Economic Reform Australia Review

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

NSW Division Inc

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

SA Division Inc

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

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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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Notice of end-of-year meeting

The next ERA end-of-year meeting will take place on Sunday 29 December, starting at 2pm, at the SA Conservation Centre (Level 1, 157 Franklin Street, Adelaide 5000). The end-of-year meetings generally feature interesting speakers. Attendees are invited to bring their own food items for a meal later; although basic food items will be provided.

Annual General Meeting 2013

The AGM of Economic Reform Australia was held in Adelaide on Saturday 28 September 2013. Following recent decisions of the NSW and SA divisions to dissolve, pending the formation of a national incorporated association named Economic Reform Australia, a new constitution prepared by a constitution committee was submitted to the AGM for approval. The draft was previously distributed to a wide variety of members inviting comment and suggestions for improvement. After amending a small number of clauses, the meeting gave the document its approval. It will next be submitted to the relevant corporate affairs authority as part of the requirement for ERA's registration as an incorporated association, after which it is intended that a further application will be made to ASIC for registration as a national association.

The following people were appointed to the positions listed:

Darian Hiles	President
John Hermann	Secretary & Network Editor
Victoria Powell	Treasurer & Membership Officer
Dick Clifford	Public Officer (pending constitutional changes)
Michael Plowright	Minute Secretary

Editorial Committee: John Hermann, Victoria Powell, Frances Milne, David Faber, Darian Hiles, Craig Walter

President's Report

I was honoured to be voted in as President of the SA Division at the previous AGM, following the resignation of Peter Lock - who has given exemplary service in the role for many years.

This year ERA continued to develop and promote progressive economic reform under the expert guidance of John Hermann and other members and patrons of the association, and this work, particularly the attention to banking reform, was highly commended by the Australian Civic Trust in its awards program for 2012.

John has also continued to edit the ERA Review, an excellent publication that brings serious economic discussion into the public realm in an easily-digestible form. The Review is now registered with the National Library in Canberra in both hard copy and electronic form.

The website continues to grow and ERA is now on Get-up's website as a banking reform group and on Facebook, and ERA Blog articles now go automatically to Facebook and Twitter.

Media releases continue to flow and their distribution is steadily broadening. It is still difficult to achieve publication of progressive economic discussion, even in letters to the papers, but some is starting to get through.

ERA conducted a survey of members which gained extensive responses that contributed to many improvements in administration. The constitution was also reviewed by a subgroup and the scope of ERA (SA Division) broadened into a national ERA through a national registration submission to be made with ASIC based on the Corporations Act 2001. The new ERA amalgamates the SA & NSW divisions, and the NSW Division has already been wound up.

I am pleased to say that ERA continues to grow in influence and penetration, and look forward to a noticeably higher profile in the coming year. - Darian Hiles

Secretary's Report

This year ERA has embraced active discussion about the way ahead, with consideration given to what remains be accomplished in order to achieve our objectives, as well as workable approaches to doing so. To this end, various ideas have been pursued, including analysis of the views expressed by ERA members in the 2012 survey and elsewhere, construction of an ERA blogsite and an ERA facebook site, and setting up working committees for addressing what is required of a new ERA constitution and a reconstructed ERA website.

In addition, we have been actively considering what is required in order to amalgamate the two previous divisions into a single consolidated body. There is general agreement that this is desirable, and we intend to submit the new ERA constitution (along with the organisation's new title) to the appropriate corporate affairs authorities for approval in line with our desire to re-register as a corporate entity and to nationally register as a non-profit association.

Unlike the previous year - during which ERA sponsored or co-sponsored an unprecedented mix of public meetings - the past year has seen only one public meeting involving ERA co-sponsorship. This was the Adelaide lecture (at UniSA west city campus) given by one of ERA's patrons, Prof Frank Stilwell. This relatively low level of meeting organisation reflected our recent preoccupation with other important matters.

We have recently received some very positive responses from readers of the ERA Review, which has encouraged us to think we have achieved roughly the right mix of articles and emphasis on the issues of concern. We have also continued to receive submitted articles from our members, which as a matter of principle we try to publish as far as possible.

It also seems appropriate to mention that there is a growing interest in ERA and its concerns within New Zealand, from which country several new ERA members have appeared. - John Hermann

Recent Events

1. Lecture by **Prof Frank Stilwell** (an ERA patron), held on 22 August 2013, at the Bradley Forum, Hawke Building, Univ of SA city west campus. The topic was "What are our political economic prospects: economic austerity or a fair and sustainable society?"

2. Wheelwright Memorial Lecture in Political Economy, by **Susan George**, held on 29 August 2013, at the Eastern Ave Auditorium, University of Sydney. The topic was "The growing power of illegitimate authority".

It has been more profitable for us to bind together in the wrong direction than to be alone in the right one. Nassim Nicholas Taleb, The Black Swan

It's a recession when your neighbor loses his job; it's a depression when you lose your own. Harry S. Truman

An economist is a surgeon with an excellent scalpel and a rough-edged lancet, who operates beautifully on the dead and tortures the living.
Nicholas Chamfort **(1741-1794)**

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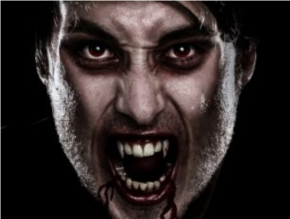
Five years later, Wall Street still sucking life out of America like vampires at a blood drive

Lynn Stuart Parramore

Only massive reform and no-holds-barred prosecutorial assault will drive a stake into the heart of this monster



On Sept. 15, 2008, the Lehman Brothers collapse became the 9/11 of the financial world, sending the global economy into panic. Stocks plunged, credit dried up and working people were forced from their homes. Jobs and pensions were wiped out in the ugliest episode since the Great Depression - mostly because the financial sector got out of control.

Five years later, the big banks continue the most expansive crime spree in the history of capitalism, getting bigger, richer and bolder every day. Like undead creatures from a horror film, financial predators have spread themselves into every corner of society, preying and feeding and making us weaker. In an epic fail on the part of federal prosecutors and the SEC, no one at Lehman was ever prosecuted for financial shenanigans that included shady accounting practices former CEO Dick Fuld claims he didn't know about. As the five-year anniversary approaches and the statute of limitations runs out, we can be sure that no one will ever pay for Lehmans' crimes - except for us.

You could wallpaper your house with the list of dirty deals that have gone down since the financial crisis. JPMorgan sent $6 billion up in smoke in a bad bet, then lied about it to regulators. HSBC laundered money for drug cartels. Big banks manipulated the world’s benchmark interest rates. Every day, bankers defraud municipal and state finances with rigged deals that enrich them as schools crumble and children go without healthcare. There’s insider trading, racketeering, tax evasion, usury, and creative financial products set to explode in your face. Everything you can think of, and, alas, much that you can’t. Oh, well, say the regulators. Stuff happens.

It’s perfectly obvious that if ginormous Wall Street banks don’t fear prosecution - and Attorney General Eric Holder told us flat-out they needn’t - then the cheating, lying, casino games, and law-breaking will continue. Jim Chanos, an early detector of the Enron fraud, warns that today’s Wall Street executives have even embraced the perverse logic that they have a fiduciary duty to cheat - if everybody else is doing it, says the executive, then I have an obligation to get in on the action.

Nothing but massive reform and no-holds-barred prosecutorial assault will drive a stake into the heart of this monster.

Yet on Tuesday, the smart financial reformer Eliot Spitzer lost his bid for NYC comptroller, a role in which he could keep public money out of the hands of financial predators, whose scams he understands. It can't escape notice

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that NYC is the home of several of the most powerful banking institutions on Earth: Goldman Sachs, JPMorgan Chase, Morgan Stanley and Citigroup. Or that newspapers, presumably on different sides of the political spectrum, melted into one giant anti-Spitzer bullhorn; ignoring positive polls, running biased stories and denouncing him on their editorial pages.

Economist and former regulator Bill Black noted in an email that “Wall Street was obsessed with defeating Eliot Spitzer in the Democratic primary election for Comptroller" and pointed out that his anti-financial fraud prosecution was extremely effective when he served as New York's attorney general: "An economic study found that victims of financial frauds received a substantially greater recovery of their losses when Spitzer's office was involved in cases compared to securities fraud cases where only the SEC brought an action." Clearly Wall Street doesn't like that kind of outcome.

It's not easy to find potent weapons against Wall Street predators, and in the meantime, we’re still waiting for reform. We wanted it so badly that we pitched tents in city parks during the Occupy movement to send the message, but the politicians wouldn’t hear us, because their ears were stuffed with Wall Street money. Thanks to an army of lobbyists unleashed in Washington, we can’t even seem to get the relatively timid Dodd-Frank rules designed to stop bankers from playing casino games with our savings.

The Federal Reserve could rein in the banks by splitting them up through antitrust laws, as economist Robert Reich has suggested. But we’d need someone at the Fed who is actually willing to take on this project. Unfortunately, over at the White House, we have Obama pushing crony capitalist poster boy Larry Summers for Fed chair - a man who played a key role in deregulating the financial sector, who has gleefully gorged himself on Wall Street money, and who, while in the White House, opposed even the weak Volcker Rule to curb risky trading contained in Dodd-Frank.

The banks continue to bigfoot their way around our legal and political systems, buying up whatever support they require to keep the show going.

If you think things have gotten pretty ugly, just stick around. Another financial crisis is likely. Former Treasury Secretary Hank Paulson just told a group of bankers and economists in Manhattan to expect it, and he has a unique perspective on the topic, having helped bring on the last one.

Paulson knows that this time the Democrats will likely be held responsible.

Source: Alternet, 11 Sept 2013 <http://www.alternet.org/economy/lehman-brothers-anniversary?akid=10916.119987.3VslaT&rd=1&src=newsletter895403&t=10&paging=off>

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Once you realize that trickle-down economics does not work, you will see the excessive tax cuts for the rich as what they are - a simple upward redistribution of income, rather than a way to make all of us richer, as we were told.

Ha-Joon Chang, 23 Things They Don't Tell You About Capitalism

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Plus ca change, plus c'est la meme chose?

Heather Smith

"Two o'clock" said Mr Bunner ..." Ten am in little old New York. You don't know Wall Street, Mr Trent. Let's hope we never see anything nearer hell than what's loose in the Street this minute." - From "Trent's Last Case" (1913) by E.C. Bentley.

Edmund Clerihew Bentley, like friend and admirer G.K. Chesterton, was a critic of the financial system. His fictional detective Philip Trent discovered that corruption was behind the murder of a financial magnate, while Chesterton sometimes expressed his deep concerns through his sleuth Father Brown. Long before the Bankers' Panic (the "Knickerbocker crisis") of 2007, there had been a series of crises sending Wall Street financiers into various stages of desperation. In February 1913, French paper "Le Matin" exposed a scandal affecting politicians and bankers connected with the Asquith Government. G.K's brother, Cecil Chesterton along with Hilaire Belloc (another literary figure who condemned the financial system) bravely pursued evidence connecting public men with insider trading of Marconi shares.

Another author, also publishing in 1913, used the novel genre to expose corruption. The American writer Owen Johnson wrote "The Sixty-First Second" which strongly suggested that John Pierpont Morgan engineered the liquidity crisis of 1907 before rescuing the floundering banks by injecting his own and others' private funds into the system. However Morgan was not to witness the passing of the Act setting up the privately owned Federal Reserve System in December 1913, as he had died just on nine months earlier.

Here we are one century later, and one must ask - has anything changed? The answer is - not fundamentally. Officially there is no longer a gold standard, even though its price was linked to the post-Breton Woods U.S. dollar and is still regarded as an indicator of investment confidence, or lack of it, in the share markets. Hedge funds have now exploded with a plethora of derivatives which make the "virtual wealth" concept of the late Nobel Prize winner Prof F. Soddy look miniscule by comparison. As for central banks, most countries have ostensibly "independent" reserve banks which actually take their orders from the IMF and/or the BIS (Bank of International Settlements).

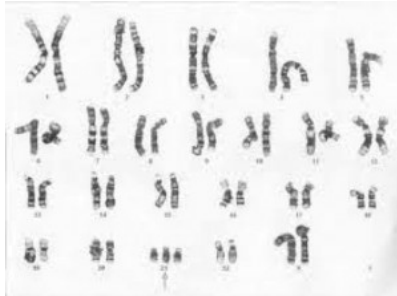
The important question remains - has the culture of Wall Street changed? If the Oscar-winning documentary "Inside Job" is any indication, the arrogance and hubris of those financiers is greater now than it ever was - not that it will protect them from eventual disaster. So this writer feels compelled to conclude with a Bentley-type "clerihew", the name given to his four-line verse pattern, useful for satirical comment:

J.P. Morgan breathed his last
Now a century has passed
But Wall Street's hardly changed
Just got more deranged!

Heather Smith is an ERA member living in New Zealand. She holds a degree and post-graduate diploma in Economics (Massey University), was Economics Convener for the NZ National Council of Women and a Secondary School teacher, and is currently on the Executive of the NZ Democrats for Social Credit.

The dilemma of the cooperative gene

by J.D. Alt



In the simplest terms, at some level the efforts of human society are being directed by the interaction of two genetic predispositions. The first predisposition views society as a loose-knit group of individuals or family units who are competing with each other for scarce resources. The weave of the social agreements that knits these individuals together is for the purpose of establishing and protecting private property rights. Property (the scarce resources) is acquired through competition, and once acquired its ownership is recorded and protected by the judicial and police powers established by the social agreements (the "State".) In essence, the State has no other purpose.

The second predisposition views society as a tight-knit group of individuals or family units who are cooperating to *share* scarce resources. From this perspective, the weave of the social agreements is for the purpose of coercing or rewarding individuals to act in the interests of the collective good—and to ensure that the scarce resources are fairly and equitably shared. In this case, the judicial and police powers of the State are directed toward protecting collective rights, with private property rights being just one instance of the collective rights being protected.

Since these two predispositions operate simultaneously within a given society (for example, the United States) it is interesting to consider how they view each other. From the perspective of the "cooperative gene", the "competitors" are the very individuals who must be coerced or cajoled into acting for the collective good. To the extent that the "competitors" private property claims deny scarce resources to the majority - or deny "life-essential" resources to any individual - those private property claims must be "adjusted" by the State to correct the inequity or protect the collective good.

From the perspective of the "competitive gene", the idea that the State has any power to coerce an individual to give up some portion or aspect of his

private property in the interests of a collective good is, simply put, a horrific aberration of the natural laws of society. This aberration attributes to the State powers it was never intended to have - nor should ever be allowed to have.

It is easy to see these two genetic predispositions jockeying for power in today's American political arena. The jockeying occurs across a broad range of issues - from gun control to food stamps to protecting the fragile soil of prairie lands to Obamacare. There are two aspects of this I find particularly fascinating. The first is the primary dynamic by which the competitive gene keeps the cooperative gene off balance and largely ineffective. The second is to consider what strategy the cooperative gene might employ to more effectively achieve its mission.

"Money" is a Scarce Commodity

The dominance of the competitive gene depends almost entirely upon its controlling the social-political narrative about "money". From its perspective, of course, "money" - like everything else individuals compete for and take possession of - must be a scarce *commodity*. Only if this is true is the competitive gene able to maintain dominance by competing for that commodity and, by winning possession of it, prevent the cooperative gene from commanding resources for the collective good.

For the competitive gene, it is conceptually unacceptable - or, perhaps more accurately, *inconceivable* - that the State should have the power to create and issue "money" by fiat. If that were allowed, the entire structure of the competitive gene's position of power would be undermined: The State, instead of being directed by the competitive gene to use its powers exclusively to protect private property rights, could - in the interest of the cooperative gene and the collective good - actively seek to redistribute resources by issuing currency to individuals who had not "earned" (i.e. properly competed for) it. In short, if the State were allowed to issue money by fiat, it would suddenly be able to command and control resources under sway of the cooperative gene - resources which the competitive gene considers (by virtue of the natural laws of competition) to be exclusively its own.

The possibility of the State issuing money by fiat is an existential dilemma for the competitive gene for the simple reason that, in fact, this is what the State actually *does* every minute of every hour of the week. What is remarkable is the extent to which the competitive gene has not only been able to keep this fact hidden from the cooperative gene - but has actually replaced its factuality with a substitute narrative that enriches and empowers the competitive gene at every turn. This has been accomplished, for the most part, by the deft manipulation of a cognitive dissonance from which the cooperative gene habitually suffers. To see this dissonance, let's back up for a moment to our initial observations about the goals of the competitive and cooperative genes.

For the competitive gene, human society is bluntly straightforward and

simple: people compete for scarce resources and the social agreements (the State) protect the winners from having their winnings raided by the losers. The ethics of this - the right and wrong in it - have simply to do with the fairness of the competition. As long as the competition is "fair", the outcome is in accord with the basic rules of nature, and there should be no room for complaint.

In contrast, the conceptual formula which the cooperative gene must resolve is exponentially more complex and nuanced. What is the "collective good", and by what process is it defined? What is an "equitable" distribution of resources - is it simply an equal distribution, or is it a distribution based on "need", and if so, how is "need" to be measured? Is it not true that the collective good surely must include the idea that what belongs to one man cannot be taken by, or coercively given to, another? If an able-bodied person is not willing to contribute to the collective good, should he receive a distributed share of the resources? Or should he be to some degree excluded - and if so, to what degree and in what manner?

The complexity and ambiguity of these questions makes it difficult for the cooperative gene to act decisively. It is like a deer transfixed in the glaring headlights of the competitive gene's single-minded aggressiveness. Nowhere is this cognitive dissonance more blinding or crippling to the cooperative gene than in its understanding of "money". And it is precisely on this point the competitive gene so ruthlessly takes the advantage.

The cooperative gene's "monetary dissonance" begins with its agreement that "money" is a scarce resource. The reason it accepts this premise, apparently, is the intuitive observation that *everything* in the world is a scarce resource, and therefore money must be as well. Every cooperative gene has to balance its own checkbook and pay its own debts. In doing these things on a personal level, it becomes *observationally* "true" that money is both finite and scarce. The competitive gene, in turn, does everything in its power to reinforce this seemingly intuitive logic: It makes certain that several times daily the following narrative is stated, preferably in as many different contexts as possible:

> *Since "money" is scarce and competed for by private individuals, the only way the State can acquire money (for the purposes of commanding resources for the collective good) is by collecting taxes or selling bonds to the private individuals who have competed successfully and amassed quantities of the scarce commodity. Sovereign spending for the collective good, therefore, can only proceed by spending "the taxpayer's money" - and sovereign borrowing creates a debt burden which the "taxpayers" ultimately have to repay.*

What the cooperative gene apparently doesn't realize is that in buying into this narrative, its genetically predisposed mission becomes essentially impossible. It is impossible because the cooperative gene has agreed, in

essence, that "money" cannot be created through cooperation, but only acquired through competition. It has set itself up in the position of having to compete (with an aggressively competitive gene) for a finite quantity of "money". The impossibility is magnified by the fact that the competitive gene, through two ingenious tactical maneuvers, controls the "quantity" of money which the cooperative gene can compete for. The first maneuver is adding a clause to the social agreement requiring, *by law,* that the sovereign government sell bonds (borrow dollars) in an amount equal to any sovereign spending over and above what is collected in taxes. The second maneuver is adding an addendum which establishes a specific debt *ceiling* limiting what the sovereign government can ultimately borrow.

The competitive gene's substitute narrative is now encoded in the social agreement, and the cooperative gene is forever burdened with the need to "spend taxpayers dollars" or "borrow dollars the taxpayers will have to repay" each time it wishes to more equitably distribute resources or create collective goods. Given this burden, not only is the competitive gene advantageously positioned to harshly ridicule any and all propositions to create collective goods (because they will cost the "taxpayers" more than they can "afford") it is also positioned to impose an ultimate limit - through the debt "ceiling" - on the creation of public goods entirely. Finally, the competitive gene is (and it shouldn't be a surprise) conveniently positioned to financially benefit from any sovereign spending that *does* occur over and above what is collected in taxes - for it is the competitive gene (with its amassed savings) that buys the bonds the sovereign government is now forced to sell.

What can the cooperative gene possibly do?

It's easy to make long and detailed lists of collective goods the cooperative gene would like to create - or, with greater desperation, would argue *must* be created to ensure the long-term survival of the collective society itself. It's also logical to assume that the competitive gene - as a participant in that society - would benefit from these collective goods in equal measure to everyone else and, for that reason, could be swayed with a properly framed argument into a more cooperative mode. This assumption, however, overlooks the fact that the competitive gene is *genetically* predisposed not to seek benefit through cooperation, but only to seek dominance through competition. A long-term view of collective success is not even on its radar screen; its sights are pointed *only* down the short-term paths of its own victory.

The first reality, then, which the cooperative gene must acknowledge is that it is *never* going to persuade the competitive gene to cooperate towards the equitable creation of collective goods. The only strategy available, it seems, is for the cooperative gene to persuade *itself* that money is neither a commodity, nor is it scarce - that the narrative hammered out by the competitive gene is, at its very roots, a false and self-serving belief system that puts collective society itself at risk.

Given the relationship between "money" and real resources, it is impossible to equitably "share" real resources, and effectively create collective goods, when money is a scarce commodity controlled by competition. The mission of the cooperative gene can only be accomplished when "money" is understood and managed as a sovereign fiat currency. The mobilization of the U.S. to fight the axis powers in World War II proved this, beyond a doubt, to be true. The question is, will the cooperative gene ever be able to mobilize in America again?

Source: http://neweconomicperspectives.org/2013/09/dilemma-cooperative-gene.html#more-6467

News and views from New Zealand

Free market fails House Buyers

Dennis Dorney

Cracks are beginning to appear in the monolithic free market philosophy which has obsessed our two main political parties, Labour and National over the last three decades. David Cunliffe, since becoming the new leader of the Labour opposition, has taken pains to put at least the illusion of clear water between the philosophies of the two parties, which hitherto have looked dispiritingly similar. Attacking National on its appalling failure to build more state houses holds most promise for reasons I shall outline.

House prices have been slowly falling in NZ and no one was buying or selling, except those caught by negative equity (and the record low interest rates took care of the worst of the problem). So the Government assumed (as the far right does) that the market could be trusted to respond to demand as it arose, so the Government did nothing. And the market, left to its own devises, did nothing as well. Why build lots of houses when that would only reduce house prices. Why not simply sit on the land, since it is the land that appreciates in a boom, not the house construction costs? That's what markets do. Millions of individuals pursuing their own self interest produce an outcome that, we are told, is always right.

While house prices inched down slowly, newly-weds could dream that one day they might own one. That illusion was shattered when house prices started to rise over the last year, firstly in Christchurch, which had the 'benefit' of an earthquake to push prices up, and later in Auckland, where misguided Government policy of centralising services there, put more pressure on a city already bulging at the seams.

While Dunedin average house values sank by 0.82% in the year to May, Auckland's rose by 12.7%. This focussed attention on housing supply under this government compared to demand. Just to maintain existing building stock, minimally 42,000 leaky houses (and that is an article on free-trade failure in itself) will need replacement; as will a similar number of earthquake-damaged houses in Christchurch. Also in the post-earthquake panic the government has

committed New Zealand to up-grading or bulldozing buildings that fail to meet new earthquake-proofing legislation. The number of houses in this case is not the issue – many of them are heritage buildings or churches. For Dunedin, which virtually lives off the tourism that our heritage buildings generate, this is an impending financial disaster. Nation-wide the cost will be in the billions.

Add to these figures that Auckland alone will need more than 130,000 houses over the next 3 decades to meet projected population growth and it is clear that the government needs to preside over a massive building program. So what is its record? In June this year the number of houses on the market reach a record six year low. Today's (3rd Oct) news is that the downward trend continues.

The upshot is that in the last couple of months, house prices have unequivocally risen. The banks, scenting blood, have reduced mortgage rates to near record lows and have been offering 100% mortgage loans. So we are possibly facing another property bubble, before we have recovered from the last. The Reserve Bank clearly thinks so because it has decided that home buyers must put down a minimum of 20% of the total price. The median price of a house in NZ is $466,526, so a minimum deposit is about $90,000. The median *household* income is about $62,000 (and falling, incidentally). For a couple of newly weds it will probably be lower, so their prospects are grim. Because interest rates are low, Kiwis are choosing to pay down debt rather than save. That is the smart market-driven move but it has priced the median house out of reach of the median family unit.

In a blue funk, our PM, John Key, asked the Governor of the Reserve Bank to reconsider his decision. He refused. Of course. His job is to stop another property boom, not to feel sorry for home buyers. That's John Key's job. This leaves the Government with nowhere to go. Labour has produced a policy that claims it will build 10,000 State houses a year for the next decade, in addition to houses built by the private sector. Despite the usual political point scoring no one has said that the target is unattainable or unnecessary. Labour will also introduce a capital gains tax and will stop overseas speculators from buying NZ houses.

If there is a housing deficit the only solutions are to build more, or reduce demand by excluding speculators. The Labour solution meets both requirements. All that the Government can offer is a subsidy for new home-buyers, which meets neither requirement and will put the price of housing still higher.

Can things get any worse for home buyers and the government? Sadly, yes. For almost the entire time that this government has ruled, the OCR has been 2.5%. Recent events in the USA, where Quantitative Easing is being phased out and Congress is in gridlock, are spooking the market. The NZ dollar is overpriced and interest rates are unusually low. The hot money is now on an increase in the OCR early next year. A lower exchange rate will raise prices. Higher interest rates will increase debt and do horrible things to the

housing market. And it's an election year!

Dennis Dorney is an ERA member living in New Zealand

Review of Brian Czech's book "Supply Shock"
Ed Deak

As a lifelong student of history, searching for the reasons of history's regularly repeated tragedies, I have long held the suspicion that future generations will refer to our times as the Age of Gullibility. Ignorance and the unquestioned submission to the demands of history's perennial rulers might have been accepted in long gone times, but there's no excuse for their acceptance now, in an age of instant information and communication.

Of course, there's always hope that humanity may just wake up one day and realize the causes of history's boringly repetitious tragedies. The most welcome and hopeful signs for an awakening are the daily growing number of books, articles and news items, loaded with facts and information on what really is going on in the world, countering the propaganda barrage we're constantly subjected to. One of these recent publications is Brian Czech's book "Supply Shock". Dr Czech got into economics, after having experienced real life, as a wildlife ranger and biologist. With that kind of background he was probably wondering how a certain strictly faith-based theory, called "economics ", was and still is permitted do terrible damage to the human race, future generations and the Earth itself.

While the textbook definition of economics claims to be concerned with the management and distribution of scarce resources, it has now become the racket of so called "wealth creation", causing incredible hardships and environmental destruction around the world. The most interesting and valuable parts of Dr Czech's book are his meticulous dissection of the economic theories of recent centuries and his conclusions on why and where they have gone wrong? His long and detailed examination of the falsehoods and the resulting human and ecological disasters, caused by the presently ruling neoclassical theory, are of the greatest importance, considering that our present political parties and governments are still forcing the world to submit to the demands of its proponents.

Dr Czech correctly points out the simple fact that neoclassical economists simply ignore the physical and environmental limits of economic growth, because such recognition would interfere with their imagination based theories. They can't even define what their constant references to "growth" really means. The growth of what? All we can see are shrinking living standards and growing environmental destruction. All economic actions are physical, and there is an endless number of logical, scientific proofs that nothing in nature can grow endlessly and forever. Which means that the constant demands and promises for endless growth by economists and politicians are ignorance-based nonsense, while causing incredible harm to

humanity and the Earth.

The author correctly points out the simple reality that any form of sustainable, steady-state economy must be based on physical laws, because there is no other way for survival. Therefore his support and promotion of the index known as the Gross Domestic Product (GDP) constantly quoted by economists and politicians is contradictory and most surprising. Also surprising is his claim that today's money is not created from thin air by banks, but is the result, or product, of agricultural surplus.

There was a time, more than 30 years ago, when banks could loan out something like $25 for every Dollar on deposit. It was President Reagan who deregulated the US banks, followed in Canada by Prime Minister Mulroney in 1991, permitting them to create vast amounts of money from thin air. This, now universal, deregulation licensed the takeover of the world's economies by special interests, who can now use the perceived values of that money which exists only as computer figures for world control and colonization, now called globalization. With their increased leverage, banks have now created and loaned out many hundreds, or even thousands, of Dollars against every Dollar on deposit, based on the promise that the borrowers will repay those loans with interest, regardless of the irreparable damage they may be causing, to maintain the imaginary value of that money.

There are now movements all over the world, working on ways to replace the imaginary monetary figures and accounting system of the GDP, that uses no debit or liability columns, with scientifically and ecologically acceptable systems, ensuring overall wellbeing and sustainability. And that can't come soon enough.

In spite of this criticism, the main importance of Dr Czech's book is his extremely detailed research, documenting the damage caused by hundreds of years of misused and misapplied economic theories and the physical realities based solutions on how to avoid them in the future.

Source: From Ed Deak's contributions to the Canada-based MAI-Not email network

This review appeared in the October 2013 issue of the Nova Scotia farming magazine *Rural Delivery*, under the title "The Economics of Swindling".

The Tea Party's Tactical Brilliance and Strategic Incompetence

William K Black

The Tea Party and its (non) think tanks have proven that they are tactically brilliant in manipulating the Republican Party, but strategically incompetent. The recent Senate Bill, forced down the House Tea Party members' throats, is the result of that strategic incompetence. The Tea Party has learned that there remain a few things many Republican elected officials are still unwilling to do. Specifically, once the admittedly slow-witted House Republican leadership realized that the Tea Party had marched it to the far edge of a bridge to nowhere and the choices were (Option One: suicide) to keep marching off the

bridge into the river (doing grave harm to the Nation and the world, ruining the GOP "brand," returning the House to control by the Democratic Party, and threatening their own seats or (Option Two: truce) to stop and beg the Democrats for a truce – the Republican leadership would abandon the Tea Party and blame it for the humiliating rout.

The Tea Party and entities like the Heritage Foundation understand how to extort the Republican Party and its congressional leaders. They made it seem to be political suicide for the House Republican leadership and members not to support the Tea Party's extortion tactics against Obamacare. The Tea Party's assumption that tactics that excelled against the Republican leadership would excel against the Democratic Party exhibited their lack of strategic understanding and proved that self-described "think tanks" like Heritage are oxymorons run by regular morons in which any thinking that differs from accepted dogma is grounds for instant expulsion of the apostate, e.g., David Frum.

The Tea Party strategy to defund Obamacare suffered from four fatal defects that were widely understood outside the Tea Party's temples. First, Obamacare is President Obama's signature "legacy" accomplishment and his senior staff revealed that Obama had already begun to obsess about his legacy by mid-2011. The Republican Party was demanding something that Obama could not give them.

Second, the means by which the Republican Party sought to extort Obama to sacrifice Obamacare made it impossible for Obama to surrender to the Tea Party. The Tea Party was openly threatening to use very short-term extensions of the debt ceiling to repeatedly extort Obama to make enormous, humiliating concessions. This meant that if Obama gave in to their extortion he was dooming his presidency. He would no longer have any meaningful domestic powers and would be mocked for his powerlessness and cowardice in refusing to stand up to the Tea Party. Indeed, because Obama promised not to give the Republicans any concessions in response to extortion over the budget or debt ceiling he would also destroy his credibility should he cave in to the Tea Party's demands.

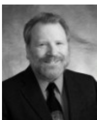
Third, neither of the Tea Party's pressure points (shutting down the government and threatening to cause a default on U.S. debts) could work mechanically to shut down Obamacare. That meant that they could only succeed as means of extortion if they (a) caused so much damage to the Nation and the world that it became essential to end the extortion within at most a few days and (b) the Nation and the world would blame Obama rather than the Tea Party for the Tea Party's actions. The Tea Party's threat was taken straight out of the riff in the movie *Blazing Saddles* where the sheriff, threatened by a lynch mob, pulls his gun, points it as his head, and warns the mob that if they don't stop he'll shoot. The reason it's a joke is that it is nonsensical. The Tea Party saw the movie and loved the riff, but they never "got" the joke. The Tea Party understood that threatening to force a U.S.

default was the equivalent of wielding an elephant gun. The Tea Party forgot that they were pointing the gun at their own head, but everyone else saw that they had done so and wondered when they would wise up.

Fourth, the Tea Party remembered the Fox network but forgot the existence of Jon Stewart's *The Daily Show* and Stephen Colbert's *Colbert Report*. Every time Fox tried to claim that the Tea Party was not responsible for its actions the denial created an opening for Stewart and Colbert to roll the tape on what the Tea Party caucus members had actually said, including classics such as Rep. Marlin Stutzman's admission: "We're not going to be disrespected. We have to get something out of this. And I don't know what that even is."

The Tea Party's transcendent strategic failure however was picking Obamacare as the objective rather than the safety net. I have been warning that Obama's confidants have repeatedly revealed that Obama believes his best hopes of a positive "legacy" is what he calls the "Grand Bargain" (which I explained actually represented the "Grand Betrayal"). The Grand Betrayal would raise some taxes, make materially deeper discretionary spending cuts in social programs, and make very large but opaque cuts in the safety net. The Grand Betrayal would inflict triple damage on our Nation. It would inflict even greater austerity, further weakening the recovery. It would harm effective social programs at a time when they are most needed give the large increases in poverty. It would harm the safety net directly and would serve to legitimize much deeper cuts in the future when the Republican Party controls the federal government. Only a president that the Republicans can portray as a "liberal" can make it safe for Republicans to attack the safety net and to work towards their great dream – privatizing Social Security so that Wall Street's billionaires can get even wealthier by looting the nation's retirement savings.

Obama has been eagerly seeking to inflict the Grand Betrayal since 2011. The irony is that had he succeeded the resultant second recession would have made him a one-term president. The Tea Party has prevented the deal by being unwilling to take "yes" for an answer from Obama. The Tea Party could have skipped all the extortion and negotiated the Grand Betrayal with Obama. The Republican leadership has attempted to negotiate the deal, but the Tea Party keeps blocking it. Nevertheless, the Grand Betrayal is so available and so obviously in the political interests of the Republican Party and the Tea Party that the odds remain good that even the Tea Party will eventually give Obama the legacy he desires as the Democrat who led the unraveling of the safety net. Obama may yet snatch defeat from victory and the Tea Party, when all else fails, may snatch victory from defeat by agreeing to the Grand Betrayal.



Source: http://neweconomicperspectives.org/2013/10/tea-partys-tactical-brilliance-strategic-incompetence.html

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How to cope with the next global financial crisis
Shann Turnbull

The foundations of an alternative finance system need to be established urgently to allow the real economy to survive the next global financial crisis.

The secretary-general of the Basel Committee that sets global standards for regulating banks has stated that another financial crisis "will be impossible to avoid".

The governor of the Bank of England, Mervyn King, stated in October 2010, "Of all the many ways of organising banking, the worst is the one we have today".

Earlier this year, his executive director for financial stability, Andrew Haldane described the "Doom Loop" created by banks being too big to fail with insufficient equity and liquidity.

Haldane also revealed how banks have created a credit bubble by making loans to each other that now equal the loans they make to the real economy. This process of balance sheet expansion also means that banks have become so interconnected that they have become interdependent. So if one big bank fails it will drag down others. This could include otherwise strong banks like those in Australia who are heavily depended on being funded from overseas.

Regulators around the world are now seeking to increase the equity and liquidity of banks to cope with the next crisis. However, The Financial Crisis Inquiry Commission Report of the US government this year did not identify either insufficient equity or liquidity as a cause of the crisis. Managing the risk of insolvency or lack of liquidity has always been a core function of banking. What has changed is the complexity of banking and its financial products.

As noted by the Australian Secretary to the Treasury, Ken Henry, in November 2008, "The array of financial instruments deployed within the global financial system has become so complex that it defies understanding. For decades to come, policy makers around the world are going to be asking why those with sufficient authority didn't, at some point, stand above the buzz of the financial markets and declare, in simple language, that all of this simply doesn't make sense."

The inability of banks to understand and manage the complexity of their business was seen as the "key cause" of the crisis according to the US Financial Crisis Commission. They stated: "We conclude dramatic failures of corporate governance and risk management at many systemically important financial institutions were a key cause of this crisis."

The inability of the current so-called "best practices" in corporate governance to deal with complexity is explained in the forthcoming article by Michael Pirson and myself in *Corporate Governance: An International Review*.

However, the reforms we described may take too long to introduce to prevent the next "inevitable" crisis. In any event why introduce reforms for a system that is "the worst"? Why not get it right and start building an alternative system that can supplement and augment the current fragile system to allow it be replaced in an orderly manner?

Establishing an alternative fallback, failsafe "lifeboat" financial system could be achieved in the next sitting of Parliament. Draft legislation is already available in the appendix of a handbook on introducing a supplementary currency of self-financing and self-liquidating money. The 1933 book on "Stamp Scrip" by Yale economist Irving Fisher can be downloaded from the web. As can the paper I presented to the July 2011 Australian Conference of Economists on the various "Options For Reforming The Financial System".

Some of the options might well be introduced independently of any government initiative through the use of mobile phones to receive, store and pay out money. Over recent years this practice has become widely established in developing countries where there are few phone lines or banks. As local informal units of account are used, the banking system is completely bypassed. Central banks in some countries have allowed official money to be used by mobile phones and so also bypass the banking system, provided that the value of each transaction does not exceed $100. In this way mobile phones are introducing competition between currencies and denationalising money as advocated by Nobel Prize winning economist F. A. Hayek.

Market forces can be expected to make it inevitable that mobile phone money will spread to advanced economies. Why and how this could occur is set out in my article published in New York in 2010 on How Might Cell Phone Money Change The Financial System? The take-home message is that cell phone money represents a disruptive technology. It provides a way to create financial lifeboats to keep the economy afloat with the next crisis. It also provides a way to replace many banking functions.

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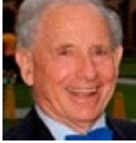


Source: ABC posting on 11 Aug 2011, on "How to cope with the next global financial crisis" at http://www.abc.net.au/unleashed/2854160.html
Web links to all of the above references will be found at the source URL.

Dr Shann Turnbull is co-founder of the UK based Sustainable Money Working Group (see: https://sites.google.com/site/smwgorg/), also Principal of the International Institute for Self-Governance, and is an ERA patron.

Global trade imbalanced and destabilised by dollar domination

Ron Morrison

Why is it that the U.S. seems to be able to afford anything its Government wants to do? The rest of us are never finished being told that we must become more efficient, tighten our belts, modernise and cut-back, because there's no money. If American industry were indeed so wonderful that the rest of the world is in serious debt to it, then perhaps this would be one explanation.

But the converse is the case — the U.S. balance of payments is the most atrocious in the world. The rest of us must maintain a balance of payments between exports and imports or the IMF will apply penal 'Adjustments'. But not the U.S., they consistently maintain a huge deficit — the U.S. is the biggest debtor country in the world! How on earth do they get away with this?

At the beginning of 2002 foreign holdings of U.S. Treasury Bonds totalled just over $1.25 trillion. A Treasury Bond is an IOU issued directly by the Federal Reserve Bank, usually to a foreign government and treated by the recipient as 'Foreign Exchange Reserves'. Treasury Bonds are dollar denominated, and have replaced gold — the dollar being a reserve currency, that is, readily convertible to any other currency.

At current levels, foreign investors own 36.7% of outstanding marketable US Treasury securities. Foreign investors also held $745.6 billion of U.S. government agency issues — which are also IOUs but are marketable securities, like 'Gilts' in the U.K. — making a total of around $2 trillion.

One might wonder therefore why the U.S. is the wealthiest country in the world when its Profit and Loss Account and Balance Sheet are in such condition. Why for instance don't the foreign creditors use their surplus dollars to buy up US industry and assets?

That's because these dollar IOUs are held by the exporters' Central Banks and they, as government agencies, are simply not able to use these to buy up assets. This is why there is no point in an exporting country running a balance of payments surplus — exporting more than you import — because a net surplus means that you have exported real wealth in exchange for paper.

This is more readily understood if we reduce the process of earning foreign currency to its basic elements. For instance, a Chinese exporter might sell a boatload of televisions to the U.S. He is paid in dollars, which he pays into his bank. As his business accounts are denominated in Yuans, the foreign exchange department of his bank, which also works in Yuans, sends the dollars to the Chinese Central Bank, which exchanges these for a credit in Yuans. The exporter is now happy, his clearing bank is happy, no 'new' money has been created because the 'new' Yuans are balanced by the incoming dollar credit.

From an accountancy aspect the double entries are balanced and complete. America now has a boatload of televisions. However, the U.S. Central Bank (the Federal Reserve) which guarantees the U.S. dollar, is now indebted to the Chinese Central Bank — in the sense that a dollar is a "promise to pay" to the value of.

Prior to 1971 when the U.S. was forced off the gold standard, the Chinese government would have asked the U,S, government to transfer gold bullion to settle the debt, but post-1971 the U.S. dollar was accepted as being 'as good as gold', and the best option in the circumstances to keep world trade moving. Now, whilst businesses and individuals possessing dollars can buy US stocks and properties, *other governments may not do so.*

A government's only option is to buy U.S. Treasury Bonds with the dollars they have acquired, and to try to encourage their entrepreneurs and importers to start importing additional U.S. goods and services to try and run down the government's surplus dollars. But this latter option is not so easy.

Let us imagine that a prospective Chinese entrepreneur visits the U.S. to see what importing opportunities he can find. He will find most U.S. goods expensive because labour and other costs are much higher there. It will be difficult to find anything which he can import profitably and sell in direct competition to Chinese home production.

He will, therefore, start looking at goods which are not yet produced in China but for which he believes there might be a demand. His choice will be nrrow — some high tech electronic software (which the U.S. government may well embargo to China), and very many luxury items which most Chinese people couldn't afford. Items like sophisticated medical equipment and civil aircraft, yes, but they are already regularly exported to China.

He could seek opportunities in other countries but the problem is twofold. Firstly, China is building up a major domestic economy and fast becoming independent of many imports and, secondly, the bulk of the population is too poor to qualify as a lucrative consumer market.

So, to summarise this situation: The U.S. is paying for its imports in dollars for which the exporter often has little use, other than to purchase Treasury Bonds, which are just pieces of paper promising a return of more dollars, at some future date. The dollars the exporting country receives are only of value if used to purchase imports — either from the U.S. or from some other nation

which will accept them as payment, but this is not always practical. Citizens of the U.S. also suffer from such imports.

A similar surplus of dollars exists in OPEC countries. Some years ago the Saudi Authorities suggested that they might apply their dollar reserves to buy up American corporations and properties. The U.S. Congress told them that this would be regarded as 'a hostile act' and we know what that means. The Saudis were doing pretty well anyway and decided not to upset the oil barrel. Other oil producers will be well advised to take note of recent events in Central Asia and the Middle East!

Much U.S. debt is incurred by the huge expenditure on its military and diplomatic 'presence' in areas it wishes to influence. It is perhaps not surprising therefore that sophisticated European nations have also built up virtually unusable dollar surpluses. The U.K. is the second largest holder of U.S. debt certificates at $150bn. China holds some $125bn and Japan is the biggest at $450bn.

As the world's largest net importer, the U.S. gains much wealth from this arrangement. Already powerful through its own successful domestic economy, it has become even more dominant by absorbing the economic strength of others. It uses this power to continually compound its influence.

Power is exercised in two ways, firstly by military persuasion -- no matter how good the argument for alternatives, like implementing a 'neutral' currency expressly to maintain a balance in international trade -- if the result is seen as reducing America's influence then it will be regarded as 'a hostile act'.

Secondly, financial pressure exerts much power. In short, if you owe the Bank $100,000 you have a problem. If you owe the Bank $2 trillion the whole world has a problem, which you can manipulate.

What can be done?

Economic theory is quite incapable of dealing with such matters. Any attempt to construct mathematical models upon such unquantifiable criteria creates nothing but confusion – which can be encouraged by the beneficiaries of the present system. Unfortunately most politicians go with the flow and have neither the time nor inclination to question the status quo.

The solution could lie with an updated United Nations – although as long as it resides in New York and depends upon the U.S. for its financing, it will remain a toothless dragon.

It could be re-evaluating the International Currency system first mooted by Keynes at Bretton Woods in 1948 (see *Prosperity* May 2003). It could be trumpeting the stability this could introduce not only to genuine world trade, but to a U.S. facing a deepening identity crisis both inside and outside its borders.

The problem is not the American people who are as democratic in outlook as any people – and who suffer themselves from cheap imports. The problem lies in the hi-jacking of their government by self-seeking individuals and groups bent upon using democracy as a euphemism for plutocracy - government by

those who have most wealth.

The solution lies with the American people. They can choose to fight the rest of the world at terrible cost to us all, or they can lead with statesmanship and probity as defined by the Founding Fathers. But they will have to listen to the other 95% of the world's population, and they will need to use their vote.

Source: This article appeared in Prosperity (UK), November 2003
http://prosperityuk.com/2003/11/global-trade-imbalanced-and-destabilised-by-dollar-domination/

The sun sets on fossil fuels: Norwegian pension fund divests from financially worthless assets

Gabe McHugh

Investment in fossil fuels is increasingly being seeing as a liability, not an asset.

Photo Credit: Shutterstock.com

Foundations and individuals divesting from fossil fuels because they are damaging the environment is nothing new; just last week, Dutch Bank Rabobank pledged to exit all its positions in shale gas drilling after citing issues with water and soil contamination from fracking that pose unacceptable biodiversity risks, and risks to ecosystems and local residents.

However, in a more unprecedented move, the Norwegian pensions and insurance giant Storebrand divested from 19 fossil fuel companies for purely economic reasons, citing the divestment was to "secure long term, stable returns for our clients" and that eventually those fossil fuel companies would be "worthless financially.

Storebrand reports that they have no socially responsible devoted funds, but rather a high standard that they hold their assets to, making this decision one based purely on financial rationale.

This move follows a series of reports, one by Carbon Tracker, which demonstrates that for the world to prevent the global temperature from rising 2 degrees Celsius, global CO2 emissions must be limited to under 565-1,075 Gt CO2 (billion of tons of CO2) until 2050.

This limit is only a fraction of the carbon embedded in the world's fossil fuel reserves, which amounts to 2,860 Gt CO2, meaning that only around a third of fossil fuel reserves would be able to be burned before 2050. Compliance with these goals would waste close to $7 trillion in fossil fuel industry capital expenditure. These unusable reserves, and the equipment deployed to exploit them, known as stranded assets, could have large, negative implications for equity valuations.

The effect of stranded assets on fossil fuel companies is detailed in another report issued by HSBC Holdings. Their report estimates, to uphold climate targets, the energy supply mix must shift from 81 percent reliance on fossil fuels to just 43 percent by 2050, creating a 40-60 percent downside in the market capitalization of some oil and gas companies. Fossil fuel

companies are ignoring these predictions as evidenced by Exxon Mobil's belief that fossil fuels will still provide over 80 percent of global energy generation in 2040. This compounds the worries that fossil fuel companies will be caught off guard by new restrictive legislation.

The political attention comes as greenhouse gas emissions and climate change are back on the political agenda, spurred by recent increases in extreme weather. There have been droughts in the Midwest, floods in Pakistan, typhoons in Asia and severe winters in Europe. The Financial Times (FT) reports that President Obama has announced plans to "limit emissions from power plants, to stop financing coal-fired power stations abroad and to ensure that the US uses less dirty energy, uses more clean energy and wastes less energy throughout our economy".

Meanwhile, on the other side of the globe, the FT also reports that commentators in China have started to hint that the country may accept binding international targets on its emissions. As governments are beginning to recognize the severe consequences climate change could have on their ability to govern during mass migrations and food and water shortages, they are beginning to act, with investors starting to notice and adjust accordingly.

Divesting from fossil fuels is only the first step; money previously invested in fossil fuels can be reallocated towards a clean energy future. Energy invested in renewables can serve as a climate hedge. To maintain climate goals, it is estimated that renewables would have to meet approximately 67% of world energy demand, up from around the 10% today. This would require a massive reallocation of capital towards green industries, creating tremendous amounts of growth in the clean energy industry as fossil fuels struggle.

Source: http://admin.alternet.org/environment/sun-sets-fossil-fuels-norwegian-pension-fund-divests-financially-worthless-assets

Gabe McHugh works for Mosaic, which funds solar investment. He has experience with Morgan Stanley in portfolio construction and the California Lighting Technology Center.

A great, noble spirit passes

William Krehm

James Gibb Stuart, one of Britain's pioneering monetary reformers, west of Scotland businessman, father and grandfather, died peacefully at his home in Bridge of Weir on Wednesday, September 25, 2013.

Aged 93, James was one of the few in the post-war era to recognise and publicise the absurdity of our privately-created, debt-based money system, and to foresee its catastrophic consequences.

He received a "Community Champion" award from the UK Islamic Mission on July 17, 2005, also the "Lifetime Achievement Award" from the American Monetary Institute on September 23,2006, and the "Thomas Atwood Award for Services to Monetary Reform" on October 15, 2011, at the UK Bromsgrove Conference.

Source: October 2013 issue of the COMER Journal (www.comer.org)

Nobel Prize? Meet the Economic Movement That Really Deserves Praise

Laura Flanders

This week, the Nobel Prize for economics may have gone to three academics, but the real work of fixing our local economies was happening on the ground - as part of New Economy Week. The winners of the so-called Nobel Prize for economics were announced this week, and what a peculiar pick: The three who will share the award this year sit on two diametrically opposed sides of their field's most critical debate.

Are markets magic, efficient, rational, and in need of no regulation? Or are they irrational, hysterical, and error-prone, like the humans who bet on them? That's the debate.

Splitting the prize between Eugene Fama and Lars Peter Hansen (two "magical markets" guys) and Robert Shiller (whose 1992 book, *Market Volatility*, was all about exactly that) is like splitting the biology prize between Charles Darwin and the Tea Party Creationist Caucus. It makes no sense.

But the prize isn't even a real Nobel. The Nobels were around for 67 years before the prize for economics was created. The economics prize was invented, in fact, by Sweden's central bank in 1968 in a strategic attempt to bestow on the field of economics the same scientific aura and respect accorded to medicine and mathematics and physics. The Swedish bankers leaned heavily toward the magic of the markets idea: Persuade people that money matters are scientific and complicated and best left to them, and you tend to get government off your bank.

But here's the good news: The same week that the pseudo-Nobels were announced, we saw a nationwide celebration of regular people diving into economics. This week was New Economy Week.

"People are realizing, from a very high theoretical level to the level of the street, what is being offered to them is insufficient."

Day after day, people all around the country have been showing off their best ideas about stabilizing local businesses and building local democracy. They're considering what they can do to divest from big banks and fossil fuel, and they've marked all their activities on a big online map.

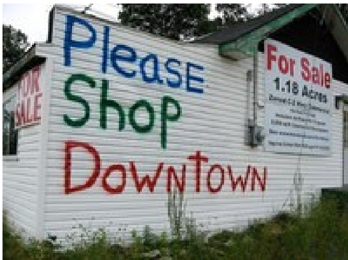
New Economy Week is a project of the New Economy Institute and the New Economy Coalition, a group that, after only a few months, already has 51 members. The organizers' goal was to map 40 events in one week. Halfway through, their map was peppered with 75 events located in 17 states and two Canadian provinces.

"People are realizing, from a very high theoretical level to the level of the street, [that] what is being offered to them is insufficient," Bob Massie, President and CEO of the Institute, told me. "The system's broken."

"New Economy groups are emerging all around the country in response to local conditions: transition towns, sustainable business networks, the

cooperative movement, local first," added Mike Sandmel, New Economy Week coordinator. "They tend to live in silos. Our goal is to lift up the bigger picture."

In downtown Manhattan, people packed into a community media center in an old brick firehouse to watch David Brancaccio's *Fixing the Future* and other films in the first-ever New Economy Film Festival. The online publication Shareable held a "sharing cities map jam," the kickoff action of a new Sharing Cities Network. Shareable wants local people to collaborate to map all the sharing-inclined businesses and projects in their cities. "We believe that making these oases of sharing visible will be an empowering first step for the network," wrote Shareable's Mira Luna.



Welcome to Commonomics: how to Build local economies strong enough for everyone

What does all this national mapping mean for strong local economies? "We talk about trans-localism" says Sandmel. "And we don't believe in doing things on a bigger scale than you need to, but we do live in an increasingly horizontal world and so the new economy movement has a good chance of having an influence if it comes together."

Coming together, talking about sharing, and meddling in money and market matters... Is it mad? Not madder than this year's prize for economics. And if pseudo-Nobels weren't proof enough that something's wrong with leaving private interests to run public affairs, there's always Washington. What's more crazy: setting up a local tools library in the name of helping struggling families, or, I dunno, closing down the government?

Source: http://www.yesmagazine.org/commonomics/new-economy-week

Best-selling author and broadcaster **Laura Flanders** is Local Economies Reporting Fellow at YES! Magazine and a contributing writer to The Nation. This work is licensed under Creative Commons.

Billionaire Koch brothers spend millions to deny health coverage to those on low incomes

Igor Volsky

These billionaire industrialists are pressuring states to deny health coverage to the people who need it most.

Conservative advocates funded by the billionaire industrialist brothers Charles and David Koch have launched a massive campaign pressuring states to deny health care coverage to lower income Americans through the Medicaid expansion contained in the Affordable Care Act.

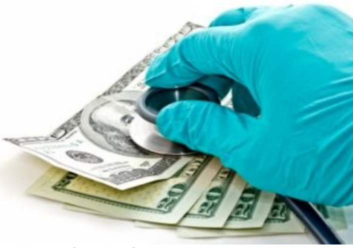


Photo Credit: Shutterstock.com/ nui7711

The effort, orchestrated by the Americans for Prosperity group, is targeting lawmakers in Virginia tasked with deciding whether the state should accept federal dollars to provide insurance to individuals and families below 133 percent of the federal poverty line ($31,321 in income for a family of four). Volunteers with the organization distribute flyers through door-to-door canvassing, and also attend committee hearings. According to one lawmaker who has become a target of the campaign, they are intimidating constituents.

As many as 400,000 Virginians could qualify for coverage if the state expands the Medicaid program, but AFP is warning Virginians that the system "will cost Virginia taxpayers billions," require "future tax hikes and budget cuts to vital services like schools, police and fire departments," undermine the "doctor-patient relationship," increase wait times and even endanger lives. "Medicaid patients are almost twice as likely to die during surgery than individuals with private insurance," the group writes on its website.

Under the Affordable Care Act, the federal government will pick up 100 percent of the cost of growing the program from 2014 to 2016 and states would contribute 10 percent thereafter. Analysis from the Commonwealth Institute for Fiscal Analysis in Richmond finds that "net savings from Medicaid expansion would average about $135 million per year in the upcoming budget cycle" since expanding Medicaid "would allow the state to use federal funds instead of state dollars for these programs that already provide care to the uninsured in Virginia."

Seventy-six percent of Virginia doctors treat new Medicaid patients, and the "share of doctors accepting new Medicaid patients is nearly the same as the share who are accepting new patients with private insurance or Medicare," the Institute reports. While Medicaid beneficiaries tend to be less healthy than the general uninsured population, people who do enrol in the program "are 25 percent more likely to report that their health is 'good' or 'excellent.'"

The GOP's refusal to fully implement the Affordable Care Act will leave more than half of the nation's uninsured working poor, approximately 8 million people, without access to health insurance. The 26 GOP-controlled states not participating in the law's Medicaid expansion are home to a disproportionate share of low-income Americans who aren't poor enough to qualify for the existing Medicaid program and make too much to be eligible for subsidies in the ACA's insurance marketplaces.

Americans for Prosperity has spent millions "in states around the country, including Arkansas, Florida, Ohio, Louisiana, Michigan and Pennsylvania, to run the kind of aggressive campaign that it is now waging here in Virginia, where much will depend on the governor's race," the New York Times notes. Democrat Terry McAuliffe favors expansion, while his Republican opponent,

Ken Cuccinelli, does not. The Virginia panel weighing in on the matter will decide the question after the Nov. 5 election.

Source: http://www.alternet.org/personal-health/billionaire-koch-brothers-spending-millions-deny-health-coverage-low-income Originally appeared on ThinkProgress.org.

How much of JPMorgan's $13 billion fine will be funded from the public purse?

Sarah Lazare

Experts speculate on whether the settlement will allow the bank to write off a chunk of the penalty as a business expense.

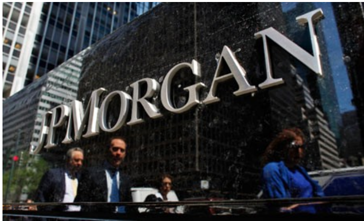


Photo: Eduardo Munoz/Reuters

JPMorgan - whose fraudulent mortgage claims helped to take down the economy in 2008 - will likely be able to write off its much-touted $13billion fine as a business expense, meaning US public funds would help foot the bill. The potential loophole in a penalty that was already dwarfed by the bank's massive profits has critics charging that the fine is not justice served, but just the price of doing business.

"What is the point of fining JPMorgan these large amounts if the taxpayer is picking up the tab?" asks D.S. Wright, writing for *FiredogLake*.

JPMorgan has reached a tentative agreement with the U.S. Justice Department to pay a record-setting $13billion in fines. While negotiations are still ongoing, $9billion of this penalty is expected to go to the government, while $4billion will go to the Federal Housing Finance Agency to allegedly end up in the hands of customers who were swindled by the bank.

Yet, JPMorgan may be able to write off a huge swath of these expenses. "Section 162(f) of the tax code bars deductions for fines and penalties paid to the government, but JPMorgan might be able to negotiate an agreement to classify the payments as something else," Kim Dixon and Brian Faler of *Politico* write. "Those payments labeled compensatory or for restitution are more likely to be deductible."

"I think it's a safe bet that a substantial portion of the deal will be deductible," Dean Baker, co-director of the Center for Economic and Policy Research, told *Common Dreams*.

The wording of the final agreement will determine which penalties are tax deductible. "If the settlement is formally called a penalty or fine then it would not be deductible," said Baker. "If it's something other, like compensation, then it probably is."

Steve Rosenthal, a former corporate lawyer and fellow at the Tax Policy Center, told *Politico* it is likely that the FHFA payments will be written off as tax deductions. “I am guessing it is probably described in a way that allows JPMorgan to deduct,” he said. This means that U.S. taxpayers may be forced

to help JPMorgan pay its fines.

"There might be a reason for the government to negotiate an agreement which assures the deductibility of [certain] payments by JPMorgan Chase," said George Yin, a law professor at the University of Virginia and former chief of staff at the congressional Joint Committee on Taxation, in an interview with *Politico*. "In that case, [JPMorgan] might be willing to agree to a larger gross settlement amount, which might play well for the government."

Yet, as Robert Scheer writing for *Truthdig* points out, even if JPMorgan did pay the whole $13billion fine, it would only represent half of the profit the company turned last year alone.

Source: https://www.commondreams.org/headline/2013/10/23-8
Sarah Lazare is a staff writer for *Common Dreams*, and also writes for independent publications including The Nation, Al Jazeera, TomDispatch, Common Dreams, Truthout, and Yes Magazine.

The closing of American academia
Sarah Kendzior

The plight of adjunct professors signals the end of academia as a means to prosperity.

It is 2011 and I'm sitting in the Palais des Congres in Montreal, watching anthropologists talk about structural inequality. The American Anthropological Association meeting is held annually to showcase research from around the

the world, and like thousands of other anthropologists, I am paying to play: $650 for airfare, $400 for three nights in a "student" hotel, $70 for membership, and $94 for admission. The latter two fees are student rates. If I were an unemployed or underemployed scholar, the rates would double.

The theme of this year's meeting is "Traces, Tidemarks and Legacies." According to the American Anthropological Association website, we live in a time when "the meaning and location of differences, both intellectually and morally, have been rearranged". As the conference progresses, I begin to see what they mean. I am listening to the speaker bemoan exploitative practices of the neoliberal model when a friend of mine taps me on the shoulder. "I spent almost my entire salary to be here," she says.

My friend is an adjunct. She has a PhD in anthropology and teaches at a university, where she is paid $2100 per course. While she is a professor, she is not a Professor. She is, like 67 per cent of American university faculty, a part-time employee on a contract that may or may not be renewed each semester. She receives no benefits or health care.

According to the Adjunct Project, a crowdsourced website revealing adjunct wages - data which universities have long kept under wraps - her salary is about average. If she taught five classes a year, a typical full-time faculty course load, she would make $10,500, well below the poverty line. Some adjuncts make more. I have one friend who was offered $5000 per

course, but he turned it down and requested less so that his children would still qualify for food stamps.

Why is my friend, a smart woman with no money, spending nearly $2000 to attend a conference she cannot afford? She is looking for a way out. In America, academic hiring is rigid and seasonal. Each discipline has a conference, usually held in the fall, where interviews take place. Interviews can be announced days or even hours in advance, so most people book beforehand, often to receive no interviews at all.

The American Anthropological Association tends to hold its meetings in America's most expensive cities, although they do have one stipulation: "AAA staff responsible for negotiating and administering annual meeting contracts shall show preference to locales with living wage ordinances." This rule does not apply, unfortunately, to those in attendance.

Below the poverty line

In most professions, salaries below the poverty line would be cause for alarm. In academia, they are treated as a source of gratitude. Volunteerism is par for the course - literally. Teaching is touted as a "calling", with compensation an afterthought. One American research university offers its PhD students a salary of $1000 per semester for the "opportunity" to design and teach a course for undergraduates, who are each paying about $50,000 in tuition. The university calls this position "Senior Teaching Assistant" because paying an instructor so far below minimum wage is probably illegal.

In addition to teaching, academics conduct research and publish, but they are not paid for this work either. Instead, all proceeds go to for-profit academic publishers, who block academic articles from the public through exorbitant download and subscription fees, making millions for themselves in the process. If authors want to make their research public, they have to pay the publisher an average of $3000 per article. Without an institutional affiliation, an academic cannot access scholarly research without paying, even for articles written by the scholar itself.

All Americans should be concerned about adjuncts, and not only because adjuncts are the ones teaching our youth. The adjunct problem is emblematic of broader trends in American employment: the end of higher education as a means to prosperity, and severing of opportunity to all but the most privileged.

In a searing commentary, political analyst Joshua Foust notes that the unpaid internships that were once limited to show business have now spread to nearly every industry. "It's almost impossible to get a job working on policy in this town without an unpaid internship," he writes from Washington DC, one of the most expensive cities in the country. Even law, once a safety net for American strivers, is now a profession where jobs pay as little as $10,000 a year - unfeasible for all but the wealthy, and devastating for those who have invested more than $100,000 into their degrees. Occupations that shape American society are becoming impossible for all but the most elite to enter.

The value of a degree

Academia is vaunted for being a meritocracy. Publications are judged on blind review, and good graduate programs offer free tuition and a decent stipend. But its reliance on adjuncts makes it no different than professions that cater to the elite through unpaid internships.

Anthropologists are known for their attentiveness to social inequality, but few have acknowledged the plight of their peers. When I expressed doubt about the job market to one colleague, she advised me, with total seriousness, to "re-evaluate what work means" and to consider "post-work imaginaries". A popular video on postgraduate employment cuts to the chase: "Why not tap into your trust fund?"

In May 2012, I received my PhD, but I still do not know what to do with it. I struggle with the closed off nature of academic work, which I think should be accessible to everyone, but most of all I struggle with the limited opportunities in academia for Americans like me, people for whom education was once a path out of poverty, and not a way into it.

My father, the first person in his family to go to college, tries to tell me my degree has value. "Our family came here with nothing," he says of my great-grandparents, who fled Poland a century ago. "Do you know how incredible it is that you did this, how proud they would be?"

And my heart broke a little when he said that, because his illusion is so touching - so revealing of the values of his generation, and so alien to the experience of mine.

Source: http://www.aljazeera.com/indepth/opinion/2012/08/201282010274924645З.html
Sarah Kendzior recently received her PhD in anthropology from Washington University, St Louis.

Sovereign money
Joseph Huber

The following material has been extracted from Prof Joseph Huber's website Sovereign Money (http://sovereignmoney.eu).

What is Sovereign Money?

Sovereign money is legal tender (lawful money) issued by a state authority, in Europe by a state's independent central bank, or the ECB. The counterpart to sovereign money is commercial bank money, i.e. demand deposits on current bank account.

Bank money is created whenever a bank grants a loan, or overdraft, or buys stocks and bonds or real estate, and pays for this by crediting the customers' or sellers' accounts. These credits need to be backed by sovereign central-bank money, but just to a residual 2.5 per cent.

What would a sovereign money system look like?

If today's fractional reserve system cannot be said to be sovereign, what then would a sovereign money system look like?

An advanced modern sovereign-money system would be based upon all of the three components of a state's monetary prerogative:

1. Determining a country's standard currency unit
2. Issuing the money denominated in that unit
3. Realising for the public purse the profit accruing from creating new money.

Neo-Austrians between Gold Standard, 100% Reserve, and Free Banking

The Neo-Austrian School and New Currency Theory share a similar criticism of fractional reserve banking. Strangely enough, the problem is blamed by the former on government and central banks rather than the banking industry.

The Neo-Austrian idea of money and banking reform then is free banking, i.e. a system without legal-tender laws and central banks, on the basis of a return to a 100% gold reserve. This appears to be quixotic, but is a revelation to others.

Currency and Banking Teachings

Currency versus banking teachings represent a frame of reference of lasting relevance to modern money systems. The expression New Currency Theory (NCT) makes reference to the historical *Currency School* of the first half of the 19th century. It was opposed by the *Banking School* of the time.

Most economists seem to have forgotten about this controversy. At the same time, most monetary reform initiatives today in fact stand for new currency teachings.

100% Reserve (Chicago Plan) and Plain Sovereign Money

A recent IMF research paper published under the title *The Chicago Plan Revisited* has found encouraging resonance. At the same time, this has contributed to some confusion in that there is now a tendency to identify a 100% reserve requirement (full reserve) of the 1930s with the up-to-date approach to plain sovereign money as championed by most contemporary monetary reform initiatives. The 100% reserve proposal is not the same as plain sovereign money.

Modern Money Theory in comparison to New Currency Theory

New Currency Theory (NCT) and Modern Money Theory (MMT) share a number of views on how fractional reserve banking works. It nonetheless turns out that MMT - in spite of its claim to stand for a sovereign-currency system - is closer to representing a new banking doctrine rather than a currency teaching.

Joseph Huber occupies the chair of economic and environmental sociology at Martin Luther University, Halle-Wittenberg, Germany. He has written influential papers on monetary policy, and is known widely as one of the founders of ecological modernization theory.

"For the government to permit banks to issue money, borrow that money, and pay interest on it is idiotic." William F. Hixson