

# *Economic Reform Australia Review*



## *For a just and sustainable society*

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### IN THIS ISSUE

page

Herman Daly	Top ten policies for a steady-state economy	1
Ellen Brown	The bank guarantee that bankrupted Ireland	6
John Hermann	Neo-liberalism does not recognise social investment	8
Rob Hopkins	Interview with Richard Heinberg	9
John Coulter	Vale Gerhard Weissmann	14
Ken Goodhue	A basic income scheme	16
Dennis Dorney	News & views from NZ: ... and a better New Year	16
Positive Money	What if the world economy fails to spring back to life?	18
AFTINET	U.S. wants special rights for investors to sue governments	20
Hans Despain	Structural crises and the need for alternatives to capitalism	21
Geoff Davies	Sack the economists?	25
Vincent Huang	On the nature of money	27
John Hermann	Bill Mitchell on cutting unemployment benefits	28
Lynn Parramore	Global elites react to skyrocketing inequality	29
Gordon Brown	Stumbling toward the next crash	30

We assert the right to ask what is required for achieving human happiness and fulfilment, and a sustainable future for all who dwell on this planet. In doing so, we query assumptions made by many economists, and examine the insights of those with alternative perspectives. ERA holds a small candle in the darkness, along with many millions of others around the world, and we believe that from small things big things will grow when the time is right.

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## Top ten policies for a steady-state economy

Herman Daly

Let's get specific. Here are ten policies for ending uneconomic growth and moving to a steady-state economy. A steady-state economy is one which develops qualitatively (by improvement in science, technology, and ethics) without growing quantitatively in physical dimensions; it lives on a diet - a constant metabolic flow of resources from depletion to pollution (the entropic throughput) maintained at a level that is both sufficient for a good life and within the assimilative and regenerative capacities of the containing ecosystem.

Ten is an arbitrary number - just a way to get specific and challenge others to suggest improvements. Although the whole package here discussed fits together in the sense that some policies supplement and balance others, most of them could be adopted singly and gradually.

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

Caps limit biophysical scale by quotas on depletion or pollution, whichever is more limiting. Auctioning the quotas captures scarcity rents for equitable redistribution. Trade allows efficient allocation to highest uses. This policy has the advantage of transparency. There is a limit to the amount and rate of depletion and pollution that the economy can be allowed to impose on the ecosystem.

Caps are physical quotas, limits to the throughput of basic resources, especially fossil fuels. The quota usually should be applied at the input end because depletion is more spatially concentrated than pollution and hence easier to monitor. Also the higher price of basic resources will induce their more economical use at each upstream stage

of production, as well as at the final stages of consumption and recycling. Ownership of the quotas is initially public - the government periodically auctions them to individuals and firms.

There should be no "grandfathering" of quota rights to previous users, nor "off-shoring" of quotas for new fossil fuel power plants in one by place by credits from planting trees somewhere else. Reforestation is a good policy on its own. It is too late for self-cancelling half measures - increased carbon sequestration and decreased emissions are both needed. The auction revenues go to the treasury and are used to replace regressive taxes, such as the payroll tax, and to reduce income tax on the lowest incomes.

Once purchased at auction the quotas can be freely bought and sold by third parties, just as can the resources whose rate of depletion they limit. The cap serves the goal of sustainable scale; the auction serves the goal of fair distribution; and trading allows efficient allocation - three goals, three policy instruments.

Although mainly applied to non-renewable resources, the same logic works for limiting the off-take from renewable resources, such as fisheries and forests, with the quota level set to approximate a sustainable yield.

### 2. Ecological tax reform

Shift the tax base from the value added (labour and capital) to "that to which value is added," namely the entropic throughput of resources extracted from nature (depletion), and returned to nature (pollution). Such a tax shift prices the scarce but previously un-priced contribution of nature.

Value added to natural resources by labour and capital is something we want to encourage, so stop taxing it. Depletion and pollution are things we want to

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discourage, so tax them. Payment above necessary supply price is rent, unearned income, and most economists have long advocated taxing it, both for efficiency and equity reasons. Ecological tax reform can be an alternative or a supplement to cap-auction-trade systems.

### **3. Limit the range of inequality in income distribution with a minimum income and a maximum income**

Without aggregate growth poverty reduction requires redistribution.

Unlimited inequality is unfair; complete equality is also unfair. Seek fair limits to the range of inequality. The civil service, the military, and the university manage with a range of inequality of a factor of 15 or 20. Corporate America has a range of 500 or more. Many industrial nations are below 25. Could we not limit the range to, say, 100, and see how it works? This might mean a minimum of 20 thousand dollars and a maximum of two million.

Is that not more than enough to give incentive for hard work and compensate real differences? People who have reached the limit could either work for nothing at the margin if they enjoy their work, or devote their extra time to hobbies or public service. The demand left unmet by those at the top will be filled by those who are below the maximum.

A sense of community, necessary for democracy, is hard to maintain across the vast income differences current in the United States. Rich and poor separated by a factor of 500 have few experiences or interests in common, and are increasingly likely to engage in violent conflict.

### **4. Free up the length of the working day, week, and year - allow greater option for part-time or personal work**

Full-time external employment for all is hard to provide without growth. Other industrial countries have much longer

vacations and maternity leaves than the United States. For the classical economists the length of the working day was a key variable by which the worker (self-employed yeoman or artisan) balanced the marginal disutility of labour with the marginal utility of income and of leisure so as to maximize enjoyment of life. Under industrialism the length of the working day became a parameter rather than a variable (and for Karl Marx was the key determinant of the rate of exploitation).

We need to make it more of a variable subject to choice by the worker. Milton Friedman wanted "freedom to choose" - OK, here is an important choice most of us are not allowed to make! And we should stop biasing the labour-leisure choice by advertising to stimulate more consumption and more labour to pay for it. At a minimum advertising should no longer be treated as a tax-deductible expense of production.

### **5. Re-regulate international commerce - move away from free trade, free capital mobility, and globalization**

Cap-auction-trade, ecological tax reform, and other national measures that internalize environmental costs will raise prices and put us at a competitive disadvantage in international trade with countries that do not internalize costs. We should adopt compensating tariffs to protect, not inefficient firms, but efficient national policies of cost internalization from standards-lowering competition with foreign firms that are not required to pay the social and environmental costs they inflict.

This "new protectionism" is very different from the "old protectionism" that was designed to protect a truly inefficient domestic firm from a more efficient foreign firm. The first rule of efficiency is "count all the costs" - not "free trade," which coupled with free capital mobility

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leads to a standards-lowering competition to count as few costs as possible. Tariffs are also a good source of public revenue. This will run afoul of the World Trade Organization/World Bank/International Monetary Fund, so....

## 6. Downgrade the WTO/WB/IMF

Reform these organizations based on something like Keynes's original plan for a multilateral payments clearing union, charging penalty rates on surplus as well as deficit balances with the union - seek balance on current account, and thereby avoid large foreign debts and capital account transfers.

For example, under Keynes's plan the U.S. would pay a penalty charge to the clearing union for its large deficit with the rest of the world, and China would also pay a similar penalty for its surplus. Both sides of the imbalance would be pressured to balance their current accounts by financial penalties, and if need be by exchange rate adjustments relative to the clearing account unit, called the "bancor" by Keynes.

The bancor would also serve as the world reserve currency, a privilege that should not be enjoyed by any national currency, including the U.S. dollar. Reserve currency status for the dollar is a benefit to the U.S. - rather like a truckload of free heroin is a benefit to an addict.

The bancor would be like gold under the gold standard, only you would not have to tear up the earth to dig it out. Alternatively a regime of freely fluctuating exchange rates is a viable possibility requiring less international cooperation.

## 7. Move away from fractional reserve banking toward an unleveraged system

This would put control of the money supply and seigniorage (profit made by the issuer of fiat money) in the hands of the government rather than private banks,

which would no longer be able to live the alchemist's dream by creating money out of nothing and lending it at interest. All quasi-bank financial institutions should be brought under this rule, regulated as commercial banks subject to 100% reserve requirements.

Banks would earn their profit by financial intermediation only, lending savers' money for them (charging a loan rate higher than the rate paid to savings or "time-account" depositors) and charging for checking, safekeeping, and other services.

With an unleveraged banking system every dollar loaned to a borrower would be a dollar previously saved by a depositor (and not available to him during the period of the loan), thereby re-establishing the classical balance between abstinence and investment.

With credit limited by prior saving (abstinence from consumption) there will be less lending and borrowing and it will be done more carefully - no more easy credit to finance the massive purchase of "assets" that are nothing but bets on dodgy debts.

To make up for the decline in bank-created, interest-bearing money the government can pay some of its expenses by issuing more non-interest-bearing fiat money. However, it can only do this up to a strict limit imposed by inflation. If the government issues more money than the public voluntarily wants to hold, the public will trade it for goods, driving the price level up. As soon as the price index begins to rise the government must print less and tax more.

Thus a policy of maintaining a constant price index would govern the internal value of the dollar. The Treasury would replace the Fed, and the target policy variables would be the money supply and the price index, not the interest rate. The external value of the dollar could be left to

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freely fluctuating exchange rates (or preferably to the rate against the bancor in Keynes's clearing union).

### **8. Stop treating the scarce as if it were free, and the free as if it were scarce**

Enclose the remaining open-access commons of rival natural capital (e.g., the atmosphere, the electromagnetic spectrum, and public lands) in public trusts, and price them by cap-auction-trade systems, or by taxes.

At the same time, free from private enclosure and prices the non-rival commonwealth of knowledge and information. Knowledge, unlike the resource throughput, is not divided in the sharing, but multiplied.

Once knowledge exists, the opportunity cost of sharing it is zero, and its allocative price should be zero. International development aid should more and more take the form of freely and actively shared knowledge, along with small grants, and less and less the form of large interest-bearing loans. Sharing knowledge costs little, does not create un-repayable debts, and increases the productivity of the truly rival and scarce factors of production.

Patent monopolies (aka "intellectual property rights") should be given for fewer "inventions," and for fewer years. Costs of production of new knowledge should, more and more, be publicly financed and then the knowledge freely shared. Knowledge is a cumulative social product, and we have the discovery of the laws of thermodynamics, the double helix, polio vaccine, etc. without patent monopolies and royalties.

### **9. Stabilize population**

Work toward a balance in which births plus in-migrants equals deaths plus out-migrants. This is controversial and difficult, but as a start contraception should be made available for voluntary use everywhere. And while each nation

can debate whether it should accept many or few immigrants, and who should get priority, such a debate is rendered moot if immigration laws are not enforced. We should support voluntary family planning and enforcement of reasonable immigration laws, democratically enacted.

### **10. Reform national accounts - separate GDP into a cost account and a benefits account**

Natural capital consumption and "regrettably necessary defensive expenditures" belong in the cost account. Compare costs and benefits of a growing throughput at the margin, and stop throughput growth when marginal costs equal marginal benefits. In addition to this objective approach, recognize the importance of the subjective studies that show that, beyond a threshold, further GDP growth does not increase self-evaluated happiness.

Beyond a level already reached in many countries, GDP growth delivers no more happiness, but continues to generate depletion and pollution. At a minimum we must not just assume that GDP growth is economic growth, but prove that it is not uneconomic growth.

Currently these policies are beyond the pale politically. To the reader who has persevered this far, I thank you for your willing suspension of political disbelief. Only after a significant crash, a painful empirical demonstration of the failure of the growth economy, would this ten-fold program, or anything like it, stand a chance of being enacted.

To be sure, the conceptual change in vision from the norm of a growth economy to that of a steady-state economy is radical. Some of these proposals are rather technical and require more explanation and study. There is no escape from studying economics, even if, as Joan Robinson said, the main reason for it is to avoid being deceived by

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economists. Nevertheless, the policies required are far from revolutionary, and are subject to gradual application. For example, 100% reserve banking was advocated in the 1930s by the conservative Chicago School and can be approached gradually, the range of distributive inequality can be restricted gradually, caps can be adjusted gradually, etc.

More importantly, these measures are based on the impeccably conservative institutions of private property and decentralized market allocation. The policies here advocated simply reaffirm forgotten pillars of those institutions, namely that: (1) private property loses its legitimacy if too unequally distributed; (2) markets lose their legitimacy if prices do not tell the truth about opportunity costs; and as we have more recently learned (3) the macro-economy becomes an absurdity if its scale is required to grow beyond the biophysical limits of the Earth.

Well before reaching that radical biophysical limit, we are encountering the classical economic limit in which extra costs of growth become greater than the extra benefits, ushering in the era of uneconomic growth, whose very possibility is denied by the growthists.

The inequality of wealth distribution has cancelled out the traditional virtues of private property by bestowing nearly all benefits of growth to the top 1%, while generously sharing the costs of growth with the poor. Gross inequality, plus monopolies, subsidies, tax loopholes, false accounting, cost-externalizing globalization, and financial fraud have made market prices nearly meaningless as measures of opportunity cost.

For example, a policy of near zero interest rates (quantitative easing) to push growth and bail out big banks has eliminated the interest rate as a measure

of the opportunity cost of capital, thereby crippling the efficiency of investment.

Trying to maintain the present growth-based Ponzi system is far more unrealistic than moving to a steady-state economy by something like the policies here outlined. It is probably too late to avoid unrealism's inevitable consequences. But while we are hunkered down and unemployed, enduring the crash, we might think about the principles that should guide reconstruction.

**Source:** <http://steadystate.org/top-10-policies-for-a-steady-state-economy/>

**Editorial comment:** We endorse Prof Daly's view that a sustainable economy requires moving away from a fractional reserve banking system. However the exogenous route, advocated by Daly and many monetary reformers, is not the only mechanism available for doing so; for example the monetary reform proposals of Hummel utilising a single national depository (ERA Review, v5, n1, 2013) envisage an entirely endogenous route.



Herman Daly has received numerous significant awards that recognize the value of his ideas for making this world a better place. For decades, he has inspired many students of economics and public policy. How often do you see students lining up at the end of the semester to have their professor sign their textbooks? Over his career, he has taken a courageous stance, swimming upstream against the currents of orthodox economic thought. He spent time at the World Bank to change real world policies, and also has written books that are popular with citizens around the world.

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True individual freedom cannot exist without economic security and independence.

People who are hungry and out of a job are the stuff of which dictatorships are made.

Franklin D. Roosevelt

## The bank guarantee that bankrupted Ireland

Ellen Brown

The Irish have a long history of being tyrannized, exploited, and oppressed - from the forced conversion to Christianity in the Dark Ages, to slave trading of the natives in the 15<sup>th</sup> and 16<sup>th</sup> centuries, to the mid-nineteenth century “potato famine” that was really a holocaust. The British got Ireland’s food exports, while at least one million Irish died from starvation and related diseases, and another million or more emigrated.

Today, Ireland is under a different sort of tyranny, one imposed by the banks and the *troika* - the EU, ECB and IMF. The oppressors have demanded austerity and more austerity, forcing the public to pick up the tab for bills incurred by profligate private bankers.

The official unemployment rate is 13.5% - up from 5% in 2006 - and this figure does not take into account the mass emigration of Ireland’s young people in search of better opportunities abroad. Job loss and a flood of foreclosures are leading to suicides. A raft of new taxes and charges has been sold as necessary to reduce the deficit, but they are simply a backdoor bailout of the banks.

At first, the Irish accepted the media explanation: these draconian measures were necessary to “balance the budget” and were in their best interests. But after five years of belt-tightening in which unemployment and living conditions have not improved, the people are slowly waking up. They are realizing that their assets are being grabbed simply to pay for the mistakes of the financial sector. Five years of austerity has not restored confidence in Ireland’s banks. In fact the banks themselves are packing up and leaving. On October 31<sup>st</sup>, RTE.ie reported that Danske Bank Ireland was

closing its personal and business banking, only days after ACCBank announced it was handing back its banking license; and Ulster Bank’s future in Ireland remains unclear.

The field is ripe for some publicly-owned banks. Banks that have a mandate to serve the people, return the profits to the people, and refrain from speculating. Banks guaranteed by the state because they are the state, without resort to bailouts or bail-ins. Banks that aren’t going anywhere, because they are locally owned by the people themselves.

### The Folly of Absorbing the Gambling Losses of the Banks

Ireland was the first European country to watch its entire banking system fail. Unlike the Icelanders, who refused to bail out their bankrupt banks, in September 2008 the Irish government gave a blanket guarantee to all Irish banks, covering all their loans, deposits, bonds and other liabilities.

At the time, no one was aware of the huge scale of the banks’ liabilities, or just how far the Irish property market would fall.

Within two years, the state bank guarantee had bankrupted Ireland. The international money markets would no longer lend to the Irish government.

Before the bailout, the Irish budget was in surplus. By 2011, its deficit was 32% of the country’s GDP, the highest by far in the Eurozone. At that rate, bank losses would take every penny of Irish taxes for at least the next three years.

“This debt would probably be manageable,” wrote Morgan Kelly, Professor of Economics at University College Dublin, “had the Irish government not casually committed itself to absorb all the gambling losses of its banking system.”

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To avoid collapse, the government had to sign up for an €85 billion bailout from the EU-IMF and enter a four year program of economic austerity, monitored every three months by an EU/IMF team sent to Dublin.

Public assets have also been put on the auction block. Assets currently under consideration include parts of Ireland's power and gas companies and its 25% stake in the airline Aer Lingus.

At one time, Ireland could have followed the lead of Iceland and refused to bail out its bondholders or to bow to the demands for austerity. But that was before the Irish government used ECB money to pay off the foreign bondholders of Irish banks. Now its debt is to the troika, and the troika are tightening the screws. In September 2013, they demanded another 3.1 billion euro reduction in spending.

Some ministers, however, are resisting such cuts, which they say are politically undeliverable.

In *The Irish Times* on October 31, 2013, a former IMF official warned that the austerity imposed on Ireland is self-defeating. Ashoka Mody, former IMF chief of mission to Ireland, said it had become "orthodoxy that the only way to establish market credibility" was to pursue austerity policies. But five years of crisis and two recent years of no growth needed "deep thinking" on whether this was the right course of action. He said there was "not one single historical instance" where austerity policies have led to an exit from a heavy debt burden.

Austerity has not fixed Ireland's debt problems. Belying the rosy picture painted by the media, in September 2013 Antonio Garcia Pascual, chief euro-zone economist at Barclays Investment Bank, warned that Ireland may soon need a second bailout.

According to John Spain, writing in *Irish*

*Central* in September 2013:

The anger among ordinary Irish people about all this has been immense. . . .

There has been great pressure here for answers. . . . Why is the ordinary Irish taxpayer left carrying the can for all the debts piled up by banks, developers and speculators? How come no one has been jailed for what happened? . . . [D]espite all the public anger, there has been no public inquiry into the disaster.

### **Bail-in by Super-tax or Economic Sovereignty?**

In many ways, Ireland is ground zero for the austerity-driven asset grab now sweeping the world. All Eurozone countries are mired in debt. The problem is systemic.

In October 2013, an IMF report discussed balancing the books of the Eurozone governments through a super-tax of 10% on all households in the Eurozone with positive net wealth. That would mean the confiscation of 10% of private savings to feed the insatiable banking casino.

The authors said the proposal was only theoretical, but that it appeared to be "an efficient solution" for the debt problem. For a group of 15 European countries, the measure would bring the debt ratio to "acceptable" levels, i.e. comparable to levels before the 2008 crisis.

*A review posted on Gold Silver Worlds* observed:

[T]he report right away debunks the myth that politicians and main stream media try to sell, i.e. the crisis is contained and the positive economic outlook for 2014.

. . . Prepare yourself, the reality is that more bail-ins, confiscation and financial repression is coming, contrary to what the good news propaganda tries to tell.

A more sustainable solution was proposed by Dr Fadhel Kaboub, Assistant Professor of Economics at Denison University in Ohio. In a letter posted in

The Financial Times titled "What the Eurozone Needs Is Functional Finance," he wrote:

The eurozone's obsession with "sound finance" is the root cause of today's sovereign debt crisis. Austerity measures are not only incapable of solving the sovereign debt problem, but also a major obstacle to increasing aggregate demand in the eurozone. The Maastricht treaty's "no bail-out, no exit, no default" clauses essentially amount to a joint economic suicide pact for the eurozone countries.

. . . Unfortunately, the likelihood of a swift political solution to amend the EU treaty is highly improbable. Therefore, the most likely and least painful scenario for [the insolvent countries] is an exit from the eurozone combined with partial default and devaluation of a new national currency. . . .

The takeaway lesson is that financial sovereignty and adequate policy co-ordination between fiscal and monetary authorities are the prerequisites for economic prosperity.

### **Standing Up to Goliath**

Ireland could fix its budget problems by leaving the Eurozone, repudiating its blanket bank guarantee as "odious" (obtained by fraud and under duress), and issuing its own national currency. The currency could then be used to fund infrastructure and restore social services, putting the Irish back to work.

Short of leaving the Eurozone, Ireland could reduce its interest burden and expand local credit by forming publicly-owned banks, on the model of the Bank of North Dakota. The newly-formed Public Banking Forum of Ireland is pursuing that option. In Wales, which has also been exploited for its coal, mobilizing for a public bank is being organized by the Arian Cymru 'BERW' (Banking and Economic Regeneration Wales).

Irish writer Barry Fitzgerald, author of *Building Cities of Gold*, casts the challenge to Ireland in archetypal terms:

The Irish are mobilising and they are awakening. They hold the DNA memory of vastly ancient times, when all men and women obeyed the Golden rule of honouring themselves, one another and the planet. They recognize the value of this harmony as it relates to banking. They instantly intuit that public banking free from the soiled hands of usurious debt tyranny is part of the natural order.

In many ways they could lead the way in this unfolding, as their small country is so easily traversed to mobilise local communities. They possess vast potential renewable energy generation and indeed could use a combination of public banking and bond issuance backed by the people to gain energy independence in a very short time.

When the indomitable Irish spirit is awakened, organized and mobilized, the country could become the poster child not for austerity, but for economic prosperity through financial sovereignty.

<http://ellenbrown.com/2013/11/02/ireland-ground-zero-for-the-austerity-driven-asset-grab/>

Ellen Brown is an attorney, president of the Public Banking Institute, and author of twelve books, including the best-selling *Web of Debt*. In *The Public Bank Solution*, her latest book, she explores successful public banking models historically and globally.

## **Neo-liberalism does not recognise social investment**

**John Hermann**

The benefits to society at large by having the state invest in education at all levels, and tertiary education in particular, is immense. In fact it is indispensable to the health and happiness of modern society. Before the advent of the neo-liberal era (i.e. before 1980) many countries had

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schemes in which every form of tertiary education was freely available to their citizens, with the only admission criteria being demonstrated skills and academic ability. And even where direct state grants did not exist, generous scholarships and studentships were often provided for both local and foreign students. These awards were provided by government, and also sometimes by the institution itself as far as its budgetary constraints would allow.

The purely financial argument in favour of such an arrangement in past years was that those citizens who gained degrees and diplomas were expected to become absorbed by the professions or to move into other well remunerated occupations, and therefore would be obliged to pay more tax to the government over their working lifetime and years of retirement than would most other citizens.

However the more recent adoption of neo-liberal policies has led to a thorough commercialisation of tertiary education. To the extent that most students today are obliged to take on an immense debt load in order to fund their course work and their living expenses. This would be serious enough, as an impediment to getting married and raising a family, even if the attainment of adequate educational certification could serve as a means to obtaining secure future employment.

Unfortunately an additional hurdle has been constructed by neo-liberalism -- it has effectively removed most forms of job security, even for those who have been well trained for entering the professions. This amounts to a systematic devaluing of human skills and talents, and more generally society's vast cultural heritage.

The bottom line for neo-liberalism is immediate profit, with little care for the welfare of present or future generations, or the economic health of the nation as a whole, or ecological sustainability, or even the survival of the human race.

## Ten years after 'The Party's Over' - interview with Richard Heinberg

**Rob Hopkins**

While running the risk of sounding like a Hello! Magazine reporter, I must introduce this post by saying that while in the U.S. recently, I joined Richard Heinberg and his wife Janet in their beautiful permaculture garden in Santa Rosa, California. Richard will be known to most readers of this blog as the author of *The Party's Over*, *Powerdown*, *The Oil Depletion Protocol*, *Peak Everything*, *Blackout* and *Snake Oil* as well as one of the best communicators on the whole peak oil/everything question.

This year marks the tenth anniversary of the publication of *The Party's Over*.

Richard has already reflected on this in September's Museletter, but Richard and I pulled up a chair under a tree in his garden and chatted more about the book, its impact, and other related issues. You transcript follows below, or you can listen to or download the podcast below.

RH: So Richard, it's 10 years since *The Party's Over* came out, which is certainly a book that turned my life upside down and the lives of many others, I suspect.

I have a lot to answer for, I'm afraid...

RH: This guy came up to me at an event I was at recently in Austin, and said "I read your book 4 years ago and after I read it, I gave up the really well-paid job I had and I moved into a falling down house." I thought, my God he's going to burst into tears! But it was a story that ended well. What's your sense, looking back on that book, knowing what we know now and how things have changed through the explosion of unconventional stuff, how well, looking back after 10 years do you feel that the analysis set out in that book has held up over that time?

Since it is the 10 year anniversary of

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publication, I actually went back and read the book for the first time in years. I was actually quite pleasantly surprised. In the book, although I cite the analysis of a number of different people, theorists if you will, the two people whose work rely upon most are Colin Campbell and Jean Laherrère. If you read carefully what they were saying in 1998, and the next few years, what's actually transpired since then is essentially exactly what they were forecasting.



Richard Heinberg and Rob Hopkins  
in Richard's garden, Santa Rosa.

They were forecasting a peak in regular, conventional oil around 2006 or so, which is exactly what we've seen. Yes, crude oil production has increased in the last few years, but all of the increase has been in tar sands or tight oil from North Dakota and Texas. If you take that out of the picture, oil production today is below what it was in 2005-2006. So that's correct.

And they went further and said this would cause price increases which would incentivise more production of unconventionals. They didn't specifically say we're going to get more oil out of North Dakota, but how specific do you need? To my interpretation, what they were describing was exactly what we've been living through over the last few years. We've seen higher and more volatile oil prices, the oil industry is spending twice as much on exploration and production and yet producing very

little more oil. They're drilling twice as many wells and the 10 top oil companies have seen their actual production decline by about 25 % in the last decade. So if this isn't peak oil I don't know what is.

Now it's true, there are some peak oil commentators who were saying that the result would be an almost immediate global economic crash and there'd be riots on the streets and mass starvation and so on before 2010, and that hasn't happened. But if you pick up *The Party's Over* and read it, there's nothing in that book that would make such a claim.

RH: The idea that the 'party' is over that's so strong in the book, there seems that the book has motivated lots of people for whom the working assumption is that the party's over, but our leaders are still desperately clinging to the fact that the party is revivable and is about to start swinging again with great gusto, based on this obsessive push for growth and what it takes to make that happen. What's your take on this scale of denial or over-optimism that is gripping our leaders at the moment?

I wouldn't characterise their attitude as one of optimism. I think their attitude is veering more and more toward desperation all the time, but it's a failure of imagination. They cannot imagine a Plan B. The only definition of success in their lexicon is more economic growth as in what we saw during the mid-20<sup>th</sup> century. Of course, that's just not on the cards. That presents an impossible situation for them. All they've managed to do so far is – and here it's not only governmental leaders but also heads of central banks – to create a few years of fake economic growth through massive deficit spending and quantitative easing and so on.

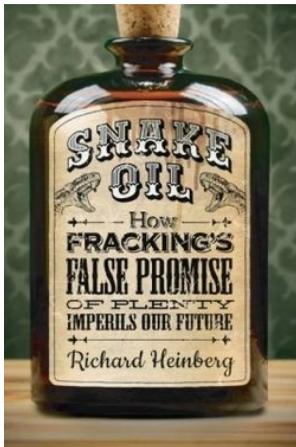
That's staving off economic collapse, but it's certainly not capable of returning us to the glory days of easy economic growth. I

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think there's a general understanding that this can't go on forever, that there are inherent problems to deficit spending and central bank enlargement of the balance sheets of the Federal Reserve. That can't go on in perpetuity, but what else do they do?

I described this in one recent essay as fingers in the dyke. With unconventional oil and with quantitative easing and deficit spending, we're managing to maintain a façade of normality, at least for a large segment of the population. Certainly not for everyone, because every year more and more people fall off the edges of the table. But at what price, in the long run? The longer we try to maintain this false normality, the higher the cost in the end. The worse the crash will be once these back stops fail.

RH: The latest book you've written, *Snake Oil*, has been looking at the whole fracking explosion, which in the UK has been a thing that the government is grasping on to, assuming that the same thing that can happen in the US can happen in the UK, and that's how the economy is going to be got going again. But you argue there that actually fracking is a bubble, a very dangerous bubble. Could you tell us a bit more about that?



Here in the US, there has been a very substantial increase in natural gas production as a result of the application of hydro-fracking to shale deposits. However, there are only a few geological formations where this can be applied and in each of those there's only a small core area where production is prolific and profitable. The drillers have, except for one, pretty much drilled out all of those core areas and production is dropping. The Barnett, which was the first of the shale plays, where it all started in Haynesville was the largest and most productive.

Before the end of the decade, probably round 2017 or so, we'll begin to see the end of the bubble. Already, companies that got in late and missed the sweet spots are writing down assets and selling off leases. There are all the signs of a bubble bursting.

RH: Shell pulled out of somewhere didn't they...

Most of Shell's assets were in liquid plays in Texas, in other words, oil. But the same principle applies with tied oil as with shale gas. We did a study at the Post-Carbon Institute called Drill, Baby, Drill. David Hughes, a retired petroleum geologist who worked for the Canadian geological survey gathered all the available data. Our study, actually, I'm very proud of it, is the best study that's been done to date on shale gas and tight oil. It's clear from the numbers that this is a short-term boom.

Is the same thing going to happen in the UK? I think it's extremely unlikely. Firstly because if it's such a short-term bubble here, is it likely to be any better there? No, probably not. But second, because the ownership structures are different. Here, it's all private landowners who stand to make a little money from drilling leases. So there's an incentive for people to accept the noise, the bad air, the

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compromise of water quality and all the other things that go along with fracking. The incentive to overlook those things is they're going to get an immediate economic bonus from it. But in countries where some surface mineral rights are owned by the government, there's no such incentive for ordinary people.

When people are confronted with these environmental and human health insults, there's no reason why they should go along with it. There's likely to be a much greater citizen backlash. The citizen backlash here in the US has been pretty substantial. A poll released just a couple of days ago showed that Americans are generally opposed to more fracking. So again, that kind of backlash is likely to be much greater in the UK and other countries.

RH: You and I a while ago had a debate about planned descent strategies preparing for emergency. What's your thinking about those issues there? Could you give us an update on your thinking about that?

I'd have to go back and refresh...

RH: I guess it's the 'Powerdown' scenarios, 'Building Lifeboats' and stuff. It seems to be that the governments are dashing off over the hill in 'Last One Standing', 'Drill Baby Drill' scenarios. But in terms of us as communities, which ones do you think we're left with; are we 'Building Lifeboats' or are we 'Powerdown'-ing?

We have to continue doing as much of both as we can. A few minutes ago I mentioned the fingers in the dyke scenario. We don't know how long these back stops are going to last. We don't know how long quantitative easing and deficit spending can go on for. It could be weeks: what's going on with the US Congress and the debt ceiling right now could precipitate a global economic crash within a matter, literally of weeks. On the

other hand, it could be years.

I think we have to assume that we have time to build community resilience, but while we're doing that, it really makes sense, as families, as individuals, to have a well-stocked cupboard. The more prepared we are as households for disaster, the more resilient our communities are. If you have a whole community where nobody has any food put by, nobody has any backup systems ready, then the whole community is much less resilient. There's every reason for people to have a sense of preparedness.

But when I say that, I don't want to encourage a survivalist mentality. It's quite the contrary. The big thing that the survivalists miss is that the only way we'll get through this is together. If it's lone individuals with shotguns then kiss the human race goodbye ... game over.

You mentioned the thing about what's happening here. I'm sure there's no connection, but the government shut down the day I arrived. I'm sure it's not going to open again the day I leave – if it does I'll get a bit worried! [Editors note: it did] What are the implications of that, do you think? Where could that take this country? Could it be just a couple of weeks where people don't get paid and then it all goes back to normal, or could the outcome of it be more serious?

Oh yes, it could be very serious. This is revealing a fundamental political dysfunction within the country. The insular, rightward drift of the Republican Party over the past three decades is really dramatic. One can argue whether a two-party system is a good idea, but in order for a two-party system to even work minimally, you have to have two healthy political parties. What we have now is one establishment, mainstream, centre, marginally centre-left but mostly centre political party which is the Democratic Party and one party that's basically gone

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crazy.

It's boxed itself into a corner but it has a die-hard base that is so radicalised and so cut off from reality that nothing is going to come between them and their cherished nutcase candidates. They'll support them to the end. And I know that the crazier these politicians get, the more support they have. So if you look at the incentives on both sides, they need to have a stand-off, a constitutional crisis.

RH: Surely that's something that just happens in the White House. How does that create a knock-on that's going to ripple through the world economy?

If they fail to increase the debt limit for the US, that will have enormous implications for the global economy, certainly for the US economy. Almost immediately, interest rates in the US would skyrocket, the stock market would crash, the US dollar might cease to be the currency of account for other countries. The whole global economic financial system would be hurtled back to the days of 2008 and possibly much worse.

RH: How far can we just carry on going piling up those debts. Isn't the Republicans saying let's not increase the debt ceiling, isn't there a good aspect of that? The party may be over, but we still keep on borrowing to keep the illusion going that there is a party. When is debt a good thing and when is debt a bad thing?

Debt is a good thing in the present instance, only to the extent that it enables business as usual to continue for a while so that people like you and I can go about our business and try to help systemically to build more resilience in society. Buying more time otherwise is not a good idea, because it just means we're going further out on a limb as a society, from an ecological standpoint.

The argument could be made that the Republicans are doing everybody a big

favour by forcing the issue, and basically forcing a global economic crash sooner rather than later. I'm a bit torn with that really.



Richard and Janet's garden

RH: It's a little extreme, isn't it? We're sitting here in your very beautiful garden with fruit and nuts...you've been writing about this stuff for 10 years and been one of the world's foremost analysts of these issues. How does Richard Heinberg's daily life reflect those things? You're quite clearly not one of those academics who is able to just study something and then have a life that completely doesn't reflect that. How does all of that appear in your daily life?

My wife, Janet and I have spent more than 10 years, probably more like 20 years trying to develop as much self-sufficiency and ecological sanity in our lives as possible. We're proud of what we've done so far but at the same time we're painfully aware of what we haven't done and what's really hard to do.

We just have to content ourselves with what we can do. We're happy to have friends and neighbours who are supportive and we try to encourage them also and work with them on all sorts of interesting local efforts like creating community energy and so on. Is it enough though? But at the end of the day, we have to do what we can and enjoy life. This life is a gift and we don't know how many days of normal life we have. Being

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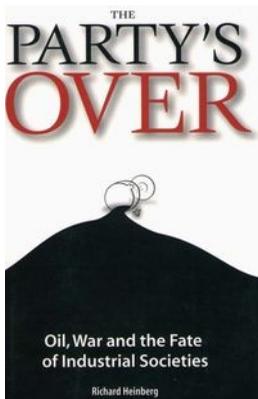
with friends and family, playing music, being out in the garden, spending time with nature, this is not something to take for granted.

RH: My last question is now, looking back 10 years after *The Party's Over* came out, and it's been translated into lots of different languages, are you able to get a sense of its impact, of its legacy as a publication at this stage?

I wouldn't want to try to be too bombastic about it. It's one of a number of books about Peak Oil that have been written. I think it probably was one of the more influential ones, certainly it didn't have the highest book sales and I think Jim Kunstler's *The Long Emergency* sold two, three or four times what *The Party's Over* did.

But I think *The Party's Over* appealed to folks who were perhaps a little more open to or interested in a communitarian response to the Peak Oil crisis. I've met thousands of people over the past decade who are doing amazing things in their own lives and communities and I feel very happy to have had some positive influence.

RH: Thank you. Well it certainly had an enormous impact on me anyway. And it had the best cover of any of the Peak Oil books as well!



The less-popular US cover. I had nothing to do with that actually. It was all the British publisher's doing. The original North American cover was pretty bad, actually. Then the British publisher chose a completely different cover and then as soon as I saw it I thought that's it, we've got to have that. I had to talk the North American publishers into it. First they thought it was too depressing, but then the British publisher wanted money for it and I had to really insist. But of course, everyone says what a great cover it was now...

Published on Oct 29, 2013, by Rob Hopkins on Transition Network

<http://www.transitionnetwork.org/blogs/rob-hopkins/2013-10/10-years-after-partys-over-interview-richard-heinberg>

## Vale Gerhard Weissmann

### John Coulter

*Gerhard passed away during November, and John Coulter was invited by Gerhard's wife Janet to reflect on his life with a few comments. The following is directed to Gerhard's extended family, friends and colleagues.*

Gerhard was one of those rare people who followed where his understanding of truth led and Gerhard's fundamental truths were derived from a commitment to science. Education in his generation was disrupted by war. Enrolled in a physics degree at Göttingen University, Göttingen University, the Cambridge of Germany and the origin of so many who led the world in Maths and Physics, Gerhard was destined not to complete his degree because of the war.

In 1950 he migrated to Australia, got a job with ETSA, first in Leigh Creek and later in Adelaide where he was able to obtain an engineering degree from what was then the School of Mines, later to become part of the University of South Australia. In 1952 he and Janet met and they were

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married in December 1954. In 1975 he left ETSA and he and Janet took on the arduous task of a dairy in River Road, Hahndorf. The family suffered considerable destruction from both Ash Wednesday bushfires: 1980 and 1983. Alex has told me that in the 1983 fire Gerhard turned a sprinkler full on, stood in the midst of the spray and from there fought the fire away from the house with a fire hose.

By early 70s Gerhard had embraced a deep concern for the natural environment. He recognised that the environmentally unsustainable course that humanity was on linked to his understanding of thermodynamics. These matters were further linked to a deeply flawed monetary system. It seemed natural for him to join the then new Australia party. It was about this time that I first remember meeting Gerhard. When the Democrats were formed in 1977 it was the Australia Party and its members that provided a solid core of policies based on environmental sustainability and Gerhard was one of those who came to the Democrats with that solid core of policies. Gerhard also joined Economic Reform Australia and Australians for an Ecologically Sustainable Population, now Sustainable Population Australia. He was also a contributor to Humanist Society Victoria's Newsletter where in 1966 he wrote on 'Science vs Dogma' and where, just last month he wrote a follow-up letter.

Gerhard did not only contribute to the work of the environment movement as a thinker and a writer. He hopped in and helped physically when the call went out. When the Conservation Council moved from Angus St to the building in Wakefield St the latter needed a lot of work to be done before CCSA could move in. Gerhard was there with his ladders, scaffolding and paint brush shifting and repainting walls.

Gerhard cemented his academic credentials in this complex and interweaved tapestry of sustainability by gaining a master's degree in Environmental Studies in the 1990s. This study took him back to his first love: physics. His thesis was on entropy and the place of thermodynamics, especially the second law in an understanding of sustainability/unsustainability. His thesis, 'The Entropy Field' based on the integration of thermodynamics with economics and sustainability, being a new and different approach not surprisingly brought him into conflict with quite a few, especially economists. But undeterred Gerhard stuck with his truth, gained his qualification and then published his work as a small book.

It is this quality of honesty and commitment to following the truth that marked Gerhard's life all the years that I knew him. It is his legacy to us and his call for us to show this same commitment. The time vector is unidirectional; entropy inexorably increases. We must spend our entropy gain wisely.

The time vector is unidirectional. We cannot change the past, but we can use the knowledge to become wiser and with the wisdom gained to shape a different future.

I will finish with two complementary quotations. The first is a transliteration of part of Gerhard's physics to metaphysics through a verse by a famous poet, astronomer and mathematician from 11th century Persia, Omar Khayyam:

The Moving Finger writes; and,  
having writ,  
Moves on: nor all thy Piety  
nor wit  
Shall lure it back to cancel  
half a Line  
Nor all thy Tears wash out  
a Word of it.

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And now to quote Gerhard's words from 'The Entropy Field'

.... with the efflux of time, with increased age, comes the acquisition of data that becomes information. After more ageing and experience, information becomes knowledge. Many people stop there, but some go on getting older and wiser. That may not be the end. As life goes on, new knowledge can be turned into new wisdom. Thus from being through becoming to older being: no knowledge or wisdom can be had without ageing, as there is no being without becoming. Although wisdom may come as a consequence of perception and conceptualisation, that is not a necessary outcome. Some people stop at being without further becoming. Simply holding information or knowledge does not make anyone wise. Although both knowledge and wisdom can be gained with entropy effort from our surroundings, they are not capital but product, the result of our extractive efforts.

To put great effort into a massive acquisition and dissemination of data and information at tremendous cost to the world, has to be considered with care. If the mass of information becomes huge, much of it passes unused through human systems. If none of it is ever turned into wisdom, it is all dross.

The time vector is unidirectional; entropy inexorably increases. We must spend our entropy gain wisely. That is Gerhard's legacy. Thank you Gerhard.

Dr John Coulter is an ERA member and former senator living in South Australia

### **A basic income scheme Ken Goodhue**

*The following comments by Ken Goodhue are in response to John Hermann's previous statement that a basic income scheme is a good idea; but cannot be properly achieved without reforming the entire economy, especially monetary reform:*

I agree with you John. The first thing that needs to be done is reform the present monetary system. There is already in NZ pressure being brought to bear to delay the eligibility of national superannuation, especially to a person who also has some other income. To advocate in present circumstances a basic income to be paid to everyone whatever their income, I believe would be political suicide, when we are having so much difficulty to convince people that there is a better way of managing the creation and distribution of credit. We should have an economy that will utilize everyone who is able to work, and make sure that they get a good basic income as a reward for their efforts. Certainly support those who are not able make a contribution because of health or disability, with a basic income, as well as the pensioners, who have already made their contribution to society. It is wrong when a government says it cannot afford this, when someone is unemployed and cannot find work. There may be unemployable people, but there should be no unemployed people -- unless it is their choice. The real wealth of a country are its people. If one wants proof of this, one only has to look at an economy in time of war. Suddenly it all hinges on how many people are available, and how best to utilize them. Cost doesn't even enter the equation!

Ken Goodhue is an ERA member living in New Zealand

### **News and views from New Zealand ... and a better New Year Dennis Dorney**

The NZ Reserve Bank has decided that a borrower who cannot raise 20% of the total value of the home he wishes to buy may not get a mortgage (see my last article). Figures are now available for the first whole month (October) under which this restriction applies and although it is

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early days yet and the figures are small, the trend is worrying.

Mortgages for which the restriction applies have fallen about 50% from \$1.2 million to \$0.57 million. On the other hand the value of unrestricted mortgages rose from \$3.50 million to \$3.90 million, leaving total mortgage commitments little changed.

This suggests that speculators have moved in to take up the slack, obviously realising that would-be home buyers will now have to rent instead. If so, the Government by leaving the problem for the market to fix has created a more speculative (and hence more risky) market than before.

Looking back through my previous articles, I am stunned that I have not yet mentioned the current round of SOE assets sales which the government has been forcing through parliament, because it vies with housing as the debacle most likely to topple the government at the next election.

In Jan, 2011 the Government announced that it would be selling down its share of the energy companies, Mighty River Power, Meridian Energy, Genesis and Solid Energy from 100% to 51%. It would also sell its existing shares in Air New Zealand down to 51%. Although this sounded like a bold plan the Labour Party was in such disarray that the Government had little to fear. In the lead up to the election 80% of the public opposed the plan and the National Government clearly lost the debate on this issue. However, it won the election by a large majority and immediately claimed a mandate to sell down those assets and to do virtually anything it wanted to.

The opposition vowed it would raise a petition to force a referendum on the issue. This requires something over 300,000 signatures (10% of eligible voters) - a massive effort undertaken

more by the Greens than the Labour Party, whose own history on asset sales is rather embarrassing. One would think that the Government would have some moral obligation to await the result of the petition and, if a referendum resulted, to recognise that the outcome must have more validity than its own claim of a mandate. No such luck. After some set-backs the required number of signatures was reached but the referendum that ensues (it will be completed by Dec12th) will be non-binding and Prime Minister John Key has stated bluntly that he will not accept a negative result and that the referendum "is a waste of public money". Perhaps it is, because in the interim he has already sold down the shares of Mighty River Power, Meridian and Air New Zealand.

Why is this a debacle? It lost virtually every round of the economic debate on asset sales. Even the Treasury, which is as right wing as you can get, would not endorse the government arguments. The share value of each SOE offered for sale so far was at the low end of market valuations and has fallen since. Recently Mighty River Power (\$2.50 issue price) closed on a new low of \$2.10. Meridian Energy is now below its \$1 issue price. Before its sell-down, Air NZ had been performing well on the stock market and the Government was predicted to be able to sell at a premium but the shares reached only the offer price of \$1.65.

Genesis may now be withdrawn from sale because of the poor results. As for Solid Energy, the less said the better. Even before it was put up for sale, Solid Energy (meaning coal and lignite) revealed that having been encouraged by the government to take on more debt and be "more entrepreneurial", it had run into financial difficulties, requiring it to mothball its \$29 million Mataura lignite briquette operation and be bailed out by a \$100 million injection by the Government.

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It also came to a debt rescheduling agreement with five banks but so far the Bank of Tokyo (owed \$30 million) has refused to accept this deal and intends to pursue its claim through the courts. This could put Solid Energy into receivership and a forced sale to anyone who wants it, unless the Government intervenes, which is unlikely.

So what has the Government got to show for its ideologically driven foray into State asset sales? John Key invoked the idea of “mum and dad” investors, buying shares for the first time, who would benefit from their purchase. If these people exist they will not want to repeat the experience and may well want to sell. Meridian energy is New Zealand’s largest generator of natural energy, which surely represents the future. We have effectively lost control over it. Meanwhile the government is encouraging oil and gas exploration that most experts say should remain in the ground. And Solid Energy, which produces some of the dirtiest energy imaginable, will be sold to any company that has no qualms about burning it. You needn’t ask if our Government has a commitment to reduce global warming.

It is traditional about now to wish people a prosperous New Year. That is a dream too far. I’ll settle for a better one.

Dennis Dorney is a NZ member of ERA

## **What if the world economy fails to spring back to life?**

**Positive Money (UK)**



Anatole Kaletsky’s latest article is well worth reading. Entitled “Central bank

*stimulus is here to stay, but what if it fails?*”, Kaletsky discusses a possible scenario where the world economy fails to spring back to life, despite all the current stimulus (Quantitative Easing). One option he describes is ‘a retreat from monetary stimulus’, and leaving the markets to do their own thing. But that’s not the most likely reaction, Kaletsky argues:

*“A much more likely reaction to failure of the present stimulus attempts would be bolder experiments with new measures that act directly on consumer demand. The obvious way to do this would be to combine monetary and fiscal policy into a new form of unified stimulus that would put money directly into consumers’ pockets, instead of relying on trickle-down effects from financial markets, where wealthy investors become even richer because the central bank boosts asset prices by buying government bonds.*

*“As this column has repeatedly argued, the Fed could have delivered vastly more powerful economic stimulus through its QE program if it had sent out a check of \$270 every month directly to each of the 315 million U.S. citizens, instead of transferring the same \$85 billion monthly to bond investors, as it has been doing now for over a year.*

*“This kind of monetary ‘helicopter drop’ was what Milton Friedman recommended for economies still facing persistent unemployment after interest rates were reduced to zero and Ben Bernanke strongly advocated “helicopter money” for Japan before he became Fed chairman.*

*“Even a few months of free money distributions to ordinary American households would almost certainly have done more to encourage consumer spending and economic activity than years of conventional bond purchases by the Fed. Helicopter money would therefore have revived the economy more*

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*quickly and with much less expansion of the Fed's balance sheet than conventional QE. So helicopter money would actually have been a more cautious form of monetary stimulus than QE, with less inflationary potential.*

One measure that would act directly on consumer demand is Sovereign Money creation – a policy that relies on the state creating money and putting this money into the economy. Whereas Quantitative Easing relied on flooding financial markets and hoping that some of this money would 'trickle down' to the real economy, Sovereign Money creation works by injecting new money and spending power directly into the real economy. Depending on how it is implemented, the policy could be many times more effective at boosting GDP than Quantitative Easing.

### **Will Sovereign Money creation lead to high inflation?**

A common concern with Sovereign Money creation (SMC) is that cooperation between the fiscal and monetary authorities will lead to the power to create money being excessively used, resulting in high levels of inflation, or even hyperinflation.

These concerns are reasonable and point to the need for a strong governance structure around the use of SMC. The recent financial crisis demonstrated the dangers of allowing any organisation to have the power to create money without appropriate safeguards. Organisations, such as commercial banks today, which are able to create money and benefit from doing so, will naturally have an incentive to create too much money. This tends to lead to economic instability. Looking at a dataset comprising 14 advanced countries and covering the period between 1870 and 2008, Taylor (2012) finds that the most important variable in predicting financial crises is past credit

growth:

“Over 140 years there has been no systematic correlation of financial crises with either prior current account deficits or prior growth in public debt levels. Private credit has always been the only useful and reliable predictive factor.”

For this reason, the state – through the central bank – attempts (often unsuccessfully) to restrict bank activities in order to prevent the harmful effects of excessive money creation: inflation, instability, and financial crisis.<sup>52</sup> Likewise, to prevent politicians from abusing the power to create money, this power (and monetary policy in general) is devolved to an independent central bank.

To prevent the abuse of SMC, all that is required is that the decision over how much money to create is delegated to an organisation that does not have a conflict of interest. In this case, this means that the beneficiary of money creation – in the case of SMC the government – is not also able to decide the amount of money to create. This is the approach followed in Jackson and Dyson (2012) as part of a larger set of reform proposals. In a recent debate, Adair Turner also advocated similarly:

“Under the Outright [overt] Monetary Financing approach ... the scale of money financed fiscal deficits would be clearly determined in advance by an independent central bank. The fiscal authority would decide how to spend the money (the balance between tax cuts and public expenditure): but the central bank would determine the amount of permanent money finance, consistent with an appropriate inflation or money GDP target. And it would do so as an independent central bank, and through the same decision making processes which govern the use of other monetary-policy tools.” (Reichlin, Turner, Woodford, 2013) [our addition in square brackets]

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The simplest way to ensure that the central bank does not create too much money is for monetary policy to continue targeting inflation (on its own or as part of a broader set of targets). Higher levels of inflation would therefore automatically lead to the central bank reducing (or halting) SMC. SMC therefore gives the central bank another tool that it can use to aim at its targets, but does not open the door to unconstrained money creation by the state. The decision on whether to undertake SMC should be taken by the MPC in its monthly meetings, alongside its other monetary policy decisions.

Sources:

<http://www.positivemoney.org/2013/11/what-if-the-world-economy-fails-to-spring-back-to-life-reuters/>

<http://blogs.reuters.com/anatole-kaletsky/2013/11/14/central-bank-stimulus-is-here-to-stay-but-what-if-it-fails/>

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Anatole Kaletsky is an award-winning journalist and financial economist who has written since 1976 for The Economist, the

Financial Times and The London Times before joining Reuters. His recent book, "Capitalism 4.0," about the reinvention of global capitalism after the 2008 crisis, was nominated for the BBC's Samuel Johnson Prize, and has been translated into Chinese, Korean, German and Portuguese. Anatole is also chief economist of GaveKal Dragonomics, a Hong Kong-based group that provides investment analysis to 800 investment institutions around the world.

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Photo: Crew check a helicopter on arriving at Zhezkazgan Nov 10, 2013. REUTERS/Shamil Zhumatov

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There is nothing left now for us but to get ever deeper into debt to the banking system in order to provide the increasing amounts of money the nation requires for expansion and growth. Frederick Soddy

### U.S. wants special rights for investors to sue governments AFTINET

The U.S. wants special rights for foreign investors included in the Trans Pacific Partnership (TPPA), which would allow corporations to sue governments for millions of dollars if their investments are 'harmed' by a law or policy, even if that law or policy is designed to protect public health or the environment. The proposal is known as Investor-State Dispute Settlement, or ISDS.

These disputes are heard by international investment tribunals, which prioritise investor rights above the public interest, and which do not have an independent judiciary or other safeguards of national legal systems.

Australia's democratic parliament and court system is already being undermined by an ISDS provision in an obscure 1993 Hong Kong-Australia investment treaty. After a group of tobacco companies tried and failed to get compensation through the Australian High Court over the plain packaging legislation, US-based tobacco company, Philip Morris, moved some of its investments to Hong-Kong so it could use this agreement to sue the Australian Government. Philip Morris clearly believes that an international investment tribunal will give it a more favourable decision.

Under the North American Free Trade Agreement (NAFTA) US corporations have used ISDS to sue governments for tens of millions of taxpayers' dollars over legitimate health and environment legislation. Currently, the US Lone Pine energy company is using ISDS provisions in NAFTA to sue the provincial government of Quebec for \$250 million because it suspended shale gas mining pending an environmental study in response to community concerns.

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In Australia, farmers and members of communities influenced the NSW government to regulate coal seam gas activity close to residential suburbs and rural industries. If Australia agrees to ISDS rules in the TPPA, foreign companies could sue state governments for damages over this kind of regulation. Even if the government wins the case, it can cost millions in legal fees.

The Howard government did not agree to ISDS in the Australia-US Free Trade Agreement in 2004. However, the Coalition's trade policy is to negotiate on ISDS. We urge the Government to oppose clauses in the TPPA that grant special rights for foreign investors to sue governments.

Source and further information: AFTINET website <<http://aftinet.org.au/cms/>>

**Review of four books:  
structural crises and the need for  
alternatives to capitalism  
Hans Despain**

On Thursday, December 13, 2012, *The Guardian* announced Queen Elizabeth finally received an answer to her question - "Did nobody see this coming?" - about the 2008 financial crisis.<sup>1</sup> While she was touring the Bank of England, Sujit Kapadia, one of the bank's economists, informed Her Majesty that financial crises are a bit like earthquakes and flu pandemics: rare and difficult to predict. An impressive answer indeed. Brilliant for its vagueness, spuriousness, and obtuseness.

However, Kapadia is simply wrong not to have explained that many economists, financiers, and regulators anticipated and had predicted the financial collapse.<sup>2</sup> And metaphors of natural disasters are highly misleading. Financial crises are not inevitable occurrences, but historical, human-created, and contingent phenomena.

Her Majesty had asked: "Did nobody see this coming?" Perhaps she could have also asked three more questions: Does nobody see the suffering and socio-economic injustices of oligopolistic-finance capitalism? Does no one see that the problems are structural and systemic? And is there no alternative to a system that generates continuous "quadruple crises" - the socioeconomic, political, environmental, and personal/psychological?<sup>3</sup>

The conventional wisdom is "There Is No Alternative," or TINA. For this reason most Americans simply acquiesce to capitalistic social relations and, like Sisyphus, are resigned to performing eternal tasks while enduring the "endless" quadruple crises generated by a pathological system.

The most extraordinary aspect concerning the absence of an alternative is that it is fallacious. Capitalism itself must be transformed. To put it into a slogan: Capitalism Is No Alternative, or CINA.

Four recent books provide radical and practical alternative visions for both the workplace and the economy more generally. Rick Wolff's *Democracy at Work: A Cure for Capitalism* (2012), David Schweickart's *After Capitalism* (2011), Gar Alperovitz's *America Beyond Capitalism: Reclaiming Our Wealth, Our Liberty, and Our Democracy* (2011), and Dada Maheshvarananda's *After Capitalism: Economic Democracy in Action* (2012).

One important aspect shared by each of these books is that each was either written, or expanded and reissued, in reaction to the crisis of 2008 and the Occupy movement of 2011. All four books provide highly practical calls to action which are capable of transforming the economy and democratizing the workplace.

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Before describing this exciting and inspiring work, two points should be underscored. First, these four books are merely the tip of the alternative-society iceberg, and focusing on them specifically is merely a way to put at rest the misconception of TINA and the correctness of CINA. Second, CINA literature has always involved disagreement and debate, but unfortunately, none of the four authors provided other alternative models to CINA besides their preferred one. The intention here is to provide an overview for the existence of highly innovative and practical responses to the economic collapse and ensuing protests. These turbulent last four years are only a beginning to a revolutionary era of transformation away from capitalism. Each of these books is very well-written, well-reasoned, and well-argued, and all of them offer practical models to CINA.

Alperovitz underscores the fact that in capitalism there is a “democratic deficit.”<sup>4</sup> In the United States it is proclaimed that there is a democracy in the political realm. But once an individual enters the economic realm - when we enter the typical workplace - democracy is abandoned and totalitarianism runs supreme. Even within the political realm, oligopolization and political lobbying have put at peril any sense of a democratic process, and citizens have almost no say in government.<sup>5</sup> Wolff reminds us that democracy is inconsistent with the production of surplus-value in capitalism and the profit motive.<sup>6</sup> Schweickart and Maheshvarananda both maintain that democracy is not possible in capitalistic labor relations, or in financial markets under the hegemony of oligopolistic financial enterprises.<sup>7</sup> Thus, there is not only a “democratic deficit” but a “democratic contradiction” within the capitalist mode of production.

All these authors also underscore the

social pathologies generated by capitalism. For example, in the United States one in four workers are employed in low-wage work with no benefits, no health care, no retirement, and no paid sick days or leave for family caregiving. One in two workers make less than \$25,000 per year.

Each of these authors point out that the processes of concentration and centralization generate not only massive inequality in income and wealth, but also in opportunity, education, and quality of life. Furthermore, economic inequality has generated political inequality, and has given rise to noxious levels and forms of political lobbying, business predation, venomous forms of rent-seeking, and the emergence of the Predator State.<sup>8</sup>

Most investments in contemporary capitalism are highly speculative and short-term, rather than productive and long-term. Debt is ubiquitous. Furthermore, there is a strong tendency in capitalistic production to either ignore or exploit the natural environment.

Wolff, Schweickart, Alperovitz, and Maheshvarananda each present practical and detailed blueprints for democratizing the U.S. workplace. They each provide alternative models to socioeconomic pathologies that constitute the ontology of capitalism. These four alternative models are not incompatible with each other, but rather highly complementary.

In parts 1 and 2 of his book, Wolff details the perpetual historical crises of capitalistic development, and the contradictory action of the government in wake of the crisis of 2008. In the third part, Wolff argues the “cure” is worker’s self-directed enterprises (WSDE). Wolff describes how these enterprises will work internally, and fit within market economies in particular, and in modern society in general. He explains how they extend democracy and give workers far more

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control, self-efficacy, and responsibility for their lives. Finally, he offers a very practical policy strategy to help bring these enterprises into being.

Schweickart's book may be the most impressive in its combination of practicality, critique of TINA, argument for CINA, and accessibility to the layperson. According to Schweickart, because of the failures of capitalism (i.e., CINA), "counterprojects" are always present as a "challenge to capitalism."<sup>9</sup>

Schweickart offers a moral and ethical critique of capitalism, along with presenting the negative socioeconomic effects the dynamics and (law-like) tendencies produce on human beings within the system in the form of inequality, unemployment, overwork, poverty, economic instability, and environmental degradation. Schweickart argues that his alternative model to CINA constitutes "Economic Democracy," supports workplaces that are "worker self-managed," offers social control of investment with savings and loan associations, and sees the government as the "Employer-of-Last-Resort."

Schweickart maintains his model is fully capable of overcoming the moral and ethical problems of capitalism, as well as the negative economic effects of its dynamics. For Schweickart the historical "counterprojects" of capitalism are historical proof of capitalist failure. In the last several pages, Schweickart demonstrates that his "counterproject" is not utopian but a practical historical result of the failures of capitalism and CINA.

Alperovitz understands capitalism, as well as the "too big to fail" and "too big to succeed" oligopolies, as inadequate for the needs of most people. For him, CINA is the social reality for the majority of people. However, he is less interested than Wolff and Schweickart in detailing the historical facts of capitalist failure, and

far more interested in demonstrating how Americans are reacting to the failure. Alperovitz believes that given the political impasse, whereby the system neither "reforms" nor "collapses" in crisis, there is a (potential) economic revolution underway, in the emergence of "worker-owned firms." He considers the economic impact and political capacity of these endeavors, and explains how these worker-owned firms change the lives of workers, democratize communities, improve the environment, and promote ecological sustainability.

The United States has 29,000 cooperatives, and the National Cooperative Business Association says they employ over 2 million people, own more than \$3 trillion dollars in assets, generate \$500 billion in revenue, and pay \$75 billion in wages and benefits. There are also hundreds of worker-owned firms, analogous to the Mondragon Corporation of Spain, emerging as viable alternatives to hierarchical, undemocratic, oligopolistically dominated, capitalist enterprises.

Alperovitz urges that we embrace and nurture these enterprises and help to "rebuild" a "pluralistic commonwealth" on the basis of smaller and more human-orientated, worker-owned firms. He maintains that they have the potential to renew a sense of community, and believes they demonstrate that the production process and activity of "business" can be beneficial to workers and community. Finally, worker-owned firms generate values of cooperation, communal responsibility, and social ethics, in addition to personal pride, achievement, and worth.

Maheshvarananda's book outlines the failures and pathologies of "multinational corporate" capitalism. He argues that Sarkar's Progressive Utilization Theory (PROUT) already exists as a well-

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developed alternative to both capitalism and socialism. It has important similarities with both Marxism and Participatory Economics, but its real philosophical basis is in Tantra Yoga, with influences from Hinduism, Taoism, and Buddhism (especially Zen). Its economic principles are that: (1) all citizens deserve the minimum requirements of life of food, shelter, clothing, medical care, and education; (2) employment is guaranteed; (3) the progressive use of science and technology and a federal institution geared toward research and development should be promoted; (4) a federal political system must include decentralized planning at the level of the local economy with balanced development of what is needed by local citizens; (5) a three-tier economic system, with privately owned small businesses, cooperatively owned medium and large businesses, and government-run large industries must be created; (6) "decentralized self-sufficient" local economies should be maximized. But the crucial feature is cooperatively owned businesses.

The cooperatively owned businesses referred to must be locally owned and run. They are meant to replace the above socioeconomic pathologies, and would be the largest part of a Proutian economy. According to Maheshvarananda, they will radically transform class relations, class struggle, and generate new perspectives on class. Maheshvarananda, much like Wolff, Schweickart, and Alperovitz, believes that the activity needed for the democratization of the workplace and economy is already underway.

Maheshvarananda offers many existing examples of cooperative enterprises. Most of these are the same discussed by Schweickart and Alperovitz, including the Mondragon cooperative in Spain and Evergreen in Cleveland. However, Maheshvarananda also offers extensive details of cooperatives in Venezuela,

where he has founded a research institute. In addition to mending the social pathologies of capitalism, he explains how Proutianism promotes leisure, spirituality, and a new humanistic ethic. He also insists that a transformation away from capitalism is urgently needed for environmental production and a new Agrarian Revolution to save the planet and human life. In this sense, Maheshvarananda is far more ambitious than Wolff, Schweickart, and Alperovitz, and is sure to be far more controversial for progressive theorists and activists.

Wolff, Schweickart, and Alperovitz have developed models of WSDE, economic democracy, and worker-owned firms as emergent realities, but have given less thought toward the longer term goals. Maheshvarananda has in mind a very long-term alternative to capitalism. It requires not only transformation in the workplace, but transformations in the political dimension. On the one hand, it could be argued his vision is far more remote, while on the other hand, once the transformation within the workplace begins, the ripple effect could be massive and sudden. For this reason Maheshvarananda's perspective can be understood in highly practical terms and can be seen as complementary to the works of the other three. Indeed Maheshvarananda's second to last chapter is titled "A Call to Action: Strategies for Implementing Prout." In his last chapter, "A Conversation with Noam Chomsky," they discuss the importance of the Occupy Movement, raising consciousness of resistance, extending democracy and cooperatives, and limiting wealth accumulation within North and South America.

Clearly all four of these revolutionary thinkers believe the time to transform society is now, the time to democratize the workplace is now, the time to recognize CINA and finally absent

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capitalism from existence is now. These books are a call to, and for, action. Their call to action is radically consistent with systemic theories of capitalism, and with the understanding of capitalism's normal state as stagnation, periodic financial collapse, and individual worker hardship. There is certain to be disagreement in the explanations of the quadruple crises of global capitalism and in the models of alternative societies to today's failed system or CINA, however there is no room for claiming TINA.

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## Source:

<http://proutaftercapitalism.blogspot.com.au/>  
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## Sack the economists? Geoff Davies

Readers of Steve Keen's blog will have encountered the idea that near-equilibrium neoclassical economic theory is irrelevant to dynamic, far-from-equilibrium, real modern economies, and that the body of theory built around the neoclassical assumptions is full of inconsistencies. You will also be familiar with the idea that money and debt play central, dynamic roles in modern economies.

Yet it can be argued there are other equally fundamental flaws in the broader stream of theory and practice that might be called mainstream economics. Some examples, very briefly: so-called national accounting implicitly promotes many harmful activities; modern financial markets are predominantly parasitic, destabil-

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ising and destructive; the emergent, collective wealth of proximate enterprises is overlooked, and hence usually captured by speculators; flows of wealth, and responsibility, are heavily dependent on the kinds of ownership that are used, yet the full range of available ownership options is largely ignored; and there are many identifiable mechanisms that promote unjustified wealth inequality but that could readily be adjusted to promote more equitable rewards for effort.

Perhaps the most fundamental, destabilising and overlooked flaw in our strange economic system is the practice of issuing new money to finance investment. It is arguably the main reason why a crash on Wall Street (the centre of financial manipulation) causes such havoc on Main Street (the productive economy). Indeed few ever wonder why the failure of some people's "investments" should cause harm throughout the rest of the economy, rather than just to the parties involved with the investments.

Because of all of these fundamental deficiencies, I can only describe neoclassical economics as pseudo-science, or even as pre-scientific — myths unconstrained by any contact with reality. Its practitioners seem to think that because it uses a lot of mathematics it is science, but it only superficially resembles science, it does not critically compare its prognostications with observations of the real world. When that is done its irrelevance is manifest, market crashes being one of the obvious discriminators.

Unfortunately this absurd collection of beliefs is not just an interesting anthropological phenomenon, because the application of mainstream economics has created a pathologically unstable, inequitable, destructive and fragile industrial society.

Most critics may not be quite as damning as I am here, but there is, these days, a

lot of questioning of mainstream economics, because of its almost complete failure to anticipate the financial crash of 2007–8, even though others were issuing credible warnings from 2005 or even earlier. Worse, mainstream economics created the conditions that led to the crash, and still appeals to the same old concepts in its futile attempts to ameliorate the resulting depression. Indeed it is widely noted outside the mainstream that neoliberal policies are making things worse, particularly and most obviously in Europe.

Yet the mainstream profession sails serenely on, still firmly in control of both policy and academia, acknowledging very little concern with its theory and methods, indeed insisting that the financial crash was so anomalous nobody could have foreseen it. This is a plain admission that they do not understand modern economies. Like all the other proofs of its inadequacy, this implication is ignored by the mainstream, to the great frustration of many on the fringe.

One expression of this frustration came from Dean Baker, the prominent US commentator who, after railing against the "deficit hawks" and calling them flat-earthers, said "By all rights, these folks should be laughed out of town. They should be retrained for a job more suited to their skill set – preferably something that doesn't involve numbers, or people."

Reading this, it occurred to me that all subtlety must be abandoned. The message could only ever penetrate the wall of deafness if it was spelt out in brutal simplicity. The mainstreamers should be laughed out of town. They should be removed from all positions of influence. They should be sacked. They should not be allowed to propagate their baleful doctrine. Hence the title and subject of my new ebook: *Sack the Economists and Disband Their Departments*.

The title is not subtle, but it is justifiable.

Nor is the content a rant, it is a concise summary of major fundamental flaws in the theory and practice of mainstream economics. It also outlines the insights that follow from recognising modern economies as far-from-equilibrium self-organising systems. These insights include the clear potential to reform our market economies so they support people as whole beings, and so they cease to trash the only planet we have to live on.

Not all non-mainstream economists will agree with everything in this book. Yet there are some who do agree with each criticism made. Not all will immediately agree with all the diagnoses made, nor all the remedies proposed.

Nevertheless the subject, and the world, desperately needs real debate on the workings of real economies, conducted with full scholarly rigour and integrity. All non-mainstream economists, and all scholars from all relevant disciplines (which is most) should be able to support that goal.

Source: Steve Keen's blog  
<<http://www.debtdeflation.com/blogs/2013/12/07/sack-the-economists/>>



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### **On the nature of money** **Vincent Huang**

\* From Essays in Monetary Theory and Policy

*The following is from the introduction to a paper by Vincent Huang, a graduate student at the Economics Department of the University of Missouri - KC. The paper can be accessed on the New Economic Perspectives website (see source link).*

The discrepancy between the orthodox (primarily neoclassical) and the heterodox (Post Keynesian, Chartalism, MMT, etc.) schools of thought rests fundamentally in their different perception in the way the

capitalist economy functions.

The orthodox school depicts a barter economy in which the end purpose of production is consumption. Individuals innately engage in production because of the urge to truck and barter. Money merely facilitates the exchange of goods and services and cannot affect production decisions.

The heterodox school, however, depicts a monetary production economy in which production is always financed through money and would not take place unless more money expects to be realized through sale of goods and services. Hence, the orthodox school asserts money neutrality (at least in the long run) since money is simply the medium of exchange.

The heterodox school rejects money neutrality since money not only finances production but also serves as its end goal. The distinction between the barter and the monetary economy, as discussed above, thus necessarily implies a very different understanding of the nature, origin, and role of money between the orthodox and the heterodox school of thought.

The purpose of this paper is, through examining the nature and origin of money in a historically grounded context, to demonstrate that the orthodox school of thought has completely mistaken the nature of money and consequently misinterpreted the nature of the capitalist economy. Such theoretical misunderstanding is devastating because it manifests wrong policies that continually fail to address economic and social problems threatening a capitalist society. This paper also intends to shed light on alternative guiding principles behind monetary and fiscal policies.

\*Source:..<http://neweconomicperspectives.org/2013/12/essays-monetary-theory-policy-nature-money.html>

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### Bill Mitchell on cutting unemployment benefits

John Hermann

A very recent blog by Prof Bill Mitchell \* has drawn attention to the stupidity and cruelty attached to the recent decision by the U.S. Congress to cut unemployment benefits. Here is the introduction to his well-argued article:

" Once upon a time when I was a postgraduate student and there were around ten unemployed for every registered vacancy in Australia, a professor at my university was waxing lyrical about the lazy unemployed and what they should do to get off the welfare list. He said - well if they really wanted to work they could go down to the municipal tip and scratch together some scrap wood and some old pram wheels and build a cart, then follow the milkman around each morning and collect the horse dung and start a garden fertiliser business.

" He wanted the unemployment benefit eliminated to get "these characters off their bums". I remember the session vividly. That was his cure for the indolence of the unemployed. I put my hand up and said: "Two problems. First, the local council generally will not allow people to scour the tips for rubbish. Second, more importantly, the dairies now have trucks. The horse and cart milkmen were eliminated a few decades ago". Much laughter followed. My relations with that professor soured a little more after that but the base (sourness) was already large so the percentage change was minimal.

" The same sort of idiocy is driving policy in the U.S. at present, with the U.S. Congress enforcing more than a million unemployed Americans (that is, about 12 per cent of the total officially unemployed) will lose their unemployment benefits this coming Saturday because U.S. politicians have decreed - against all the available

evidence and research - that this cohort is lazy and that the dole is standing between them and jobs. "

Following Bill's analysis of an impressive array of statistical economic data in support of his argument, he comes to the following conclusions:

" There is no validity in the supply-side case that mass unemployment is somehow something to do with the unemployed being lured into leisure by excessive unemployment benefits or some other reason.

" The evidence is consistent and strong – that the mass unemployment in the U.S. is the result of a systemic failure in that economy to produce enough jobs, which emerged as aggregate demand collapsed in early 2008.

" Since then the economy has been starved of spending because the private sector is unwilling to take risks (and is deleveraging) and the government sector is caught in a conservative web of mindlessness after initially, in the face of a total meltdown in 2008, providing enough fiscal stimulus to kick start the economy.

" It was a weak kick and the impacts are fading as the spending cuts widen. The elimination of unemployment benefits will not help this slowdown. "

**\* Source:**

<http://bilbo.economicoutlook.net/blog/?p=26650>

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Don't tell me what you value, show me your budget, and I'll tell you what you value.

Joe Biden

An economist is a surgeon with an excellent scalpel and a rough-edged lancet, who operates well on the dead and tortures the living. Nicholas Chamfort (1741-94)

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## Global elites react to skyrocketing inequality

Lynn Stuart Parramore

*Note that the references indicated by bracketed numbers are listed in the source.*

A new study [3] by the World Economic Forum based on a survey of 1,592 leaders from academia, business, government, and the non-profit world suggests that all is not cheery at the top. It seems that elites believe that the second biggest problem facing Planet Earth in 2014 is widening income disparities (unrest in the Middle East and North Africa is their top worry). When it comes to economic issues, elites and ordinary folks are often at odds, but according to a recent Pew survey [4], they converge on identifying the gap between rich and poor as a major flaw in the system.

What's clear is that the schemes elites have supported, from austerity policies to financial predation, are driving inequality to such extreme levels that everybody is now talking about it. The Pope is talking about it [5]. Robert Reich made a movie about it [6]. All over the world, people have been protesting and rioting in rolling demonstrations about it. An ugly resurgence of fascist elements in Europe is capitalizing on it. Even folks like Larry Summers, who promoted policies that stoke inequality, are publicly lamenting [7] it.

The global elites are sitting on piles of obscene wealth, but they also have two big problems:

1. Soft demand: When people are too poor to buy goods and services, businesses suffer and the whole economy lags.
2. Prospects of increasing social unrest: When people are so squeezed that they think they have nothing to lose by taking to the streets, the wealthy have to hide behind barricades.

The global situation is crazy and probably unstable, and the 0.01 percent knows it. The question is, what are they prepared to do about it?

Not much - not yet, anyway. You can peruse the top mainstream newspapers to get a sense of how most elites feel about the growing gap between haves and have-nots. Lately there's been quite a bit of handwringing and an uptick of articles on subjects directly related to inequality, but precious few signs that any substantial changes are on the horizon.

Case in point: Just after Thanksgiving, *New York Times* readers found a moving article [8] in the business section detailing the plight of unfortunate retail workers who don't get paid enough to make ends meet. The author noted the hardship of food stamp cuts and described a situation so bad that companies had set up food drives for low-wage workers and dispensed tips on how to apply for public assistance (independent websites like AlterNet had been all over this story for weeks [9]).

For a human touch, the NYT author quoted a depressed mom who works at Sears selling toys that she could never afford to buy for her own children. The author duly noted that Americans support raising the minimum wage by an overwhelming majority, but in typical mainstream media fashion, took a stance of faux neutrality and provided the opinions of two mainstream economists who disagreed on whether raising minimum wage was a good idea or not. Overall, the article seemed cautiously in favour of something that American voters overwhelmingly say they want.

**Conclusion:** Some elites might be willing to raise the minimum wage a bit.

But a couple of weeks earlier, the *Washington Post* ran a widely revised editorial [10] on Social Security that showed the limits of elite concern. The

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vast majority of Americans, aware of an oncoming train wreck of a retirement crisis, are against cuts to Social Security, but the editorial board at the *Post* made it clear that elites are not on their side and laid out various specious arguments, including an irrational appeal to deficit hysteria (the deficit is actually decreasing [11]), to bolster its antisocial perspective. Elizabeth Warren, increasingly a thorn in the side of greedy elites, blasted the *Post* [12].

**Conclusion:** Elites are not really willing to pay taxes, and financiers wish to charge more fees on private retirement accounts, ergo Social Security must be cut. (Erskine Bowles and Alan Simpson, the co-chairs of Obama's Deficit Commission, are the standard-bearers for this line, along with their backer, Wall Street billionaire Pete Peterson.)

You can also look to top establishment politicians for insight into just how much elites are willing to do to solve the inequality problem.

For instance, there's the little matter of a giant loophole in the tax code that favors the rich. The "carried interest" loophole allows financiers like hedge fund managers, venture capitalists and partners in real estate investment trusts to pay a lower tax rate on their profits than working people pay on their earnings. It's an unjust handout to the wealthy, and again, the American people are clear on how they feel about the tax code [13]: the rich don't pay their fair share.

The Republicans are vehemently against closing the loophole. But despite the fact that Democrats raged against it last year to defeat Mitt Romney, it is Democrats themselves who are standing in the way of getting anything done. As the *Boston Globe* noted in a recent article [14], Democrats are worried that "crusading against the 'carried interest' loophole at

this stage would inflame an important source of campaign contributions for Democrats."

Back when he was in the Senate, John Kerry did an elaborate dance around the issue, using his influential post on the Senate Finance Committee to seed skepticism and parrot industry warnings of dire "unintended consequences" and unnamed risks to the economy if the loophole were closed, even while voting in favor of the change. With Kerry now at the helm of the State Department, a host of other prominent Democrats, including President Obama and Senator Chuck Schumer, have been quietly working to see that nothing much will be done.

**Conclusion:** Filling campaign coffers is more important than dealing with grossly unfair policies that contribute to dangerous inequality.

So there you have it. Global elites know that they have a vital interest in solving the problem of inequality, but few are willing to pay a dime or to accept substantive changes to our economic system in order to solve it.

Perhaps the mega-rich will simply take shelter in armed and gated communities and continue to thumb their noses at the 99 percent until a mass movement rises to stop them.

<http://www.alternet.org/print/economy/global-elites-getting-nervous-about-skyrocketing-inequality-wont-spare-nickel-fix-it>

### **Stumbling toward the next crash Gordon Brown**

In early October 2008, three weeks after the Lehman Brothers collapse, I met in Paris with leaders of the countries in the euro zone. Oblivious to the global dimension of the financial crisis, they took the view that if there was fallout for Europe, America would be to blame so it would be for America to fix. I was unable to convince them that half of the bundled

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subprime-mortgage securities that were about to blow up had landed in Europe and that euro-area banks were, in fact, more highly leveraged than America's.

Despite the subsequent decision of the Group of 20 in 2009 on the need for rules to supervise what is now a globally integrated financial system, world leaders have spent the last five years in retreat, resorting to unilateral actions that have made a mockery of global coordination. Already, we have forgotten the basic lesson of the crash: Global problems need global solutions. And because we failed to learn from the last crisis, the world's bankers are carrying us toward the next one.

The economist David Miles, who sits on the monetary policy committee of the Bank of England, may exaggerate when he forecasts financial crises every seven years, but most of the problems that caused the 2008 crisis excessive borrowing, shadow banking and reckless lending have not gone away. Too-big-to-fail banks have not shrunk; they've grown bigger. Huge bonuses that encourage reckless risk-taking by bankers remain the norm. Meanwhile, shadow banking investment and lending services by financial institutions that act like banks, but with less supervision has expanded in value to \$71 trillion, from \$59 trillion in 2008.

Europe's leaders aren't the only ones with these blind spots. Emerging-market economies in Asia and Latin America have seen a 20 percent growth in their shadow-banking sectors. After 2009, Asian banks expanded their balance sheets three times faster than the largest global financial institutions, while adding only half as much capital.

In the patterns of borrowing today, we can already detect parallels with the pre-crisis credit boom. We're seeing the same over-reliance on short-term capital

markets that ultimately brought down Northern Rock, Iceland's banks and Lehman Brothers.

While the internationalization of the renminbi is opening up new opportunities for global investment in China, it is also increasing the exposure of the global economy to any vulnerability in its banking sector. China's total domestic credit has more than doubled to \$23 trillion, from \$9 trillion in 2008 as big an increase as if it had added the entire United States commercial banking sector. Borrowing has risen as a share of China's national income to more than 200 percent, from 135 percent in 2008. China's growth of credit is now faster than Japan's before 1990 and America's before 2008, with half that growth in the shadow-banking sector. According to Morgan Stanley, corporate debt in China is now equal to the country's annual income.

Although sizable foreign reserves make today's Asia different from the Asia that experienced the 1997 crash in Indonesia, Thailand and South Korea, we are all implicated. If China's economy were to slow, Asian countries would be doubly hit from the loss of exports and by higher prices. They would face downturns that would feel like depressions.

And China's banking system may not be Asia's most vulnerable. Thailand's financial institutions, for example, appear overdependent on short-term foreign loans; and in India, where 10 percent of bank loans have gone bad or need restructuring, banks will need \$19 billion in new capital by 2018.

If the emerging markets of Asia and Latin America are hit by financial turmoil in coming years, will we not turn to one another and ask why we did not act after the last crisis? Instead of retreating into our national silos, we should have seized the opportunity to fix global standards for

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how much capital banks must hold, how much they can lend against their equity, and how open they are about their liabilities.

The Volcker Rule, now approved by American regulators, illustrates the initial boldness and ultimate weakness of our post-2008 response. This element of the Dodd-Frank financial reform law of 2010 forbids deposit-taking banks in the United States from engaging in short-term, proprietary trading. But these practices are still allowed in Europe. Controls are even weaker in Latin America and Asia.

International rules are needed for international banks. Without them, as the International Monetary Fund has warned, global banks will evade regulation “by moving operations, changing corporate structures, and redesigning products.”

When I was chairman of the G-20 summit meeting here in April 2009, our first principle was that future financial crises that started in one continent would affect all continents. That was why we charged the new Global Financial Stability Board with setting global standards and rules.

Nearly five years on, its chairman, the Bank of England governor Mark Carney, has spoken of “uneven progress” in recapitalizing banks and making them disclose their risks. The G-20 plan for oversight of shadow banking is, as yet, only a plan. While the world’s \$600 trillion derivatives market is being regulated with new minimum capital and reporting requirements, global financial regulators must “find a way to collaborate across borders,” Mr. Carney says.

In short, precisely what world leaders sought to avoid a global financial free-for-all, enabled by ad hoc, unilateral actions is what has happened. Political expediency, a failure to think and act globally, and a lack of courage to take on vested interests are pushing us inexorably toward the next crash.

Gordon Brown, MP, is a former UK Prime Minister and Chancellor of the Exchequer

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<http://www.911forum.org.uk/board/viewtopic.php?p=166308#166308>

[http://www.nytimes.com/2013/12/19/opinion/gordon-brown-stumbling-toward-the-next-crash.html?\\_r=1&](http://www.nytimes.com/2013/12/19/opinion/gordon-brown-stumbling-toward-the-next-crash.html?_r=1&)

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