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For a just and sustainable society

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ECONOMIC REFORM AUSTRALIA (ERA)

ERA is a not-for-profit, non-party-political organisation, formed in 1993 as a union of the Economics Review Association and other reform groups. Its long-term goal is to achieve a socially, environmentally and financially sustainable economic system. ERA's commitment to economic sovereignty seeks to return control of the economic and financial system to the people. This requires full public scrutiny and accountability for all economic processes and a recognition that economic systems must serve the people for the global good.

Membership of ERA is open to all who agree with its objectives and overall philosophy, and may be effected by forwarding A$20.00 per annum (A$15 concession; A$10 extra for each additional family member) to the Treasurer (address below), together with address, telephone and fax numbers, and email address. It would be appreciated if new members would calculate the part of the year remaining and remit the appropriate pro-rata amount, with the option of paying for the following year as well (make cheques out to E.R.A.) All members are entitled to receive the regular ERA publication *The ERA review*, and to vote at ERA meetings and participate in organized activities.

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

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Time to renew your ERA membership

To renew your subscription, fill in the form in the previous issue, photocopy it, and send it with your membership renewal cheque or money order (made out to ERA) to

ERA National Treasurer, PO Box 505, Modbury, SA 5092

Annual General Meeting

The next ERA Annual General Meeting will take place at 2pm on Saturday 31st May, 2014, at the SA Conservation Centre (level 1, 157 Franklin Street, Adelaide).

Geoff Davies speaking in Adelaide and Melbourne

The role of transformed economics in creating Australia's future

Co-sponsored by Economic Reform Australia (www.era.org.au)
and the Futures Foundation (www.futuresfoundation.org.au)

These presentations by Dr Geoff Davies reflect his interest in economic reform and his realisation that the assumptions and predictions of standard market theory bear little relationship to the behaviour of real economies and that its implementation is destructive of the health of the environment and of human beings. By explaining this in accessible language, and speaking as a scientist, he hopes to empower the many people who have suspected that something is seriously awry.

Dr Geoff Davies is a Senior Research fellow at the Australian National University (Institute of Advanced Studies) in Canberra. Originally trained as a geophysicist and still publishing in this area, he is the author, in 2004, of “Economia – new economic systems to empower people and support the living world”, and more recently of “The nature of the beast – how economists mistook wild horses for a rocking chair”.

Adelaide Event

Date: Tuesday 25 March, 2014
Time: 5.30pm (17.30 hours)
Venue: Adelaide University (North Terrace), Barr Smith Library,
Ira Raymond Room

Members of Economic Reform Australia and of the Futures Foundation living in South Australia will have a particular interest in attending this presentation, however attendance is open to anyone. Attendance is free, however a small donation at the entrance to defray our expenses would be appreciated.

Note that the number of seats is limited, and that attendees will only be guaranteed a seat by an advance booking - by sending an email to: hermann@chariot.net.au. Following the presentation, discussion with the audience will occur. Car parking is available in the streets surrounding the university campus.

Melbourne Event

Date: Thursday 27 March
Time: 5.30pm (17.30 hours)
Venue: Randstad meeting room, 7th Floor, North Tower, Rialto Building
525 Collins Street, Melbourne

The presentation begins promptly at 5.30pm, and will be audio recorded. Members of ERA and of the Futures Foundation will pay $20 to attend this event, and may pay on the night. Non-members of ERA or the FF who wish to attend will pay $50 (plus GST). Prospective attendees should book in advance with an email to:
Charles.brass@futuresfoundation.org.au

The number of seats remaining is limited, so prompt booking is advised. Following the presentation, discussion with the audience will occur. Car parking is available, including parking under the building (cost of the latter is $15).

China Contraction Continues, Debris Falls on U.S.

Tom Lewis

The Great Wall of China proves ineffective against pollution. Maybe if they made it bigger. (Photo by ToGa Wanderings/Flickr)

As signs of China's impending collapse from industrial poisoning continue to proliferate (about which, more in a minute), some of them are proliferating in California. Air pollution, largely from China's unrestrained use of coal, has become legendary in the country — virtually shutting down Shanghai in December and Beijing last week, and touching off armed uprisings by desperate people in various locations across the country. Now, a new study says that China's industrial air pollution accounts for a significant portion of California's smog.

Published Monday, the study says that on any given day along the US West Coast, between 12% and 24% of the sulphates in the air had crossed the Pacific Ocean from China. This development contains more than a whiff of poetic justice, in that around one third of China's air pollution comes from manufacturing stuff for export. Therefore, buying cheap items from WalMart is now polluting the US West Coast.

Just deserts or not, the news illustrates some of the basic tenets of *The Daily Impact* and my book *Brace for Impact:*

1. Industry's relentless search for economies of scale has a dark twin: concentration of risk.

2. While economy of scale pays its benefits immediately the risks are much longer term, are much, much larger, and are always paid for by people who did not receive the benefits.

3. It makes no more sense to believe one is benefiting from cheap crap while avoiding the penalties of cheap-crap pollution, than it does to feel smug because it's the other end of the boat that is sinking.

It is not apparent that the news of China's contribution to America's pollution has stimulated any epiphanies among America's rich and beautiful about where we are headed. Nor has the other news out of China in the past few weeks seemed to have energized that country's leaders to do anything more than send out for more public-relations bandaids to put on the cancerous tumours.

4. In the worst year in history for air pollution in China, with its cities strangling and rural area in revolt, the Chinese government approved 100 billion tonnes of new coal production in just the first three quarters of 2013. That is six times the expansion of coal production approved in all of 2012.

5. Coal-burning electric plants are major consumers of water, and half of those to be built soon are in areas already suffering from acute water shortages. The industrialization and urbanization made possible by the

electricity has destroyed (since 2003) an area of wetlands — essential to potable water supplies — larger than New Mexico and all but four of the United States.

6. A survey of Chinese oil and gas 7plants after a pipeline explosion killed 62 people last year identified a few similar risks of disaster - 20,000 in all. The Chinese government, which asked for the report, is studying it before making it public. Which do you suppose will come first, the next disaster, or the release of the information. (Before placing your bet, study the West Virginia water crisis.)

China has pulled far ahead of the United States in demonstrating how unfettered industrialism can destroy the natural systems that make possible human life. Undoubtedly, their time of reckoning is fast approaching. But it is not just their end of the boat, WalMart shoppers, that is sinking.

Source: The Daily Impact, 22 January 2014 <http://www.dailyimpact.net/2014/01/22/china-collapse-continues-debris-falls-on-us/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+dailyimpact%2FGIfx+%28The+Daily+Impact%29>

News and views from New Zealand

The first tentative steps to a sustainable New Zealand
Dennis Dorney

I was disappointed that Prof Herman Daly believes his ten policies for a steady-state economy (Jan-Feb 2014 issue) are politically 'beyond the pale' at the present time. If citizens can be pushed out of their comfort zone by an event that cannot be dismissed by economists as being beyond their understanding, they might be tempted to rebellion and would be receptive to any ideas that provide the greatest physical relief for the least financial pain and in the shortest time. That would preclude those ideas that are hard to apply without international co-operation, such as population control (which is in everybody's too-hard basket), cap and trade schemes for natural resources, and international trade regulation. Important as they are, concerted action seems a long way off but much can still be done.

Global warming could be the motivator for Australia, following their recent record-breaking temperatures. Since New Zealand is not suffering from too much sun (quite the reverse) and perhaps due to a natural Kiwi reticence, it might be hard to get a decent rebellion started here. Issues that could be implemented quickly and should cause little angst are those which are financially neutral. This means that tax reform is the easiest place to start because any government has a tax reform agenda; how the reforms are carried out depends purely on the mind set of the Government and a balanced budget is always achievable (though not always desirable). In order of effectiveness such tax reforms would be:-

1) A minimum and a maximum income.

Prof Daly's suggestion tops the list because it is arithmetically self-balancing and would probably boost the economy as well. Those at the lower end of the scale are more likely to spend their money in the local economy than the rich, who are prone to hiding their surplus in the Bahamas.

2) A Financial Transaction Tax

This meets the requirement of ideal taxes - tax the undesirable incomes (i.e. financial speculation) and spare the desirable (personal income). One of the arguments against a Financial Transactions Tax is that it will fail unless implemented simultaneously by all major trading nations, as investors will simply trade off-shore. However a number of countries have implemented this tax without this claim being vindicated yet.

Additionally this tax may be able to replace the GST, which is an undesirable tax because it is a flat tax that discriminates against the poor, taxes everything indiscriminately and actually favours internet purchases (which pay no GST) against local retailers (who do pay GST).

3) A Land Tax

This gets no mention on Prof. Daly's list but is extremely important as a way of reducing speculation on houses. A land tax can be implemented in at least two ways. The rateable value of a property, from which Council Rates derive, can be changed to consist purely of the Land Value, so an occupier is not penalised for improving the value of his home. This used to be the case in NZ and was apparently successful in reducing speculation, and hence house prices. This change could be implemented immediately.

More ambitiously, Land Value could be excluded totally from the price of a housing site, as I have suggested in a previous article. All the land would belong to all Kiwis and the Government be merely the custodians of it. The land would be rented by the occupant on a long term and renewable lease. This would be a very difficult concept to promote and would have to be introduced gradually by the government acquiring cheap land as it became available. I suspect that initially rural land and low-lying coastal land (possibly at risk from rising sea levels) would be early targets. However difficult to begin, when the process were completed the outcome would be that speculation on housing would stop completely.

Stirring the hornet's nest

This brings me to the issue that might stir Kiwis out of their apathy in this years coming election. Home ownership has reached a tipping point. If house prices continue to rise young would-be owners will be pushed out of the market, leaving it as a pure speculators bubble. This is the most likely outcome. Or the market could suddenly collapse pushing large numbers into negative equity. Either way young Kiwis will suffer. I think it will be difficult for the government to persuade voters that this was an unforeseeable event.

It might also focus voter's attention on the whole issue of bank debt. In NZ banks are about as popular as politicians, mainly because the banks are Australian owned. People may start asking why it takes 30 years of careful scrimping, from a young couples combined earnings, to pay off a house mortgage. If the speculative element in land prices could be removed from the equation and if our tradition-bound building industry embraced new materials and designs there is no reason why house prices could not fall by 40%. While that would cause strong protests from present owners, which is why it would need a gradual introduction, everyone would benefit in the long term. When that point is reached, the necessity for the present mortgage system would look questionable.

Already in NZ there are signs of community building groups forming to share labour and financial resources. If successful it is likely that Building Societies will start to offer special financial deals as well as their expertise. This has the potential to revolutionise local economies. Mortgages are the life blood of private banks but they are as bad for local economies as they are good for bankers. Community building groups could make mortgages redundant and reduce banks to mere intermediaries as they should be. Apart from creating local employment and recycling their own savings at the local level, these Community groups, would as a quite separate, but fundamentally important outcome, be a wonderful antidote to the hostile, competitive, dog-eat-dog society that we have been building these last 30 years.

At this juncture many of the other points raised by Prof. Daly, which on a global level are more important than these local innovations, will cease to be politically unsaleable and will seem both natural and inevitable.

Dennis Dorney is a NZ member of ERA

Inequality Revisited: The Rise of the Individual is Always at the Expense of Community

June Carbone

The debate over inequality has shifted. It is no longer whether greater inequality exists (it indisputably does) or whether it is a good thing (even David Brooks and Marco Rubio concede that it is not). Instead, the big issue is whether the rise of the top one tenth of one percent with their extraordinary concentration of wealth has anything to do with the rise of inequality between the middle and the bottom. The answer is, of course it does, in ways that are both simple and complex. Let us begin to count the ways . . . .

First, the rise of winner-take-all compensation systems creates incentives to short-change the center. Empirical correlations and studies in undergraduate psych labs show that the more the CEO makes, the greater his willingness to lay off workers and to refuse to invest in employee training or retention. It is not just that greater pay makes top executives greedier, though it does seem to do that among undergraduates in lab experiments given a role to play. It's also that the increase in top salaries and bonuses tend to be justified by a focus on short term earnings that influence stock prices. The competitive pressure to increase earnings and the focus on the short term rather than the long term health of the company increases the pressures to short-change worker interests – and to rig the system more generally. (Lynne L. Dallas, *Short-Termism, The Financial Crisis, and Corporate Governance*, 37 J. Corp. L. 265, 316 (2012), also available on ssrn)

Second, winner-take-all-politics has produced class warfare and as Warren Buffett commented, his class won. Paul Pierson and Jacob Hacker explain in *Winner Take All Politics* that the conservative movement took hold in 1978, before Ronald Reagan's presidency, and it began with the Chamber of Commerce's single-minded effort to marshal campaign contributions to fight for business interests. Over the next decade, conservatives won a remarkable number of closely contested elections through the ability to shift resources to the electoral contests in play. These successes ultimately increased the influence in both parties of the wealthiest campaign donors while declining voter turnout has lessened the influence of those outside the elite. The difference between the 2008 election, which Democrats dominated, and the 2010 election, which Republicans swept, was a difference in who showed up at the polls, with dramatically higher turnout by wealthier voters in the Republican sweep. Political scientist Larry Bartels concludes that today no one in Congress consistently votes to advance the interests of the bottom third of the country. Politics has become a game in which the wealthy advance their interests not only at the expense of the poor, but at the expense of any pretence to democratic (with a small “d”) governance.

Third, winner-take-all systems produce winner-take-all families. Naomi Cahn and I argue in *Marriage Markets: How Inequality is Remaking the American Family* (Oxford: 2014) that what greater inequality does is to change the ways men and women match up. There are more high income men than high income women. Indeed, women college graduates as a group have lost ground to college graduate men even as the gendered wage gap has shrunk for other women. At the same time, more unequal societies in the United States and elsewhere write off a high percentage of low income men as unmarriageable due to the chronic unemployment, mass incarceration and high rates of substance abuse that correlate with greater inequality. (*The Spirit Level*). The result: more stable marriages and two parent families at the top and greater family instability at the bottom. Impressive cross-cultural studies indicate that when family behavior at the top and bottom move in divergent directions, the contrasting patterns typically reflect differences in the availability of jobs and the different availability of marriageable men in different communities. Family differences in turn affect the resources available for investment in children, which increase differences in educational performance.

Fourth, winner take all systems undermine communities. Studies show that when a plant closes in a community, it affects the educational performance both of those children whose parents lost their jobs *and* those children whose parents were not laid off. *American Apartheid* showed in the eighties that the loss of jobs in inner city communities disproportionately affected Afro-American neighborhoods, increasing crime rates, teen births, and community health more generally. Today, new studies show the same consequences for all communities. In contrast, greater societal equality creates more resilient communities.

Finally, these effects are synergistic. Greater conservative success at the polls did produce class warfare. Taxes fell for the top while regressive sales taxes born disproportionately by the poor have risen. Conservatives have slashed support for public education, infrastructure improvements, food stamps and unemployment assistance while fighting tooth and nail to protect farm subsidies for big agriculture, a health care system that gives the greatest tax subsidies to those in the top tax brackets and a host of mostly invisible measures that benefit hedge funds, oil companies, “too big to fail” banks, and other business interests. These measures simultaneously protect entrenched interests and make social mobility that much more difficult. Business lobbyists have undermined the measures that once produced greater economy stability for the country as a whole. These include, as Paul Krugman emphasizes, countercyclical government spending that produces the stimulus needed to encourage full employment. The efforts extend to structural measures such as repeal of the requirement that investment banks be held as partnerships that retrained financial risk-taking. Perhaps most critically, greater inequality undermines any sense that we are in this together. Mitt Romney dramatically underscored that point when he described 47% of the country as moochers.

The one percent *are* responsible for the fate of the country and the decline of the middle class. Their failure to accept responsibility for the consequences makes it impossible to address the country's needs. It is time for everyone else to fight back. "Class warfare" in the sense of objection to the course of events that undermines our institutions, our families and our communities is the necessary order of the day.

Source: 28 January 2014 <http://neweconomicperspectives.org/2014/01/inequality-revisited-rise-individual-always-expense-community.html>

Review of Mark Diesendorf's book: Sustainable energy solutions for climate change

John Coulter

I first met Mark Diesendorf in the late 1970s when he worked for CSIRO and was modelling the WA and SA electricity grids exploring how wind generated electricity would fit. In 2014 Mark comes with a lifetime of work within the field of environmental sustainability with particular reference to renewable energy and this book is highly recommended.

The book is in three parts.

Mark begins by explaining energy fundamentals. That this is necessary is a sad reflection on the quality and content of Australia's educational system. Everyone should understand that without energy flow nothing, absolutely nothing happens. Energy is the most basic of all resources; it makes all other resources available. Mark's introduction to the basics of energy is excellent and will be a good primer for all those who have not had a few years of high-school physics to guide them through life – and the rest of the book.

In the second half of the 20th century it has become increasingly obvious that energy use has become hedged by serious threats. For a century and a half humanity's use of energy has been dominated by exploitation of fossil fuels: coal, oil and gas, which has had and will continue to have increasingly adverse effects on global climate indicating that the use of fossil fuels must be rapidly curtailed.

Fossil fuels are non-renewable resources and will run out well within this century if exponential expansion of their use were to continue. Most transport depends on petroleum, a resource, the conventional sources of which peaked in about 2006. A change in transport technology is urgent.
For both these reasons radical restructuring of our sources and uses of energy is imperative.

Part B of the book sets out the technologies which are sustainable dividing them into those that are already in widespread commercial use such as wind and photovoltaic electricity, those that sit between proof of concept or pilot stage and full commercialisation and those that may, in future prove useful and commercially viable. Mark applies the same division to the technologies that seek to continue the use of non-renewable resources showing that coal burning with carbon capture and storage is a commercially unproven technology and quotes the International Energy Agency which projects that nuclear may only reach one third of the renewable energy supply by 2050 – far too late to be useful.

Mark shows that significant savings in energy can be made through technical improvements and changes in social and work arrangements and practices. Solar photovoltaics and wind generated electricity are already commercially competitive, especially if the full externalised cost of fossil fuels is internalised. South Australia derived 28% of its electricity from wind in 2013 and PVs have shaved a significant bit off the air conditioning caused demand peak on hot summer days. Mark believes that a dispersed mix of renewable technologies can meet demand but not if population and per capita demand are allowed or encouraged to continue. He sees a necessary shift from car travel to electric public transport both within and between cities.

Part C deals with policies, strategies, politics and action.

An array of factors touching on many areas is covered here: recognising the serious defects in GDP as a useful measure, other measures of progress, removing subsidies for fossil and nuclear, carbon taxes and emission trading, curbing population growth by non-coercive means, tighter controls on advertising to discourage consumption growth, a Tobin Tax, resource based taxes and many more.
As I read through this section I was struck by the widening gap between what needs to be done and could be done on the one hand and what our governments are doing on the other. An example of this came to my attention in the last few days. The Federal Government's Issues Paper which is a prelude to the development of, first a Green Paper and then a final White Paper, on Energy Policy.
The Issues Paper does not mention climate change at all and the promised 5% emission reduction by 2020 is dealt with as an impediment to a Business as Usual energy policy.

This book is filled with information, explanation and ideas for innovative and practical change. There are many useful tables and graphs. One thing which I would have liked to see included would have been a worked example based on actual grid data over a significant period showing how each technology/social/behavioural change would have bridged the energy demand.

Whether we like it or not energy policy will dominate all other considerations in the decades ahead. This book should be made compulsory reading for all starting first with our politicians and journalists.

Publication info: UNSW Press 2014, ISBN 9781742233901 (Paperback) pp 365

Dr John Coulter is a scientist, former senator, former vice president of Australians for a Sustainable Population, and is a member of ERA living in SA.

Peak living standards
Greg Reid

In China living standards are rising but in Australia a long term decline may have begun. The mining boom has plateaued without ever conferring advantages of cheap resources or power to the wider economy. Instead, high exchange rates have all but crushed our manufacturing sector. "Services" touted as the new economy are in many cases more cheaply delivered via the internet or 457 visas. The baby boomers are retiring while the new generations face crippling house prices and rising unemployment. But beyond these local factors much larger trends are also at work.

Ballooning global consumption is driving global warming and a rapid depletion of critical minerals. The impacts of climate change are an increasing economic burden that seems certain to become much worse before the use of fossil fuels is seriously curbed. There are alternative energy technologies like wind and solar but their broad deployment will be limited by the exhaustion of critical elements such as neodymium and germanium.

Consumption is now on such a vast scale that elements that were once common such as copper, tin and lead are becoming severely depleted. Some elements may be replaced with less suitable or less efficient materials but others are simply irreplaceable. Phosphorus is essential to all life and phosphatic fertilisers underpin most of global food production. Phosphorus cannot be substituted yet the supply of phosphatic minerals will become limiting within a generation.

A sustainable global economy is not really optional but the current economic paradigm clings to the delusion that free markets will deliver unlimited growth. In the real world that growth is uneven, wasteful and dangerously short sighted. China will continue to grow in the near term but there are not enough resources on this planet give them all an American lifestyle. Instead, wealth will polarise and growth will falter with heavy consequences for "open-pit" economies like Australia. China is already investing massively to become a competitor in the professional and service sectors and this too does not bode well for Australia.

In a world destabilised by climate change and diminishing resources the long term economic drivers will be efficiency, clean technology, conservation and recycling. The size of that economy will depend on whether the change is early enough to preserve sufficient reserves of key resources. Adjusting the current paradigm will require levies on activities that ignore or socialise consequences. After all, in a properly functioning market the price should reflect full downstream costs. Perhaps a good place to start would be with a levy on fossil fuels that is neither a tax or trading scheme but a proportional cost of climate impacts.

Living standards rise when costs fall relative to income. Global markets simply redistribute costs and income but the system is actually less efficient with market distortion by dominant players, massive transportation costs and end waste. Some prices fall but only because the social and environmental costs are hidden by distance and deferred. This short sighted approach is accumulating huge structural and environmental problems that are already impacting living standards. If future gains are to be made it will have to be with real efficiency improvements that make and deliver products with less energy, less waste and less downstream consequences.

Past generations were prepared to make sacrifices for a better future. In contrast, current society seeks to defer costs to coming generations with the weak excuse that new technology might be cheaper. There is also a growing political tendency to wilfully deny or ignore the accumulating problems but like it or not a major change in global economic winds is on the horizon. Resource depletion and climate destabilisation will halt the unlimited growth model in the next few decades. Free trade and free markets will have to give way to sustainable trade and “full cost” markets. If Australia is not to find itself declining in an “open-pit” economy then it is time to start actively building the industries that will serve in a world of constrained growth.

Greg Reid is a NSW member of ERA

The subject of economics is profoundly conducive to cliche, resonant with boredom. On few topics is an American audience so practiced in turning off its ears and minds. And none can say that the response is ill advised.

In economics, the majority is always wrong.

John Kenneth Galbraith

Capitalism has failed: five bold ways to build a new world

Sara Robinson

Some new ideas and big questions are defining our economic future.

The problem, in a nutshell, is this: The old economic model has utterly failed us. It has destroyed our communities, our democracy, our economic security, and the planet we live on. The old industrial-age systems -- free-market capitalism, state communism, fascism -- have all let us down hard, and growing numbers of us understand that going back there isn't an option.

But we also know that transitioning to some kind of a new economy -- and, probably, a new governing model to match -- will be a civilization-wrenching process. We're having to reverse deep and ancient assumptions about how we allocate goods, labour, money, and power on a rapidly shrinking, endangered, complex, and ever more populated planet. We are boldly taking the global economy -- and all 7 billion souls who depend on it -- where no economy has ever gone before.

Right now, all we have to guide us forward are an emerging set of new values and imperatives. The new system can't incentivize economic growth for its own sake, or allow monopolies to form and flourish. It should be as democratic as possible, but with strong mechanisms in place that protect the common wealth and the common good. It needs to put true costs to things, and hold people accountable for their actions. Above all, it needs to be rooted in the deep satisfactions -- community, nature, family, health, creativity -- that have been the source of real human happiness for most of our species' history.

As we peer out into this future, we can catch glimmers and shadows -- the first dim outlines of things that might become part of the emerging picture over the next few decades. Within this far-ranging conversation, a few dominant themes crop up over and over again. We will discuss five robust visions that are forming the conceptual bridge on which our next steps toward the future are being taken.

Small Is Beautiful

Many people imagining our next economy are swept up in the romance of a return to a localized or regionalized economy, where wealth is built by local people creatively deploying local resources to meet local needs.

Re-localization is a way to restore the autonomy, security and control that have been lost now that almost every aspect of our lives has been co-opted by big, centralized, corporate-controlled systems. Bringing everything back to a more human scale, this story argues, will enable people to connect with their own creativity, their communities and each other. Alienation and isolation will dissipate. We'll have more time for family and friends, really free enterprise and more satisfying work. Our money will be our own, accumulated by us and re-invested in things we value. And it'll be a serious corrective to delusional ideas about what constitutes real wealth, too.

This vision is deeply beloved. It's front and centre in both the resilience and Transition Towns movement. You hear it from foodies who extol the virtues of local food, Slow Money investors who back local banks and businesses instead of Wall Street, community gardeners, and 10 million Makers. David Korten argues that capitalism is actually the enemy of truly free markets -- the kind where anybody with ideas and initiative can make a tidy living working for herself, doing something she loves. And that kind of freedom is, very naturally, small in scale.

This vision is also seductive. It holds out the promise that if people dare to let go of what they have and reach out to the future, there's a better life waiting within their grasp -- a core piece of any effective change story. However, this model also has a few problems that haven't yet been engaged by most of its proponents, but which compromise its ability to serve as a global framework.

First: the infrastructure that will enable us to re-localize isn't thick on the ground right now. City and regional governments across the country are broke, devastated by the devaluation of their tax bases. Ironically, re-localizing may require significant federal investment -- but do we really think that the corporations that control our federal government will actually back a model that will ultimately undercut the economic and political chokehold they have on us? It seems unlikely. Also, localization often involves trade-offs between making things efficiently -- which, in the industrial age, has meant making them in large, centralized factories -- and resilience. Making stuff locally in small batches increases resilience, and decentralizing the process means that many more people will have jobs. For example: A single factory farmer can manage thousands of acres. An organic farm might have half a dozen workers on just 20 acres.

But the fact remains that our world depends on at least a few large, complex systems (the Internet, for example) that require national or even international coordination to manage properly. Where does that coordination come from when all the power is pushed down to the regional level? Also, many of our biggest problems -- climate change, damage to the oceans, loss of species, the threat of epidemics and extreme weather events -- also require a larger and more coordinated response than any one city or region can mount. In a re-localized world, who has the authority to manage these problems?

Furthermore, what becomes of our currently high national and global standards on things like civil rights, infrastructure codes and the environment when all the power is devolved to local governments? Some places will no doubt forge ahead and raise the bar even further, but it's not hard to imagine that quite a few others will be all too glad to get back to oppressing their minorities and raping the land.

These are questions that few theorists, so far, have addressed, but it's possible they may be answered in time. A lot of the people doing the best work on re-localization right now are young, and the new enterprises they're building are untried and new. As they grow in skill and experience, and their trust in these structures grows, they may find ways to start scaling up.

Marx 2.0

Another group of theorists are updating Marx for the 21st century, proffering models that put both control and profit of enterprises into the workers' hands. In some of these, workers are also owners, with a full stake in the success or failure of the business. In others (such as the one proposed by philosopher David Schwiekart, which was based on Yugoslavia's industrial policy), the state is the owner and primary investor in the business. The workers lease the means of production, run the business, return some of the proceeds to the government, and distribute the rest of the profit between themselves.

Ironically, most of these schemes share capitalism's biggest flaw, which is its inherent reliance on growth. As a business owner, it's very hard to say, "We're big enough now. Let's stop here." (Though some, like Patagonia founder Yvon Chouinard, have done just that.) Most businesses have competitors who, if they're allowed to get bigger than you, will swallow you whole. If you don't stay big enough to compete, you don't survive -- and since the competitors are facing the same imperative, the race can never really end.

As noted, this kind of constant growth simply isn't sustainable on a finite planet. People will always trade -- it's an essential human activity -- but going forward, we need small-scale businesses that can stay happy and healthy without being pushed to grow.

Worker ownership doesn't really address this problem, though re-localization, which roots businesses deeply in their own local markets, limiting their reach beyond those boundaries, may provide one natural brake on growth.

For many large and necessary enterprises (utilities; essential centralized manufacturing; big, capital-intensive tech industries; and so on) public ownership may be the only way to ensure that they grow no bigger than they need to be to fulfil their mission. If there are other solutions that will allow us to have complex enterprises minus the growth imperative, they're still lurking out beyond the horizon.

Systems Theory

One of the great breakthroughs in human understanding over the past 40 years has been the realization that all complex systems -- economic, political, biological, mechanical, environmental, or social -- behave according to a simple set of common principles. The rules that govern the behaviour of one set of systems usually apply to other kinds of systems as well.

For example, much of what we've learned about how ecosystems work is now informing new thinking about the economy. Successful enterprises don't exist in a vacuum. They only thrive in interdependent communities of customers, suppliers, investors, employees, and related businesses. The most economically productive places -- for example, Silicon Valley -- are as dense in these interrelationships as old-growth forests are. This complex landscape allows for endless combinations of new interactions, which in turn leads to constant, easy, productive innovation. At the same time: these ecosystems are every bit as susceptible to thoughtless disruption when some critical element is disturbed.

This new awareness of the intense interdependence within healthy economies undercuts the "rugged individualist/self-made man" story that undergirds conservative economics. Seeing the world in systems makes it abundantly clear that no individual or enterprise ever succeeds on its own, or that one business alone can bring about the kind of change we need. Fostering healthy economies is the work of generations, and thanks to systems theory, we understand more about how to build them than we ever did before.

A World Like the Web

A related framework, which is being driven by technologists rather than economists, posits that economic systems like capitalism, fascism and communism all belong to an industrial age that's now passing. In the old era, we saw the world through the metaphor of the machine. Our systems were static piles of unchanging parts that you designed, defined, tinkered with, and deployed toward a desired result.

This framework argues that our transition to the Information Age (which includes not just the Internet revolution, but other technologies like nanotech, biotech, 3D printing, and so on; and which will be playing out through the rest of this century, at minimum) will require us to rearrange our economic and political orders to more closely fit the Internet metaphor. Closely related to this are emerging human-centred economic models, like behavioural economics, which jettison the mechanistic "rational actor" assumption for a more nuanced and organic understanding of how human decision-making actually works.

In these models, the economy is seen as a series of simultaneously interrelated and self-sufficient nodes, each embedded in a complex matrix of relationships that are redundant and self-healing. These could easily be strong regional economies based on natural bioregional boundaries, which are then bound together in a tight global network that fosters robust trade in goods and ideas. The foundation of capital is ideas and information -- resources that don't deplete the physical wealth of the planet. Membership in the network increases scalability and adds extra layers of resilience.

This model also implies big changes in governance. It demands new constitutions that push control down to the local level, while also integrating these regional governments into the global network. If political power can move like the Internet, we might get the best of both worlds: the small-is-beautiful dream embedded in so many of the current alternative models, plus a genuine global governance structure that's capable of getting its arms around our biggest and most universal problems (like, say, managing the global commons, creating needed accountability, or intervening collectively when one regional node has a crisis of some kind). These new governments would also establish a raft of new rights and privileges, updated for this age.

It's implicitly understood that this leap will facilitate global investment in new infrastructure that will, in turn, enable the next advance in the complexity of human systems. Technology has introduced a deep-level paradigm shift that is rapidly destroying the current order, while also providing the ontological map that shows how the distribution of power, money, organization, governance, and control should play out in the next one.

Reform, Revolution, and Evolution

All of the above discussions are also being informed by an evolving understanding of how transformative social change happens.

As long as most people assume that market capitalism is sustainable, they'll focus on reforming it -- cleaning it up around the edges, rewriting regulations, making it work in the public interest, and so on. Many people still hope that this is all it will take-- that technology, political reform and market forces, working in some magic combination, will be enough to save us from ourselves.

Others among us are holding out for a full-on revolution that overthrows the whole system in one massive push, clearing the way for something entirely new. Revolutions are tricky, though: historically, a lot of them have gone sideways when the revolutionaries couldn't hang on through the chaotic aftermath of what they'd wrought. They often get swept away by some other force that's better organized, and thus better equipped to step in and take over. Anything can happen in the wake of a revolution, and all too often, it's not the thing you hoped for.

Gar Alperovitz offers "evolutionary reconstruction" as a better alternative to either reform or revolution. Visionaries from Gandhi to Buckminster Fuller have agreed with him. This model focuses our change energy on building new parallel institutions that will, in time, supplant the old ones. Don't fight the existing system, this strategy argues. Instead, just sidestep it entirely and create a new one. As the old system collapses under its own decay, yours will gradually fill in the gaps until it becomes the new dominant paradigm.

America's right wing has used this model very successfully to take control of US culture over the past 40 years. Starting in the 1970s, they invested in a wide range of parallel education systems, media outlets, professional organizations, government watchdog groups, and so on. These groups groomed a new generation of leaders, while also developing the intellectual, policy and cultural basis for the change they wanted to create. As time passed, they took advantage of opportunities to insert people and ideas from these alternative institutions into the mainstream ones. The result was that 90 percent of the conservative revolution took place almost entirely under the radar of most Americans. One day, we simply looked up to find them in charge of everything that mattered.

We lost the country this way. And we are well on our way to getting it back this way, too. As we steadily, carefully build a new set of enterprises, the new reality will inevitably and naturally take shape around us. There's nothing stopping us from starting co-ops or worker-owned businesses or triple-bottom-line corporations; we can do all of that today, in full faith that these businesses will be far better adapted to the future than the old capitalist forms we're seeking to supplant. In time, these structures will become the new normal, and people will barely remember it was done any other way.

Source:
http://www.alternet.org/economy/155456/capitalism_has_failed%3A_5_bold_ways_to_build_a_new_world/?page=entire

US author Sara Robinson, MS, APF is a social futurist and the editor of AlterNet's Vision page.

A tale of two financial collapses

David Icke

A very revealing comparison by David Icke between the responses of Iceland and USA to the global financial crisis.

Iceland

1. Prime Minister indicted.
2. 200 criminal charges against bank executives.
3. Banks allowed to fail.
4. Forgiveness of home owner debt exceeding 110% of home value.

USA

1. Zero criminal charges.
2. Bank executives given bonuses.
3. Banks bailed out.
4. Millions of foreclosures.

Source:
http://www.davidicke.com/headlines/80412-a-tale-of-two-financial-collapses/

David Icke is a UK newspaper, radio and TV journalist, a BBC sports presenter, a spokesman for the Green Party, and has written around 20 books. He has travelled to more than 50 countries, researching and talking at public events. He believes that, no matter how bad and hopeless things may appear, you can survive and prosper if you are prepared to keep walking in your chosen direction and never give up.

Record long-term unemployment - Obama turns to big business?

Lynn Parramore

Unemployment line in Georgia

As we know, the United States has a giant long-term unemployment problem. Rather than using the full force of the federal government, President Obama is turning to corporate CEOs to solve the problem. Granted, Republicans in Congress have repeatedly rebuffed the long-term jobless, painting them as layabouts who don't want to work, and that's not the president's fault. But is corporate America really ready to help?

The Economic Policy Institute (EPI) reports that the number of Americans who have not been able to find jobs in six months or more remains at record levels across the country. That is not just a tragedy for them, it's a tragedy for all of us, and a completely unnecessary one.

EPI's research reveals that in 28 states, plus the District of Columbia, more than a third of the unemployed have been without jobs for six months or more. Nearly half of the jobless haven't had work in six months or more in New Jersey (46.6 percent), the District of Columbia (46.6 percent), and Florida (46.2 percent).

The longer you're out of a job, the harder it becomes to land a new one. Companies aren't eager to hire you, assuming that your skills have deteriorated or that there's something wrong with you. Long-term joblessness is agony for anyone, but it's especially tragic to see America's young people descend into mental illness and other health problems because they can't get work. Some of these young people may be scarred for life. Older workers are especially vulnerable, and scientists are finding links between long-term unemployment and diseases like cancer.

President Obama mentioned the problem in his latest State of the Union address, and is calling on big business to help out. On Friday, CEOs from Apple, Walmart, Boeing, and other mega-corporations will visit the White house to discuss what they are prepared to do.

Is relying on the goodwill of businesses that routinely cheat taxpayers, pay ridiculous salaries to executives, and manipulate stock prices in order to enrich executives through stock buybacks instead of using their resources to train, hire or pay workers more really going to do the trick?

Apple, for example, is sitting on top of an enormous pile of cash, but the bulk of its workers make around $25,000 per year. In 2012, the *New York Times* ran an extensive look at the company's underpaid retail workers. "Worldwide, its stores sold $16 billion in merchandise," stated the report, "but most of Apple’s employees enjoyed little of that wealth." In 2013, Apple's retail workers sued the company over unpaid wages and overtime. CEO Tim Cook has recently distinguished himself by attempting to block the investigation of a federally appointed anti-trust lawyer . And that's just Apple.

Let's not even get started on Walmart, notorious for wage theft and low wages, or Boeing, which beats down its workers with threats and union strong-arming and has become a poster-child for freeloading off state and federal taxpayers.

These are the guys Obama is asking to help the unemployed?

Ever since the pernicious notion of "maximizing shareholder value" took over business schools in the 1980s, corporations no longer even pretend their goals and the goals of society are in alignment. Often they are at odds, and corporate America's war on the American worker is a national disgrace.

When businesses can't get the job done of hiring American workers, the government is supposed to step in. We learned how important this is, and how beneficial to the economy, during the Great Depression. Federal programs created millions of jobs and helped lift the country's economy and prevented the vast waste of human capital we have experienced in the aftermath of the Great Recession.

But the lessons of the New Deal have not penetrated Washington, where even in the face of a shrinking deficit, austerity hawks still insist on cutting more government jobs and blocking any attempts to invest in our most precious asset—our hard-working citizens.

Compounding the plight of the jobless, Congress foolishly allowed benefits for long-term unemployed workers to expire last month for 1.5 million people. Another 2 million will exhaust their benefits by the end of 2014. Unemployed workers will now lose any support after only six months, the maximum duration of unemployment insurance benefits in most states.

So Obama turns to America's CEOs and asks them, please, not to discriminate against the long-term unemployed. In the face of a national emergency, that's not going to cut it.

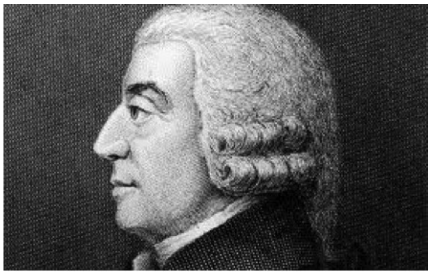
Owing to the need for economy of space, supporting references have been deleted, but will be found in the original article.

Source: Alternet, 30 January 2014

Dr Lynn Parramore is AlterNet senior editor, a cofounder of Recessionwire, founding editor of New Deal 2.0, and author of *Reading the Sphinx: Ancient Egypt in Nineteenth-Century Literary Culture.*

Revising Adam Smith

J.D. Alt



The Ebook *Diagrams & Dollars* (in the top 10 bestsellers on Amazon/ category money & monetary policy) paints an optimistic picture of what “Sovereign Spending” could achieve for our collective benefit. The video made from it (approaching 3,000 views on You Tube - thanks Haiku Charlatan) ends with cheering calisthenics around the final diagram of our national prosperity. Unfortunately, the “real world” of our Congressional leaders and media spinmachine is painting a very different picture - a dire vision of out-of-control government spending and national insolvency. Understanding why that is, and what we can do about it, is the *real* challenge we have before us.

There have been some notable moments in American history when effective Sovereign Spending seems to have been accomplished: Rural electrification, the Interstate Highway system, the Man-to-the-Moon and Space Shuttle programs come to mind. And then, of course, there was the unprecedented command economy collectively created to win World War II - a coordinated effort which saw U.S. Sovereign Spending invent, usher in, or lay the groundwork for virtually every technological breakthrough of our contemporary world.

For the most part, however, the ability of our political system to allocate and manage Sovereign Spending has been, and continues to be, pathetically short on results. Our most recent efforts - the “Stimulus”, Hurricane Sandy rebuilding, and Obamacare - could reasonably be considered exercises in futility. Why is it such a struggle to do good things for ourselves?

Part of the reason has got to be the resilient stranglehold Adam Smith and his seminal book “The Wealth of Nations” continues to wield upon our collective imaginations. His words, more than any I’m aware of, lie at the heart of our collective confusion and dysfunction when it comes to allocating - and then *spending* - our national budgets. Listen to what he says:

“As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other eases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.”

In other words, our collective good is most effectively produced and maximized when each individual strives exclusively to maximize his own benefit or profit. Furthermore, conscious efforts directed toward producing collective benefits are often counterproductive.

These premises have been joined to become the mantra of Free Market Theology: Any and every effort to “control” the selfish pursuit of private profit (a) *diminishes* our collective good, (b) intrudes on our individual liberty, and (c) interferes with the “invisible hand” that allocates resources in the most efficient and effective manner.

It is easy to see how this Free Market mantra is an “invisible hand” in its own right, framing and guiding our political democracy on many fronts and levels - from gun-control to pipe-line building to charter schools - however its most challenging difficulty is the cognitive dissonance it creates about Sovereign Spending itself. Specifically, how can we imagine “paying ourselves to create collective goods and services” - as is so effortlessly visualized in *Diagrams & Dollars* - if individuals are *supposed* to be employing their *own* capital to maximize their *own* benefit and profit?

From this perspective, Sovereign Spending is somehow *unnatural* -- especially when we imagine what is being “spent” are Dollars the government has simply “printed”! If we can’t frame the whole operation so money flows through the hands of private contractors who will then use it to pursue their own self-interest and profit (thereby maximizing the collective good) then we simply cannot bring ourselves to spend it at all, because to do so would be (a) wasteful (b) counterproductive and (c) an intrusion of “big government” on individual liberty.

The problem, of course, is that Adam Smith’s insight, as far as it goes, is basically correct: we can’t argue *for* Sovereign Spending on the basis that individual initiative and entrepreneur-ship are *not* or *should not* be the driving force of our economy. The harder that people work to better 77and benefit them-selves, the better off - in aggregate - we’ll all be. But it ought to be easy enough to show that Adam Smith’s invisible hand actually operates most powerfully and effectively *within a collective structure consciously designed and built with Sovereign Spending.* In other words, properly conceived, Sovereign Spending doesn’t displace private initiative, it enables and leverages it to higher levels of achievement.

This is so easy to demonstrate, it’s almost a cliché. Take for example a private individual who wants to generate profits for himself by creating and providing a service that helps people find restaurants.

Twenty years ago that individual might have started a yellow-pages type publication that was distributed for free - enabling the selling of advertising space to restaurants. The efficiency and income potential of this business model was, in hindsight, quite limited. Jump forward twenty years and this same individual is able to operate within a newly built collective structure dramatically leveraging opportunities: Now one can create a smartphone App that uses GPS to locate restaurants on a digital map in the palm of a hungry person’s hand. The GPS system, as everyone knows, was created - and is maintained - almost exclusively with Sovereign Spending. The smartphone - as revealed in Marianna Mazzucato’s insightful book, “The Entrepreneurial State” - was also the end result of a long string of technological innovation and development that was paid for *not* by Steve Jobs’ investors, but by Sovereign U.S. spending.

In light of this new point of view, I would like to take the liberty of rewriting Adam Smith’s critical passage, adding in the sentences necessary to make it a *more complete* prescription for building the wealth of nations. I hope he won’t mind; and I believe, in fact, that he might even thank me:

"As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other eases, led by an invisible hand to promote an end which was no part of his intention.

Yet it is also apparent his endeavours are greatly eased and facilitated when his labours take place within a collective structure that renders his efforts more effective and productive, and which further enhances his own skills and abilities to undertake them. It is also apparent that it is not in the selfish interest of any one individual to devise and build such a collective structure, and so without a *collective* effort, it would never be built; and as a consequence each man's labours would produce only those revenues as can be scratched out in his own isolation. It is evident, therefore, that the annual revenue of a society is rendered greatest when the individuals within that society first employ their *sovereign* capital to create a collective structure, and then direct their private capital to its greatest value within that enabling and supportive edifice. Without thus proceeding, and by constantly giving short-shrift to the collective goods of society, the invisible hand of self-interest can succeed only in constructing, ultimately, a socio-pathic world of conflict and misery."

Having revised Adam Smith's critical quotation, we should also update the Free Market mantra that derives from it: Every effort should now be made to devise and build collective structures which enable and enhance the efforts of every individual to exercise his personal liberty to maximize his own benefit and profit without harming the public good; furthermore, any effort to stifle the creation of these collective goods with claims they *interfere* with private liberty and personal gain shall be understood for what it actually is: a misanthropic myopia that can only result in the aggrandizement of a few at the expense of the many.

If this is now resolved, it leaves us finally with two basic issues to confront: (1) How can we most effectively determine the goals of our Sovereign Spending? And (2) how can we most effectively guard against the corruption that will inevitably attempt to divert and corral the flow of Dollars?

Source:
http://neweconomicperspectives.org/2014/02/revising-adam-smith.html

J.D. Alt is an architect and author in Annapolis, Maryland. He became interested in understanding - and explaining - Modern Monetary Theory in 2011 while researching a strategy for implementing affordable housing on a national scale. His novel, *The Architect Who Couldn't Sing,* won the 2012 eLit Gold Award for architecture. He is a frequent contributor to New Economic Perspectives.

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A national debt, if it is not excessive, will be to us a national blessing.

Alexander Hamilton

Economic growth requires less inequality, says Mme Lagarde

Colin Cook

The story of Munnies and Wallies

The population is divided in two; 5% are Munnies, the other 95%, Wallies. The Wallies are the ones that make the 'stuff' and give the 'services' that everybody needs, the Munnies are the ones that organise it all – manage and manipulate so that things happen. To this end they have a money machine, a system to create money. The Wallies are, of course, paid for their work - not proportional to the value of their output but sufficient for them, on average, to raise a family in style.

The value of the Wallies output is well in excess of their combined incomes and even though the Munnies do help out by some very 'conspicuous consumption', there is still a surplus that must be consumed if the system is to keep functioning. But how? Simple. The Munnies crank up their money machine to lend the Wallies the necessary money so that they can buy more goods and services than their income allows. This is fine though there is a problem; the Munnies' loans need to be repaid with interest so that now the Wallies not only buy the extra goods they want (the stuff the system needs to be consumed) but must pay the Munnies interest for use of money.

Thus money flows back to the Munnies away from the Wallies, reducing their purchasing power to less than it was when they first recognised the need to borrow; so to keep up their standards, the Wallies must borrow yet more.

Private Equity – Public Inequity

The Munnies also have a problem; they have more money than they can spend; there is a limit to the number of cars, yachts, cases of champagne a dynasty can use. So they have to buy other stuff – like land, toll-roads, coal fields, houses, public utilities, facilities that everyone uses; they 'munnitise' them. Sometimes they pool their money in to Private Equity Funds so they can buy bigger things which once belonged to the Public. Private Equity makes for Public Inequity because the Munnies expect a return on their 'investments' and paying to use the facilities, further eats into the spending power of the 95%. More borrowing is needed but to make this possible, the interest charged by the Munnies is lowered - nevertheless it becomes increasingly problematic to keep the 95% employed, paid and, most importantly, consuming.

Debt is building upon debt and some of the Wallies acquire so much debt they just surrender everything they have to the Munnies and in some cases promise to give a slice of all their future earnings to the Munnies as well.

The Polimedia

The above is a great simplification for there is another group, 'The Polimedia'. Members of this are also members of the Munnies and the Wallies and whilst they are generally most friendly with the Munnies, they have some sympathies with Wallies. The Polimedia is very visible – even though on the side-lines - for they provide endless entertainment, diversions and illusions. From time to time, everyone gets to choose some members of the Polimedia and this creates the biggest illusion of them all – that who is chosen will make a significant difference to 5 versus 95 equation.

In their work, the Polimedia make it more difficult for the Wallies to consume as much as they should by taking a slice of everyone's income and also by taxing everyone whenever they spend money - a 10% take on all spending. They keep a bit for themselves and spend some on diversions like war and the preparations for war. (War on drugs, people smugglers, drought, crime, binge drinkers, tax havens, enemies and enemies of friends) but most of the money that the Polimedia collects goes to the Wallies to restore their purchasing power caused by taking their money in the first place! But The Polimedia does help to make the ability to consume more equal amongst the Wallies - which is kind of nice and sort of fair.

But the money continues to flow from the 95% to the 5% as the 95% take on more and more debt to keep feeling good about themselves, helping the economy and keeping a roof over their heads. It cannot keep going this way.

Debt is feeding upon itself grotesquely, exponentially. The 5% own more and more; the 95% owe more and more. The situation is heading for disaster; it cannot be sustained.

What is to be done?

Mme C. Lagarde, who is CEO for the biggest money machine in all the world, the IMF (International Monetary Fund) has declared, 'To be sustainable there has to be less inequality rather than more.' SMH, GW 15/2/2014. She has since explained that this is so we can get 'more growth'; in short, more of the money has to go to the Wallies to spend but Mme Lagarde does not explain how this will be achieved.

The solution is to move the money machine from Munnies to Wallies – so that the Wallies can generate the money they need* and not be forced to borrow and pay interest to the Munnies. The 'cash flow' from Wallies to Munnies needs to be reduced - even reversed – if consumerist growth is to continue; the mathematics is conclusive.

* For the full story on such a move, read, 'Modernising Money' by Andrew Jackson & Ben Dyson published by Positive Money.

Colin Cook is a NSW member of ERA

Are bankers now setting up the crash of 2016?

Thom Hartmann

Conservative lawmakers overreact to progressive American changes — pushing the economy toward another crash.

Photo Credit: Shutterstock.com/JLRphotography

As the great Yogi Berra once said, "it's déjà vu all over again." Right now, millions of Americans are still struggling to recover from the 2008 financial collapse. That collapse was fueled by the housing crisis, when Wall Street banksters were running around betting on risky mortgage-backed securities that they could sell to investors and make billions from.

They were able to do that because the Graham-Leach-Bliley Act and the Commodities Futures Modernization Act had blown up rational banking regulations, and, as a result, we saw things like the so-called mortgage "liar loans". Banksters were able to turn billions of dollars in risky mortgages into trillions of dollars in derivatives. And then everything went to hell.

Fast forward to today, and because of Dodd-Frank there are no more "liar loans." Banksters can't run the same scam as they did during the housing crisis. So, they've found a new way to come up with real-estate-backed securities that can be turned into derivatives, worth billions in profits. How? They've become landlords.

As Marilyn Volan points out over at *TomDispatch*, in the past year and a half, banksters in Wall Street hedge funds, big banks and private equity firms have purchased hundreds of thousands of mostly-foreclosed houses across the country. Among the firms and big banks buying up America's real estate is the Blackstone Group, the largest private equity firm in the world. The Blackstone Group alone has bought nearly 40,000 houses across America, spending $7.5 billion in the process.

Blackstone, for example, bought 1,400 homes in Atlanta in one day, and owns nearly 2,000 houses in the Charlotte, North Carolina metro area. So why are Blackstone and other Wall Street firms buying up foreclosed homes all across the country? It's simple. By renting these homes back to Americans, and securitizing America's home-rental market, they can bundle up rental payments the same way they used to bundle mortgage payments, and sell them to investors. Sounds awfully familiar, doesn't it? Blackstone alone has partnered with several of America's largest banks, to bundle the rental payments of over 3,000 homes. And they're just getting started. Last month, Blackstone released the first-ever rated bond completely backed by securitized rental payments, and, sure enough, investors rushed to get in on the action.

When this latest get-rich-quick scheme by Wall Street blows up, the big banks and financial institutions will be just fine, like they were in the aftermath of 2008. Because they leverage these things so much, they have very little skin in the game. Instead, you and I will again face the consequences of their actions.

Thousands of Americans will again find themselves on the streets, looking for a place to call home, and our economy will be shattered. We could see a housing and financial collapse that makes the Great Recession look mild. This is something I talk about in my new book, "The Crash of 2016."

The basic premise of my book is that conservative lawmakers overreacted to the progressive changes in America that took place in the 1960s and 70s. That overreaction, which included massive deregulation and tax cuts, opened the door for predators – particularly predatory banksters – to step in and wreak havoc on our economy.

And, as we see with Wall Street's new efforts to turn rental homes into cash-cows, that door hasn't been closed. The predators are again up to their old tricks. Nothing has changed. Elizabeth Warren was right when she said that the system is rigged. And if we don't unrig the system quickly, we're going to see another disaster very, very soon.

Source: This article first appeared on December 3, 2013 in Truthout

<http://truth-out.org/opinion/item/20378-the-banksters-are-now-setting-up-the-crash-of-2016>

Thom Hartmann is an author and nationally syndicated daily talk show host. His newest book is *"The Crash of 2016: The Plot to Destroy America — and What We Can Do to Stop It."*

Economic failures that will soon be political failures

William K Black

The troika has consigned one-third of the Eurozone to a gratuitous Great Depression

I have written several articles recently describing Spain's continuing Great Depression levels of unemployment and the absurdity of the *troika's* policies with regard to the "threat" presented by "deflation." The *troika* consists of the European Commission, the European Central Bank (ECB), and the International Monetary Fund (IMF).

This article focuses primarily on Italy's related economic and political problems, but it also briefly discusses what is likely to be political instability in the longer term in France and Spain as well.

Italy and Spain are suffering from Great Depression unemployment levels. Collectively, their population is roughly 105 million, which is nearly one-third of the Eurozone's total population of roughly 330 million.

Italy and Spain are two of the Eurozone's largest economies (data are as of year-end 2012 and are taken from the "Trading Economics" site.) Note that Italy and Spain's GDPs are still materially smaller than they were before the crisis. They have not begun to dig out of the hole they have been in since 2008.

The troika is rationally anti-democratic: it fears the voters' rationality and competence

The fact that the *troika* does not find it an unacceptable emergency that one-third of the Eurozone's population has been forced by the *troika's* self-destructive "austerity" policies and the severe defects of the euro into a gratuitous Great Depression proves that the *troika* consists of three organizations that are abject economic, anti-democratic, and moral failures. (In fairness, the ECB and the IMF were designed to be anti-democratic and they have succeeded in that portion of their mission. The theory was that their anti-democratic nature would be an advantage. That theory has failed, but the ECB and the IMF remain proudly anti-democratic failures.)

The *troika* is anti-democratic for a rational reason – they stink at their jobs and would have been tossed out by a democratic electorate years ago. The most recent Gallup poll produced this headline: "EU leadership approval ratings tumble to all-time low." The poll found that: "citizens who approve the EU's leadership are in a minority in as many as 23 countries out of the 27 surveyed." The more EU citizens dealt with the *troika* the less likely they were to approve of the EU's leadership. The article ended with the point we have been emphasizing. That the euro and the *troika* are the gravest threats to European unity.

"An earlier survey by Gallup showed that up to 60% of citizens across Europe said there were 'better alternatives to the policy of austerity' and 51% said the austerity-driven response of the EU since the economic crisis 'was not working'. These

sentiments also reflected on the EU leadership approval ratings released this week: 'Disapproval is clearest in the bailout countries where the EU has imposed austerity, compounding the economic hardships individuals were already experiencing from the financial and economic crisis' Gallup said. The record-low approval could consolidate the expected rise of anti-European parties in next May's EU elections."

The figures on the rejection of the *troika's* primary lie – "there is no alternative" (TINA) to quasi-austerity – are exceptional. The *troika*, the individual Eurozone governments, and the media have spread the TINA propaganda with a zeal that is hard to imagine unless you are a fellow geek who has to spend an inordinate portion of his or her life reading the endless propaganda. It is a testament to the reality-based community that they have rejected this failed economic dogma.

Even the troika doesn't really believe in austerity

It is important to be precise about the *troika's* austerity policies – they are actually hybrid policies involving modest fiscal stimulus. Almost all the Eurozone nations run government budget deficits. The ECB's most recent Monthly Bulletin reports that in 2012 the eurozone's overall average budget deficit was 3.7% of GDP.

Remember that the bogey man of running deficits in response to a recession is supposed to be hyper-inflation – and that "Euro-area inflation remained below half of the European Central Bank's target in January [2014]." These facts demonstrate that fiscal stimulus is criminally inadequate and unnecessarily consigning millions of Europeans to unemployment and migration.

Deflation "danger zone" reached, whereupon the ECB redefines "zone" as not dangerous

Instead, all the Eurozone hysteria is about "deflation" - but the *troika* refuses to recognize that the problem is grossly inadequate demand (hence the Great Depression levels of unemployment and virtually no inflation).

My previous columns have explained the *troika's* and business media's insanity of acting like it makes sense to wait until an economy in a Great Depression is also on the cusp of deflation before acting and insane to think that monetary policy (instead of fiscal policy) is the effective means of responding to deflation.

"European Central Bank President Mario Draghi said at the weekend that the ECB wanted to ensure that inflation in the euro zone did not drift into what he called a 'danger zone' below one percent".

The obvious problems with Draghi's "danger zone" claims are that the Eurozone's mean inflation rate (0.7%) is well within the danger zone, some nations in the periphery already have deflation, and Spain and Italy have falling inflation rates below the already inadequate Eurozone average.

Recall that the ECB's inflation target is 1.5 percent – which means that under its own (failed) theories its policies are failing to produce the outcomes the ECB wishes to achieve. Draghi's response was to redefine "danger zone" as not dangerous, and no longer a "zone" of 1% or lower inflation.

"The Eurozone is now 'experiencing a

prolonged period of low inflation,' Mr. Draghi acknowledged at a news conference Thursday in Frankfurt. At a later point he said: 'We have to dispense with the question, Is there deflation? The answer is no' ".

Draghi redefined his own definition of a deflationary "danger zone" into the completely benign phrase - "prolonged period of low inflation". His specialty is propaganda, not economics.

Had the *troika* actually tried to mandate "balanced budgets" they would have succeeded in putting even core Euro-zone nations into a Great Depression. The modest fiscal stimulus does provide the prospect of a very weak recovery.

" Thursday's figures were met with official silence in Madrid. But in an interview with El País, the European commissioner for economic and monetary affairs, Ollie Rehn, said that in Spain the EU had tried to combine the goal of solvent public finances with economic reforms.

'There were no easy alternatives for Spain nor for anyone. Those that think there was a simple way to recover access to the markets without painful measures are wrong,' he told the paper. 'It will take 10 years to fix the Spanish crisis.' "

Rehn's nightmare vision that it will take Spain, Italy, and Greece an additional decade (year-end 2024) simply to crawl out of the "crisis" phase of their Great Depressions. Their recessions began in 2007 and 2008 so Rehn is predicting Great Depressions that will last far longer than that of the 1930s. Rehn makes no promises as to how long beyond 2024 it will take for the periphery to attain full employment.

As I have emphasized in prior articles, Rehn's nightmare is the *troika's* optimistic scenario because it assumes that there will be no negative economic shocks from 2014 to 2024. The *troika* does not suggest Rehn's nightmare scenario is realistic. It is already warning about a number of potential shocks.

The *troika* consigned the residents of Spain and Italy to twist slowly in the wind. The chilling promise of its principal propagandist Ollie Rehn, made in response to the recent news that the unemployment rate rose in Spain, is that the *troika* expects that the Eurozone's periphery will continue to twist slowly in the wind for another decade.

Italy: An economic disaster where the prime minister may be sacked soon

A recent article's title captures the mood: "Despair in Italy as unemployment numbers rise again".

"Italy's jobless rate rose in November to a new record high of 12.7 percent.

That month there were 55,000 fewer people in work compared with the month before, and 448,000 fewer than in November 2012.

Youth unemployment also hit its highest level on record 41.6 percent. The young are dispirited….

Prime Minister Enrico Letta has called the youth unemployment rate a national emergency.

Since the start of the global financial crisis, in 2007 Italy has lost over one million jobs and a recent opinion poll found 70 percent of Italians who do have a job fear they could lose it."

The Italian unemployment rate gets

uglier when one examines the specifics. A recent *Bloomberg* article title captures one of the key points: "Euro Jobless Record Not Whole Story as Italians Give Up."

"While economists predict unemployment in December stayed at an all-time high of 12.1 percent, with about 19 million jobless, that tally excludes legions of adults who would also work if they could. Bloomberg calculations for the third quarter show a wider total of 31.2 million people of all ages are either looking for jobs, willing to do so though unavailable, or else have given up.

Giuseppe Di Gilio, 30, is one of 4.2 million such people who don't appear in Italy's unemployment statistics. The most recent so-called labor under-utilization rate in the third-biggest economy in the euro area was 24 percent, more than double the official jobless rate. The euro area's official unemployment rate includes only those who actively sought work in the previous four weeks and are available to start within the next two weeks. The labor underutilization rate compiled by Bloomberg using Eurostat data for the third quarter includes the official unemployed as well as those willing to work who have given up looking for a job or are not immediately available. Among euro-zone countries, Italy has the largest group of potential workers who don't appear on official unemployment statistics. The gap between the country's labor under-utilization rate, encompassing people between the ages of 15 and 74, and its unemployment rate is more than twice that of Spain and five times that of Greece."

The *troika* has been eagerly trying to induce large wage cuts for workers in the periphery. This further reduces already inadequate economic demand and harms the recovery as well as the workers and their families. The same *Bloomberg* article explains that the wages for many Italians are so low that they discourage employment.

"Over 12 percent of workers in Italy aren't able to live on their salaries alone, according to an EU study published this month. That's the highest percentage after Romania and Greece. Italy is also one of the worst countries in which to lose a job, since the percentage of people able to find other employment within a year is between 14 percent and 15 percent, the lowest in Europe.

The labor underutilization rate excludes temporary layoffs and involuntary part-time workers. The gauge also doesn't take into account around 10.1 million women who don't want a job and are not included in the workforce."

The *Bloomberg* article shows that Italy is behind most of Europe in female employment.

"'It pays off for women to stay at home,' also because of the lack of child-care services, Bank of America's Tenconi said.

Family Networks

Italy's female employment rate in 2012 was 47.1%, the lowest in the EU after Greece, Malta and Croatia, and below the region's 58.5 percent average.

The strength of family networks, which allow income sharing in tough economic times, also works as a disincentive to seeking low paid jobs. That's particularly true for many women and young people who find it more viable to stay at home."

Youth unemployment in Italy has been a national emergency for over five years – Letta is right, but far too late. Youth unemployment is horrific in the Eurozone periphery.

Note that youth unemployment is significantly worse in the eurozone than in the broader category of Western European nations. The Eurozone members were supposed to be the stronger and more sophisticated economies with the superior institutions such as the ECB, but for the reasons we have often explained, the euro's tragic design flaws and the *troika's* economically illiterate "bleed the patient" treatment of insufficient demand has made the Eurozone a deeply inferior series of economic institutions and its treatment of the periphery a disgrace. The same article from which I took the charts explained some of the special problems caused by youth unemployment.

"Youth unemployment, defined as jobless working-age people under the age of 25, is of particular concern because it can take much longer for younger inexperienced workers to re-enter the workforce and they end up with fewer economically active years in which to pay income taxes to support social services. There is also a correlation between high rates of unemployment among youths and social unrest.

And the trend is moving in the wrong direction for the region's worst-hit countries. Spain's youth unemployment jumped nearly three percentage points from November 2012 to last November, while Italy's leaped four percentage points, from 37.6 percent to 41.6 percent."

Italy's Great Depression is doing great damage to Italians, but it has also prompted political instability and the *troika's* assault on Italian democracy when they staged a *de facto* coup to install former Prime Minister Mario Monti. Of course, given that they were deposing Silvio Berlusconi, there were few protests. The *troika* acted even more anti-democratically in forcing the abandonment of the plebiscite in Greece.

The current Italian political drama involves the question of how long Prime Minister Enrico Letta can remain in power. Matteo Renzi is trying to replace him, without benefit of an election. Renzi's quest for power is greatly aided by Italy's Great Depression.

Update: Renzi has just called for a change of government. He is indicating that he wants to rule without any vote by Italians. Renzi is popular, but taking power without a vote is not.
"Mr. Renzi scores high in national opinion polls, but a survey this week from the Piepoli Institute showed that only around one in six Italians approve of Mr. Renzi becoming prime minister without a vote."

Hollande's approval rating is lower than France's youth unemployment rate

Neo-liberals are having a field day mocking French Prime Minister Francois Hollande. Not for the multiple mistresses/partners du jour, but for the intersection of his economic and political difficulties."

"The French aren't impressed. The president's popularity ratings, already at a historical low, continue to fall; a poll published Feb. 6 showed that only 19% of voters have confidence in him".

By discrediting national institutions such as his party by caving in to the *troika's* and the French business sector's demands for greater austerity Hollande has inadvertently created great discord against the Eurozone. The same neo-liberal critic explains.

"The far-right National Front led by Marine Le Pen, which campaigns on a tough anti- immigration platform and would take France out of the Eurozone, is the main beneficiary of this sense of popular disenfranchisement.

The party is leading in the polls for European Parliament elections in May. Hollande is even more unpopular than the (conservative) PM Mariano Rajoy of Spain. Again, that is a significant accomplishment because Rajoy's austerity helped push Spain to the highest unemployment rates in its history. As we stress repeatedly to try to get the fact to penetrate to the media, Spain is in a Great Depression."

The same neoliberal critic mocks Hollande's abandonment of his opposition to austerity and the big banks and his abandonment of the term "socialist." Hollande has declared that he is a "social democrat." Whatever the label, his cowardly retreats have made him one of the most unpopular politicians in France – a large accomplishment given French politicians. Meanwhile, youth unemployment in France has increased to a level higher than president Hollande's popularity rating. "Youth Unemployment Rate in France increased to 25.60% in December of 2013 from 25.50% in November of 2013."

Hollande is now pushing increased austerity in the form of significant cuts to public spending. That makes him the very model of the modern social democrat. They have become pale imitations of the conservative party, doing the dirty work for them of crippling the most effective social programs, which discredits the (once) progressive party and leads to loss of control over the legislature.

Posted in NEP on February 13, 2014

Source: <http://neweconomicperspectives.org/2014/02/spain-italy-france-economic-failures-will-soon-political-failures.html>

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Economics Quotes

We know that advanced economies with stable governments that borrow in their own currency are capable of running up very high levels of debt without crisis.

Paul Krugman

When an economist says the evidence is "mixed," he or she means that theory says one thing and data says the opposite.

Attributed to Richard Thaler,
Univ of Chicago

No servant can serve two masters. Either he will hate the one and love the other, or he will be devoted to the one and despise the other. You cannot serve both God and Money.

Jesus of Nazareth

Prison inmates are treated to cable TV, hot meals and a college education, while on the outside some people can only afford these things through a life of crime.

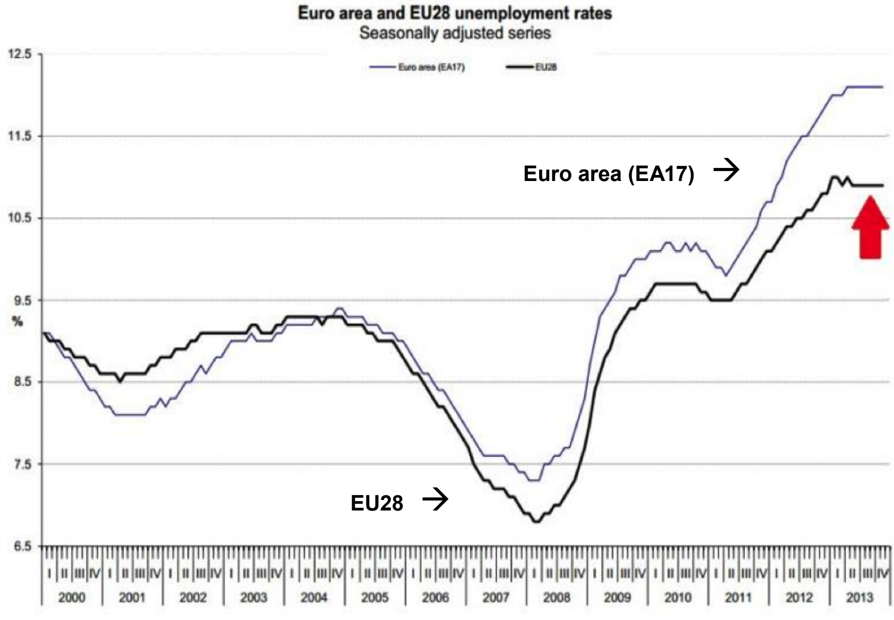
Alfred E. Neuman

Economic statistics are like a bikini, what they reveal is important, what they conceal is vital

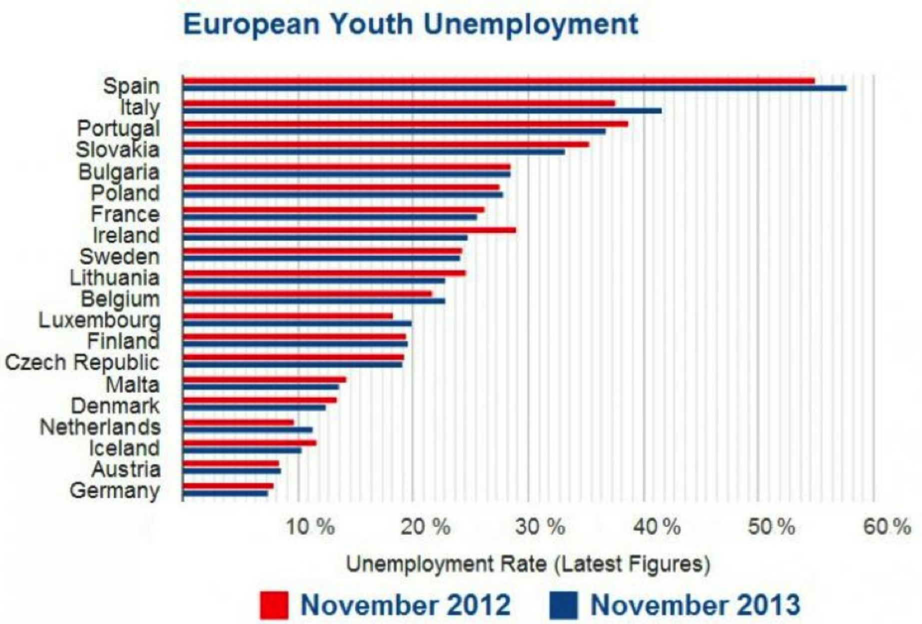
Attributed to Prof Sir Frank Holmes,
Victoria Univ, New Zealand, 1967

The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists.

Joan Violet Robinson



Here is the breakdown by country (Greece did not report):



Source: *International Business Times*