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For a just and sustainable society

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From this issue forward there will be a regular feature entitled **News and views from New Zealand**, which has been initiated by our NZ colleague Dennis Dorney.

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

ECONOMIC REFORM AUSTRALIA (ERA)

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

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

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NSW Division Inc

We are committed to maintaining our links and meet twice a year.
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SA Division Inc

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Items suitable for publication may be sent to any member of the editorial committee. Please contact Victoria Powell if you wish to receive the ERA Review electronically as an email attachment, instead of as a posted copy

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Book Release: The economic crisis: notes from the underground
by Thomas I. Palley

The Economic Crisis: Notes from the Underground provides a collection of short essays detailing the causes of the economic crisis and the failure of the economics profession to foresee and explain it. An old adage is “The winners get to write history” and that is proving true in the current moment. Open any major newspaper and the op-ed page contains articles by the same economists and policymakers as before the financial crash of 2008. One myth the winners are looking to promulgate is the crisis was not predicted and not predictable. This claim has a purpose as it excuses the economics profession from its catastrophic intellectual failure. The book challenges this “winners' version of history” by showing the crisis was predictable and foreseen. The articles provide easy access to both theoretical and policy controversies that continue to be important, and they also show little has been done to fix the root problems. The academy is a club and it resists change because club members benefit from their intellectual monopoly. This monopoly means politicians are all fed roughly the same policy diet. Politicians are also subject to the pull of money and money likes the existing mainstream economic paradigm. Together, this constitutes a powerful sociological system that is hard to crack. Part of cracking it is exposing the failure of economists by showing the crisis was foretold and predicted.

http://www.amazon.com/The-Economic-Crisis-Notes-Underground/dp/147500480X/ref=sr_1_3?ie=UTF8&qid=1344344088&sr=8-3&keywords=Thomas+Palley

Government by the banks, for the banks: ESM coup d’etat
Ellen Brown

German Chancellor Angela Merkel (pictured at the 2007 World Economic Forum in Davos, Switzerland) capitulated to changes to a permanent Eurozone bailout fund on Fri, June 29, 2012. (Photo: Severin Nowacki /World Economic Forum)

On Friday, June 29th, German Chancellor Angela Merkel acquiesced to changes to a permanent Eurozone bailout fund - "before the ink was dry," as critics complained. Besides easing the conditions under which bailouts would be given, the concessions included an agreement that funds intended for indebted governments could be funneled directly to stressed banks. According to Gavin Hewitt, Europe editor for BBC News, the concessions mean that:

1. [T]he eurozone's bailout fund (backed by taxpayers' money) will be taking a stake in failed banks.

2. Risk has been increased. German taxpayers have increased their liabilities. In future a bank crash will no longer fall on the shoulders of national treasuries but on the European Stability Mechanism (ESM), a fund to which Germany contributes the most.

3. In the short term, these measures will ease pressure in the markets. However there is currently only 500bn euros assigned to the ESM. That may get swallowed up quickly and the markets may demand more. It is still unclear just how deep the holes in the eurozone's banks are.

4. The ESM is now a permanent bailout fund for private banks, a sort of permanent "welfare for the rich." There is no ceiling set on the obligations to be underwritten by the taxpayers, no room to negotiate, and no recourse in court. Its daunting provisions were summarized in a December 2011 youtube video originally posted in German, titled "The shocking truth of the pending EU collapse!":

> 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 [are] in the hands of one single unelected intergovernmental organization.

Here are some of the ESM's key provisions:

[Article 8] "The authorised capital stock shall be EUR 700 000 [700 billion Euros]."
[Article 9]: "ESM Members hereby irrevocably and unconditionally undertake to pay on demand any capital call made on them . . . such demand to be paid within seven days of receipt."
[Article 10]: "The Board of Governors . . . may decide to change the authorised capital and amend Article 8 . . . accordingly."
[Article 32, paragraph 3]: "The ESM, its property, funding, and assets . . . shall enjoy immunity from every form of judicial process . . . ."
[Article 32, paragraph 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."
[Article 30]: " . . . Governors, alternate Governors, Directors, alternate Directors, as well as the Managing Director and other staff members shall be immune from legal proceedings with respect to acts performed by them in their

official capacity and shall enjoy inviolability in respect of their official papers and documents."

And that was before Merkel's recent concessions, which allow this open-ended indebtedness to be funneled directly to the banks.

Why Did Merkel Cave?

"Reactions back home were devastating," reported der Spiegel. "[T]he impression was that [Merkel] had been out-maneuvered by Italian Prime Minister Mario Monti and Spanish Prime Minister Mariano Rajoy." As of June 21, 13 of 17 countries still had not ratified the ESM; and the most important ratification needed was Germany's, the largest economy in the Eurozone. Earlier, Angela Merkel had opposed using the bailout fund to pump money directly into struggling European banks. But at the EU summit that began on Thursday and dragged on well into the night, she finally relented. Late Friday evening, German lawmakers voted 493 -106 in favor of the €700 billion ($890 billion) permanent bailout fund.

What caused Merkel to back down? According to an article in The Economist, the late night was "filled with bluff and bluster," in which Mariano Rajoy, the Spanish prime minister, along with Italy's Mario Monti, had threatened to block any agreement at the summit unless their demands were met. Mr Rajoy obtained satisfaction, but the same is not quite true of Mr Monti, who had been the most adamant of the two. Mr Monti declared himself satisfied, but caused considerable irritation to partners. Among the deals he had blocked was the "growth pact", a mixture of stimulus measures.

What Monti achieved by this maneuver was not clear: "Who needs the growth pact? Not Germany," said one bemused participant. The euro zone's fiscal hawks say the bond-buying mechanism will be little different from the existing system. "Mario Monti raised a gun to his head and threatened to shoot himself. In the end he wounded himself in the shoulder" said one scornful diplomat. Maybe. Or maybe the bond-buying mechanism was not what he was really after.

The Italian Coup D'Etat

There is reason to suspect that "Super Mario" Monti may be representing interests other than those of his country. He rose to power in Italy last November in what critics called a "'coup d'etat' engineered by bankers and the European Union." He was not elected but stepped in after Prime Minister Silvio Berlusconi resigned under duress.

Monti is not only an "international advisor" to Goldman Sachs, one of the most powerful financial firms in the world, but a leader in the Bilderberg Group and the Trilateral Commission. In an article in The New American, Alex Newman calls these clandestine groups "two of the most influential cabals in existence today." Monti is listed as a member of the steering committee on the official Bilderberg website and as the European Group chairman on the Trilateral Commission website.

The Trilateral Commission was co-founded in 1973 by David Rockefeller and Zbigniew Brzezinski, also Bilderberger attendees. The Trilateral Commission grew from the thesis in Brzezinski's 1970 piece Between Two Ages: America's Role in the Technetronic Era that a coordinated policy among developed nations was necessary in order to counter global instability erupting from increasing economic inequality. He wrote in his 1997 book *The Grand Chessboard* that it would be difficult to get a consensus on these issues "except in the circumstance of a truly massive and widely perceived direct external threat."

Naomi Klein calls it "the shock doctrine" - an induced disaster forcing austerity measures on sovereign nations. In desperation, they would come to heel, relinquishing the sovereign right of governments to an unelected body of technocrats. And that is what the ESM seems to achieve.

Rockefeller notoriously wrote in his 2002 autobiography, "Some even believe we are part of a secret cabal working against the best interests of the United States, characterizing my family and me as 'internationalists' and of conspiring with others around the world to build a more integrated global political and economic structure - one world, if you will. If that's the charge, I stand guilty, and I am proud of it."

Implementing the Shock Doctrine

In another bankers' coup last November, former Goldman Sachs executive Mario Draghi replaced Jean-Claude Trichet as head of the European Central Bank. The European Stability Mechanism quickly followed. It was a permanent rescue facility intended to replace certain temporary facilities as soon as the member states had ratified it, slated to occur by July 1, 2012. The ESM came to an initial vote in January 2012, when it was passed in the dead of night with barely a mention in the press.

The recent modifications were also agreed to in the dead of night, ostensibly because Italy and Spain were afflicted with onerously high interest rates. But there are other ways to bring down interest rates on sovereign debt besides forcing whole countries into open-ended pacts to bail out private banks for unlimited sums in perpetuity, in the hope that the banks might bail the governments out in return.

The U.S. 2012 budget deficit is significantly worse than either Italy's or Spain's, yet somehow the U.S. has managed to keep interest rates on its debt at record lows. How has it pulled this off?

One theory is that JPMorgan's $57 trillion in interest rate swaps have something to do with it. Another explanation, however, is that the Fed has simply stepped in as lender of last resort and bought up any debt not sold at the low rate set by the Treasury, using "quantitative easing" (money created on a computer screen). Between December 2008 and June 2011, the Fed bought a whopping $2.3 trillion of U.S. bonds in two rounds of quantitative easing. Why can't the European Central Bank do the same thing? The answer is that there are rules against it, but rules are just arbitrary agreements. They can be changed by agreement - and often have been, to save the banks.

As the cynic quoted in The Economist article above observed, the bond-buying mechanism for countries under the ESM will be little different from the existing system. Mario Monti said the plan will support government bond prices only in countries that comply with fiscal targets, and that it will act as an incentive for governments to follow virtuous policies. That means avoiding deficits, even it if requires further austerity measures and selling of assets. On the public level, that could mean national treasures like the Acropolis. On the private level, The New York Times reported Friday that some desperate out-of-work Europeans were going so far as to sell their kidneys to pay household bills. The shock doctrine, it seems, has come to the doorsteps of privileged Westerners.

The German diplomats negotiating the ESM did leave open some escape hatches, including a request by Germany's highest court to the country's president not to sign the treaties into law until a legal review can be completed. At least 12,000 complaints are expected to be filed with the Federal Constitutional Court regarding the ESM and the fiscal pact. The legal review could well conclude that the ESM illegally hijacks taxpayer funds for private bank profit.

It is one thing to pool national resources to bail out other sovereign governments, quite another to write a blank check to bail out the profligate private banks that precipitated the global downturn. Europe has a strong tradition of publicly-owned banks. If the people must bear the costs, the people should own the banks and reap the benefits.

Source: GlobalResearch (Center for Research on Globalization)
http://globalresearch.ca/PrintArticle.php?articleId=31707 (1 July, 2012)

Eight fallacies about growth
Herman Daly

One thing the Democrats and Republicans will agree on in the current U.S. presidential campaign is that economic growth is our number one goal and is the basic solution to all problems. The idea that growth could conceivably cost more than it is worth at the margin, and therefore become uneconomic [1] in the literal sense, will not be considered. But, aside from political denial, *why* do people (frequently economists) not understand that continuous growth of the economy (measured by either real GDP or resource throughput) could in theory, and probably has in fact, become uneconomic? What is it that confuses them? Here are eight likely reasons for confusion.

1. One can nearly always find something whose growth would be both desirable and possible. For example, we need more bicycles and can produce more bicycles. More bicycles means growth. Therefore growth is both good and possible. QED.

However, this confuses aggregate growth with reallocation. Aggregate growth refers to growth in everything: bicycles, cars, houses, ships, cell phones, and so on. Aggregate growth is growth in scale of the economy, the size of real GDP, which is a value-based index of aggregate production and consequently of the total resource throughput required by that production. In the simplest case of aggregate growth everything produced goes up by the same percentage. Reallocation, by contrast, means that some things go up while others go down, the freed-up resources from the latter are transferred to the former. The fact that reallocation remains possible and desirable does not mean that aggregate growth is possible and desirable. The fact that you can reallocate the weight in a boat more efficiently does not mean that there is no Plimsoll Line [2]. Too much weight will sink a boat even if it is optimally allocated. Efficient reallocation is good; the problem is aggregate growth.

Reallocation of production away from more resource-intensive goods to less resource-intensive goods (“decoupling”) is possible to some degree and often advocated, but is limited by two basic facts. First, the economy grows as an integrated whole, not as a loose aggregate of independently changeable sectors. A glance at the input-output table of an economy makes it clear that to increase output of any sector requires an increase in all the inputs to that sector from other sectors, and then increases of the inputs to those inputs, etc. Second, in addition to the input-output or supply interdependence of sectors there are demand constraints — people are just not interested in information services unless they first have enough food and shelter. So trying to cut the resource-intensive food and shelter part of GDP to reallocate to less resource-intensive information services in the name of decoupling GDP from resources, will simply result in a shortage of food and shelter, and a glut of information services.

Aggregate growth was no problem back when the world was relatively empty. But now the world is full [3], and aggregate growth likely costs more than it is worth, even though more bicycles (and less of something else) might still be possible and desirable. That should not be too hard to understand.

2. Another confusion is to argue that **since GDP is measured in value terms, it is therefore not subject to physical limits.** This is an argument given for easy “decoupling” of GDP from resource throughput. But growth refers to *real* GDP, which eliminates price level changes. Real GDP is a value-based index of aggregate quantitative change in real physical production. It is the best index we have of total resource throughput. The unit of measure of real GDP is not dollars, but rather “dollar’s worth.” A dollar’s worth of gasoline is a physical quantity, currently about one-fourth of a gallon. The annual aggregate of all such dollar’s worth amounts of all final commodities is real GDP, and even though not expressible in a simple physical unit, it remains a physical aggregate and subject to physical limits. The price level and *nominal* GDP might grow forever (inflation), but not *real* GDP, and the latter is the accepted measure of aggregate growth. Most people can grasp this, and do not conceive of real GDP as trillions of dollar bills, or as ethereal, abstract, psychic, aggregated utility.

3. A more subtle confusion results from **looking at past totals rather than present margins.** Just look at the huge net benefits of past growth! How can anyone oppose growth when it has led to such enormous benefits? Well, there is a good reason: the net benefits of past growth reach a maximum precisely at the point where the rising marginal costs of growth equal the declining marginal benefits — that is to say, at precisely the point at which further growth ceases to be economic and becomes uneconomic! Before that point wealth grew faster than illth; beyond that point illth grows faster than wealth, making us poorer, not richer. No one is against being richer. No one denies that growth used to make us richer. The question is, does growth any longer make us richer, or is it now making us poorer?

To understand the question requires that we recognize that real GDP has a cost, that illth [4] is a negative joint product with wealth. Examples of illth are everywhere and include: nuclear wastes, climate change from excess carbon in the atmosphere, biodiversity loss, depleted mines, eroded topsoil, dry wells and rivers, the dead zone in the Gulf of Mexico, gyres of plastic trash in the oceans, the ozone hole, exhausting and dangerous labor, and the exploding un-repayable debt from trying to push growth in the symbolic financial sector beyond what is possible in the real sector. Since no one buys these annually produced bads (that accumulate into illth), they have no market prices, and since their implicit negative shadow values are hard to estimate in a way comparable to positive market prices, they are usually ignored, or mentioned and quickly forgotten.

The logic of maximization embodied in equating marginal cost with marginal benefit requires a moment's thought for the average citizen to understand clearly, but surely it is familiar to anyone who has taken Econ 101.

4. Even if it is theoretically possible that the marginal cost of growth has become greater than the marginal benefit, there is no empirical evidence that this is so. On the contrary, there is plenty of empirical evidence for anyone who has not been anesthetized by the official party line of Madison Avenue and Wall Street. As for empirical evidence of the statistical type, there are two independent sources that give the same basic answer. First are the objective measures that separate GDP sub-accounts into costs and benefits and then subtract the costs from GDP to approximate net benefits of growth. The Index of Sustainable Economic Welfare (ISEW) and its later modifications into the General Progress Indicator (GPI) both indicate that, for the US and other wealthy countries, GDP and GPI were positively correlated up until around 1980, after which GPI leveled off and GDP continued to rise. In other words, increasing throughput as measured by real GDP no longer increased welfare as measured by GPI. A similar disconnect is confirmed using the different measure of self-evaluated happiness. Self-reported happiness increases with per capita GDP up to a level of around $20,000 per year, and then stops rising. The interpretation given is that while absolute real income is important for happiness up to some sufficient point, beyond that point happiness is overwhelmingly a function of the quality of relationships by which our very identity is constituted. Friendships, marriage and family, social stability, trust, fairness, etc. — not per capita GDP — are the overwhelming determinants of happiness at the present margin, especially in high-income countries. If we sacrifice friendships, social stability, family time, environmental services, and trust for the sake of labor mobility, a second job, and quarterly financial returns, we often reduce happiness while increasing GDP. Relative income gains may still increase individual happiness even when increases in absolute income no longer do, but aggregate growth is powerless to increase everyone's relative income because we cannot all be above average. Beyond some sufficiency, growth in GDP no longer increases either self-evaluated happiness or measured economic welfare, but it continues to increase costs of depletion, pollution, congestion, stress, etc. Why do most economists resist the very idea that we might have reached this point? Why do they resist measuring the costs of growth, and then claim that "there is no empirical evidence" for what is common experience? Read on.

5. Many believe that the way we measure GDP automatically makes its growth a trustworthy guide to economic policy. To be counted in GDP, there must be a market transaction, and that implies a willing buyer and seller, neither of whom would have made the transaction if it did not make them better off in their own judgment. *Ergo*, **growth in GDP must be good or it would not have happened.** The problem here is that there are many third parties who are affected by many transactions, but did not agree to them. These external costs (or sometimes benefits) are not counted in GDP. Who are these third parties? The public in general, but more specifically the poor who lack the money to express their preferences in the market, future generations who cannot bid in present markets, and other species who have no influence on markets at all.

In addition, GDP, the largest component of which is National Income, counts consumption of natural capital as income. Counting capital consumption as income is the cardinal sin of accounting. Cut down the entire forest this year and sell it, and the entire amount is treated as this year's income. Pump all the petroleum and sell it, and add that to this year's income. But income in economics is by definition the maximum amount that a community can produce and consume this year, and still be able to produce and consume the same amount next year. In other words income is the maximum consumption that still leaves intact the capacity to produce the same amount next year. Only the sustainable yield of forests, fisheries, croplands, and livestock herds is this year's income — the rest is capital needed to reproduce the same yield next year. Consuming capital means reduced production and consumption in the future. Income is by definition sustainable; capital consumption is not. The whole historical reason for income accounting is to avoid impoverishment by inadvertent consumption of capital. By contrast our national accounting tends to encourage capital consumption (at least consumption of natural capital), first by counting it in GDP, and then claiming that whatever increases GDP is good!

As already noted we fail to subtract negative by-products (external costs) from GDP on the grounds that they have no market price since obviously no one wants to buy bads. But people do buy anti-bads, and we count those expenditures. For example, the costs of pollution (a bad) are not subtracted, but the expenditures on pollution clean-up (an anti-bad) are added. This is asymmetric accounting — adding anti-bads without having subtracted the bads that made the anti-bads necessary in the first place. The more bads, the more anti-bads, and the greater is GDP — wheel spinning registered as forward motion.

There are other problems with GDP but these should be enough to refute the mistaken idea that if something is not a net benefit it would not have been counted in GDP, so therefore GDP growth must always be good. Lots of people have for a long time been making these criticisms of GDP. They have not been refuted — just ignored!

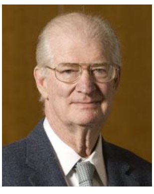
6. Knowledge is the ultimate resource and since knowledge growth is infinite it can fuel economic growth without limit. I am eager for knowledge to substitute physical resources to the extent possible, and consequently advocate both taxes to make resources expensive and patent reform to make knowledge cheap. But if I am hungry I want real food on the plate, not the knowledge of a thousand recipes on the Internet. Furthermore, the basic renewability of ignorance [5] makes me doubt that knowledge can save the growth economy. Ignorance is renewable mainly because ignorant babies replace learned elders every generation. In addition, vast amounts of recorded knowledge are destroyed by fires, floods, and bookworms. Modern digital storage does not seem to be immune to these teeth of time, or to that new bookworm, the computer virus. To be effective in the world, knowledge must exist in someone's mind (not just in the library or on the Internet) — otherwise it is inert. And even when knowledge increases, it does not grow exponentially like money in the bank. Some old knowledge is disproved or cancelled out by new knowledge, and some new knowledge is discovery of new biophysical or social limits to growth.

New knowledge must always be something of a surprise — if we could predict its content then we would have to know it already, and it would not really be new. Contrary to common expectation, new knowledge is not always a pleasant surprise for the growth economy — frequently it is bad news. For example, climate change from greenhouse gases was recently new knowledge, as was discovery of the ozone hole. How can one appeal to new knowledge as the panacea when the content of new knowledge must of necessity be a surprise? Of course we may get lucky with new knowledge, but should we borrow against that uncertainty? Why not count the chickens after they hatch?

7. Without growth we are condemned to unemployment. The Full Employment Act of 1946 declared full employment to be a major goal of U.S. policy. Economic growth was then seen as the means to attain full employment. Today that relation has been inverted — economic growth has become the end. If the means to attain that end — automation, off-shoring, excessive immigration — result in unemployment, well that is the price "we" just have to pay for the supreme goal of growth. If we really want full employment we must reverse this inversion of ends and means. We can serve the goal of full employment by restricting automation, off-shoring, and immigration work permits to periods of true domestic labor shortage as indicated by high and rising wages. Real wages have been falling for decades, yet our corporations, hungry for cheaper labor, keep bleating about a labor shortage. They mean a shortage of cheap labor in the service of growing profits. Actually a labor shortage in a capitalist economy with 80% of the population earning wages is not a bad thing. How else will wages and standard of living for that 80% ever increase unless there is a shortage of labor? What the corporations really want is a surplus of labor, and falling wages. With surplus labor wages cannot rise and therefore all the gains from productivity increases will go to profit, not wages. Hence the elitist support for uncontrolled automation, off-shoring, and immigration.

8. We live in a globalized economy and have no choice but to compete in the global growth race. Not so! Globalization was a policy choice of our elites, not an imposed necessity. Free trade agreements had to be negotiated. Who negotiated and signed the treaties? Who has pushed for free capital mobility and signed on to the World Trade Organization? Who wants to enforce trade-related intellectual property rights with trade sanctions? The Bretton Woods system was a major achievement aimed at facilitating international trade after WWII. It fostered trade for mutual advantage among separate countries. Free capital mobility and global integration were not part of the deal. That came with the WTO and the effective abandonment by the World Bank and IMF of their Bretton Woods charter. Globalization is the engineered integration of many formerly relatively independent national economies into a single tightly bound global economy organized around absolute, not comparative, advantage. Once a country has been sold on free trade and free capital mobility it has effectively been integrated into the global economy and is no longer free not to specialize and trade. Yet all of the theorems in economics about the gains from trade assume that trade is voluntary. How can trade be voluntary if you are so specialized as to be no longer free not to trade? Countries can no longer account for social and environmental costs and internalize them in their prices unless all other countries do so, and to the same degree. To integrate the global omelet you must disintegrate the national eggs. While nations have many sins to atone for, they remain the main locus of community and policy-making authority. It will not do to disintegrate them in the name of abstract “globalism,” even though we certainly require some global federation of national communities. But when nations disintegrate there will be nothing left to federate in the interest of legitimately global purposes. “Globalization” (national disintegration) was an actively pursued policy, not an inertial force of nature. It was done to increase the power and growth of transnational corporations by moving them out from under the authority of nation states and into a non-existent “global community.” It can be undone, as is currently being contemplated by some in the European Union, often heralded as the forerunner of more inclusive globalization.

If the growth boosters will make a sincere effort to overcome these eight fallacies, then maybe we can have a productive dialogue about whether or not what used to be economic growth has now become uneconomic growth, and what to do about it. Until these eight fallacies have been addressed, it is probably not worth extending the list. It is too much to hope that the issue of uneconomic growth will make it into the 2012 election, but maybe 2016, or 2020, …or sometime? One can hope. But hope must embrace not just a better understanding regarding these confusions, but also more love and care for our fellow humans, and for all of Creation. Our decision-making elites may tacitly understand that growth has become uneconomic. But they have also figured out how to keep the dwindling extra benefits for themselves, while “sharing” the exploding extra costs with the poor, the future, and other species. The elite-owned media, the corporate-funded think tanks, the kept economists of high academia, and the World Bank — not to mention GoldSacks and Wall Street — all sing hymns to growth in harmony with class interest and greed. The public is bamboozled by technical obfuscation, and by the false promise that, thanks to growth, they too will one day be rich. Intellectual confusion is real, but moral corruption fogs the discussion even more.



Picture of Herman Daly, Center for the Advancement of the Steady State Economy: http://steadystate.org Source: http://steadystate.org/eight-fallacies-about-growth/

News and views from New Zealand
Dennis Dorney

As a founder member of the SA division of ERA, and now resident in New Zealand, I am pleased to be able to still receive copies of the regular ERA newsletter, but disappointed that there is nothing similar in NZ. Perhaps in this high tech world the computer-literate can find other ways of exchanging ideas. In the meantime I have succeeded in persuading the ERA editorial committee to allocate a couple of pages for news and views from NZ, so that we can find points of similarity (and, also importantly, points of difference) in the direction of economic debate in Australia and New Zealand.

If you are a New Zealand reader and want to contribute to the NZ section, send your contributions to John Hermann *"for the NZ section".* I assume they will be published in the order in which they are received. Two pages are about 900 words. If contributors fail to fill that space, I have arranged to make up the deficiency. If we overflow the space, I guess it is the editors' prerogative to decide whether or not to allocate more room.

To get the ball rolling, I will start by highlighting a recent increase in New Zealand of support for the concept of government creation of our money supply as opposed to the present system of bank creation of our money as debt with interest added. This is just bread and butter to ERA members and, as John Rawson said in the July-August edition of ERA review, the idea has been around as long ago as C.J. Douglas' Social Credit philosophy.

Incidentally, the Social Credit movement still exists in NZ, represented politically by the Democrats for Social Credit *(democrats.org.nz*). Lobby groups have also recently formed, which support the ERA financial reform positions (even if unwittingly) but not necessarily the entire Social Credit philosophy. I am aware of Positive Money NZ (*positivemoney.org.nz*); as well as the New Economics Party (*neweconomics.net.nz*), which I think is linked with Deirdre Kent, author of "Healthy money; healthy planet" and it seems to share her passion for local currencies. I would be pleased to hear if there are other such groups. There is clearly a need to unify their efforts.

Finally there is support, surprisingly, from publications such as "The New Zealand Investor" (*newzealandinvestor.co.nz*) and mainstream journalists. The following excerpts are from an article by Bernard Hickey. He writes a regular financial column for the New Zealand Herald, which politically is right wing. He also has a financial website (*interest.co.nz*), so perhaps he is freelance and can get away with comments that would get in-house journalists sacked…….

"*I am about to commit economic heresy*, *but at least I'm in auspicious company and it's something our own Reserve Bank and government has done before. It's time the Reserve Bank of New Zealand started printing money and lending to our government to build houses and infrastructure, particularly in Christchurch.*

Even a couple of years ago, this would have been unthinkable to say, even *treasonous. I'm sure many readers will still believe such money-printing is dangerous madness guaranteed to debase the currency, create hyper-inflation and empower politicians to go on an even bigger spending spree. But we've been here before and right now our major trading partners are doing exactly this*. We should at least be talking about it."*

Back in the very early days of the Reserve Bank, shortly after the first Labour Government was elected in 1935, the bank lent money created out of thin air to the government and producer boards. It was used to build state houses and help fund exports of meat, wool and dairy products. The creation of the Reserve Bank in 1934 and the drive, led by Labour's John A. Lee, for a state house-building programme led to the Reserve Bank being nationalised and starting to lend to the government."

*You will notice that he is talking of quantitative easing here, which he concedes later is not the same thing at all, since the Reserve Bank's lending to the Labour Government (at 1%, incidentally) generated real assets whereas quantitative easing generates no assets and simply degrades the money supply. He goes on to say ….

"Lending this new money directly to governments to spend immediately on infrastructure, goods and services would have been a much wiser idea. China did this most effectively.

The Reserve Bank has already said such a quantitative easing could be considered, but not yet because it has room to cut its official cash rate further towards 0 per cent from 2.5 per cent. But isn't it better for our Government to be borrowing from its own central bank than from foreign banks and pension funds? Wouldn't it be better employing the unemployed to build new houses and repair Christchurch's infrastructure than to just sit back and let it happen? Wouldn't it be better to print the money to fund the deficit than choose to sell public assets to do it? <u>It would devalue our currency, but is that such a bad thing when we need to boost our exports?</u>

<u>The big question concerns inflation</u>. At present, New Zealand's inflation is under control and the experience in Japan is that money-printing over decades has not created inflation. Neither is it creating inflation in Europe or the US at the moment".*

*At this point I think he has missed the point totally. The position of ERA and also of the Social Creditors remains, if I recall correctly, that the State is the **only** creator of the fiat money which underpins (or should underpin) our money supply. If so, that clearly does not devalue our currency. Devaluation is a characteristic of bank-created interest-added money and is in fact the only way **bank** debt can work. Bernard Hickey also does not see that devaluation and inflation are opposite sides of the same coin. Still, it's a good start.

An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today. Laurence J. Peter (1919 - 1988)

A new ‘ism’

Herman Royce

In the March-April *ERA Review*, John Hermann reported that an *ERA* Survey conducted in December 2011 found the issue of most “major concern” amongst those polled to be the “need for new economic theories and models”. I argued in the same *ERA Review* that a “steady-state economy requires the abolition of profit (and interest) - indeed, it requires a new ‘ism’”, hence I interpret “new economic theories and models” to necessarily include new economic *systems*. Below, after a brief introduction further justifying the attempt, I outline such a new system/ism…

What’s wrong with capitalism

Steve Keen once remarked that: “Reform .. cannot make capitalism stable” [i]. Indeed, as my previous *ERA Review* article explained, profit and interest directly and unavoidably make competitive market economies inherently unstable. Yet market competition for profits creates other problems.

In any competitive game, not all can win. But winning at market competition increases the chances of continuing to win, and likewise losing fosters more losing; hence, as inevitable consequences of market competition, wealth tends to concentrate, and inequality generally increases [ii]. The need to grow in order to avoid collapse (explained in my previous article) also promotes endless work creation, which in combination with unavoidable and generally rising inequality, and inevitable attempts to maximise profits by minimising or avoiding costs - often via production methods that erode, deplete, pollute and/or in some other manner degrade the environment - all but unavoidably leads to ecological degradation [iii].

But if the *causes* of the major problems besetting modern civilisation can be traced back in this way to the inherent dynamics of our economic system, then avoiding these problems requires fundamental changes to those dynamics, most fully achieved by abandoning profit and interest. Doing so would also provide numerous other advantages, as I shall explain…
(Please bear with me - given how genuinely radical are the ideas that follow, you’ll probably need to read it all at least twice, once to take in the parts separately, the second time to see the big picture to which they sum [iv].)

Balance

Consider an economy of any size over (say) a week during which, for the sake of explanation, it’s expected to neither grow nor contract: production won’t change, and everyone keeps their jobs and consumes as normal. Production costs for such a stable economy over the week are known in advance: without interest or profit, total producer costs equal total wage costs (either paid directly to the producers' employees, or indirectly to those of other producers providing materials or parts). Hence, *without profit or interest, the total prices of the goods produced over the week can be set to equal the total production costs.*

Of course, expectations are not always met. So, at the end of the week, it makes sense to examine what actually happened, what work was really required, especially the time needed to do it. *If less work was needed by some producers than anticipated and paid for over the week, then average working hours for the entire economy can be reduced accordingly for the next week, with the necessary work shared. But if the total costs of work reduce, so too can the total prices of the goods produced by that work - by the same proportion*.

This approach - 'Cost And Price Equalisation' (CAPE) - has the main effect of absorbing changes which now give rise to the boom-bust business cycle into altered working hours and prices. *If efficiency improvements and/or sales declines and/or reduced consumption and/or anything else decreases the need for work by x percent, the same work is shared over a working week also lowered by x percent. Income and total costs then also reduce by x percent, because of which CAPE requires an x percent reduction of all prices. Similarly, more shared work, whether because of reduced productivity, natural disaster, or any other reason, causes the working week, income and prices to all rise by the same proportion*.

So, though people can get less (or more) income, none lose (or gain) purchasing power because all prices drop (or rise) in proportion to income.

Affording

Importantly, although CAPE balances *total* costs with *total* prices, the price of any *individual* product need not equal its cost. Given a choice, people might indeed prefer some goods to be made free — housing, education, health care, a reasonable minimum yearly quota of staple food and basic clothing, and perhaps more. Also, some work definitely needs doing but does not directly result in finished consumable goods, such as environmental regeneration and repair, construction of community facilities and public roads, international development and aid, and the less dysfunctional work of governments such as welfare for the disabled, retired, injured, and anyone genuinely unable to work.

With CAPE, any product can be made free, and any worthwhile work that does not produce consumable goods can be afforded - simply by increasing the prices of all non-free consumables by the proportion required to balance the costs of the free and/or 'non-consumable' goods. In effect, the costs of free and/or non-consumable goods are 'absorbed' into the prices of all non-free consumables.

Saving Work

If prices and income move up or down in unison via CAPE, then growth *or* contraction *or* a steady-state can be handled by sharing the work around. But this not only avoids needing to constantly invent work as market economies require, it allows work to be reduced - indeed *minimised*.

We could work a *lot* less than we do now if we abandoned all the unproductive work currently performed, automated everything we could of what remained, and shared the rest - especially if we also built to last instead of to obsolesce, and if we produced and consumed less slavishly and more responsibly (particularly by minimising or avoiding pollution, resource-hungry processes, and non-renewable energy use).

Buckminster Fuller estimated that seventy percent of jobs in the USA and similar developed countries do not produce "any wealth or life support - inspectors of inspectors, reunderwriters of insurance reinsurers,… spies and counterspies, military personnel, gunmakers etc"[v]. If accepting this estimate, that leaves thirty percent of existing jobs to share amongst all wishing to be employed, meaning roughly a one-and-a-half-day working week.

But a somewhat shorter working week than this follows if taking into consideration negative multiplier effects and the ability to work closer to our capacities. After considering these matters, Ted Trainer concluded that "it is quite plausible that our non-renewable resource use and the time we would have to spend on commercial production could be slashed to the region of one-fifth or less of their present values" [vi]. So, a *one-day working week* is more than plausible.

However, the spare time unleashed by a shorter working week would be at least partly taken up by additional responsibilities required by decentralising and democratising political and economic decision-making.

Plurocracy

To make decisions on which goods are free or discounted, what work is done and how it is shared fairly, and much else, requires more than what now masquerades as democracy. It can be attained via a bottom-up decentralised participatory form of Internet-based direct democracy underpinned by small self-governing electorates arranged into progressively larger associations whose decisions require the majority agreement of constituent groups. Call this *plurocracy* (since it allows a plurality of views), and base it on electorates called 'localities', each consisting of (say) two hundred voters. Groups of (say) twenty localities form electorates called ‘towns’. Groups of towns, in turn, form larger electorates (‘cities’) - groups of these, still larger electorates - and so on.

At least at the locality level, *voters* make most or all decisions — *not* their representatives, who ‘merely’ provide or disseminate options and proposals to their electorates, and make sure they have all available and necessary information to make up their minds. Representatives can only be elected if they live in their electorates, their votes stored online, able to be changed any time a voter wishes.

Electorates at every level function semi-autonomously. Although each locality, for example, must heed the plurocratic decisions of its town, these apply only to issues affecting two or more localities, such as construction methods or building height restrictions. Each locality makes its own rulings for purely internal affairs, such as where to build a new house or shop (though recommendations might be made by the town or city). Most importantly, each electorate can secede from its ‘parent’ electorate, and join more-like-minded electorates (not necessarily with common borders) or become independent.

Determining & Doing

Plurocracy provides a market surrogate: it enables needs and desires, for goods and services *and* provision of labour, to be tabulated and accrued from the bottom up, assisting producers and workers to plan and employ resources accordingly. It also enables free land, homes, factories and other fixed capital to be *stewarded* rather than owned or rented. People living in the smallest plurocratic electorate with borders enclosing unused land have responsibility for looking after the land until they agree on how, if at all, to use or develop it. Home stewards have all the usual rights bestowed by ownership, except they cannot sell (or buy) their houses: those who look after or improve their homes simply move house - the more responsible their stewardship, the greater their options (assisted by nomination of preferences to create online waiting lists). Fixed capital is stewarded mostly by the people operating it - all the workers of a factory, for example - but also, and ultimately, by those most directly affected by the capital’s operations: those living in the smallest plurocratic electorate with borders fully enclosing the capital.

Accounting

To handle all of the above, at the start of each year interest-free finance credits each producer account with funds sufficient to cover expenditures planned for that year following plurocratic determination of needs, desires and work commitments, and credits consumer accounts each week with earnings.

A purchase debits the purchaser's account by the *price*, but credits the producer's account with the *cost*. Over the year, some producers undoubtedly spend more or less than they expect, or sell fewer goods, or suffer shortfalls — so by year's end, their accounts differ from at the start, data which should help inform future allocation of work and resources. At year's end, though, producer accounts are reset to zero, then re-credited for the next year's expected expenditures (revised plurocratically, based partly on this year's performance).

'Project' accounts for work that does not produce consumable goods (such as housing construction or factory building) function like producer accounts, except they involve no purchases of produced goods.

Consumer accounts are not adjusted but remain cumulative: then, hard workers and frugal spenders keep accounts mostly in credit, while big spenders and lazy burdens more often have debits. And consumer account balances are always publicly available for anyone to inspect, to evoke pride or shame and so increase motivation towards working and spending responsibly.

Motivations

So what would stop a person from simply refusing to work at all, while still spending like a millionaire? After all, even if those who deliberately and consistently choose not to contribute receive no welfare payments, they could still run up unlimited debts.

I suggest few people would abuse a system based on plurocratic decision-making, and built around cooperation and the sharing of both the work and the fruits of that work, especially with community approval likely to play an even more significant role than it does now. Those who did fail to pull their weight would likely have personality problems of a scale that would them difficult for any system to handle. However, probably few could persist for long without ending up shunned by their communities - which might well change their minds. Most people, however, would instead feel liberated - not just by stable economic conditions, and the abolition of any need to compete, but perhaps by the absence of compulsion. They'd be motivated to choose responsibly *because* they could do so without coercion. And we're talking, remember, of (eventually) only one day's work per week. So, probably, most people would keep their accounts in approximate balance from one year to the next.

Nevertheless, while no one would be forced to work, they can still be encouraged in different ways to do the responsible thing. The most obvious encouragement stems from publicly available account balances, but also from the knowledge that if enough people take the lazy option, too few people are left to do the necessary work, and then everyone suffers. Co-operation can be further, and more inventively, encouraged if any refusing work for more than a year (or with an account in debit beyond a plurocratically agreed amount) are disallowed moving house except to a place of lesser quality than their existing residence (the longer they refuse to work, or the larger their debit, the less the quality of housing they can choose). Having everyone's final account balance displayed on their gravestone or memorial plaque also seems likely to motivate most people to avoid an unflattering epitaph. As a last resort perhaps, anyone refusing to work for a long enough period might have their plurocratic voting privileges revoked until they start putting in a reasonable effort.

Conclusions

Undoubtedly, some will see the preceding proposals as utopian or idealistic. Of course, any proposal faces difficulties of implementation, and these have to be assessed, but rejecting alternatives out of hand - by simplistic labelling - without fully considering them or why the inbuilt flaws of the status quo make them so desperately needed, misses the point entirely. Keeping this in mind, it seems far more utopian and idealistic (if not living in denial) to proceed on the basis that we just need to tweak things a bit here and there to solve our problems, while ignoring inherent contradictions and destabilising, unsustainable, problem-causing dynamics of the current arrangements.

To fully and adequately address the world's major problems requires fundamentally changing the system that causes those problems, by designing a different economic and political system able to avoid the present's failings. The above outline of such a system is a first tentative step in that direction.

[i] Steve Keen, *Debunking Economics: The Naked Emperor of the Social Sciences* (Pluto Press, Sydney, 2001), p.255

[ii] For instance, according to Paul Gilding, *The Great Disruption: How the Climate Crisis Will Transform the Global Economy* (Bloomsbury, London, 2011), p.216: "Whereas the average African was almost eleven times poorer than the average North American or Australian/New Zealander in 1950, they were over nineteen times poorer by 2000." More recently and generally, national Gini inequality indices, graphed at http://en.wikipedia.org/wiki/Gini_coefficient, show that income inequality within many nations has worsened since 1990, yet improved significantly in few if any.

[iii] For a more thorough explanation of how market completion all but inevitably leads to ecological degradation, see http://home.spin.net.au/freelunch/, especially http://home.spin.net.au/freelunch/A_Free_Lunch-Chapter1.html#1.4 and http://home.spin.net.au/freelunch/A_Free_Lunch-Chapter2.html#2.1.

[iv] For a fuller exposition of these ideas, see http://home.spin.net.au/freelunch/, especially http://home.spin.net.au/freelunch/A_Free_Lunch-Chapter6.html and http://home.spin.net.au/freelunch/A_Free_Lunch-Chapter7.html.

[v] Buckminster Fuller, *Critical Path* (St. Martin's Press, New York, 1981), p.226. Given the expansion of the financial industry since Fuller's book was published, the figure now is probably higher than seventy percent.
[vi] F.E.Trainer, *Abandon Affluence!* (ZED Books, London, 1985), p.217

Herman Royce is God Almighty*'s biographer and self-appointed spokesperson (see http://www.pearlstreetpublishing.com/GodAlmighty.htm), inventor of* A Free Lunch *(see http://home.spin.net.au/freelunch/ which provides more details about the ideas of this and my previous article), and the first person in history to say "Now I've seen you naked, I could never eat turkey."*

The Chicago Plan Revisited

John Hermann

Review: the Chicago Plan Revisited, by Jaromir Benes and Michael Kumhof

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This is an important paper by Jaromer Benes and Michael Kumhof. It may be downloaded at http://www.imf.org/external/pubs/cat/longres.aspx?sk=26178.0 The research is well referenced, and surprisingly published as an IMF working paper (that revelation raised my eyebrow immediately; perhaps the true nature of the topic slipped under the IMF's guard?). The investigations reported in the paper will serve as a valuable reference in support of any serious case made for reforming banking in favour of a full reserve system. Its main defect, in my view, is the authors' insistence on embedding a model of banking into a DSGE model of the U.S. economy. A much better alternative approach would be to embed banking in a non-equilibrium economic model (in the manner of Steve Keen). Michael Kumhof will be speaking at the American Monetary Institute conference to be held in Chicago in late September. The following abstract of the paper reveals why it is valuable from a monetary reform perspective.

Abstract

At the height of the Great Depression a number of leading U.S. economists advanced a proposal for monetary reform that became known as the Chicago Plan. It envisaged the separation of the monetary and credit functions of the banking system, by requiring 100% reserve backing for deposits. Irving Fisher (1936) claimed the following advantages for this plan: (1) Much better control of a major source of business cycle fluctuations, sudden increases and contractions of bank credit and of the supply of bank-created money. (2) Complete elimination of bank runs. (3) Dramatic reduction of the (net) public debt. (4) Dramatic reduction of private debt, as money creation no longer requires simultaneous debt creation. We study these claims by embedding a comprehensive and carefully calibrated model of the banking system in a DSGE model of the U.S. economy. We find support for all four of Fisher's claims. Furthermore, output gains approach 10 percent, and

steady state inflation can drop to zero without posing problems for the conduct of monetary policy.

The malice of interest-burdened debt

Peter Lock

The following extract is from one of Peter's very recent publications, which may be obtained in its entirety by contacting Peter directly (email: pblock@arcom.com.au)

Banks do not create the minuscule amount of circulating legal tender hard cash currency. They do initiate, with the stroke of a pen or the touch of a computer key, the existentially related credit and debit entries by which today's business accounting operates and to which the purchasing power of the community is now mortgaged and enslaved. What many minds, past and present, would deem as counterfeit and treason is now understood legally as privatized purchasing power (ppp) or debt. Costlessly invented, this debt is subsequently conjured into circulation. Once a client's loan application has been approved, a bank opens an account in that name and calls the invented debt-money deposits.

Banks invent and lend their clients new ppp debt-money which becomes complementary credit and debit deposits. Such deposits have no physical tangible reality. They are constructs of negative wealth called debt (F. Soddy). Today, in the marketplaces of western economies almost all purchasing power money is debt-money. Contractual debt-money is understood to have a species of undefined legal existence. It is not physically owned and possessed by anyone. It is a psychical fictional negative quantity, having no physical factual positive reality. It only has an agreed contractually signed existence in the minds of creditors and debtors.

Debt-money is an “I-thou” self-other existential relation, existing only as a reciprocal promise-to-pay in the mindsets of creditors and debtors. The ppp owed to creditors is termed financial assets, while the ppp owed to debtors is termed financial liabilities. In the debt-financed world of modern western economies, self-functioning creditors are dependent on other self-functioning debtors. They are mutually self ↔ other sustaining.

There are complications arising from the use and abuse of debt-money. Banks and other lending institutions, as well as public companies, invite private persons or other corporate bodies to purchase shares in their business enterprises. These investors use some of their own ppp financial assets to do this and receive appropriate amounts of dividend debt-money from the public company’s income earned from trading. The reduction in the amount of ppp in the investor’s assets-deposit account is compensated by the acquisition of shareholders’ script and the ppp dividend the latter earns. The same logic applies to the purchase of Treasury bonds. The agreed exchange of ppp from the financial assets account of one investor to that of the financial assets account of the public company who issues the shares is done almost instantaneously by electronic transfer.

Monetary data for Australia
John Hermann

The following sets of data were extracted from the RBA website. They reveal that, over a twenty-year period, the ratio of the volume of base money (MB) to the various other monetary aggregates varied only slightly, despite the fact that the aggregates increased over that time by factors ranging from 3-6.

What this means is that base money in Australia (mostly currency - coins and notes) has increased in tandem with the increase in bank credit money. The extent to which the volume of base money exceeds the volume of currency in the economy measures the magnitude of the exchange settlement funds, which is nothing more than a fancy description of the net deposits that banking institutions hold within their RBA accounts.

The fact that the MB/currency ratio in 2010 was unchanged from its 2005 value shows that the global financial crisis had little impact upon Australia, to the extent that the RBA felt no need to flood the banking system with creditary base money, as happened in the U.S. The reason was the decision by the government to use the fiscal tools available to it, rather than rely on monetary tools (which operate far more slowly, if at all) to counter the effects of the GFC.

Data obtained from the RBA website (seasonally adjusted)

Year (June)	MB/currency	MB/M1	MB/M3	MB/Mb
1990	1.37	0.42	0.082	0.056
1995	1.28	0.31	0.082	0.063
2000	1.13	0.22	0.065	0.051
2005	1.15	0.22	0.057	0.051
2008	1.16	0.20	0.045	0.041
2009	1.17	0.22	0.045	0.043
2010	1.15	0.23	0.043	0.042

Increase in magnitude from June 1990 to June 2010

Currency	3.62
M1	5.60
M3	5.70
Mb (broad money)	3.03

The distribution of transaction money (in $billions) at June 2011 was:

M1	262.3
Notes in circulation	45.0
Notes in banks	5.1
Coins in circulation	3.1
Coins in banks	0.4

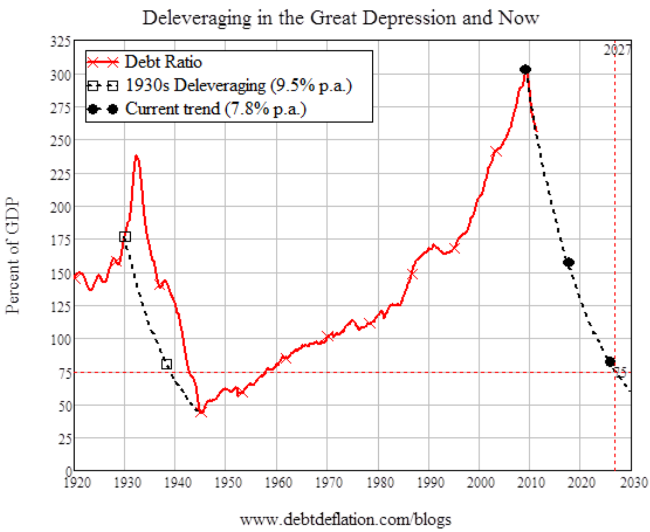
Economics is haunted by more fallacies than any other study known to man. This is no accident. The inherent difficulties of the subject would be great enough in any case, but they are multiplied a thousandfold by a factor that is insignificant in physics, chemistry, mathematics, or medicine -- the special pleading of selfish interests. Henry Hazlitt

A modern Jubilee

Steve Keen

Michael Hudson's simple phrase that "Debts that can't be repaid, won't be repaid" sums up the economic dilemma of our times. This does not involve sanctioning "moral hazard", since the real moral hazard was in the behaviour of the finance sector in creating this debt in the first place. Most of this debt should never have been created, since all it did was fund disguised Ponzi Schemes that inflated asset values without adding to society's productivity. Here the irresponsibility - and Moral Hazard - clearly lay with the lenders rather than the borrowers.

The only real question we face is not whether we should or should not repay this debt, but how are we going to go about not repaying it? The standard means of reducing debt - personal and corporate bankruptcies for some, slow repayment of debt in depressed economic conditions for others - could have us mired in deleveraging for 15 years, at its current rate (see Figure 1).



That fate would in turn mean one and a half decades where the boost to demand that rising debt should provide - when it finances investment rather than speculation - will not be there. The economy will tend to grow more slowly than is needed to absorb new entrants into the workforce, innovation will slow down, and justified political unrest will rise - with potentially unjustified social consequences. We don't need to speculate about the economic and social damage such a future history will cause - all we need do is remember the last time.

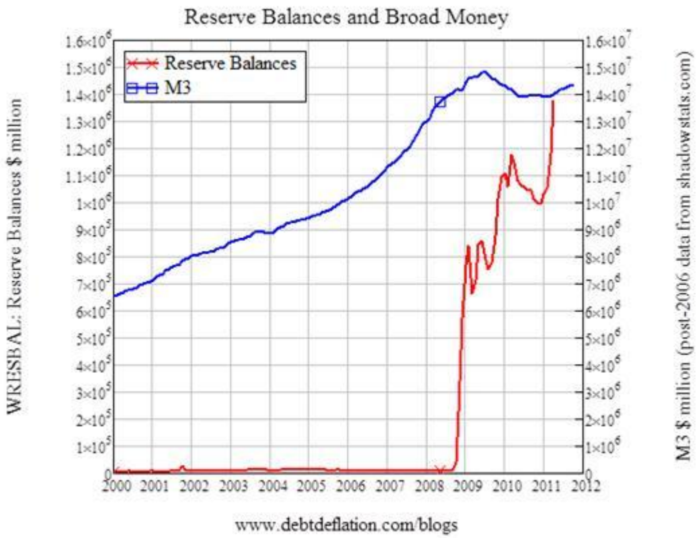
We should, therefore, find a means to reduce the private debt burden now, and reduce the length of time we spend in this damaging process of deleveraging. Pre-capitalist societies instituted the practice of the Jubilee to escape from similar traps (Hudson 2000; 2004), and debt defaults have been a regular experience in the history of capitalism too (Reinhart and Rogoff 2008). So a prima facie alternative to 15 years of deleveraging would be an old-fashioned debt Jubilee.

But a Jubilee in our modern capitalist system faces two dilemmas. Firstly, in any capitalist system, a debt Jubilee would paralyse the financial sector by destroying bank assets. Secondly, in our era of securitized finance, the ownership of debt permeates society in the form of asset based securities (ABS) that generate income streams on which a multitude of non-bank recipients depend, from individuals to councils to pension funds.

Debt abolition would inevitably also destroy both the assets and the income streams of owners of ABSs, most of whom are innocent bystanders to the delusion and fraud that gave us the Subprime Crisis, and the myriad fiascos that Wall Street has perpetrated in the two decades since the 1987 Crash.

We therefore need a way to short-circuit the process of debt-deleveraging, while not destroying the assets of both the banking sector and the members of the non-banking public who purchased ABSs. One feasible means to do this is a “Modern Jubilee” - also describable as “Quantitative Easing for the public”.

Quantitative Easing was undertaken in the false belief that this would “kick start” the economy by spurring bank lending.



And although there are a lot of Americans who understandably think that government money would be better spent going directly to families and businesses instead of banks – “where’s our bailout?,” they ask – the truth is that a dollar of capital in a bank can actually result in eight or ten dollars of loans to families and businesses, a multiplier effect that can ultimately lead to a faster pace of economic growth. (Obama 2009, p. 3; emphasis added).

Instead, its main effect was to dramatically increase the idle reserves of the banking sector while the broad money supply stagnated or fell, (see Figure 2), for the obvious reasons that there is already too much private sector debt, and neither lenders nor the public want to take on more debt.

A Modern Jubilee would create fiat money in a like manner to Quantitative Easing, but would direct that money to the bank accounts of the public with the requirement that the first use of this money would be to reduce debt. Debtors whose debt exceeded their injection would have their debt reduced but not eliminated, while at the other extreme, recipients with no debt would receive a cash injection into their deposit accounts. The broad effects would be:

1. Debtors would have their debt level reduced;
2. Non-debtors would receive a cash injection;
3. The value of bank assets would remain constant, but the distribution would alter with debt-instruments declining in value and cash assets rising;
4. Bank income would fall, since debt is an income-earning asset for a bank while cash reserves are not;
5. The income flows to asset-backed securities would fall, since a substantial proportion of the debt backing such securities would be paid off; and
6. Members of the public (both individuals and corporations) who owned asset-backed-securities would have increased cash holdings out of which they could spend in lieu of the income stream from ABS’s on which they were previously dependent.

Clearly there are numerous complex issues to be considered in such a policy: the scale of money creation needed to have a significant positive impact (without excessive negative effects - there will obviously be such effects, but their importance should be judged against the alternative of continued deleveraging); the mechanics of the money creation process itself (which could replicate those of Quantitative Easing, but may also require changes to the legal prohibition of Reserve Banks from buying government bonds directly from the Treasury); the basis on which the funds would be distributed to the public; managing bank liquidity problems (since though banks would not be made insolvent by such a policy, they would suffer significant drops in their income streams); and ensuring that the program did not simply start another asset bubble.

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Source: Steve Keen's Debtwatch (http://www.debtdeflation.com/blogs/)

Expectations and sustainability
Greg Reid

The GFC and its aftermath have shown how vulnerable the market economy is to the effect of expectations. Few would dispute that consumer demand is currently suppressed by uncertain expectations of the future and expectations are tearing sustainability in two opposing directions.

Australians expect electricity prices will continue to rise. This is a strong incentive to buy sustainable alternatives like solar power. At the same time, investment and share prices in renewable energy are low despite the new carbon tax. Political uncertainty and repeated share dilutions play a role but I also argue that investment is limited due to depressed future expectations.

The consumer who buys solar panels can rationally expect his power bill to reduce but expectations of future investment performance are based more on confidence than calculation. Unfortunately there is little to inspire confidence in management of the global economy or in the capacity of our political systems to resolve the big issues of our time.

Climate change is one of the big issues and it is clear that global mitigation efforts will fail. Extreme conditions will grow in intensity and frequency. Costs and damages are already accumulating faster than they can be redressed. As realisation of the situation spreads it will become a pall over expectations.

Conventional economic analysis predicts merely that growth will switch to areas less prone to climatic impacts and counts incomplete damage repair as GDP growth. Trends in confidence, savings, insurance premiums and property values are all ignored.

Current economic models are spectacularly inaccurate and frequently mislead policy decisions. Among the many false assumptions is the mathematical conclusion that people aspire only to "more of the same" without any basic need for hope in a better future.

A new theory of economics is required that realistically models human needs and behaviour. The challenge for an economics of sustainability is to convince the wider public that it is not just offering "less of the same". The challenge for political leaders of all sides is to inspire some optimism in the future and that will take more than GDP figures and "smoke screen" policies.

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Scientists and economists
Doris Phelps

On August 6, NASA successfully landed its robot explorer "Curiosity" on Mars, after an eight-month trip of 566 million kilometres. It is awe-inspiring to think of the calculations needed to gently land the robot, after its entry at 21,000km into the Martian atmosphere, in a precise area on Mars.

And, amazingly, the NASA scientists can now direct the robot to drive over to a mountain, to use tools, to poke into rocks, scoop up soil, and send photos back to earth.

What a myriad of problems must the scientists have encountered and had to solve during the development of the project. It is wonderful to contemplate what the mind of man can achieve when the incentive is there.

When I think of the problems of the world's economic system, it makes me wish that economists were as efficient as scientists at solving problems.

NASA scientists are dealing with a planetary system which has evolved over millions of years, and any calculations they make have to accommodate that system as it is.

Economists, on the other hand, are dealing with a system which has been invented by men, and when it seems that it is not working efficiently, its problems should be solvable by man's clever mind. When you think about it, could the problems of our financial system possibly be more intricate than those encountered by NASA scientists?

And yet, economists do not seem to be able to tell us how the economy can be kept travelling steadily. They talk of the economic cycle, in which the world economy, or individual economies, are either in boom or recession, as though it is a natural phenomenon. If the cycle were natural, we would have a boom when seasons are good, and a recession when there are floods or droughts, but history shows that this is not so.

Therefore the faults in the economic system must be man-made, and when the economists begin looking for the cause of the problems in the same way as scientists do, the problems should be able to be solved. And that will be a cause for much greater rejoicing than a landing on Mars.

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Comment on: ‘Eight Elementary Errors of Economics’
Richard Giles

This article in the Jul-Aug Review by Geoff Davies points out quite clearly some home truths about neo-classical economics. The second error however deserves a comment.

The Second Elementary Error: Poor Performance Ignored

Dr Davies points out that economists have ignored the poor performance of the economy since 1980. He argues that unemployment and inflation were significantly lower in the period 1953-1974 than post-1980. That he says is due to the fact that between 1953 and 1974 "governments involved themselves substantially in the economy". The remedy he adds is that markets "need to be carefully nudged and guided into behaviour that is beneficial".

Repression can always make things appear superficially better than they are. Political repression can do that but so also can economic repression. The period 1953-1974 was one of economic repression.

The ability of employers to exploit the poorer bargaining position of workers was repressed through the encouragement of compulsory unionism, 'closed shops', periodic basic wage decisions, awards, arbitration and so on. At the same time it was generally harder to get a home loan.

After 1980 economic repression eased considerably. Employers regained greater bargaining power and banks and building societies tried to make it possible for everyone to buy a home. Trading in mortgages helped to replenish capital for more mortgages.

No Questions Asked

But no one probed very deeply in the period 1953-1974 as to why economic repression was needed or, after 1980, why wages and conditions deteriorated and why the very poorest 30% of the population could never afford a home.

In sum, having taken away economic repression the distorted shape of the economy reasserted itself. Dr Davies does do some probing. He says it "was the collapse of a mortgage debt bubble in the US that triggered the GFC". Let us go on from there. In other words, land speculation (the great 'free lunch' in our society) mostly in the form of mortgages, exacerbated by a mounting trade in those mortgages, finally produced a reverberating collapse. The poorest 30% failed to repay these debts, then investors failed to repay debts when it became impossible to sustain the ongoing sales of property, and then banks ran out of funds.

At the same time rising land values and rents made it harder for households and labour, including developers and entrepreneurs, to sustain their 'ordinary returns'. The expansion of construction slowed and from this failure of supply the vicious cycle of falling supply and demand developed.

For the two problems of land speculation and increasing poverty Henry George in *Progress and Poverty* proposed one answer: the return to the community of that income stream called economic rent (the locational value of land). That seems too hard for our community. We prefer to personalise the economy into goodies and baddies and, instead, to demand that 'they do something'. We almost forget that "they" are politicians who have as much chance of changing things as Canute did in stopping the tide.

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1. Capitalism is the astounding belief that the wickedest of men will do the wickedest of things for the greatest good of everyone.
2. The difficulty lies not so much in developing new ideas as in escaping from old ones.
3. It is better to be roughly right than precisely wrong. John Maynard Keynes

The Howard Roarke of Economics

David Lawson

(Ref: http://www.debtdeflation.com/blogs/)

Men have been taught that it is virtue to agree with others. But the creator is the man who disagrees. Men have been taught that it is virtue to swim with the current. But the creator is the man who goes against the current. Men have been taught that it is virtue to stand together. But the creator stands alone. [1]

For those who are unfamiliar with this quote, it is taken from *The Fountainhead*, by Ayn Rand, and I recommend it as a highly amusing *fictional* read. I do find it rather ironic that this quote is easily applicable to Professor Steve Keen's constructively creative approach to economic theory. Sadly, neoclassical economics— today's conventional economic current–is the second hander of this defunct "free market" economic postulate that Ayn Rand helped cultivate through her far right-wing philosophy of Objectivism. If neoclassical economics is a religion, then Objectivism is more of a cult! Even more amusing than her *fictional* novels themselves, was that Ayn Rand refused to drink her own Kool-Aid when she used the very welfare system that she spent her life campaigning against.

However, the ignorance of her second hand followers is more disturbing than amusing. Her so called masterpiece *Atlas Shugged* has been called the second most influential book to the bible in the United States. Alan Greenspan, winner of the Dynamite Prize, acknowledged it, saying that "Atlas Shrugged is a celebration of life and happiness". Other second handers of Rand's unsound philosophy, Donald Luskin & Andrew Greta, who wrote the book *I am John Galt*, claimed in it that "Milton Friedman… made economics into a science…"

Readers of Steve's Debunking Economics should be aware how absurd it is to characterise economics as a science - let alone the Neoclassical vein that Friedman promoted with claims like:

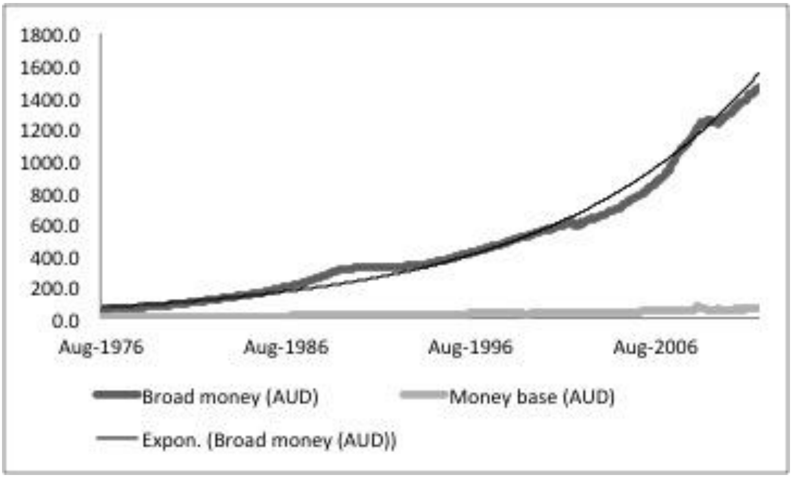
> "The societies that have achieved the most spectacular, broad-based economic progress in the shortest period of time, are not the most tightly controlled, not necessarily the biggest in size or the wealthiest in natural resources. No, what unites them all is their willingness to believe in the magic of the marketplace. [2]

Magic? Friedman's claims aren't scientific, they are a paean to an illusion! Meanwhile, Milton Friedman, was Reagan's economic adviser and once described by Joan Robinson as "… a man who would put a rabbit into a hat, in full view in front of an audience and expect applause as a magician when he pulled it out shortly afterwards". Even his magic was second hand.

Friedman, who played a primary role in vanquishing money, banks and debt from economic theory, is also well known for his quote:

> … inflation is always and everywhere a monetary phenomenon … [3]

However, in the excessively leveraged and euphorically prosperous economy built on Friedman's delusions, broad money exponentially deviates from base money, making moral hazard always and everywhere an economic phenomenon!



Source: [4]

As the renowned American physicist Prof Albert Allen Bartlett said once:

> 'The greatest shortcoming of the human race is our inability to understand the exponential function.'

However, I do not believe this statement to be fully correct. I am sure that today's banking authorities like Ben Bernanke and Glenn Stevens understand the exponential function quite well. What they ignore are its implications for their second hand Neoclassical theories. Their Peter Keating approach to solving the Global Financial Crisis clearly lacks any sustainable creativity. Unfortunately, the greatest shortcoming of the human race is simply human ignorance, and Ayn Rand was testament to this fact.

References

[1] 'The Fountainhead', Ayn Rand, p. 713, Penguin Books, 2007, England.
[2] 'The Counter-Revolution in Monetary Theory' (Occasional Paper 33), Milton Friedman, p. 24, The Institute of Economic Affairs: The Wincott Foundation, 1970, Great Britain, Tonbridge Printers Ltd.
[3] Ronald Reagan, former President of the United States, in the film: Enron: The Smartest Guy In The Room by Alex Gibney (director), 2005.
[4] Based on Reserve Bank of Australia, 'Statistics, Financial Aggregates, Monetary Aggregates – D3 [XLS]' – electronic delivery. Release date: 30 April 2012. Available at: <http://www.rba.gov.au/statistics/frequency/financial-aggregates.html>. Access 14/5/12