

Economic Reform Australia Review



For a just and sustainable society

ERA Review ISSN 2202-0934 (Print) 2202-0942 (Online)
Vol 5 No 5 September-October 2013

IN THIS ISSUE

		page
Susan George	Debt, austerity, devastation: it's Europe's turn	3
Lionel Anet	To save our children we need to know why we do what we do	8
John Coulter	Review of Brian Czech's latest book: Supply Shock	13
Timothy Spangler	Calling bad bankers to account	16
Philip Lawn	Sectoral balances in macroeconomics	18
Dennis Dorney	News and views from New Zealand: "Show us the money"	21
John Hermann	Some issues of concern to ERA	23
Richard Escow	The "bankization" of America	24
Dan Kervick	Krugman's flawed model of open market operations	29
Craig Walter	An Australian Entrepreneurial Bank Foundation	31

This issue contains a collection of articles which map the recent history of debt and of debt slavery and its causes. They highlight the economic, social, environmental and moral catastrophes already manifested, and the imminent collapse of many of those systems with horrific consequences for the planet and the individuals on it.

Readers are invited to sign two petitions: (a) one for setting up an entrepreneurial bank foundation as discussed by Walter Craig in this issue, and (b) one associated with the intention to form an online discussion group on banking and financial reform (see the banking reform section of the ERA website for details).

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

Editorial Committee	John Hermann	hermann@picknowl.com.au
	Victoria Powell	veepee@lm.net.au
	Frances Milne	fbmilne@iprimus.com.au
	Craig Walter	cj.walter@bigpond.com

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.

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

NSW Division Inc

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

SA Division Inc

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

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

ERA Website: www.era.org.au

ERA Blogsite: <http://era-blog.com/>

ERA Facebook site: <https://www.facebook.com/economic.reform>

Email Network Editor: Dr John Hermann hermann@picknowl.com.au

National Treasurer & Membership Officer: Victoria Powell veepee@lm.net.au

Postal address: P.O. Box 505, Modbury, SA 5092, Australia

Debt, austerity, devastation: it's Europe's turn

Susan George

The austerity prescription fattens the creditors and punishes the innocent. Susan George laments a leadership subservient to the desires of finance.



ShotshvH/Alamy

Like plague in the 14th century, the scourge of debt has gradually migrated from South to North. Our 21st-century *Yersinia pestis* isn't spread by flea-infested rats but by deadly, ideology-infested neoliberal fundamentalists. Once they had names like Thatcher or Reagan; now they sound more like Merkel or Barroso; but the message, the mentality and the medicine are basically the same. The devastation caused by the two plagues is also similar – no doubt fewer debt-related deaths in Europe today than in Africa three decades ago, but probably more permanent harm done to once-thriving European economies.

Faithful - and older - *New Internationalist* readers will recall the dread phrase 'structural adjustment'. 'Adjustment' was the innocent-sounding term for the package of economic nostrums imposed by wealthy Northern creditor countries on the less-developed ones in what we then called the 'Third World'. A great many of these countries had borrowed too much for too many unproductive purposes. Sometimes the leadership simply placed the loans in their private accounts (think Mobutu or Marcos) and put their countries in hock. Paying back in pesos, reals, cedis or other funny money was unacceptable: the creditors wanted dollars, pounds, deutschmarks...

Furthermore, the Southerners had contracted their loans at variable interest rates, initially low but astronomical from 1981 when the Federal Reserve declared an end to the era of cheap money. When countries such as Mexico threatened default, panicked creditor-country treasury ministers, top bankers and international bureaucrats spent some sleepless weekends eating take-out and cobbling together emergency plans.

*Plus ça change, plus c'est la même chose.** Decades later, serial crisis meetings still take place, this time in Brussels and, with minor variations, the response is identical: you only get a bailout in exchange for committing to a set

of stringent requirements. These once echoed the neoliberal 'Washington Consensus'; now they are more truthfully labelled 'austerity packages' but demand the same measures. Sign here, please, in blood.

For the South, the contracts said: 'Cut back food production and grow cash-earning crops. Privatize your State enterprises and open up profit-making activities to foreign transnational corporations, especially in raw materials and extractive industries, forestry and fisheries. Drastically limit credit, cancel subsidies and social benefits. Make health and education paying propositions. Economize and earn hard currency through trade. Your prime responsibility is to your creditors, not your people.'

Now it's Europe's turn. The countries of southern Europe, plus Ireland, are relentlessly told: 'You have been living beyond your means. Now pay.' Governments meekly accept orders and their people often assume that their debt must be paid instantly because the debt of a sovereign State is just like the debt of a family. It's not – a government accumulates debt by issuing bonds on financial markets. These bonds are bought mostly by institutional investors such as banks which receive an annual interest payment, low when the risk of default is low, higher when it isn't. It's absolutely normal, desirable and even necessary for a country to have a debt which will pose zero problems and generate many benefits if the money is prudently invested for the longer term in productive activities such as education, health, social benefits, solid infrastructure and the like.

Indeed, the higher the proportion of public spending in a government budget, the higher the standard of living and *the more jobs are created – including private-sector jobs*. This rule has been verified time and again since the correlation between public investment and national well-being was first noted in the late 19th century.

Obviously, borrowed money can also be wasted and spent stupidly and benefits can be distributed unfairly. The big family-State budget difference is that States don't disappear like bankrupt companies. Productive, well-managed investment financed by government borrowing should be seen on the whole as A Good Thing.

The magic numbers

In 1992, European countries narrowly voted Yes to the Maastricht Treaty, which at the insistence of Germany contained two magic numbers, 3 and 60. Never allow a budget deficit greater than three per cent; never contract public debt greater than 60 per cent of your Gross Domestic Product (GDP). Why not two or four per cent, 55 or 65 per cent? Nobody knows, except perhaps some ancient bureaucrats who were there, but these numbers have become the Law and the Prophets.

In 2010, two famous economists announced that beyond 90 per cent of GDP, debt would plunge a country into trouble and its GDP would contract. That sounds logical because interest payments would take a bigger chunk out

of the budget. But in April 2013, a North American PhD candidate tried to replicate their results and found he couldn't. Using their figures, he got a positive result for GDP which would still rise by more than two per cent per annum. The famous, if red-faced, twosome had to admit they were Excel victims and had misplaced a comma.



Merkel the puppeteer: a mural in Lisbon, Portugal, depicts the Portuguese Prime Minister and Foreign Minister as the German Chancellor's playthings. Rafael Marchante/Reuters

Even the International Monetary Fund has confessed to similar mistakes, this time on the austerity cuts issue. We now know, because the Fund was honest enough to tell us, that cuts would hurt the GDP by two to three times more than it initially foresaw. Europe should go easy, says the IMF, and not 'drive the economy with the brakes on'. The magic 60 per cent of GDP debt limit is no more sacred than the three per cent deficit limit; yet policies remain the same, because the neoliberal hawks seize upon every scrap of dubious evidence that seems to promote their cause.

We are faced with two basic questions. The first is why did the debts of European countries rise so steeply after the crisis struck in 2007? In just four years, between 2006 and 2010, debts escalated by more than 75 per cent in Britain and Greece, by 59 per cent in Spain and by fully 276 per cent in all-time champion Ireland, where the government simply announced it would assume responsibility for *all* the debts of *all* the private Irish banks. The Irish people would henceforward be held responsible for the irresponsibility of Irish bankers. Britain did the same, though in lesser measure. Just as profits are privatized, losses are socialized.

So citizens pay through austerity, whereas bankers and other investors who bought the country's bonds or toxic financial products contribute nothing. After the 2007 crisis, the GDP of European countries dropped by an average five per cent and governments had to compensate. Escalating business failures and mass unemployment meant more expenditures for governments just when they were taking in less income from taxes.

The New Morality

Economic stagnation is expensive – higher expenditure and lower revenue add up to a single answer: borrow more. Saving the banks and taking the consequences of the crisis they created are the fundamental reason for the debt crisis – and consequently for harsh austerity today. People were not ‘living beyond their means’ but the New Morality is clearly ‘Punish the Innocent, Reward the Guilty’.

This is no defence of stupid or corrupt policies such as allowing the Spanish housing bubble to inflate or Greek politicians to hire masses of new civil servants after each election. The Greeks have a bloated military budget and inexcusably refuse to tax the great shipping magnates and the Church – the biggest property owner in the country. But if your bathtub leaks and the dining room paint is peeling, do you burn down your house? Or do you fix the plumbing and repaint?

The human consequences of austerity are inescapable and well known: pensioners search through rubbish bins at mid-month hoping to find a meal; talented, well-educated Italians, Portuguese and Spaniards flee their countries as unemployment for their age group approaches 50 per cent; unbearable stress is laid on families; violence against women increases as poverty and distress rise; hospitals lack essential medicines and personnel, schools decline, public services deteriorate or disappear. Nature takes the brunt as well: nothing is invested in reversing the climate crisis or halting environmental destruction – it’s too expensive. Like everything else, we can’t do it now.

We know these outcomes, the results of what Angela Merkel calls ‘expansionary austerity’ policies. This neoliberal theory claims that markets will be ‘reassured’ by tough policies and reinvest in the newly disciplined countries concerned. This hasn’t happened. Pictures of Merkel adorned with swastikas are appearing throughout southern Europe.

Many Germans think they are helping Greece – and they don’t want to anymore. In fact, virtually all the bailout money has taken a circuitous route: EU government contributions made through the European Stability Mechanism have been channelled via the Greek Central Banks and private banks right back to British, German and French banks that had bought up Greek Euro-bonds to get a higher yield. It would be simpler to give European taxpayers’ money directly to the banks, except that said taxpayers might notice. Why make an ongoing psycho-drama over two per cent (Greece) or 0.4 per cent (Cyprus) of the European economy? A cynic might say: ‘Easy. To ensure Ms Merkel’s re-election in September.’

The second basic question is: why do we continue to apply policies that are harmful and don’t work? One can look at this self-created disaster in two ways. Eminent prize-winning economists like Paul Krugman or Joseph Stiglitz believe that the European leadership is brain-dead, ignorant of economics and needlessly committing economic suicide. Others note that the cuts conform exactly to the desires of such entities as the EU Roundtable of Industrialists or



'Hands up! It's a robbery,' chant students and teachers at the police during a march in Malaga against the Spanish government's education budget cuts. Reuters/Jon Nazca

BusinessEurope: cut wages and benefits, weaken unions, privatize everything in sight and so on. As inequalities have soared, those at the top have done nicely. There are now more 'High Net Worth Individuals' with a much greater collective fortune than in 2008 at the height of the crisis. Five years ago there were 8.6 million HNWI's worldwide with a pile of liquid assets of \$39 trillion. Today, they are 11 million strong with assets of \$42 trillion. Small businesses are failing in droves, but the largest companies are sitting on huge piles of cash and taking full advantage of tax havens. They see no reason to stop there.

This is not a crisis for everyone and the European leadership is no more stupid than its counterparts elsewhere. It is, however, entirely subservient to the desires of finance and the largest corporations. Certainly, neoliberal ideology plays a key role in its programme but serves especially to emit thick smokescreens and pseudo-explanations and justifications so that people will believe There Is No Alternative. Wrong: the banks could have been socialized and turned into public utilities, like other utilities that run on public money; tax havens closed down, taxes levied on financial transactions and many other remedies applied. But such thoughts are heretical to neoliberalism (although 11 Eurozone countries will start taxing financial transactions in 2014).

I am a fervent European and want Europe to thrive, but not this Europe. Against our will we have been plunged into class warfare. The only answer for citizens is knowledge and unity. What the one per cent has imposed, the 99 per cent can reverse. But we'd better be quick about it: time is running out.

Susan George is Board President of the Transnational Institute and author of 16 books, most recently *Whose Crisis, Whose Future?* and *How to Win the Class War*, on her website in June for download and print on demand along with 'Six Susan George Classics'.

Published in New Internationalist, July 2013, and licensed under creative commons. Source: https://digital.newint.com.au/issues/73/articles/1536?guest_pass=15fWQli4TYBfXN_zmhPTw&utm_source=ni-eneews-au-2013-07-16&utm_medium=email-html&utm_content=body&utm_campaign=new-internationalist-eneews-oz-shop

To save our children we need to know why we do what we do

Lionel Anet

The state of the planet

Atmospheric scientists are in agreement that we are responsible for changing the climate, which already shows its severity in many ways and places. There are a host of problems we are inflicting on nature and therefore, on ourselves. An expected extra two billion people with fewer resources on a hotter planet will jeopardize our children's lives before the middle of this century. However, generally but particularly for all mammals, the wellbeing of offspring is paramount for each species. But today, for the first time humans have a new situation where people are placing their life style above their children's future. People have managed that because we are pounded with information aimed to mislead or hide the gravity of the situation, which is now more obvious in its severity and may be unstoppable next decade. The capitalist Media has used the educated, particularly psychologists, in public relation companies to divert people's attention on to trivia, and so crucial scientific information cannot make its mark on the public.

There are numbers of dedicated people including scientists who have tried to change society to a sustainable economy by challenging the oligarchs and their agents in government elections and public forums. This means that liberal minded concerned people are participating in competitive activities against overwhelmingly powerful foes -- the corporates and oligarchs' agents who are masquerading as peoples' representatives. The reality is that those agents have an overwhelming competitive advantage over the masses and we call that democracy. It is unlikely that such unfair contests can ever become fair.

Capitalist Democracies' thoughtless self-destruction

Capitalism has given the top 1% of the population what they want, which is the opportunity to be the wealthiest and most powerful of the richest people ever seen. For those few, in societies containing many educated people, an appearance of improving living standards must be maintained if those educated ones are to accept the extravagances of the few. But unless the unsustainable fossil fuels are magically sustained, societies will collapse; oil is the only source of energy that can be both on tap anywhere and available at any time. Unconventional oil poses extreme danger to the environment, and also takes much more energy to extract and process, all of which will change the chemistry of the biosphere to an even worse detrimental state. If we wait for the oil to run out to force a change, it will be too late and too hot for our survival. Furthermore, our dependence on those fuels is gradually locking us in on their use the longer we exploit them, because the infrastructures to use

them are only suitable with cheap oil. If we stay on course, the depletion of the oil will curtail most activities as we have come to know them – mining, food production and distribution, much of the water from aquifers, and our reliance on trade and travel. This will be catastrophic in a climate of extremes and a more populated world.

The present competitive exploitative system is also driven by a financial system of debt created money that can only be sustained with the increasing consumption of energy and resources. The financial flaws are easy to rectify, but it is not possible to maintain a conventional oil supply let alone a growing one, regardless of financial strength.

Civilised societies have concerns for life, providing it does not reduce their competitive advantage over their opponents. That attitude is an outcome of the illusion that wealth is paramount (that ideology is an integral part of the Media's propaganda). Unfortunately, social reformists and environmentalists are competing against that attitude without directly confronting the long term dire effects that include the wealthy. Instead the reformists are focused entirely on poor people especially from the third world who will die because of billionaires' greed. It has no effect on the greedy, who are the only ones that can change their own attitude, with help. Those well-meaning people see the billionaires as enemies and ignore the fact that billionaires are for the most part oblivious of the dangers they also face. However, everyone's first concern is survival and in the best possible condition. Once those ultra-rich people understand the tragic situation they would face with business as usual we can save them and ourselves. After all, the capitalist system demands certain attributes, and greed is the quintessence of competition; so those greedy billionaires are fulfilling capitalism's needs like everyone in their own way.

Scientists have found after wide and intensive investigations that a one degree average rise in temperature will raise the sea by up to 2.3 metres, which indicates that much more than 80% of fossil fuels must stay in the ground. According to Dr James Hansen, if we burn all of the available coal our planet will go the way of Venus, with a surface temperatures of molten lead.

Although scientists, in a wide range of disciplines, have published many papers on the unsustainability of the global economy since the late 1960s, that information has been ignored by plutocrats and the media, as it contradicts the needed growth that a competitive system requires. However we cannot adapt to impossible conditions, and must change the system to survive, but how?

Our central problem

Whether an individual is a plutocrat or a domestic servant, we all coexist within a competitive society living the best way we can, according to what we are allowed to get away with. Competition works in opposite ways for the two opposite levels of society. For the top level the contest is to maximise wealth and power and for the bottom level the contest is to maximise the production of goods and services at the lowest cost. Where wealth is the ultimate pursuit,

it is accumulative, and this has produced the gross wealth and power disparity so evident under capitalism. Therefore the wealthy and powerful have a strong interest in maintaining a system that increases competition. Nevertheless, competition can only be maintained by increasing the use of fossil fuels.

The operation of capitalist democratic societies is motivated and controlled by competition, which has come to replace social needs as the primary motivator. The paramount concern for individuals is how they can fare within a competitive world. The result being that the decisions we make as a society tend to be primarily determined by the competitive opportunities we face. This means that people are fulfilling the needs of competition, rather than social needs. Furthermore, as competitive pressures intensify in society, qualities like cooperation, honesty and caring will diminish.

Even worse than the above, and with a general feeling that business may be maintained as usual, many people are more afraid of unemployment and their immediate higher living costs than they are of the dire future their children will face. One reason why pessimism prevails in regard to changing our system is that there are many who still view humanity as a genetically flawed species, and conclude that humans are only capable of creating flawed social and economic systems. However one should consider carefully the 180,000 years of modern human existence when evaluating human behaviour. Beliefs about the general frailty and inadequacy of human beings often involve cherry-picking from available information about the behaviour of a few powerful individuals in idiosyncratic circumstances. It shifts the blame that should be attributed to a dysfunctional and unfair social system on to people.

A related issue is that many people have been persuaded to believe the planet and everything residing in it exists just for human exploitation. The most debilitating problems have been caused by the effects and influence of the media-entertainers-advertisers. They engulf all of us with 'information' whose primary objective is to improve the operation of global capitalism, a system which can only function at present by using fossil fuels. To support the current system, entertainment media provide competitive quiz shows, professional sports (the more violent the better), dramas centred on crime and violence, and other trivial circuses. Some of these diversions are even invading schools.

Unfortunately many well-intended people are going down the pathway of campaigning to bring 'sustainability' to capitalism by advocating participation in a competitive system that, by its nature, increases consumption and increases social inequity. This is a futile course of action, because it creates uncertainty as well as harsh exploitative behaviour towards people and nature.

What we should do

Some of the wealth and power enjoyed by the top stratum of society could be used to effect change in the direction of a sustainable and fair society as a whole, providing those possessing that wealth perceive such change to be in their interest and their own survival. Plutocrats give consideration to their self-

interest, which is why they are plutocrats; it is the way to capitalist success. They are what they are, not because of a strong belief in capitalism, but because it is in their self-interest.

However if they see their demise in "business as usual", they might change direction to one in which their children would stand a chance of survival. That requires us to advocate reforms which would change the direction of the economy to one promoting survival, and also would be acceptable - even grudgingly - to some of the wealthy few.

We have little time left to effect change for our survival, because living systems soon will be incapable of maintaining the necessary chemical balance within the earth's biosphere for a liveable planet. Humanity cannot survive such an eventuality (which may be irreversible soon) unless a sufficient number of plutocrats can be convinced that their behaviour is driving humanity towards extinction. The only way to survive this century is to live within nature's limits, and the sooner that happens the more likely it will be that our children will survive. It will be easier to avoid that annihilation by informing all billionaires of their likely fate than by attempting to outdo their destructive propaganda.

What we need to know

We are still concerned with striving for different systems, leaders, policies and goals; we think that we need a plan and a system for the future, but this has been one of our diversions. What we need to know is what sort of creatures we are, what sort of life makes us happy, and what sort of life the rest of nature can accept and sustain so that we can have the best life support system. Whatever we do has to conform to those criteria, if our children are to survive. How we do it will vary according to local circumstances in conjunction with other people's needs, as they must likewise act according to our needs.

However, those simple principles can only be attained if we aim to save everyone. Because everyone, stupid or clever, careful or careless, weak or strong, wealthy or poor, are in some way important to us, as is nearly all of nature. Meeting those basic needs will enable a common interest and change our attitudes, which are the legacy of increasing competition over the centuries, and the cause of the social harshness and deceitfulness we are now experiencing. Those social attributes will change to kindness, sharing, and an affinity with all people and living things. We would then only wish to produce what will give us happiness and fulfilment within nature's ability to thrive.

Human adaptability that has enabled people to withstand in "peacetime" the loneliness of living in cities, where millions of strangers live in a synthetic environment. Sadly and deplorably, the toll has been significant over those thousands of years of civilisation, the worst casualties being wars to dominate and rob people. The deleterious effect on the physical and mental health of most people just to satisfy the acquisition of enormous wealth and status of very few people was justified by creating imaginary visions that the majority

could somehow be associated with that wealth and status. Although oil has given us new horizons of “progress”, its use is also life's greatest danger and our attachment to it is our greatest challenge to overcome for our survival.

What we need to change for our survival

We will have to live with - and as a part of - nature. We should not be using and running down nature by wastefully using millions of years of stored energy from the sun within only a few centuries, in order that the few can acquire and maintain their extravagances. Cheap fossil fuels have undercut labour, owing to taxes and charges associated with labour and subsidies linked to fossil fuels. Under those cost structures there must be perpetual growth, without which in the current circumstances we would have intolerable unemployment.

Even a (possibly reluctant) consent by the wealthy few to the following short list of minor changes within the wealthier nations would set us on the road to survival and a better life for all.

- Gradually shifting the distribution of taxes and charges from labour to unearned income (e.g. land use, financial investments, real estate, and speculative activity). Also imposing taxes on non-renewable resources such as the use of land, seas, fossil fuels, and renewables beyond their capacity - like fishing. Also imposing charges on chemical and atmospheric pollution, particularly carbon emissions, to pay for its real cost.
- Ensuring that people's well-being becomes the responsibility of the community, not of employers. Their responsibility is to provide safe and interesting work conditions, producing the requirements of society efficiently with the least pollution.
- Legislating to enable governments, and perhaps also communities, to take on the role of creating all of the money required by the general public and businesses according to their needs. The primary role of commercial financial institutions would be to on-lend that money to borrowers. That demarcation of roles would better serve the interest of allowing people to satisfy needs according to availability.
- Mechanisms must be devised for ensuring that the purchase costs of goods and services increasingly reflect their total cost for the world communities of today as well as that of future people. The prices of goods and services required for adequate life support could start very low (or even zero) for small quantities, and gradually increase per unit consumed. This is the opposite of the present method, which aims to maximise consumption, leading to overconsumption and waste.
- The necessary changes to taxes and charges would be gradual and sensitively introduced. For example, eventually no charges or taxes would be imposed on the task of employing people or on the income derived from human labour, which would reduce the cost of labour by

about half or less. It would do that with improved human well-being and individual security.

This would ensure lower costs for the supply of government services like education, health, local transport, and infrastructure maintenance. Furthermore small businesses would benefit as their main cost at present is labour. It would revitalise smaller shops, bring small manufacturers closer to their clients, and bring about more interaction with people rather than electronic machines. The new cost structure aimed at reducing consumption would also reduce the drive for ever more money and private property, which must have an impact on crime levels. And most importantly, it will enhance personal relations.

The challenging journey outlined above is necessary for survival. It cannot be done too suddenly or without care, tempting though its speedy imposition might be. These few measures may be applied flexibly, and can hasten the day when we work to improve life instead of exploiting people and nature.

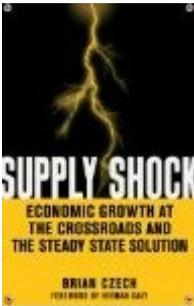
* Potsdam Institute for Climate Impact Research (PIK).

** Dr James Hansen is Adjunct Professor of Earth Sciences at Columbia University.

Lionel Anet is an ERA member living in NSW

Supply Shock: economic growth at the crossroads and the steady state solution - A review of Brian Czech's latest book

John Coulter



Brian Czech is the founder of CASSE, the Centre for the Advancement of the Steady State Economy, an organisation that has spread world-wide with Dr Geoff Mosley, former Executive Director of the ACF, the Australian anchor and others such as Richard Sanders being actively involved in Queensland. My organisation SPA, Sustainable Population Australia, linked itself to CASSE several years ago recognising, as we always have, that both population and environmental demand must be stabilised at environmentally sustainable levels if humanity and Nature are to survive.

I first became aware of the notion of a steady state society when in 1973 I read Herman Daly's collection of essays under the title of 'Toward a Steady-State Economy'. Herman Daly writes both an introductory paragraph and the foreword to this book. But in 1973 the notion was not new, Daly points out in his own essay in the 'Toward...' volume. J.S. Mill writing in the middle of the 19th century said, '.. the increase in wealth is not boundless I cannot .. regard the stationary state of capital and wealth with the unaffected aversion so generally manifested toward it by political economists of the old school. I am inclined to believe that it would be, on the whole, a very considerable improvement on our present condition ..'

Unlike Daly, Czech is not an economist but a wildlife ecologist and as Daly points out in his foreword the two of them have worked toward similar conclusions from opposite directions: Daly incorporating more understanding of the natural world and especially thermodynamics into his economic thinking and Czech starting in the natural world and working toward economics which has come to dominate so much of industrialised-world thinking and motivation. Czech could see the effects of continual economic growth on the Natural world which he sought strongly to protect.

I'm sure all of you have picked up a book wanting so much that its reading will bear out the promises of the author's name, his/her known associations and philosophy, reviewer's praises, only to be disappointed. Here, I thought, would be the book I could recommend to all those doubters who believed that continuing growth was inevitable and/or desirable or who could not accept that the transition to the steady-state was inevitable and learn how the transition could be managed. When the subject matter is the steady-state economy and the promise is how we might transition from the present unsustainable growth oriented economy to the steady-state, the disappointment is upsetting. The book is prescribed with a number of praising reviews. One by Hermann Daly recommends that it be put in all classrooms, boardrooms, town halls and policy circles, indeed all will be convinced to accept its message. Unfortunately, I cannot share this endorsement. I suspect that most who do not already share the view and enthusiasm of the author will not be convinced by this book. The reason is not to do with its content but the author's somewhat rambling style. There is too much about the historical reasons for the dominance of the growth model. I fear that the uncommitted will switch off before grasping enough of the essential message. The book reads more like a transcript of a very long interview with an intelligent very knowledgeable person who frequently brings in things somewhat peripheral to the immediate context. So this is not a book with which to proselytise the cause of the steady state. Two recent books both of which I have reviewed are more readable and comprehensible: 'The End of Growth' by Richard Heinberg and 'Enough is Enough' by Rob Dietz & Dan O'Neill also from CASSE.

That being said there is much in this book which readers will find valuable. How is it that economics has come to believe that resources are infinite? Czech takes us through classical economics which accepted that the inputs to production were land (natural resources), capital and labour to the point late in the 19th century when Henry George (Progress and Poverty, 1879) exerted considerable influence on political economy. George recognised rent on land as unearned income. As land supply was limited, population growth made land more valuable causing rents to rise, thus raising the unearned income of the land owning class to the detriment of the labourer. George suggested a 100% tax on unearned income.

Czech points out that 'George once had far more world-wide support than Marx philosophers, the likes of Leo Tolstoy, prime ministers including

David Lloyd George and revolutionaries like Alexander Kerensky were among the champions of “Georgist” political economy.’

Henry George and his following thus threatened very powerful interests: the land-owning class whose income from rents rose steadily as populations increased. Czech shows how this vested interest class set the foundation for the economic growth-oriented system we find ourselves in today. Land (resources) were removed from the classical production trio so that only labour and capital were required and taxes on these two, especially labour should be the basis of government revenue. Thus we find today many economists and not a few politicians claiming that ‘throw enough money and labour at a resource constraint and the constraint will disappear’. Resources are infinite and endlessly substitutable.

Czech quotes Mason Gaffney, economics professor at University of California, Riverside, co-author of a book ‘Corruption of Economics, 1994’ who says ‘To stop Henry George the fortune hunters hired professors to corrupt economics and halt democratic dialogue. The use of that corrupted economics continues to this day’. And ‘Few people realise to what degree the founders of neoclassical economics changed the discipline for the express purpose of deflecting George and frustrating future students seeking to follow his arguments’. Czech goes on to quote Gaffney at length spelling out in detail who the powerful were and who they appointed to key positions in departments of economics as well as some of the content of debates between George and these newly appointed professors. Among the economists named are some of the most revered names in the present text books of neoclassical economics.

The lengths to which Czech goes to explain the history of the present, almost unquestioned, growth economic paradigm is the crux of my complaint about this book. It’s terrific for those of us already committed to questioning growth to have this explanation. It adds a further layer of justification for our rejection of growth economics even though growth economics falls over by direct comparison with the real biophysical world. But it seems to me that a reader not already on this wavelength is very likely to get bogged down in this detail and not continue reading. The essential message from this considerable portion of the book is simple. Growth economics was founded in corruption. Corruption maintains it today. What we need to transition from growth to steady state is how best we can overcome this corruption. In the final chapter I did not find suggestions as to how this endemic corruption may be tackled.

Daly says in his foreword, ‘We live in a full world - and full world economics requires that empty-world economic growth policies be radically changed’. This volume will give you a good idea of how we have come to be so dominated by the growth paradigm and convince you (yet again if that is necessary) that we need to change and change quickly. But we need a lot more about the transitional steps to shift us from growth to the steady state.

Dr John Coulter, a member of ERA living in SA, is a former senator and medical scientist, and is currently a committee member of Sustainable Population Australia

Calling bad bankers to account Timothy Spangler



Former Goldman Sachs trader Fabrice Tourre is facing civil fraud charges arising from the global financial crisis. AAP

The modern financial system continues to have its doubters among rank and file investors and savers. The painful memories of the volatility and dislocations caused by the global financial crisis are still very fresh in many people's minds.

Recent stringent measures – including possible jail time – drafted by a British parliamentary commission and backed by Chancellor of the Exchequer, George Osborne will hopefully raise that standards by which bankers operate.

British developments are broadly in line with changes being attempted in the United States, where the Securities and Exchange Commission (SEC) recently announced their desire to push for more admissions of guilt in enforcement actions as part of settlement negotiations.

The need for accountability is strong, and unless the banks regain popular trust then it will be difficult for them to perform their roles as effectively. But a major complaint of many observers has been that despite the egregious behaviour that has been identified in a number of financial institutions, there has been very little individual accountability for these bad acts.

Under the British proposal, senior men and women in a bank could be subject to the criminal offence of “reckless misconduct,” but details about the scope of the offence remain to be worked out.

The threat of prosecution might go some way to focus the minds of bankers who may be so motivated by short-term pecuniary gains that they disregard the long-term consequences of their actions. Of course, the ability of prosecutors to actually convict individuals who are involved in acts of fraud or

malfeasance will depend on the manner in which the offence is defined in the new law and what burdens of proof are required.

The trial in New York against ex-Goldman Sachs trader Fabrice Tourre – who famously referred himself in emails as “Fabulous Fab” – provides a useful reminder of how complicated and counter-intuitive many of the elements of modern banking are, including both the arcane terminology and the complex flows of funds that any particular transaction might involve.

Tourre is facing civil fraud charges brought by the SEC alleging he misled investors over sure-to-fail collateralised-debt obligations, although critics claim the mid-level executive has been made a scapegoat.

Still, asking jurors to come to grips with the inner workings of Goldman Sachs, or any large, multinational financial institution for that matter, is a daunting task. Critics might point out, slightly sarcastically, that there are even unanswered questions over the ability of these banks’ own senior management to completely understand what is happening on their watch each and every day. Perhaps, though, this is precisely what the British proposals are most concerned about.

Banking should be understandable, both to the banks, their employees and their customers and to regulators and the taxpayers who will ultimately be forced to bail out the financial system whenever it seizes up again.

The British proposals reflect a desire for more accountability at every level of financial decision-making. The global financial crisis demonstrated that today’s banking system is not quite as safe and secure as most practitioners once believed.

A steady stream of scandals have not been followed by a steady stream of criminal, or even disciplinary, actions against those men and women involved. Instead, stories about eye-watering bonuses continue to fill news reports and allegations of a “heads I win, tails you lose” remuneration system abound.

In essence, the culture of the entire sector is under question. A widespread lack of trust among the general public is raising awkward questions about how exactly these financial conglomerates actually support the real economy and drive growth. People are looking for signs of hope that things are “back on track,” but stubbornly high unemployment and mixed signals from the markets leave room for much doubt.

Some frustrated taxpayers are even asking what general benefit was gained from spending billions to bail these banks out five years ago.

Should these legal and regulatory trends continue, government officials in other developed countries, such as Australia, will be able to reconsider the bargain that they have made with their banks and bankers in light of the tougher approaches being taken by their British and American counterparts.

Previously, concerns over the ease by which financial firms could move their operations across borders and around the world served as a de facto limit on how aggressively banks were policed.

With the two leading international financial centres taking a significantly

stronger stance against banker wrongdoings, it should be easier for regulators elsewhere to push harder for higher standards of conduct, as well.

Together with remuneration packages that better align interests and link consequences to actions, these changes may be a meaningful step down a long road towards restoring credibility to a financial system that has disappointed so many in recent years.



Timothy Spangler is Adjunct Professor at the University of California, Los Angeles

DISCLOSURE STATEMENT Timothy Spangler does not work for, consult to, own shares in or receive funding from any company or organisation that would benefit from this article, and has no relevant affiliations.

Source: The Conversation <http://theconversation.com/calling-bad-bankers-to-account-16193?utm_medium=email&utm_campaign=Latest+from+The+Conversation+for+23+July+2013&utm_content=Latest+from+The+Conversation+for+23+July+2013+CID_309f6838896c1ee0a87d0cd46f400ece&utm_source=campaign_monitor&utm_term=Calling%20bad%20bankers%20to%20account>

Sectoral balances in macroeconomics

Philip Lawn

Assuming net exports are zero (which they should be - after all, to net export is to give up more useful stuff to foreigners than you receive in return), the reason why a currency-issuing central government must run budget deficits on average is because the private sector - as the user of a nation's currency - cannot continue to accumulate debt. If the private sector, in aggregate, wishes to net save and is determined to do so (i.e., determined to reduce its current spending to whatever level is required to positively net save), a currency-issuing central government cannot run a budget surplus no matter how hard it tries (witness what is happening in the EU).

There is a dictum in macroeconomics as authoritative as the relationship $E = mc^2$ in physics, namely: Injections = Leakages. This may be expressed in algebraic terms as

$$I + G + X = S + T + M$$

where I = private sector investment in productive capital goods, G = government spending, X = exports, S = private sector savings, T = government taxation, and M = imports. If you don't believe that injections must equal leakages (as some people wrongly assert), have a look at the figure at the end of this article. If you rearrange the above equation, you get

$$(G - T) = (S - I) - (X - M)$$

If net exports = 0, $X = M$ and we are left with:

$$(G - T) = (S - I)$$

As you can see, the government's budget deficit/surplus mirrors the private sector's net saving/dissaving out of current income. If the private sector wishes to have positive net savings of, say, 100 ($S - I = 100$), this is only possible if the government's budget deficit is 100 ($G - T = 100$). If the government attempts to run a surplus of 100 ($G - T = -100$), which might involve cutting G , national income falls. This reduces the income that the private sector has at its disposal to finance both its spending and its net saving. Thus, a cut in government spending means that the private sector will not have sufficient income to finance, out of this income, its spending and net savings desires. It must therefore abandon one of these desires.

1. Let's assume that the private sector decides to maintain its spending desires and abandon its net savings desires. This characterises Australia and most of the industrialised world from 1995-2007. By maintaining its spending, national income stays buoyant, unemployment remains low, the government achieves its budget surplus, and the likes of Peter Costello parade around as if they are greatest thing since slice bread. But it is only achieved by having the private sector accumulate debt unsustainably. Once the private sector can no longer increase debt levels to maintain its spending desires, it stops spending. It then (2008 onwards) focuses on meeting its net savings desires to pay down its accumulated debt. This was the ultimate cause of the GFC – the sub-prime mortgage crisis in the USA was just a trigger. Thank you the Peter Costellos of the world!

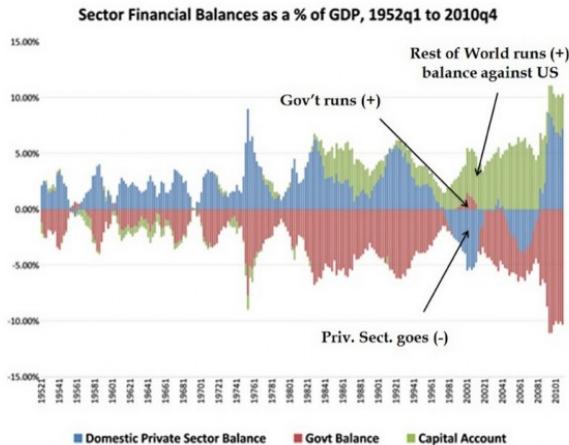
2. The period from 2008 onwards is where the private sector decided to satisfy its net savings desires and abandon its spending desires. Now the positive net savings of the private sector is, say, 100 ($S - I = 100$); the reduction in private sector spending lowers national income, unemployment rises, and the government can no longer run a budget surplus regardless of how hard it tries because tax revenues plummet (i.e., $G - T$ must equal 100). Are you reading this Wayne Swan (Chris Bowen)? And more depressingly, are you reading this mainstream macroeconomists of the world [i.e., those academic and practicing macroeconomists of the world who have forgotten/ignored their MACRO 101 principles because it gets in the way of their ideological principles and the development of elaborate (mathematical) economic models that are designed to support their ideology]?

How do I know that the mainstream macroeconomists of the world have abandoned first-year undergraduate principles? Because none of them could foresee the global financial crisis (GFC). Modern monetary theorists could see the GFC coming years in advance. Was it because they are all brilliant? No, because any reasonably competent first-year undergraduate student could see it coming (providing they weren't brainwashed by their mainstream macroeconomics lecturer).

Moral of the story: If the private sector wishes to net save, which is necessary to prevent the private sector from accumulating debt unsustainably,

macro-economic stability (and full employment) requires currency-issuing central governments to run budget deficits, which they can do forever because they are the only entity in the national economy (except for EU nations) with the legislative capacity to counterfeit the nation’s currency. Currency-issuing central governments have access to a bottomless pit of the nation’s currency – and for good public-advancing reasons. It is their job to net spend to whatever level is necessary to maintain macroeconomic stability and full employment and to provide an adequate supply of high-quality public goods and infrastructure. Once they have achieved this objective, they should not spend a cent more, not because they can’t find the money to do so, but because they face a real resource constraint (like everyone else) in which case net spending beyond the maximum necessary simply pushes total spending within the economy (i.e., public sector + private sector spending) beyond the economy’s productive capacity, which is inflationary. The other major issue is to make sure total spending within the economy does not exceed the nation’s ‘sustainable’ productive capacity, which, for most countries, is much less than current GDP levels. ‘Productive capacity’ and ‘sustainable productive capacity’ are two different things. Operating where total spending remains at the economy’s sustainable productive capacity won’t be achieved by cutting government spending. It can be achieved via income redistribution and making sure, along the way, that net government spending always accommodates the spending and net savings desires of the private sector (both of which will have to be less in the future if most of the world’s economies are going to be ecologically sustainable).

Putting the Deficit in Context



Sectoral balances for the U.S. economy, over the timespan 1952 - 2010

Assoc Prof Philip Lawn is an ERA member and ecological economist
attached to the Flinders Business school, Flinders University of SA

News and views from New Zealand

“Show us the money”

Dennis Dorney

During the 2011 New Zealand elections when the PM, and the leader of the opposition squared off in their mandatory sparring session, David Shearer (Labour leader) challenged John Key (National PM) to “Show us the jobs.” John Key replied “Show us the money”, which the right-wing press declared was a knock-out blow. It is rather strange that a Prime Minister can enhance his stature by failing to grasp the link between money and jobs but this ignorance pervades everything that the National coalition has done since acquiring power. Yet Treasurer Bill English has staked his government’s future on its reputation for sound economic management, which from his perspective means his ability to balance the Budget.

We were assured this would happen by 2014, which fortuitously is the year of the next election, but the figures failed to co-operate and 2015 looked no better, so the desperate remedy was adopted, of adding 3c for each of the next 3 years to the price of one litre of petrol. With such remedies available even the proverbial drover’s dog can balance a budget but, just in case, the government is also slashing social benefits. Ever since their austerity program began, NZ has been losing jobs. In recent months job losses have intensified. Although there are clearly no jobs available, the unemployed have been denigrated repeatedly as being slackers and with the new tougher approach they must be actively seeking work and be ‘job-ready’ (meaning that they must undergo training) or risk having their benefits cut in half.

No doubt some are work-shy, but caught up in this callous process are some whose motivation is indisputable. It appears that grand-parents, who are looking after grand-children, because they are at risk in their own domestic environment, must also be actively seeking work or risk losing benefits. Some grandparents are only months away from retirement and some gave up secure jobs to give loving support to these children. The long term costs and consequences to the children are not considered. The mind set of the government is that these carers are not usefully employed and must seek work, and it is at this point that the government’s ignorance of the jobs/money link, becomes apparent.

Perhaps, because banks can create money without any goods or services also being created, the government believes that newly created money has intrinsic value, so anything that adds to the money supply must be good and any effort that does not add to the money supply must be bad.

I grow most of my own vegetables – an activity that can be applauded for a number of reasons, but because it doesn’t show up in NZ’s GDP, it is declared

to be bad, yet if I employed a gardener, that would be good. The grand-parent carers are in the same bind – they provide a worthy service but generate no money, yet the value to our economy of such unrecognised labour would be staggering – if we could measure it. It is labour such as this which gives a real meaning to quality of life, isn't it? Apparently not, according to this government - money is an end in itself.

Most ERA members would agree that money is simply a device for fairly allocating the national wealth according to the labour input of each worker. A satisfactory definition of work is therefore essential, and it should include the work of grandparents in nurturing their grandchildren to adulthood, if that offers the best outcome for the children.

It should also be evident that if work is the basic determinant of wealth then it is immoral for any person to claim a share from the common wealth of more than that of 1000 average workers. It should be possible, since the productive capacity is obviously there, to create a monetary system in which a basic minimum wage is available to all, even to those who choose to potter in the garden, and to allocate an extra share to those who choose to make a greater contribution.

Perhaps, in such a world, where money is created, not as a debt unrelated to goods or services, but merely as an acknowledgement for work already done, people would choose to acquire only what they need and place a higher value on leisure, so the world could become painlessly self-sustaining. Perhaps in such a world, high achievers in science and research would be more honoured than 'celebrities'. We appear to be nowhere near attaining that world but a growing number are realizing that it is possible.

On the other hand, our leaders have inherited a belief, bordering on religion, that a better future can be realised only if we live now in debt-slavery and work for long hours for a diminishing share of the national wealth, with no clear expectation of anything better. We are indoctrinated to ridicule those who can't maintain the pace of the tread-mill, and we cannot comprehend the despair of a our youths, who pickle their brains every Saturday night and give New Zealand one of the highest suicide rates in the civilised world.

Their world vision offers these youths neither jobs nor hope. Paradoxically it is the pursuit of this imagined future that gives us the budget-balancing, job shedding measures beloved of right wing economists. Their solutions have not so far produced the required outcome and, in a world being denuded of its assets, never will.

Dennis Dorney is an ERA member living in the Otago region of New Zealand

One of the profound effects of economics in our day is that the people with the money and the power have embraced the guilt-free, external-less, everything-will-turn-out-okay-in-the-end philosophy of economics in order to justify their own evil works. And the economists, for the most part, have sucked up to that money.

Jane Smiley

Some issues of concern to ERA

John Hermann

The following is a list of some of the issues of concern to ERA, as revealed in a recent survey which was completed by 84 ERA members, as well as by conversations with individual members. We invite your proactive support and suggestions for exploring and publicising these issues.

1. Banking & financial reform. The banking reform page of the ERA website (www.era.org.au) invites you to sign a petition as a register of your interest in this matter, as a precursor to setting up an online discussion group on this topic. Details of some of the financial reforms we have been considering are provided in a set of slides which are accessible on that web page.

2. Monetary Reform Act. There already exist model legislative Acts for monetary reform within the United Kingdom (Positive Money) and the United States (American Monetary Institute), tailored to the nature of each individual economy. And we regard it as very desirable to see a model Act constructed within the context of the Australian economy. The common feature of most of the groups who describe themselves as monetary reformers is their advocacy of the principle that much greater use should be made of state fiat money (as both currency and deposits), created by a central monetary authority, together with the curtailment or even outright removal of the ability of commercial banking institutions to create credit money under conditions of leverage. Two basic reform models exist, which may be summarised succinctly as: (a) exogenous money creation; (b) endogenous money creation.

3. National Dividend. In general terms, this refers to the injection of newly created state fiat money into the economy by the mechanism of direct and ongoing credits by the central monetary authority in the depository accounts of adult citizens (preferably in a non-discriminatory manner). This is by contrast with the current mechanism for introducing new state fiat money, which involves crediting the accounts of financial intermediaries like bond dealers, as an integral part of the central bank's open market operations. I have been developing an alternative model for implementing monetary policy, in which bond dealers may buy and sell securities to other private sector entities but may not sell them to the central bank. It is my intention to publish the details of this model in a future issue of the ERA Review.

4. Public Banking. The benefits to the revenues, as well as overall economic health, of individual states and possibly even large cities, of operating their own banks - in competition with private banks - have been elaborated by Ellen Brown (see previous issues of the ERA Review for details) and others. We believe there also is an excellent case for constructing a new national public bank, along the lines of the original Commonwealth Bank.

John Hermann is the ERA network editor

The "bankization" of America

Richard Eskow

The financialization of the U.S. economy is the result of very deliberate governmental choices. Unless different choices are made going forward, we will continue to become a "Bankistan" whose wealth and economic fate is increasingly hijacked by Wall Street.



The share of our national income which goes to corporate profit is the highest it's been since they started tracking it in 1929, while the share going to *people* -- as salary and wages -- is the lowest. And the percentage of that corporate profit which goes to Wall Street is also the highest on record.

We're becoming a financialized economy. Never before has the manipulation of money counted for so much and the real-world economy of people and consumer goods counted for so little. And none of it is an accident.

When Wall Street catches a cold ...

The *Wall Street Journal* reported on 15 August 2013 that "Stock and bond prices tumbled after stronger-than-expected economic data ..." Why would good news about the economy cause the stock market to fall? The sentence continues: "... raised investor anxiety about a pullback next month in central-bank support for financial markets..."

Investors had been relying on the Federal Reserve to keep pumping up the stock market's record run, but some mildly favorable economic reports raised fears that the Fed's market-friendly interventions might come to an end.

"We're getting another knee-jerk reaction to fears of tapering," a market analyst told the *Journal*, referring to the Fed's monthly purchase of \$85 billion in bonds. As Reuters reported last month, "Many on Wall Street believe the Federal Reserve's monetary policy is behind record corporate earnings and the stock market's surge to all-time highs this year."

When Wall Street catches a cold -- when it even *might* catch a cold -- the economy catches pneumonia.

Reality Bites

Meanwhile, the "real" economy -- the one where people live, and work, and buy things -- has suffered even as Wall Street and the stock market have boomed. That trend continued this week, too, Wal-Mart announced disappointing sales and lowered its projections. Its Chief Financial Officer observed that "The retail environment remains challenging in the U.S. and our international markets, as customers are cautious in their spending."

Cisco also lowered its sales expectations. As the *Journal* article notes, these announcements added to the fear that the Fed's interventions might wind down.

This stock market story illustrates the gulf between a stock-market economy increasingly driven by the banking industry -- an economy which has been booming, today's news notwithstanding -- and a human economy wracked by consumer fears, falling wages, joblessness, and low-level jobs for a growing number of people who *are* working.

The gulf between these two economies drove this morning's stock market story. It's also driving the long-term depression-like misery which holds millions of Americans in its grip.

This is not the playing out of some divinely decreed order. The financialization of the U.S. economy is the result of very deliberate governmental choices. Unless different choices are made going forward, we will continue to become a "Bankistan" whose wealth and economic fate is increasingly hijacked by Wall Street.

Financialized

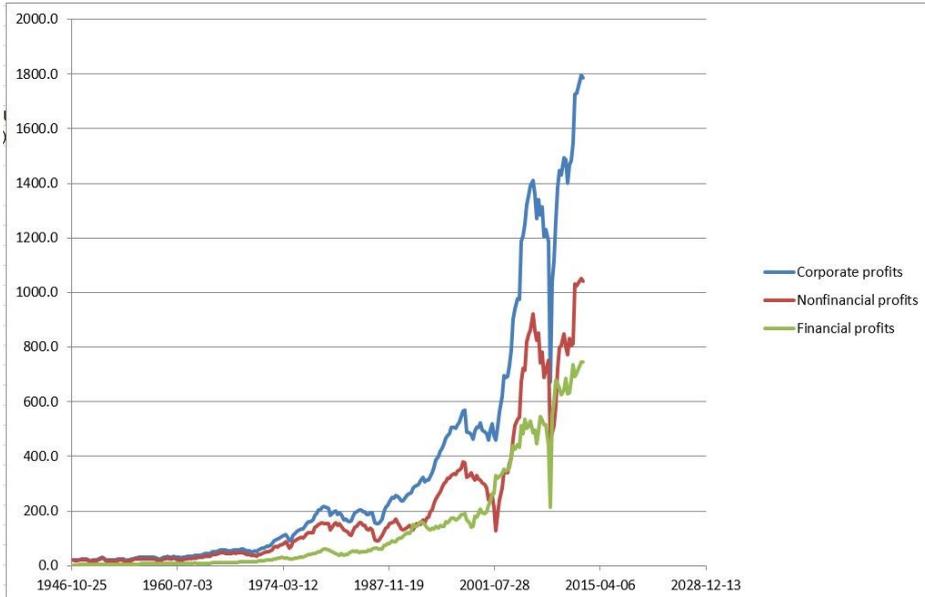
The Federal Reserve's corporate profits data were helpfully compiled by a contributor to the investment site The Motley Fool, who notes that financial profits were 11 percent of total corporate profits in the U.S. back in 1947, the first year these numbers were compiled.

These profits soared in the first decade of the 21st century. After taking a hit in the crisis of 2008 -- a crisis which the banking industry caused -- they rose again and are now at record highs. Their share of total corporate profits has risen from 11 percent to 42 percent, as of the latest report, and the Fed expects them to keep rising. The following graph shows how that looks:

The track record of economists in predicting events is monstrously bad. It is beyond simplification; akin to medieval medicine. Nassim Nicholas Taleb

I believe that economists put decimal points in their forecasts to show they have a sense of humour. William Gilmore Simms

Economists, like royal children, are not punished for their errors. James Buchan



The money nowadays isn't in manufacturing, or retail, or any of the other traditionally jobs-producing industries. The money now is in *money*.

How did this happen?

A series of policy decisions enabled this explosive growth, including the deregulation of Wall Street; the repeal of Glass-Steagall, which separated bank customers' money from money which the bank could invest for its own profit; runaway banker salaries and bonuses, which prompted the "best and the brightest" to flock to Wall Street and apply their ingenuity to flouting the rules; and government's increasing unwillingness to indict bankers for criminal behavior.

And then, when banker criminality and incompetence created the crisis of 2008, they were rescued by the government without being held financially or legally accountable for their wrongdoing.

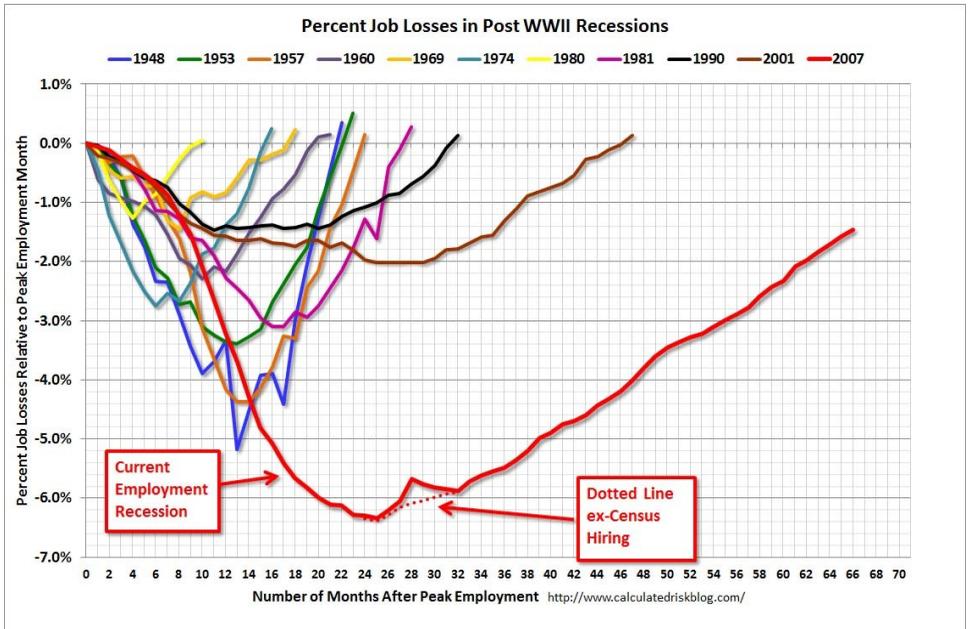
The Federal Reserve continues to pursue stimulus policies that moderately help the economy as a whole, but which emphasize the economic health of banks and publicly-traded corporations over that of companies that hire workers -- and therefore increase the consumption of consumer goods.

Profit by the slice ...

Banks have a bigger share of the corporate-profit pie -- and that pie's bigger than ever. As Floyd Norris notes in the *New York Times*, the government's revised estimate of wage and salary income is 42.6 percent of GDP, which matches the 2010 figure as the lowest percentage since this data was first captured in 1929.

Using the latest revisions to the national income and product account (NIPA) data produced by the Bureau of Economic Analysis, Norris also notes that corporate profits are now 9.6 percent of GDP. That's the *highest* since these figures were first captured.

As Norris also notes, corporate taxes rose slightly in 2012 as a percentage of GDP but are still well below their historical averages. That's not an accident either. Meanwhile, as this chart shows, unemployment remains horrendous:



(via Bill McBride, Calculated Risk)

Wages actually fell for most people after the 2008 crisis, as high-income individuals (the top one percent) captured all of the economic gains created by the government-sponsored recovery -- and even enlarged their share, capturing 121 percent of the recovery as the rest of the country fell behind.

Indebted

You might think that financial institutions feel indebted to the public for rescuing them. But the opposite is true: *We're* indebted to *them*. According to the latest report from the New York Federal Reserve, auto loan balances increased by \$20 billion over the previous quarter while credit card balances and student loan debt increased by \$8 billion each.

The falling rates of mortgage debt, driven by range of factors which included falling housing values and foreclosures, resulted in an overall decline in total indebtedness. But these figures show that our household debt in many

key areas continues to rise.

As wages and salaries decline, people are struggling to keep up with the way of life they once know. So they fall deeper in debt -- a debt which allows them, and the banks, to delay the day of reckoning once again.

Fixing a Hole

These figures paint the picture of an economy that has become seriously unbalanced in favor of the banks -- "financialized," as observers increasingly describe it. How can the economy be rebalanced?

Many solutions are well-known to bank reformers and well-informed voters: Reinstate Glass-Steagall, or something very much like it. Insist on strong regulatory oversight of the banking sector, and give regulators the authority to do their jobs. End "too big to fail" banks, instead of encouraging their consolidation (as the government has done in recent years). Prosecute criminal bankers.

Other solutions are equally important. The interbank database and shell company called MERS must be ended, so that financial institutions can't collude against consumers and the states. The Federal Reserve must demand that banks perform their central economic function -- responsible lending to consumers and job-creating businesses -- rather than reward them for speculation and other forms of non-productive profiteering. Incidentally, that's why the choice of Federal Reserve head is so important.

Genuine shareholder reform is also needed, so bankers don't overpay themselves at shareholder expense or use the bank's coffers as a "get out of jail" card for massive settlements caused by their own misdeeds.

Lastly, no comprehensive solution can be found until banks and other corporations are once again taxed at reasonable levels and the revenues are used to create well-paying jobs for the American middle class.

A healthy economy needs banks that lend, and consumers with the money to buy. Until that happens we'll be living in a highly-financialized "Bankistan" that excludes most of its citizens from sharing in the American dream.



Richard (RJ) Eskow is a former executive with experience in health care, benefits, and risk management, finance, and information technology; a Senior Fellow with the Campaign for America's Future; and hosts *The Breakdown*, which is broadcast on We Act Radio in Washington DC.

Source: OpEdNews; August 16, 2013 <<http://www.opednews.com/articles/The-Bankization-of-Ameri-by-Richard--RJ-Esko-130816-458.html>>

Originally in the Huffington Post: <http://www.huffingtonpost.com/rj-eskow/the-bankization-of-america_b_3763282.html?view=print&comm_ref=false>

Krugman's flawed model of open market operations Dan Kervick

In my recent post *Escaping from the Friedman Paradigm*,* I noted the following remark by Prof Paul Krugman on the way monetary policy ordinarily functions when interest rates have not fallen to the zero bound:

... people are making a trade-off between yield and liquidity – they hold money, which offers no interest, for the liquidity but limit their holdings because they pay a price in lost earnings. So if the central bank puts more money out there, people are holding more than they want, try to offload it, and drive rates down in the process.

And I was very critical of this model of central bank open market operations. As I put it then:

... what in the world can it mean to say the central bank “puts money out there” that people then try to “offload”? How can that happen? The central bank doesn't stuff money into people's pockets, and it doesn't force them to hand over their financial securities in exchange for money. It offers money in the open market in exchange for securities. So if people preferred the securities to the money, they wouldn't have traded the securities for the money in the first place. It makes little sense to say that financial institutions first seek money for their securities on the open market, and then having too much unwanted money hanging around seek to dump it by obtaining securities for their money.

Interestingly, Krugman offers up the very same flawed model in a piece he published in the New York Times on 16 August 2013:

Now, think about what happens when the Fed makes an open-market purchase of securities from banks. This unbalances the banks' portfolio — they're holding fewer securities and more reserve — and they will proceed to try to rebalance, buying more securities, and in the process will induce the public to hold both more currency and more deposits.

Again, this model of Fed securities purchases makes no sense to me. The central bank doesn't buy securities by exercising some kind of eminent domain. It doesn't force banks to sell their securities. Rather, the Fed Open Market Desk announces its intention to buy securities and the primary dealers then submit offers. In other words, the Fed *offers* to pay money for securities in the open market, and banks only sell those securities if they accept the price determined by an offer they themselves have made. So it makes little sense to say that at the end of this process the banks find their portfolios in an undesired condition and therefore need to “rebalance” them.

When Krugman says that the banks then “induce” the public to hold more currency and deposits, I take it he means that the banks then lower their

lending rates so that more people are willing to borrow at the new, lowered rate. This they do, according to Krugman, in order to carry out the portfolio rebalancing he has described. But I believe the process here works quite differently. The Fed has no ability to *push* dollars and deposit balances out into the economy by forcing undesired money on banks which will then force the money onto the public, but achieves its aims by targeting interest rates.

Banks generally make their money on the spread between the rate they must pay for additional funds and the rates they are able to charge for the loans they make to the public, and the key rate in the market for funds is the rate paid in the interbank lending market (the "Fed Funds" rate.) The Fed has shown that it has the ability to target this rate with very little volatility. Thus it simply announces the new rate it wants to set, and participants in the market move automatically to that new rate. If the rate is lower than it was previously, this will increase the banks' willingness to loan at lower rates than previously and will thus build up aggregate bank deposit balances. This will increase the banks' aggregate demand for reserve account clearing balances to handle the larger volume of payment obligations that are the natural consequence of the expansion of deposits. The primary dealers, who possess reserve accounts at the Fed and are themselves the key supplying participants in the interbank market, will attempt to satisfy that demand by selling more securities to the Fed in exchange for dollar reserve balances. And the Fed then buys those securities via open market auctions.

So Fed open market purchases are not aimed to *force* money through the system and out into the hands of the public. They are designed to support and accommodate the higher demand for reserves that the Fed itself has influenced by announcing a new target Fed Funds rate. The Fed influences lending and expands bank balance sheets by targeting prices, not quantity. And of course, none of this works any longer once the Fed Funds rate has fallen close to the zero bound, and the Fed cannot set the rate any lower.

Also, Krugman is still attempting in this new piece to defend the loanable funds model of credit markets. He often seems to suggest that when banks want to increase their loans, they satisfy their increased demand for funds by attracting more deposits from the public, presumably by offering better rates for CDs and term deposits, better services etc. But while that might make sense from the standpoint of some individual banks, it makes little sense from the standpoint of the banking system as whole, and cannot explain the function of bank credit markets in response to an increased demand for consumer loans. For the most part, when a bank customer deposits funds in a bank, those funds come from transfers from another bank account. For example, your employer's pay-check to you is a payment order issued against your employer's own deposit account at some bank. If you deposit your employer's pay-check in your bank account, your bank will ultimately collect the funds by receiving a transfer into its reserve account from the reserve account of your employer's bank. The same sort of transfer occurs if you

move your deposit account from one bank to another to take advantage of better terms. An individual bank can absorb deposits from its competitors and use those funds to expand its lending; but the banking system as a *whole* cannot in any significant way increase its lending by sucking up deposits. Instead, banks extend their lending and deposit account liabilities *first*, which increases its *subsequent* demand for larger clearing balances in its reserve accounts, which the banking system as a whole then meets by absorbing injections of funds from the Fed as part of the open market operations described above.

Paul Krugman seems determined to be the last dinosaur standing in defence of some outdated models of central bank operations.

* <http://ruggedegalitarianism.wordpress.com/2013/08/12/escaping-from-the-friedman-paradigm>

Dan Kervick has a PhD in Philosophy from the University of Massachusetts, and is an active independent scholar specializing in the philosophy of David Hume. He researches in decision theory and analytic metaphysics. He currently works in the book industry for the Baker & Taylor Corporation, and lives in Bow, NH.

An Australian Entrepreneurial Bank Foundation

Craig Walter

The prospects for a better, fairer and sustainable future depend, in part, on developing a culture in which innovation is encouraged and supported. In this context we have drafted the following petition, designed to establish an Australian Entrepreneurial Bank.

The public of Australia petitions the Australian government to provide assistance to establish a new bank foundation which underpins innovators, inventors, local manufacture and the maximum utilization of resources for the benefit of society and our environment. The Environmental Bank of Australia (EBoA) will establish a starting fund of one billion dollars, consultants, an expert framework, and entrepreneurial teams for start-up formation and much better framework for attaining the best possible outcomes.

Why is this important?

'Underpins local innovators and keeps revenue, jobs and manufacturing here.'

Australians are innovators and yet we transfer much of the industry, jobs and revenue from developments to overseas interests with financial clout. Billions has been lost to the Australian economy and billions will continue to be lost including a thriving research community as a result of lack of financial backing and dynamic structural support.

A fund of one billion dollars is required and is achievable with government assistance, tax incentives in conjunction with private investment, donations, consultant revenue, repayment revenue, loan establishment fees, pledges.

Australia by default subsidises other countries to takes its innovations while demands are made for education money as part of our innovation future.

Billions of dollars will continue to be drained away in the absence of

establishing an entrepreneurial framework which promotes local initiatives across a broad range of ventures.

Innovation 'accelerators' in Australia are directing Australian innovative teams to overseas sources of financial backing, which demonstrates the constant weakness in regard to backing Australian endeavour. Australia is playing second fiddle when it can be a leader in innovation and enterprise.

Many stories have surfaced about Australian ideas examined by overseas corporations and then 'stolen' by reverse engineering and patent fiddling.

Australians are being constantly thwarted by lack of support whereas the 'clever' swedish produce great products that strut the world. The swedes also possess an 'innovation bank' in the form of a monarchy which supports commercial ideas with integration for the social good.

At present many Australian inventions are 'in limbo', which otherwise could bring billions of dollars of revenue, jobs and manufacturing to Australia.

Innovation support also assists medical discoveries, and environmental protection would finally get the support it deserves for a better future.

Getting behind an Entrepreneurial Bank for Australia will ensure that we

- * Provide micro-loans to budding enterprises
- * Span the gap between R&D and commercialisation
- * Retain industry and jobs in Australia (localisation)
- * Establish expert teams to assess and extend innovation
- * Support long term projects of environmental benefit
- * Back inventions that serve the social good over the longer term
- * Develop a strong entrepreneurial culture beginning with Universities
- * Practice balanced economic dynamics (fair trade)
- * Create many more jobs through local manufacturing.
- * Build a co-operative approach between capital and social need
- * Enlist better outcomes from venture capital
- * Promote research science and award programs

How it can be delivered

The petition will be registered and listed on the EBoA campaign website. Then advertised in various media at a later date and presented to various political parties and community leaders.

Website: <http://www.communityrun.org/p/EBoa>
 Craig Walter is an active ERA member living in SA

In economics, the majority is always wrong. And in economics, hope and faith coexist with great scientific pretension and also a deep desire for respectability.

John Kenneth Galbraith

Years ago, I noticed one thing about economics, and that is that economists didn't get anything right.

Nassim Nicholas Taleb