Organisations exist to serve people” not the reverse. He promoted the idea of “increment of association”; two people working together cooperatively can do more than twice what any one of them can do on their own.

Financial Analysis In the course of his work, he noted that the final cost of each industry’s product was greater than the total of purchasing power, wages, salaries and dividends, paid out in the course of its production. If they had wanted to, the workers and owners would not have been able to buy all the goods and services they produced. After the War, he studied other industries and found that the same situation applied to all. He concluded that this situation must apply to the economy as a whole. He labelled costs of wages etc. which provided “purchasing power” as “A” costs, and others such as depreciation allowances as “B” costs. Obviously “A” purchasing power could not match prices comprising “A+B” costs. This was named the “A+B Theorem”.

Banking, Creation of Money and Accounting At that time, few people realised that banks created credit money when they made loans. Douglas demonstrated that they did, basically showing that the money supply increased from time to time and that commercial banks had the ability to do that. He saw very little wrong with this situation, pointing out that the banks gave valuable services to the community. He was highly critical of the fact that they held a *monopoly* of the process, forcing communities to borrow the nations’ money from them. He held that such money is given value only by the production of the nation and the faith of the people in it as a reliable means of exchange. Therefore morally it belongs to the people, not to corporate institutions. He also was critical of the fact that, while debt was accounted fully, the nation’s assets were not. He considered these assets to include the accrual of skills and knowledge gained over past generations, which could be described as society's cultural heritage.

Employment As an Engineer, Douglas was well aware of the implications of the displacement of labour by machinery. He was most critical of the “full employment” ethic, pointing out that the purpose of industry is to provide goods and services for people, not jobs for wage slaves.

Implications Clearly, any economy needs a flow of new credit (money) so that people can enjoy the use of their own production. Within the existing system, while industry is expanding all is more or less well. When new factories are being built, wages etc are paid out before they produce any goods, and “times are prosperous”. If this process slows down or ceases, then there is an accumulation of unsold goods. This problem can be overcome by government deficit spending, but this implies a build up of public debt which -

under the currently accepted rules - is generally viewed as being (eventually) unsustainable. Except in wartime, of course, when the rules are conveniently changed because industry must produce large quantities of non-consumer goods as armaments.

Proposals For sustaining anything like a stable economy, it is generally conceded that new money must be injected into the economy periodically. Douglas insisted that this is best done by crediting the individual consumer, either in the form of a national dividend paid to each consumer or as a discount scheme for prices, or both. He saw this as encouraging “economic democracy”, with the individual citizen determining what should be produced. To ensure that this is done carefully, without causing demand inflation or deflation, he envisaged a national credit authority, independent of political influence (like the judiciary), tasked with assessing and authorising issue of the amount needed. He recommended no major changes to banking other than additional regulatory controls, including the licensing of bankers. However, with public issue of new credits, banks will have lost their monopolistic power.

Testing the Theory Douglas is possibly the only economics thinker whose every prediction has come true. For reasons obvious from the above, he predicted the breakdown that occurred in the slumps of the ‘twenties and 'thirties of last century. He pointed out that the system, a combined effect of unsold goods and rising debt, would force nations to attempt to export more than they imported. He observed that struggles for markets in this way can lead to wars. Possibly he did not regard the system as a driving force to capture markets through colonialism, although it is now obvious that this is so. Other recent evidence supports the veracity of his ideas:
(a) It is an obvious corollary of the A+B analysis that we are more likely to be afflicted by cost-push inflation than demand-pull inflation. Refusal by orthodox economists to accept this has resulted in the misguided application of “credit squeezes” when they were not only not needed, but economically suicidal.
(b) Orthodox economists have no adequate explanation for “stagflation”, costs remaining high or rising in times when the volume of money is dwindling. It is very easily explained by the Douglas analysis.
(c) Orthodoxy also has no realistic explanation for the ongoing and continuous rise in indebtedness, since it mistakenly conceives of the business of banking as borrowing and on-lending, fully failing to recognise that banks create new credit money when they advance retail loans. The need for a continuous inflow of new credit money to keep a modern economy healthy, money that under the current banking system must be borrowed at source, explains debt escalation simply and realistically.

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Insanity is doing the same thing over and over again and expecting different results.
Albert Einstein