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IN THIS ISSUE

page

Steven Hail	A budget we didn't need to have	1
Editor	Arguing the case against budget surpluses	3
Editor	BoE dismisses misconceptions about money creation	3
Stephanie Bell	Metallism and Chartalism	5
L. Randall Wray	Trustee banks sued for \$250 billion	6
Book Review	<i>The Price of Inequality</i> by Joseph Stiglitz	9
Editor	Knowledge isn't power	9
John Hermann	The single national depository monetary reform scheme	10
Steve Keen	Augusto Graziani's legacy	10
Dennis Dorney	News and views from NZ: The more things change	13
Robert Reich	The real worth of people's work	15
William Hummel	Private debt and financial crisis	16
Herman Daly	Capital, debt and alchemy	17
Kevin Zeese et al	Critical moment to stop the TPP	19
George Monbiot	Sick of the market driven world? You should be	23
Lynn Parramore	Megabanks still a giant threat	26
Positive Money	Escaping private debt addiction	27
Geoff Harcourt	Why treasurers should go back to economics school	27
Ben Dyson	Poll: Only 12% of MPs know that banks create money	30

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

More on the Australian federal budget

In this issue, we revisit the theme of austerity budgeting as exemplified by the federal budget 2014-15, with critical reviews by Steven Hall and Geoff Harcourt.

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A budget we didn't need to have: a modern monetary theory perspective

Steven Hail

This has been a controversial federal budget, to put it mildly. We are being told by the federal government, their advisors, their friends in the media, and their fellow travellers, that it is the budget 'we had to have'. The many cuts, some immediate and others promised for future years, are said to be justified as the 'budget is in a mess', the government has 'maxed out on its credit card', 'we' are 'borrowing to pay interest', we have to 'fix the budget', we must 'return to surplus', there is a 'budget black hole', and the previous government had 'spent like a drunken sailor', and has 'mortgaged the future'.

Meanwhile, the opposition takes issue with much of the above, and reasonably points out that Australian government net debt is tiny (only about 14% of our annual output), that the annual budget deficit (if you don't cook the books) is moderate, and that the idea we have a 'budget crisis' is so far from the mark as to be an extraordinary proposition. They also point out that nearly all the measures proposed to 'fix the budget' do so by targeting the weak, the disabled, the aged, the unemployed, single parents health care, education, foreign aid, our environment, our climate, and the state premiers.

All this is true, but it misses the point. A point which neither the government nor, sadly, the opposition have yet to fully grasp.

The point is that the Government is not a household, government budgets are nothing like household budgets, government debt is not debt in the sense you and I understand it at all,

and a government budget deficit is a normal characteristic of our economy, nothing to worry about, and indeed is normally a necessary element in guaranteeing financial stability and full employment.

There is no 'budget black hole'. The budget is not 'in a mess'. The government neither has, nor needs to have, a 'credit card'. It does not and will not need to 'borrow to pay interest'. We have not 'mortgaged the future' (not in a financial sense, anyway). None of this language and none of these metaphors are useful when discussing the public finances. It is all misleading. It is all propaganda.

Perhaps you have your purse or wallet to hand. Perhaps it has some notes inside. Take a note out. Look for the signatures. One of them is that of the Governor of the Reserve Bank of Australia, and the other is that of the senior public servant of the organisation which owns the Reserve Bank of Australia – the Secretary to the Treasury of the Commonwealth Government.

The Australian government is not in the same position as you and I. It is a currency issuing monetary sovereign. It owns a printing press – for the most part these days it is an electronic 'printing press', but that doesn't change the facts. It doesn't need to take its money off you in tax, or to borrow its money from you by issuing debt. It creates new money every time it spends. It puts new money into the economy every time it pays for anything. It can in principle afford to buy anything which is for sale in Australian dollars. It can never run out of money. Never.

The obvious question to ask at this stage relates to the purpose of taxation. If the government can never run out of money, why do we pay taxes at all? The answer may seem offensive. The government needs to tax us in order to destroy some of our spending power. This is the only way to create room in the economy for the government to spend its money without causing inflation. It is important to understand, though, that the taxes do not 'pay for' government spending. They allow for the government to spend without causing inflation, but they don't fund that spending. The government owns a printing press, remember.

A supplementary question is, why does the government borrow at all? The real reason for this might come as a surprise too. When the government spends, it puts money into the accounts that commercial banks have at the Reserve Bank of Australia. These reserve accounts are used to facilitate the millions of transactions every day which are the lifeblood of our economy.

To ensure each bank has enough money in its account each morning to meet its obligations, the banks lend to and borrow from each other every day. They do this at what is called 'the cash rate'. This is the rate of interest which the Reserve Bank of Australia publishes a target for, and which influences the rate you receive on your term deposit or pay on your mortgage. To stop the cash rate falling below its target, it is essential there isn't too much cash in the banking system. Government spending puts cash into the banking system. To maintain control of the cash rate, either the Treasury or the Reserve Bank – it

doesn't matter which – has to make sales of government debt to drain cash from the system.

So the government only borrows its money (for which it has a printing press) in order to stop the cash rate falling below the Reserve Bank's target. Simple, really. It doesn't 'need' to borrow at all.

So, what have we established?

1. The Government can never run out of money
2. Taxes don't pay for anything. That isn't the purpose of taxation in a modern economy.
3. The Government doesn't need to borrow its own money.

There is no need to worry about the government budget being in deficit, unless there is too much spending in the economy as a whole, and this is causing inflation.

But there is much more for our leaders to learn. Once again, we'll take it a step at a time. For every borrower, there is a lender. This obvious fact is the reason why, when you look at the national flow of funds accounts, you always find the following result:

Private sector financial balance +
Government financial balance +
Foreign financial balance = 0

The rest of the world has run a surplus with Australia for years, and this is unlikely to change any time soon. So the third statistic above is a plus number, and usually at least 3% of GDP. In a healthy financial system, the private sector is normally in surplus. It was in large deficit during the Howard/Costello years, as households built up big debts at an alarming rate.

Suppose the private sector chooses to

net save 1% of GDP each year. This would force the Government to run a budget deficit of 4% of GDP, to allow for the Australian private sector to increase its savings as desired.

Any attempt by the Government to introduce 'austerity', to 'fix the budget', to 'get back to surplus' could only work if the rest of the world started to borrow from us, or (more likely) the private sector chose to take on even more debt, making our financial system even more prone to instability and crisis, and a possible future collapse of the property market. If the private sector were to choose not to go further into debt, all that government cuts would do would be to push the economy into a recession, until the government budget returned to deficit once again.

Right now in Australia, the government deficit is already too small, and as a consequence the private sector has now moved back into a small financial deficit. The problem isn't that there is too much government debt – it is that there is not enough.

A long story, and I have had to simplify it to keep it this short, but it is the truth. And 'they' cannot be completely unaware that this is the truth. It isn't that complicated to understand. The obvious question, then, is why are they lying to you?



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The use of mathematics has brought *rigor* to economics. Unfortunately, it has also brought *mortis*.

Attributed to Robert Heilbroner

Arguing the case against budget surpluses

Editor

In regard to arguing against the idea of running central government budget surpluses, the following suggestion was made recently by a reader on Prof Bill Mitchell's blog-site [1].

If you say something like "a central government budget surplus implies that the private sector is collectively in deficit", it does sound a little abstract.

Alternatively you could say that government deficit spending is a powerful way in which a central government is able to issue new purchasing power into the economy, and that if a central government budget registers a surplus then purchasing power has been removed from the economy.

The latter does not sound like a very healthy process, does it? This might be a more useful approach.

[1] <http://bilbo.economicoutlook.net/blog/?p=27823>

BoE dismisses misconceptions about money creation

Editor

In a recent blog [1], Prof Bill Mitchell (Charles Darwin University) informed his readers about an article which appeared in the Bank of England (BoE) Quarterly Bulletin 2014/Q1 - *Money creation in the modern economy* - which "explains how the majority of money in the modern economy is created by commercial banks making loans." This paper challenges several of the basic assumptions made in many mainstream economics textbooks:

"Money creation in practice differs from some popular misconceptions – banks

do not act simply as intermediaries, lending out deposits that savers place with them, and nor do they 'multiply up' central bank money to create new loans and deposits.

The reality of how money is created today differs from the description found in some economics textbooks:

- Rather than banks receiving deposits when households save and then lending them out, bank lending creates deposits.
- In normal times, the central bank does not fix the amount of money in circulation, nor is central bank money 'multiplied up' into more loans and deposits. “

The BoE paper then discusses two misconceptions about money creation.

Banks do not lend out the public's deposits

First, the BoE says that “The vast majority of money held by the public takes the form of bank deposits. But where the stock of bank deposits comes from is often misunderstood”.

We learn that “banks do not act simply as intermediaries, lending out deposits that savers place with them”, which means that household saving creates the deposits.

The reality is very different:

“ ... when households choose to save more money in bank accounts, those deposits come simply at the expense of deposits that would have otherwise gone to companies in payment for goods and services. Saving does no by itself increase the deposits or 'funds available' for banks to lend.

... in reality in the modern economy, commercial banks are the creators of

deposit money ... rather than bank lending out deposits that are placed with them, the act of lending creates deposits – the reverse of the sequence typically described in the textbooks. “

The BoE paper details the process:

1. The central bank has assets equal to its liabilities (bank reserves held with it and currency on issue). This is called base money.
2. A commercial bank makes a loan and creates a new deposit.
3. The bank now has more assets (the new loan) but matching higher liabilities (the new deposit).
4. Borrowers have more assets (the new deposit) but higher liabilities (the new loan).
5. New broad money has been created because deposits have risen.
6. No new net financial assets have been created (“both sides of the commercial banking sector's balance sheet increase as new money and loans are created”).
7. The new money has been created “without – in the first instance ... any change in the amount of central bank ... 'base money'”. “
8. The banks will as a consequence of the higher deposits “want, or are required, to hold more central bank money in order to meet withdrawals by the public or make payments to other banks”. That is, the bank will need to increase its 'reserves' held at the central bank to facilitate the payments system.
9. But “reserves are ... supplied 'on demand' by the Bank of England to commercial banks in exchange for other assets on their balance sheet”.

10. And ... “In no way does the aggregate *quantity* of reserves directly constrain the amount of bank lending or deposit creation”.

Banks do not lend out their reserves to the public

The BoE paper also observes that:

“ ... description of money creation contrasts with the notion that banks can only lend out pre-existing money ... Bank deposits are simply a record of how much the bank itself owes its customers. So they are a liability of the bank, not a bank asset that could be lent out. “

Second, “a related misconception is that banks can lend out their reserves”:

“ Reserves can only be lent between banks, since consumers do not have access to reserves accounts at the Bank of England. “

What this is also telling us is that in the modern world we have a dual monetary system, in which two forms of money tag along with each other but do not actually mix. These two forms of money are (a) the money supply, consisting of deposits and currency in circulation, being money which is accessible to the public, and (b) banking reserves, being a form of money which is only accessible to banking institutions. Reserves never cross over the line into the real (non-bank) economy.

The full picture

This BoE description of money creation by banks is fine, except that (a) it does not mention that although bank credit money mostly arises from bank lending, banks also create new credit money when they spend into the real economy (e.g. to pay dividends to shareholders, interest to depositors,

government tax and other fees, salaries and overheads, contractors' fees, etc); (b) the article does not address the complementary matter of money destruction (cancellation) by banks.

Moreover, money creation is a much larger subject than the creation of bank credit money. To get a full picture, one must integrate the description of bank money creation with money creation and destruction by the state (i.e. arising from a conjunction of the activities of the Treasury and Central Bank).

[1] <http://bilbo.economicoutlook.net/blog/?p=28435>

Metallism and Chartalism

Stephanie Bell

(edited by William Hummel)

The following commentary was extracted, along with some editing by William Hummel, from a paper titled *The Hierarchy of Money* by Stephanie Bell [1], which was written for the Levy Economics Institute. The edited commentary appeared in Hummel's *Understanding Money* email network on 7 Aug, 2014.

There is no shortage of views on the nature and role of money among the different schools of economics. However subtle the differences may be, they can all be associated with one of two basic theories, *metallism* or *chartalism*. Chartalism is a term derived from the Latin word 'charta' meaning a ticket or token. Chartal money is the token for value, while metallist money is the thing of value itself.

Metallists believe money developed spontaneously as a medium of exchange in order to eliminate the obvious limitations of barter. Society is thought to have settled on precious metal as currency so that money would have

intrinsic value. Money's value then is explained in terms of its precious metal content or backing.

As a producible commodity, metallist money was really no different from any other commodity. To guarantee the weight and purity of precious metal as money, a stamp certifying its integrity came to be required before it could circulate widely. The State could play a role in terms of producing stamped coinage, but its power was viewed as limited to supporting the will of the private sector.

When coins or paper with no precious metal content came into use, metallists explained the transition on the basis that they were 'backed' by precious metals which would imbue them with value. When the community continued to accept intrinsically worthless paper after the elimination of metal backing, metallists were left with a fundamental problem.

Chartalists place the State center-stage. They argue that the age of chartalist or State money was reached when the State claimed the right to declare what entity should answer as money in payment of financial obligations to the State. The modern State has assumed a monopoly in the creation of the money that it will accept in payment of taxes and other liabilities due to it. Obviously the State must make its money available to the public before the public can discharge these financial obligations.

The State issues its money by simply spending it on goods, services, or financial assets available from the public. Ultimately, the value of chartal money involves a mutual willingness to accept it for monetary transactions. The value of State money derives from

the fact that nearly all households require some of it in order to pay taxes or other fees to the State. Being in wide demand, it naturally becomes useful as a medium of exchange within the private sector. There can be no doubt that the monetary systems of modern economies are based on chartal money.

[1] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=96845

Stephanie Bell is a professor of economics and is attached to the University of Missouri – Kansas City.

Trustee banks sued for \$250 bill **L. Randall Wray**

Here's another story in the continuing saga of Bankster fraud.

As I've argued since 2008, it is likely that all - or nearly all - of the residential mortgage backed securities (RMBSs) are fraudulent. The Banksters engaged in fraud at every link in the RMBS food chain.

They defrauded the borrowers. They forced the appraisers to commit fraud (pressured them to overvalue property). They conspired with ratings agencies to overvalue the RMBSs. They created MERS to destroy property records and to cheat local governments out of recording fees. They separated the promissory notes from the deed of trust, invalidating the lien. They hired BurgerKing Robo-signers to create forged documents. They lie in court, committing perjury. They steal homes from owners who don't even have mortgages. And on, and on, and on. Their depravity knows no bounds.

But here's an entertaining story. Bear with me, it is a bit complicated.

The mortgages were originated by

specialized mortgage brokers, thrifts, and banks. They would be bought and sold among banks maybe ten times before going through securitization (this was one of the reasons MERS was created - to reduce the costs of the buying&selling by avoiding recording fees; it was also a source of confusion because a bank would sometimes sell the same mortgage to several different buyers).

In the securitization process, a Trustee bank would be appointed. Almost all of these securitizations were done in New York because it had strict laws - this provided a patina of respectability. The Trustee would certify that it actually had all the docs related to the mortgages. In fact, it looks like they usually had none of them.

In turn, the selling bank would certify that the mortgages met the “reps and warranties” regarding quality. In fact, as I reported last time, whistle-blower Richard Bowen at Citi discovered that 60% of the mortgages did not.

Trustees are supposed to ensure the bank’s certification is valid; they are also responsible for monitoring servicing rights and enforcing servicing obligations. In short, they protect the investors in the RMBSs.

By 2006, insiders knew that the whole RMBS market was going to hell in a hand-basket. Things were so bad that even the Fed (usually clueless) discussed the exploding numbers of defaults. (We know that because transcripts from that period have now been released). As I reported before, the transcripts reveal the following extraordinary statement by Gov Bies:

“Part of what’s amazing in all of this is that in 2004 and 2006, particularly

toward the end of that period, purchase money seconds, by which people borrowed the down-payments for homes, were a big part of mortgage financing... The one sector that has had a jump in delinquencies is subprime ARMs, and clearly the jump is related to rates that have already reset. We’ve got more to come. One thing I’m hearing more from some folks who have been investing in mortgage-backed securities and maybe in some CDOs (collateralized debt obligations), where they’ve been tranced into riskier positions through economic leverage, is the realization that a lot of the private mortgages that have been securitized during the past few years really do have much more risk than the investors have been focusing on... We’re seeing that some of the private-label mortgage-backed securities are having very high early default rates or delinquencies in the mortgages, which usually means that the originator has to buy them back out of the pools. There isn’t a whole lot of transparency in the disclosures around some of these bonds, and some of the brokers are underwriting products that have very high early default rates, which is something that investors are starting to focus on. As more products are generated outside the banking sector, they get funneled to pools through broker-dealers as opposed to the banks. I think that we’re missing a level of due diligence regarding brokers, who may not be doing a good job. As you all know, the fraud rate on mortgages has tripled in the past two years. So I think we could see noise in some of the mortgage-backed private deals and some of the riskier CDO economic leverage positions....”

Yep. As we all know, the buyers are

borrowing their down-payments, risks are higher than investors thought, early defaults are rising, and the fraud rate has tripled! This is 2006.

The investors in RMBSs began to demand that their Trustee banks look into mortgage quality, suspecting the mortgages did not meet the Reps & Warranties. The Trustee banks, however, were "conflicted". They needed the goodwill of the banks that were originating and selling trashy mortgages.

All the banksters - originators, securitizers, trustees - were making so much money 'hand-over-fist' by originating and selling and securitizing trash assets that no one wanted to stop.

Sure, they knew the whole thing would blow up, but meantime, they had to make as much money as possible "while the music was playing". They hoped to be retired, having sold all the trash to clueless investors before the music stopped.

So the Trustee banks ignored the pleading of the investors in the RMBSs. They had a choice: sue or be sued, and chose to wait it out, dancing to the music.

They've been ignoring their investors ever since - as the investors lost money on the securities.

Recently, a funny thing happened. The NY Supreme Court ruled that a six year statute of limitations holds - and so the Banksters who lied about the quality of the trash they securitized cannot be sued after six years.

A group of the biggest investors, including PIMCO and BlackRock, filed a \$250 billion suit against the biggest Trustee banks: Bank of NY-Mellon, USBank, Wells Fargo, Citibank, Deutsche Bank,

and HSBC.

Two-hundred and fifty billion smackaroos dwarfs Eric Holder's tiny little \$7B settlement against Citi.

It gets funnier. The Trustee banks are now quickly filing lawsuits against their brethren banks for the false reps and warranties.

So now the Trustee banks are suing and being sued!

The Trustees might be able to get off if they can prove the issuing banks breached the reps & warranties, but cannot evade their own gross negligence, bad faith, and misconduct. We know, for example, that they lied about having the mortgage docs. MERS broke the chain of title and destroyed most docs - even recommending that the paper docs should be shredded - so there is no way that the Trustees had them.

According to Isaac Gradman, typical judgments in such cases run at about 75% of losses. The investors have claimed \$250 Billion in losses, so a judgment could be \$200 Billion. That might be big enough to take a bite out of crime. (However, Gradman notes that PIMCO and BlackRock might settle for much less.)

Others have joined suit, including banks, credit unions, insurance companies and the FHLB of Topeka.

This is just the tip of the iceberg.

MERS recorded 65 million mortgages. There is \$10 Trillion (with a T) of mortgage debt of which \$7 Trillion (another T) were securitized. The whole sector is riddled with fraud. The fun will continue for years.

Meanwhile, US property records are in disarray. Banksters continue to steal

homes, and real estate markets are turning down. And it looks like the economy is beginning to slow.

Looks like déjà vu all over again.

Source: New Economic Perspectives
<http://neweconomicperspectives.org/2014/07/trustee-banks-sued-250-billion.html>



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**Review: The Price of Inequality -
 How Today's Divided Society
 Endangers Our Future**

by Joseph Stiglitz



Prof Joseph Stiglitz was Chief Economist at the World Bank until Jan 2000. Currently he is at Columbia University Business School and is Chair of the Management Board and Director of Graduate Summer Programs, Brooks World Poverty Institute, University of Manchester. He won the 'Nobel' Economics Prize in 2001. He is author of *Globalization and Its Discontents*, *The Roaring Nineties*, *Making Globalization Work*, and *Freefall* - all published by Penguin.

In regard to his latest book, Prof Stiglitz succinctly summarized his own argument in a recent online column:

“Inequality leads to lower growth and less efficiency. Lack of opportunity means that its most valuable asset - its people - is not being fully used. Many at the bottom, or even in the middle,

are not living up to their potential, because the rich, needing few public services and worried that a strong government might redistribute income, use their political influence to cut taxes and curtail government spending. This leads to underinvestment in infrastructure, education and technology, impeding the engines of growth . . . and most importantly, US inequality is undermining its values and identity. With inequality reaching such extremes, it is not surprising that its effects are manifest in every public decision, from conduct of monetary policy to budgetary allocations. America has become a country not 'with justice for all,' but rather with favoritism for the rich and justice for those who can afford it - so evident in the foreclosure crisis, in which the big banks believed that they were too big not only to fail, but also to be held accountable.”

Knowledge isn't power

Editor

In a letter published in the New York Times (31 March, 2014) [1] entitled 'Knowledge Isn't Power' Paul Krugman drew attention to the fact that surveys from the Initiative on Global Markets, based at the University of Chicago, has been polling a panel of top economists, representing a spectrum of schools and political leanings, on questions ranging from the economics of college athletes to the effectiveness of trade sanctions.

Krugman stated: “It usually turns out that there is much less professional controversy about an issue than the cacophony in the news media might have led you to expect.”

“Professor Alberto Alesina of Harvard has claimed that cuts in government spending are actually expansionary.

But relatively few economists agree, pointing to work at the International Monetary Fund and elsewhere that seems to refute his claims.”

According to Krugman: “When politicians pick and choose which experts (or in many cases, “experts”) to believe, the odds are they will choose badly. Moreover, experience shows there is no accountability in such matters.”

[1] http://www.nytimes.com/2014/08/01/opinion/paul-krugman-knowledge-isnt-power.html?emc=edit_th_20140801&n=todayheadlines&nid=52142901&_r=0

Editorial comment: Our readers might have ideas and suggestions for polling a panel of Australian economists - embracing a spectrum of economic thought. Please forward ideas and comments to the editor.

The single national depository monetary reform scheme

John Hermann

It is worth examining the monetary reform proposal devised by William Hummel involving a single national depository [1]. Hummel’s web article starts with an explanation of how a full reserve banking system would work, and is followed by a description of the single national depository system, its functional equivalent. The transition from a full reserve system to a single depository system is also described.

Banking reserves do not exist in the single depository system. The deposits are actual base money, rather than claims on base money, all created by the central bank. In the current system, regardless of the required reserve ratio, banks hold reserves of base money and deposits are only claims on base money.

Hummel’s national depository system specifies that only the central bank can

create deposits. It would do so by buying securities in the open market or by lending to banks. Conversely it would cancel deposits by selling securities in the open market or by redeeming loans to banks.

Banking institutions hold no customer deposits in the national depository system. They operate as ordinary intermediaries who borrow to lend. However they have at least one privilege that other intermediaries do not enjoy. In particular the funds they borrow are covered by government insurance up to specific limits.

[1] Hummel’s single national depository <http://wfhummel.net/monetaryreform.html>

Augusto Graziani’s legacy

Steve Keen



Augusto Graziani

In January this year the Italian economist Prof Augusto Graziani died at the age of 80. Augusto who, you may ask? Graziani’s name is not widely known even among economists, let alone the general public, because he was outside the neoclassical mainstream – and also outside continental America, which has a pseudo-monopoly on fame in economics these days. His Wikipedia entry emphasises his current obscurity: it is a mere stub.

However within the post-Keynesian community, and especially within its

European branch, Graziani was a giant. He deserves to be much better known, and I hope that history is far more fulsome in its praise of him than the contemporary world has been, where the chatter of neoclassical economists drowns out the wisdom of true sages like Graziani.

Graziani's most important contribution was to derive from first principles an accurate statement of the fundamentally monetary nature of a capitalist economy. This began with a simple question: can a monetary economy be one in which a commodity functions as money – something like gold, silver, or in a more modern sense, the pseudo-commodity bitcoin, which is “produced” via energy-intensive computation? His answer was no, because such an economy is merely a barter economy with a minor twist. From this he derived the first principle that *a monetary economy is one which uses an essentially valueless token in exchange*:

The starting point of the theory of the circuit, is that a true monetary economy is inconsistent with the presence of a commodity money. A commodity money is by definition a kind of money that any producer can produce for himself. *But an economy using as money a commodity coming out of a regular process of production, cannot be distinguished from a barter economy.* A true monetary economy must therefore be using a token money, which is nowadays a paper currency.

His second principle was that this token can't be an ordinary IOU, like a trade credit issued in exchange for goods, because this still leaves a financial relationship between the buyer and the seller after the goods have been

transferred. A painter who buys paint from a retailer using a trade credit gets the paint, but he also walks away with a debt towards the shop. But if he buys the paint with money, then after the money changes hands, the paint belongs to the painter and he owes the shop nothing. *Money is therefore a token which is accepted as a means of final payment by all sellers:*

However, to say that a monetary economy makes use of paper currency is not enough to identify a monetary economy. If, for instance, goods are traded against promises of payment such as bills of exchange, any act of trade gives rise to a debt of the buyer and to a credit of the seller. A similar economy is not a monetary economy, but a credit economy. If in a credit economy at the end of the period some agents still owe money to other ones, a final payment is needed, which means that no money has been used. If, on the other hand, final payments were continually postponed and replaced by new promises, buyers would enjoy an unlimited privilege of seigniorage. Money is therefore something different from a regular commodity and something more than a mere promise of payment.

Graziani then developed three conditions needed to define a monetary economy:

In order for money to exist, three basic conditions must be met:

- a) money has to be a token currency (otherwise it would give rise to barter and not to monetary exchanges);
- b) money has to be accepted as a means of final settlement of the transaction (otherwise it would be credit and not money);
- c) money must not grant privileges of

seignorage to any agent making a payment.

From this Graziani derived a simple but profound insight that overturned two centuries of economics perceiving capitalism as fundamentally a modified version of barter. In this conventional barter vision, all exchanges involve two parties and two goods: the ideal situation is where Agent **A** has good **X** (for example, deer) and wants good **Y** (for example, beaver), while Agent **B** has beaver and wants deer. They meet, work out an exchange ratio, swap the respective bundles of commodities, and toddle off to consume their purchases.

Money was treated as a simple kludge between this ideal barter and the more common situation where **A** had deer and wanted beaver, while **B** had good **Q** (say, wheat) and wanted deer. **B** would first sell wheat in return for some of the designated “money commodity” **Z** (say, gold). **A** would then willingly give **B** the deer in return for gold, because he knew he could then give someone else gold in return for what he really wanted, which was some beaver.

Graziani’s insight was that rather than the 2-person, 2-commodity vision of barter, a monetary economy was one in which every exchange involved 3 people (or institutions), one commodity, and money. A monetary economy is one in which buyer **A** directs bank **Z** to transfer money from **A**’s account to **B**’s. In return, **B** gives **A** the beaver he craves (hmmm... don’t blame me, it’s Adam Smith’s example). In Graziani’s words:

The only way to satisfy those three conditions is to have payments made by means of promises of a third agent,

the typical third agent being nowadays a bank. When an agent makes a payment by means of a cheque, he satisfies his partner by the promise of the bank to pay the amount due. Once the payment is made, no debt and credit relationships are left between the two agents. But one of them is now a creditor of the bank, while the second is a debtor of the same bank. This insures that, in spite of making final payments by means of paper money, agents are not granted any kind of privilege. For this to be true, *any monetary payment must therefore be a triangular transaction, involving at least three agents, the payer, the payee, and the bank. Real money is therefore credit money.*

Some people remember where they were when John F Kennedy was shot, or when Princess Diana was killed (or when Miley Cyrus twerked on MTV). I remember where I was when I read documents that profoundly altered how I thought about the world. Reading this paper from Graziani – a single page in a single paper, no less – was one of those occasions.

I was working as a senior lecturer at my ex-employer UWS, and I’d been asked to take over teaching the financial economics course, because the staunchly neoclassical economist who had been lecturing in it was such a bad teacher that there had been a student revolt. There was no way that I was going to serve up the guff that neoclassical textbooks delivered on this topic, so I delved into the strictly monetary literature in economics to construct my own course.

I knew that Augusto Graziani was one of the authors I had to read, because by chance I had heard him speak at a

1998 conference at the University of Bergamo in northern Italy. Not only was his paper insightful, his spontaneous answers to questions from the floor were delivered in perfectly formed English paragraphs. “Augusto” is a grand name for anyone to have to bear – let alone a man who stood barely five feet high – but with his elegant posture and flawless erudition, Augusto carried his name with aplomb.

When I read Graziani’s paper in 2002, a puzzle that had stymied me for years was suddenly solved. How do I move from the implicitly monetary model of financial instability I had developed in 1992, to a strictly monetary one – in which deflation could exacerbate a debt crisis, as it clearly had during the Great Depression? The answer was simple: banks had to become an essential part of my modeling, and every transaction had to follow that triangular structure that Graziani outlined. Triangles and banks, and not two lines between buyer and seller and barter, ruled in monetary economics.

That insight led over time to the development of my Minsky modeling program, which is now an indispensable part of my approach to economics. In building it I truly stood on the shoulders of the giant who was Augusto Graziani. Hopefully a future economics will accord him the status he rightly deserves.

I’ll conclude with a quote from Riccardo Bellofiore’s paean to Graziani in the Review of Keynesian Economics:

He reminds us that economic theory has to put at the heart of its discourse not the ‘imperfections’ of the market, but rather the ‘normality’ of power and conflict, not only between labour and capital, but also between fractions of

capital, and between capitalisms. It must abandon the reference to an imaginary world of a barter economy ‘disturbed’ by money, or the delusion that money may be integrated into an economic model, which is non-monetary in its roots.

Source: Steve Keen’s DebtWatch

<http://www.debtdeflation.com/blogs/2014/01/14/augusto-grazianis-legacy-retains-its-currency/>

News and views from New Zealand

The more things change

Dennis Dorney

When the dust has settled on the next NZ election, due on Sept 20th, we will have chosen once again either a National or Labour government, both with hangers on, who will modify the natural neo-liberal instincts of both parties. The modification of policy will be greater for Labour than for National because Labour will depend more on their partners in the coalition than National. Until the campaigns had begun in earnest, National had been regarded as certain to win comfortably, because the right wing press repeatedly told us so, but in recent weeks, because the electorate has been forced to focus briefly, the repercussions of the government’s austerity measures are beginning to show.

For the last six years we have been force-fed a diet of balanced budgets, small government, pro-business deals, free trade, asset sales, and blind faith in the supremacy of the unfettered market-place.

A balanced budget was the centre piece of the Government’s claims to being more financially astute than the Opposition and the last budget finally

did balance (just), much to the front page celebrations of the media. Except that it didn't balance. All budget figures are subject to later revision so it was no great surprise to read a few weeks later, that it hadn't balanced after all. What is worse, the revised figure may represent a high point. To achieve its meagre balance the Government has raised GST to 15%, added 9c per litre to fuel costs, borrowed about \$50 billion from overseas lenders and cut public services back to the bone. The public has put up with this and had swallowed the media's claims that NZ has a rock star economy, even though no-one admits to being better off.

Where it really matters - in the tills of the retailers - the economy looks flat. The much lauded Christmas sales boost was paid for by plastic debt. Before Christmas, and since, spending has been slow. This is beginning to look like a symptom of a cash-strapped economy; buy only what is needed until Christmas, debt-binge at Christmas and try to pay off the debt before the following Christmas. The chances look bleak. Interest rates have risen to try to deflate a housing bubble; the market price of milk solids (our main export earner) has fallen steadily in recent months and lower economic deciles have not increased their income since this government won office.

Small government : Sympathy is also eroding for the ruthless cutting of the Public Service. At first this seemed a shrewd move - no Party ever lost votes by cutting the Public Service. In the voter's eye a public servant 'works' hidden from view in a cosy office. In practice a public servant is as likely to be a nurse, teacher or policeman, all of whom are now seriously understaffed.

The consequences show every time the voter goes to a hospital ward or sees on the nightly news the mindless anarchy in the poorest city suburbs, where the police lack the resources to cope.

Asset sales: In previous articles I have mentioned the high price of houses, due to a considerable under-supply. This situation is by no means true nation-wide but the remedy of raising interest rates affects everyone who has a mortgage or rents a property, so it is a sensitive election issue outside the cities of Auckland and Christchurch. The increase in demand for houses and land (including agricultural) from overseas investors is also of concern especially since the Chinese, who do not allow sale of their land to overseas investors, are major players in New Zealand.

To complicate matters further our government gives favoured immigration status to anyone who brings \$10 million into New Zealand. A cynic would say that such immigrants are likely donors to Party funds and certainly some of those who have done so, have been Chinese interested in NZ realty. This has led to claims of racial bias but there is evidence that the Chinese government is playing a far-sighted game. Recently the *China Central Television* accused the Bank Of China, one of three major Chinese banks operating in Auckland, of money laundering (which it denied) by allowing holders of Yuan to convert their currency into overseas currency specifically for "overseas property purchases and emigration".

Whether that involves money laundering or not (Ellen Brown seems to think so), it is not hard to see that if immigrants bring NZ dollars here and deposit

them in a Chinese Bank it will provide the reserves for speculative purchases in NZ real estate.

Free Trade: The last topic that alienates those opposed to the current neo-liberal agenda is the ongoing rounds of the Trans Pacific Partnership Agreement (TPPA), which Australia is also involved in. Here the biggest single issue is the secrecy under which negotiations are occurring. This has led to a number of anti TPPA rallies being organised throughout NZ. There seems to be little prospect of our getting the promised free trade Nirvana for our farming produce, and the likelihood of multinationals suing our government at the drop of a hat is sending shivers down many spines.

Given the obtuseness of the two main political parties, little will change after the election. But voters are starting to feel the pain, so I am expecting a much higher voter turn-out this time.

Dennis Dorney is a NZ member of ERA

The real worth of people's work

Robert Reich



Photo Credit: via youtube/Comedy Central

Just imagine If people were paid what their work is really worth to society. Social workers, teachers, healthcare workers would make a lot more than hedge fund managers and lobbyists.

What someone is paid has little or no relationship to what their work is worth

to society. Does anyone seriously believe hedge-fund mogul Steven A. Cohen is worth the \$2.3 billion he raked in last year, despite being slapped with a \$1.8 billion fine after his firm pleaded guilty to insider trading?

On the other hand, what's the worth to society of social workers who put in long and difficult hours dealing with patients suffering from mental illness or substance abuse? Probably higher than their average pay of \$18.14 an hour, which translates into less than \$38,000 a year.

How much does society gain from personal-care aides who assist the elderly, convalescents, and persons with disabilities? Likely more than their average pay of \$9.67 an hour, or just over \$20,000 a year.

What's the social worth of hospital orderlies who feed, bathe, dress, and move patients, and empty their bed pans? Surely higher than their median wage of \$11.63 an hour, or \$24,190 a year.

Or of childcare workers, who receive \$10.33 an hour, \$21,490 a year? And preschool teachers, who earn \$13.26 an hour, \$27,570 a year? Yet what would the rest of us do without these dedicated people?

Or consider kindergarten teachers, who make an average of \$53,590 a year.

Before you conclude that's generous, consider that a good kindergarten teacher is worth his or her weight in gold, almost.

One study found that children with outstanding kindergarten teachers are more likely to go to college and less likely to become single parents than a random set of children similar to them

in every way other than being assigned a superb teacher.

And what of writers, actors, painters, and poets? Only a tiny fraction ever become rich and famous. Most barely make enough to live on (many don't, and are forced to take paying jobs to pursue their art). But society is surely all the richer for their efforts.

At the other extreme are hedge-fund and private-equity managers, investment bankers, management consultants, corporate lawyers, high-frequency traders, and top Washington lobbyists.

They're getting paid vast sums for their labors. Yet it is doubtful that society is really that much better off because of what they do.

I don't mean to sound unduly harsh, but I've never heard of a hedge-fund manager whose job entails attending to basic human needs (unless you consider having more money as basic human need) or enriching our culture (except through the myriad novels, exposés, and movies made about greedy hedge-fund managers and investment bankers).

They don't even build the economy.

Most financiers, corporate lawyers, lobbyists, and management consultants are competing with other financiers, lawyers, lobbyists, and management consultants in zero-sum games that take money out of one set of pockets and put it into another.

They're paid gigantic amounts because winning these games can generate far bigger sums, while losing them can be extremely costly.

It's said that by moving money to where it can make more money, these games make the economy more efficient.

In fact, the games amount to a mammoth waste of societal resources.

They demand ever more cunning innovations but they create no social value. High-frequency traders who win by a thousandth of a second can reap a fortune, but society as a whole is no better off.

Meanwhile, the games consume the energies of loads of talented people who might otherwise be making real contributions to society — if not by tending to human needs or enriching our culture then by curing diseases or devising new technological breakthroughs, or helping solve some of our most intractable social problems.

Source: Alternet, 4 August, 2014
<http://www.alternet.org/labor/robert-reich-just-imagine-if-people-were-paid-what-their-work-really-worth-society>

Private debt and financial crisis

William Hummel

The overriding importance of private debt and its growth rate as a predictor of a financial crisis has been well documented in recent years.

The latest is by Richard Vague in a very readable book titled *The Next Economic Disaster – Why it's coming and how to avoid it*. His analysis shows that for larger countries, “with a 100 percent private debt to GDP and a credit boom, a calamity is probable. With 150 percent private debt to GDP ratio, a calamity is almost certain.”

Based on a study of many earlier boom-bust episodes, he has determined that a critical credit boom is likely to occur when the growth rate is at 18% or more over a five year period. That amounts to a compound annual rate of about 3.4% per year.

The Federal Reserve Bank of New York reports quarterly on household debt which comprises the principal part of total private debt. The following was copied from a New York Fed site [1]. (note that HELOC is a home equity line of credit.)

Household Debt and Credit Developments as of Q1 2014

Debt Category	Annual change (\$bill)	Total: Q1 2014 (\$trill)
Mortgage	+ 233	8.17
Student	+ 125	1.11
Auto Loan	+ 81	0.875
Credit Card	- 1	0.659
HELOC	- 26	0.526
Total	+ 419	11.65

It can be seen that the latest annual growth rate was about 3.7%, too high according to Vague, to be safe if it is sustained for five years.

Source: The Understanding Money email network

[1] Data Source:

<http://www.newyorkfed.org/newsevents/news/research/2014/rp140513.htm>

Capital, debt and alchemy

Herman Daly

“Capital”, said Nobel Laureate chemist and pioneer ecological economist Frederick Soddy, “merely means unearned income divided by the rate of interest and multiplied by 100” (*Cartesian Economics*, p. 27).

He further explained that, “Although it may comfort the lender to think that his wealth still exists somewhere in the form of “capital”, it has been or is being used up by the borrower either in consumption or investment, and no

more than food or fuel can it be used again later. Rather it has become debt, an indent on future revenues...”

In other words capital in the financial sense is the *perennial* net revenue stream *expected* from the project financed, divided by the *assumed* rate of interest and multiplied by 100.

Rather than magic growth-producing real stuff, it is a hypothetical calculation of the present value of a permanent lien on the future real production of the economy. The fact that the lien can be traded among individuals for real wealth in the present does not change the fact that it is still a lien against the future revenue of society — in a word it is a debt that the future must pay, no matter who owns it or how often it is traded as an asset in the present.



Frederick Soddy

Soddy believed that the ruling passion of our age is to convert wealth into debt in order to derive a permanent future income from it — to convert wealth that perishes into debt that endures, debt that does not rot or rust, costs nothing to maintain, and brings in perennial “unearned income,” as both IRS accountants and Marxists accurately call it. No individual could amass the physical requirements sufficient for maintenance during old age, for like manna it would spoil if accumulated much beyond current need. Therefore one must convert one’s non-storable

current surplus into a lien on future revenue by letting others consume and invest one's surplus now in exchange for the right to share in the expected future revenue. But future real physical revenue simply cannot grow as fast as symbolic monetary debt! In Soddy's words:

You cannot permanently pit an absurd human convention, such as the spontaneous increment of debt [compound interest], against the natural law of the spontaneous decrement of wealth [entropy]. (*Cartesian Economics*, p. 30).

In case that is a too abstract statement of a too general principle, Soddy gave a simple example. Minus two pigs (debt) is a mathematical quantity having no physical existence, and the population of negative pigs can grow without limit. Plus two pigs (wealth) is a physical quantity, and their population growth is limited by the need to feed the pigs, dispose of their waste, find space for them, etc. Both may grow at a given x% for a while, but before long the population of negative pigs will greatly outnumber that of the positive pigs, because the population of positive pigs is limited by the physical constraints of a finite and entropic world. The value of a negative pig will fall to a small fraction of the value of a positive pig. Owners of negative pigs will be greatly disappointed and angered when they try to exchange them for positive pigs. In today's terms, instead of negative pigs, think "unfunded pension liabilities" or "sub-prime mortgages."

Soddy went on to speculate about how historically we came to confuse wealth with debt:

Because formerly ownership of land

- which, with the sunshine that falls on it, provides a revenue of wealth - secured, in the form of rent, a share in the annual harvest without labor or service, upon which a cultured and leisured class could permanently establish itself, the age seems to have conceived the preposterous notion that money, which can buy land, must therefore itself have the same revenue-producing power.

The ancient alchemists wanted to transmute corrosion-prone base metals into permanent, non-corruptible, time-resistant gold. Modern economic alchemists want to convert spoiling, rusting, and depleting wealth into a magic substance better than gold — not only does it resist corrosion, but it grows — by some mysterious principle the alchemists referred to as the "vegetative property of metals."

The modern alchemical philosopher's stone, known as "capital" or "debt," is not only free from the ravages of time and entropy, but embodies the alchemists' long-sought-for principle of vegetative growth of metals. But once we replace alchemy with chemistry we find that the idea that future people can live off the interest of their mutual indebtedness is just another perpetual motion delusion.

The exponentially growing indent of debt on future real revenue will, in a finite and entropic world, become greater than future producers are either willing or able to transfer to owners of the debt. Debt will be repudiated either by inflation, bankruptcy, or confiscation, likely leading to serious violence. This prospect of violence especially bothered Soddy because, as the discoverer of the existence of isotopes, he had contributed substantially to the

theory of atomic structure that made atomic energy feasible. He predicted in 1926 that the first fruit of this discovery would be a bomb of unprecedented power. He lived to see his prediction come true. Removing the economic causes of conflict therefore became for him a kind of redeeming priority.

Economists have ignored Soddy for eighty years - after all, he only got a real Nobel Prize in Chemistry, not the more alchemical "Swedish Riksbank Memorial Prize for Economics in Honor of Alfred Nobel".

Source: CASSE website <http://steadystate.org/capital-debt-and-alchemy/>



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Critical moment to stop the TPP and other rigged trade agreements

Kevin Zeese and Margaret Flowers



In Sept 2013 activists covered the national office of the US Trade Representative with four banners exposing the secret Trans Pacific Partnership. (image: Anne Meador of the DC Media Group)

The moment facing the Trans-Pacific Partnership and its sibling the Trans-Atlantic Trade and Investment Partnership (known as 'TAFTA') and the future approach to trade is reaching a critical stage. The TPP and TAFTA are attempts to get past the failed World Trade Organization (WTO)

negotiations, but like the WTO, these new agreements are meeting significant opposition and obstacles. We are poised to stop these attempts to rig the international economy in favor of multinational corporations and move to a new model of trade that respects the rights of people and nature, but it will take a coordinated effort. We must be prepared for moves to thwart that effort and organize to avoid them.

The TPP and TAFTA represent a new era of deception and back-room dealing to pass laws that have nothing to do with trade, but that hand even greater power to multinational corporations to profit from everything no matter the consequences for the health of people and the planet. For the first time, the text of the agreements has been classified and they are being negotiated in secret with hundreds of corporate advisers and minimal involvement by Congress. In order to complete the agreements without transparency and public input, the President has asked Congress to grant him the authority to sign them, 'Fast Track,' a form of Trade Promotion Authority.

As elections get closer, Democratic Party leaders in Congress are getting the message out to inside-the-beltway activists groups that they are unifying to support giving President Obama some form of Fast Track. Recent letters from member of Congress to the President indicate support for trade with particular stipulations, but the overall message is to continue negotiating. Washington advocacy groups believe that they must also show support for Fast Track or they will find themselves without access or influence.

Rather than kowtowing to the usual 'on

the table' threat from the corrupt bipartisan Congress, the movement needs to tell them that the only thing on the table is a complete transformation from the failed global trade that rigs profits for big business at the expense of the ecology of the planet and the necessities of the people. It is time to declare the TPP, TAFTA and Services agreements as dead, develop a new approach to trade and begin to renegotiate past trade agreements like NAFTA that are doing ongoing damage to the economy, planet and people.

Congress be *warned*: *The people are watching and are onto the rigged trade corruption scheme. Members of Congress will pay a political price, with the end of their careers, if they continue to force their failed trade strategy on the nation and the world.*

Challenges for the TPP

For more than three years the President's US Trade Representatives have sought Fast Track trade authority. Fast Track means that Congress would give up its constitutional responsibility "to regulate commerce between nations." The movement for fair trade has fought back and pushed Congress to not give President Obama the authority he needs.

More than 3,150,000 have signed a petition to stop Fast Track. At the critical moment in January and February when the President and "free" traders in Congress (note: whenever you see "free trade" think "rigged trade") were set to push Fast Track legislation, the people responded with over 40,000 phone calls and 600,000 emails to Congress. There were also protests across the continent. As a result, that Fast Track bill died.

The opposition is global. At the same time people were acting in the US, 65,000 people protested the TPP in Mexico and more than 1.8 million in Australia called for the text to be made public. President Obama was greeted with TPP protests when he visited Asia as was Vice President Biden when he visited Japan. We just returned from an economic conference organized by the Center for Global Justice that included people from the US, Mexico, Australia, China, Israel, Guatemala and other nations, and the top area where people agreed to work together was to stop the TPP and transform global trade.

This occurred because the TPP has been a matchstick that has united people into a 'movement of movements' of more than 150 organizations (including our project Popular Resistance) that worked together to Stop Fast Track. Activists concerned about food safety, worker rights, health care, finance, the environment, Internet freedom and more have organized scores of rallies and protests throughout the nation and around the world. There have been protests at trade negotiations even when they try to hide the location. The negotiators have become so fearful of protests that for the last negotiating session they fled 2,650 miles across Canada in an attempt to avoid them. The retreat failed as protesters exposed the TPP and brought 19,000 voices to the negotiations.

In this audacious protest last September, which we helped to organize, activists climbed up on and covered the US Trade Representative national office near the White House with four large banners to expose the secrecy.

In response to mobilization against the TPP, Congress in an election year has sent a variety of letters to the president on the shortcomings of the TPP. These include: 153 members of Congress calling for stronger labor standards, a bi-partisan letter signed by 140 members of Congress opposing the agricultural provisions of the TPP, and 120 members of Congress signed a letter saying they would not support a trade agreement with weak environmental standards and 35 members of Congress writing concerning the human rights violations in Vietnam, and Brunei adopting Sharia law. While these sound good, voters should be on alert to these election year actions. Language could be added to the TPP which sounds good but changes nothing as has occurred in previous trade deals. There is no form of the TPP that can actually protect the people and planet. Corporate lawyers have been writing the TPP for four years. The only response is to defeat the TPP.

Message to U.S. Trade Representative, Obama and free-traders in Congress: If you have to be secretive, and fear protesters because your agreement is so unpopular, you need to start over. The process should be open, transparent and participatory. Simple message: Stop the Secrecy! This is supposed to be a democracy.

Desperate Attempts to Salvage TPP

It has been evident that synergy exists between the movement's success in stopping 'Fast Track' and the weakening negotiating position of the Obama administration. As protests have escalated, the negotiators have become emboldened to stand up to the bullying of the United States.

Advocates of the TPP are beginning to face reality: the TPP negotiations may never reach completion. Last December, Wikileaks published documents that revealed there were wide chasms of dispute between the nations who were negotiating the TPP. Countries were unwilling to give transnational corporations as much power as the United States was demanding. Now some advocates of the TPP believe that the TPP may be over. Negotiators have missed three deadlines to conclude the talks. Countries are recognizing that the TPP is skewed in favor of one country, the United States, and its transnational corporations. They also see the reality that the WTO has been stalled since the Seattle protests in 1999 and has been unable to reach any agreement in the Doha Round.

Advocates of corporate trade agreements realize the people are connecting globalized trade to the wealth divide, lowering of labor standards and destruction of the environment. And, there is near universal opposition to investor state rights to sue in rigged trade tribunals for loss of expected profits. Transnational corporate globalization is hitting a wall of opposition.

More opposition to rigged trade is developing: LGBT groups have demanded the US stop negotiating with Brunei because of its brutal treatment of a penal code that targets women, LGBT and religious minorities; others are protesting how the TPP will worsen inequality and the wealth divide, result in lost jobs, lower wages and expand the income divide, give corporations unusual new power under the guise of intellectual property, will make NSA spying easier, force-policing of Internet users, and result in more fracking in

both the United States and Europe, as well as off-shore drilling and other extreme energy extraction.

The Movement Should Not Compromise

We know that the transnationals and their corrupt congressional representatives want the TPP, TAFTA and the Services Agreement to become law. It will result in the concentration of wealth and political power in their hands and result in laws that could not be openly passed through legislatures to become law. We know they are not ready to give up on the trillions in profits they will reap from rigged trade.

We also know that the movement of movements that opposes rigged trade has shown some power and is capable of mobilizing even more people. As the push for rigged trade and a new form of Fast Track moves forward, if we are not fooled by false promises in Fast Track legislation, the movement to end corporate trade will grow even stronger.

Message to our allies: This is the time for continued solidarity, it is not the time for the movement to compromise, nor is the time for countries to give in to US demands. It is time for opposition to rigged corporate trade to take an even stronger stand: oppose the trade agreements that are currently being negotiated, refuse to enact any form of Fast Track and demand a transformation of trade to rules that provide for the necessities of the people and planet as the top priorities.

Labor has hopefully learned the lesson that merely improving the language in trade agreements that claims to protect workers will not protect labor, will not prevent the loss of jobs and will encourage the downward decline in

wages. Environmentalists must have learned that trade agreements will encourage extreme energy extraction, ecology-destroying mining and destruction of the oceans and other waterways. The USTR knows the political importance of environmental protection and has been caught lying about the issue. People concerned with the power of big corporations must now know that rigged trade makes corporations more powerful than governments and will undermine democracy, food security and safety, clean water and air as well as health care among other basic necessities.

Senator Ron Wyden, the chairman of the Finance Committee, has signaled that he will be pushing for what he calls "Smart Track," an embarrassingly obvious false marketing term designed to fool people. This is a trade authority that if enacted is very likely to allow the TPP, TAFTA and Services Agreement to become law. Wyden has been told by his constituents as well as tech companies, who are a key part of his base, that they oppose any form of Fast Track. People are not falling for this re-labeling and Wyden-marketing.

We need a new form of Trade Promotion Authority, but we cannot negotiate a new trade regimen until the current agreements: TPP, TAFTA and Services Agreement are defeated. If the so-called "Smart Track" becomes law, what happens to these three agreements that have been negotiated for years? A new approach to trade cannot retroactively apply to agreements that are so far along in negotiation.

New Trade Era

What would appropriate trade look like? The goals of trade must be clearly stated. The first priorities for trade are

meeting the necessities of people and benefitting their lives. This means trade must reduce the wealth and income divides, raise wages and the standards of working conditions, and ensure that people have access to clean water, safe foods and high-quality healthcare. Second, trade must benefit the planet. The world needs to move toward clean, sustainable energy sources and stop the extreme energy extraction of carbon polluting energy as well as uranium for nuclear energy. Trade needs to be designed to move the planet to a carbon-free, nuclear-free energy economy. Ecology protecting trade means there should be *less* trade so that local communities can be self-sufficient, with small family farms thriving instead of being overcome by highly subsidized crops that allow large agribusiness to destroy traditional agriculture. Relying on transporting foods thousands of miles when they can be grown locally is bad for local economies as well as for the environment and climate change.

And, the process of negotiating trade must be very different. While each country has different legislative and executive processes, the basics must be transparency in the negotiations and participation by the public and elected representatives throughout the process. In the United States this could mean that as trade is negotiated chapters are shared with responsible committees and the public so we can weigh in on whether the chapter is supported. It also means that when the full agreement is reached, it is published with sufficient time for the public and legislators to read and review it. Further, the Congress should be able to hold hearings and make final amendment suggestions that the USTR

will then bring back to other countries before the agreement is signed by the president.

These are transformational changes in the goals, purposes and process of trade agreements. To achieve these changes the movement of movements must show solidarity and defeat the TPP, TAFTA and Services Agreement. This show of political power is the only approach to bringing Congress and the president to our perspective.

Source: OpEdNews.com, 10 Aug 2014
http://www.opednews.com/articles/Critical-Moment-to-Stop-Th-by-Kevin-Zeese-Globalization_Globalization-WTO-WB-etc_Tpp-Trans-pacific-Partnership_Trade-140810-473.html



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Sick of this market-driven world? You should be George Monbiot

These days, being deviant from the prevailing wisdom is something to be proud of.



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To be at peace with a troubled world: this is not a reasonable aim. It can be achieved only through a disavowal of what surrounds you. To be at peace

with yourself within a troubled world: that, by contrast, is an honourable aspiration. This column is for those who feel at odds with life. It calls on you not to be ashamed.

I was prompted to write it by a remarkable book, just published in English, by a Belgian professor of psychoanalysis, Paul Verhaeghe. *What About Me? The Struggle for Identity in a Market-Based Society* is one of those books that, by making connections between apparently distinct phenomena, permits sudden new insights into what is happening to us and why.

We are social animals, Verhaeghe argues, and our identities are shaped by the norms and values we absorb from other people. Every society defines and shapes its own normality – and its own abnormality – according to dominant narratives, and seeks either to make people comply or to exclude them if they don't.

Today the dominant narrative is that of market fundamentalism, widely known in Europe as neoliberalism. The story it tells is that the market can resolve almost all social, economic and political problems. The less the state regulates and taxes us, the better off we will be. Public services should be privatised, public spending should be cut, and business should be freed from social control. In countries such as the UK and the US, this story has shaped our norms and values for around 35 years: since Thatcher and Reagan came to power. It is rapidly colonising the world.

Verhaeghe points out that neoliberalism draws on the ancient Greek idea that our ethics are innate (and governed by a state of nature it calls the market) and on the Christian idea that humankind is inherently selfish and

acquisitive. Rather than seeking to suppress these characteristics, neoliberalism celebrates them: it claims that unrestricted competition, driven by self-interest, leads to innovation and economic growth, enhancing the welfare of all.

At the heart of this story is the notion of merit. Untrammelled competition rewards people who have talent, work hard, and innovate. It breaks down hierarchies and creates a world of opportunity and mobility.

The reality is rather different. Even at the beginning of the process, when markets are first deregulated, we do not start with equal opportunities. Some people are a long way down the track before the starting gun is fired. This is how the Russian oligarchs managed to acquire such wealth when the Soviet Union broke up. They weren't, on the whole, the most talented, hardworking or innovative people, but those with the fewest scruples, the most thugs, and the best contacts – often in the KGB.

Even when outcomes are based on talent and hard work, they don't stay that way for long. Once the first generation of liberated entrepreneurs has made its money, the initial meritocracy is replaced by a new elite, which insulates its children from competition by inheritance and the best education money can buy. Where market fundamentalism has been most fiercely applied – in countries like the US and UK – social mobility has greatly declined.

If neoliberalism was anything other than a self-serving con, whose gurus and thinktanks were financed from the beginning by some of the world's richest people (the US multimillionaires Coors, Olin, Scaife, Pew and others),

its apostles would have demanded, as a precondition for a society based on merit, that no one should start life with the unfair advantage of inherited wealth or economically determined education. But they never believed in their own doctrine. Enterprise, as a result, quickly gave way to rent.

All this is ignored, and success or failure in the market economy are ascribed solely to the efforts of the individual. The rich are the new righteous; the poor are the new deviants, who have failed both economically and morally and are now classified as social parasites. The market was meant to emancipate us, offering autonomy and freedom. Instead it has delivered atomisation and loneliness.

The workplace has been overwhelmed by a mad, Kafkaesque infrastructure of assessments, monitoring, measuring, surveillance and audits, centrally directed and rigidly planned, whose purpose is to reward the winners and punish the losers. It destroys autonomy, enterprise, innovation and loyalty, and breeds frustration, envy and fear. Through a magnificent paradox, it has led to the revival of a grand old Soviet tradition known in Russian as tufta. It means falsification of statistics to meet the diktats of unaccountable power.

The same forces afflict those who can't find work. They must now contend, alongside the other humiliations of unemployment, with a whole new level of snooping and monitoring. All this, Verhaeghe points out, is fundamental to the neoliberal model, which everywhere insists on comparison, evaluation and quantification. We find ourselves technically free but powerless. Whether in work or out of work, we must live by the same rules or perish.

All the major political parties promote them, so we have no political power either. In the name of autonomy and freedom we have ended up controlled by a grinding, faceless bureaucracy.

These shifts have been accompanied, Verhaeghe writes, by a spectacular rise in certain psychiatric conditions: self-harm, eating disorders, depression and personality disorders.

Of the personality disorders, the most common are performance anxiety and social phobia: both of which reflect a fear of other people, who are perceived as both evaluators and competitors – the only roles for society that market fundamentalism admits. Depression and loneliness plague us.

The infantilising diktats of the workplace destroy our self-respect. Those who end up at the bottom of the pile are assailed by guilt and shame. The self-attribution fallacy cuts both ways: just as we congratulate ourselves for our success, we blame ourselves for our failure, even if we have little to do with it.

So, if you don't fit in, you feel at odds with the world, your identity is troubled and frayed, and you feel ashamed and lost – it could be because you have retained the human values you were supposed to have discarded. You are a deviant. Be proud.

Source: Altnet (6 August, 2014)
Article originally appeared in the UK Guardian.
<http://www.altnet.org/economy/sick-market-driven-world-you-should-be?akid=12124.1877433.vBCYwK&rd=1&src=newsletter1015426&t=9>



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Mega-banks still a giant threat - according to regulators

Lynn Stuart Parramore

We are all sitting ducks waiting for the next financial storm.



Photo Credit: Shutterstock.com

We hear a lot of big talk about how the Dodd-Frank law has made the U.S. financial system safer. That law was enacted to make certain that the country never gets blown apart by a financial crisis like the one in 2008.

But does anybody really believe it?

The bank regulators sure don't. The FDIC just put out a press release summarizing problems with resolution plans submitted by eleven big banks, including Bank of America, Citigroup, Goldman Sachs, and other behemoths. These resolution plans, also called "living wills", spell out how the banks will handle things in the event another financial crisis erupts.

The FDIC noted several areas where bank plans don't pass the smell test:

While the shortcomings of the plans varied across the first-wave firms, the agencies have identified some common features of the plans' shortcomings. These common features include: (i) assumptions that the agencies regard as unrealistic or inadequately supported, such as assumptions about the

likely behavior of customers, counterparties, investors, central clearing facilities, and regulators, and (ii) the failure to make, or even to identify, the kinds of changes in firm structure and practices that would be necessary to enhance the prospects for orderly resolution.

The FDIC recommended that banks should, among other things, establish "a rational and less complex legal structure" to address resolution and show that they actually have basic operational capabilities, like the ability to produce reliable information in a timely manner. And so on. In short, the FDIC says that the banks' plans are "not credible."

Based on the review of the 2013 plans, the FDIC Board of Directors determined pursuant to section 165(d) of the Dodd-Frank Act that plans submitted by the first-wave filers are not credible and do not facilitate an orderly resolution under the U.S. Bankruptcy Code. The Federal Reserve Board determined that the eleven banking organizations must take immediate action to improve their resolvability and reflect those improvements in their 2015 plans.

I guess we can just pray that another crisis doesn't hit before these new plans are submitted a year from now.

As Senator Elizabeth Warren recently stated in an op-ed co-authored by John McCain, Maria Cantwell and Angus King, "the chances of another financial crisis will remain unacceptably high as long as there are financial institutions that are 'too big to fail.'"

Six years after the financial crisis, the big banks obviously have not yet been brought down to size. They are more concentrated than ever, and more

incentivized to take dangerous risks that expose hard-working Americans to much just sitting ducks waiting for the next financial storm. Not a great plan, is it?

Source: Alternet (13 August, 2014)
<http://www.alternet.org/economy/regulators-mega-banks-citigroup-and-goldman-sachs-still-giant-threat-america?akid=12123.1877433.ThMjze&rd=1&src=newsletter1015344&t=11>



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Escaping private debt addiction

Positive Money (UK)

Lord Adair Turner says that escaping the addiction to private debt is essential for long-term economic stability.



Financial reforms introduced since the global financial crisis still have not addressed the fundamental driver of economic and financial instability – continually rising levels of private debt, *argued Lord Adair Turner, former chairman of the Financial Services Authority, in a speech at Goethe University in Frankfurt on 10th Feb 2014.*

“Over several decades prior to 2008, private credit grew faster than GDP in most advanced economies and leverage therefore grew. That was a major cause of the crisis and the main reason why the post crisis recession was deep and the recovery so slow and weak.”

“To achieve long-term stability, we will need to address these fundamental drivers of the crisis and the post-crisis recession.”

“It’s very easy for us now looking back to say ‘weren’t our bankers lunatics? They must have been crazy and irresponsible’. But in order to stop it from happening again, we can’t point to individuals; we need to look at why the system pushes them towards it.”

Source: Positive Money (UK); 11 Feb, 2014
<http://www.positivemoney.org/2014/02/ada-ir-turner-escaping-addiction-private-debt-essential-long-term-economic-stability/>

More: The Guardian (UK); 10 Feb, 2014
<http://www.theguardian.com/business/2014/feb/10/lord-turner-mortgage-curbs-payday-loans>

Why treasurers should go back to economics school

Extracts of Geoff Harcourt article



Is your treasurer subject to deficit size fetishism?

In a perceptive article appearing in the web journal *The Conversation* (19 Aug 2014) Geoff Harcourt took the federal treasurer to task over his misunderstandings about the role of fiscal policy in the economy. The current federal treasurer falls firmly within the category of deficit hawks because he appears obsessed with the objective of achieving a regime of budget surpluses.

It would be wrong to conclude from the deficit hawkishness of this treasurer that his opposition counterpart is a deficit dove. The reality is that the previous federal treasurer (in the Labor government) was similarly obsessed with achieving a surplus.

The following extracts are from Prof Harcourt's article.

"Though money and financial factors are integrated in complex ways in the workings of the economy, ultimately it is real resources – work forces (sizes and skills), capital goods and natural resources – that set the upper limit at any moment of time on the size of the community's standard of living.

"And yet that hasn't stopped successive Australian federal treasurers, and their counterparts in other advanced capitalist economies, increasingly using terms which reflect misunderstandings of the role of fiscal policy in economic policy.

"When used by treasurers, phrases such as 'we cannot afford it financially' or 'where is the money to come from?' or 'you are using taxpayers money', confuse affairs of the state with what should be left to the workings of individual households.

"Obsessed with the relationship of government expenditure and taxation, many treasurers suffer from deficit size fetishism, and fall victim to the 'balancing the budget over the cycle' fallacy. Many also get caught up with hypothe- cation – matching specific government expenditures with particular tax sources.

"Some confuse the significance of the national debt to income ratio for the present and future operations of the overall economy, especially a suppose-

ed link between them and the welfare of future generations relative to the welfare of the present generation. The 'we'll all be ruined' fear."

Deficit obsession

Prof Harcourt now addresses the commonly held notion that government spending and taxing are bad.

"The term 'deficit size fetishism' reflects the view that government expenditure and taxation are always 'bad', regardless of the absolute sizes and compositions of the two and the overall state of the economy, for example, the rate of unemployment, the rate of growth, the rate of inflation (or deflation, as Japan has experienced in recent decades). Both the sizes and compositions of government expenditure and taxation need to be assessed by other criteria.

"The composition of taxation, the contributions to the whole of indirect, direct and other forms of taxation and their incidence on different groups in the community, ought to reflect equity (fairness), for example which groups can least or most afford to pay particular forms of tax and taxes overall.

"The total tax take should reflect the impact required on overall levels of spending in the economy, these in turn determining levels of output, income and employment both prevailing and what the government would like to see prevail."

Spending and borrowing

Next, Prof Harcourt addresses the issue of why the modus operandi of the affairs of the state should not be confused with issues that properly apply to household budgeting, and why government borrowing – if it is done correctly - can be good for the economy.

“Government expenditure composition is made up, firstly, of current expenditures, the salaries of parliamentarians, government employees generally; transfer payments from taxpayers to recipients of social services including unemployment benefits, pensions and so on; and interest payments to the domestic holders of government bonds.

“Secondly, there is government (public) capital expenditures on social infrastructure, the creation of new railways, roads, hospitals, schools and so on. Ideally, the level and composition of capital expenditure should be determined by the perceived medium- to long-term needs of the community for the services they ultimately will provide.

“These expenditures have a significant impact on the efficiency and productivity of the nation, so there is no reason why they should not be financed at least in part by borrowing. The latter does entail a real burden because interest and principal repayments mean higher levels than otherwise of exports to service them would be required. Nevertheless, if the borrowings are used wisely, this burden may be met and the economy will still be better off than it otherwise would have been.

“So government expenditure and taxation, especially taken in isolation, are not interesting numbers. Certainly not numbers to have a fetish about, even if you are not just an ordinary Joe, or an earthbound Swan, or a surplus lover Costello that hands out tax cuts to friends.

“The criterion of balancing the budget over the cycle (or, preferably, creating a surplus) is based on a fallacy that the economy is not growing, that it will remain at the same level of activity forever. At least since the 1940s it has

been known that if economies on average grow from cycle to cycle, it is possible always to have a series of working deficits (within reasonable limits) without having those deficits explode.”

The real tax and spending relationship

In conclusion, Prof Harcourt discusses tax hypothecation (the dedication of a specific tax revenue for a particular expenditure) to government budgeting.

“One outcome of this discussion is that hypothecation is a fallacy – particular forms and amounts of taxes should not be attached to any particular forms of expenditure.

“Citizens should pay taxes according to their overall ability to pay and they should receive government payments according to their particular characteristics as citizens – unemployed, aged, disabled and so on. The total of these government expenditures will be financed from the total funds raised by taxation and borrowing.

“‘Treasurer Speak’ in recent decades reflects serious conceptual misunderstandings of how economies work and how the functions of the state should be integrated with the workings of the private sector. The end result has been the use of scare tactics over a wide range of issues, tactics which have no foundation in proper economic logic.”

Source: <https://theconversation.com/search?q=geoff+harcourt> (The Conversation, 19 Aug)



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---- All models are wrong but some are useful.
George Box

Poll: Only 12% of MPs know that banks create money

Ben Dyson

Members of parliament in the United Kingdom lack basic knowledge about the fundamentals of money, leaving them ill-equipped to understand the impending dangers of a house price boom or a credit bubble, according to a recent exclusive Dods Monitoring poll commissioned by Positive Money, the campaign body calling for fundamental reform of the UK money and banking system.

When asked questions about who creates the nation's money in the UK, nearly three quarters got the wrong answer. 71% of MPs believed that only the government has the power to create money. In reality, the government now only creates coins and notes which make up just 3% of all the money in the economy. The other 97% of money exists as bank deposits – the electronic numbers in bank accounts. This type of money is created by high-street banks – not by the government.

Just over 1 in 10 MP accurately understood that banks create new money every time they make a loan, or that money is destroyed whenever individuals or businesses repay loans.

MPs have no chance of understanding the house price bubble unless they know these basic facts about money. The financial crisis was caused by banks that created too much money and lent it recklessly. We're now in danger of repeating the same mistakes.

MPs unable to prevent another financial crisis

Without understanding that banks create new money whenever they

make loans, MPs are ill-equipped to appreciate that:

1. The UK boom running up to 2007 was fuelled by the creation of new money by high street banks. Over £1 trillion of new money was created as the banks went on a lending spree.
2. The housing bubble is driven by money creation by banks, rather than the scarcity of housing. The £22 billion of new mortgage lending provided in 2013 resulted in £22 billion of new money being created by the banks and pumped into the housing market.
3. Governments can create short-term economic growth by encouraging households to go further into debt, because every new loan from a bank creates money. But this ultimately increases the risk of another financial crisis.
4. If all households tried to pay down their debts, money would disappear from the economy. This withdrawal of purchasing power could potentially lead to a recession.

Source: Positive Money (19 August, 2014) http://www.positivemoney.org/2014/08/17-10-mps-dont-know-creates-money-uk/?mc_cid=7f3cff54ad&mc_eid=dece308a49

Economists treat economics as if it is a pure science divorced from the facts of life. The result of this false accountancy is a wilful confusion under cover of which industry wreaks its havoc scot-free and ignores the environmental cost. Vivienne Westwood

The way I think of it, economics and ecology occupy two intellectual silos, isolated from each other. Even when they do take each other into consideration, it's not uncommon for ecologists to spout absolute nonsense about economics, and vice versa.

Charles C. Mann