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COMER

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The COMER Lawsuit

Mark Twain once had occasion to report that "news of [his] death [had] been greatly exaggerated."

History has repeated itself in an internet message that the COMER lawsuit "had reached its end."

Far from it!

Decision of Federal Court, February 8, 2016

On February 8, 2016, Justice Russell of the Federal Court, after having his decision of April 24, 2014, upheld by the Federal Court of Appeal on January 26, 2015, made a decision on the government's second motion to strike after COMER filed its amended statement of claim on March 26, 2015.

In the latest decision of February 8, 2016, Justice Russell, in law, inexplicably reversed himself from the earlier decision. In his earlier decision he had refused to strike large portions of the claim, most notably the facts going to the declaratory relief sought as to the Bank of Canada and the constitutional issues.

He further blatantly erred in deciding that Declaratory relief cannot be sought as stand-alone relief, in the absence of a cause of action, which is contrary to Supreme Court of Canada jurisprudence which was cited and read to the Court.

Moreover, because the Federal Court of Appeal had upheld his decision of April 24, 2014, in reversing his earlier decision, he effectively overturned the Federal court of Appeal's decision upholding his earlier decision, which is contrary to law.

On March 3, 2016, COMER filed an appeal, to the Federal Court of Appeal, from the decision of Justice Russell, dated February 8, 2016.

If redress is not had at the Federal Court of Appeal, COMER is committed to then taking the case to the Supreme Court of Canada.

Rocco Galati, BA, LLB, LLM

Our Comment

So? The only way we could lose now would be to quit. (*Unthinkable!*)

Already this action has created a level of awareness and stirred an interest in monetary reform that we couldn't have imagined 20 years ago! It has put us in touch with people across Canada and around the world who are of like mind – in a growing global movement for democratic and political change.

Should we ultimately lose the case, we shall have demonstrated that the courts cannot, as things are, deliver the change we seek. That would be an historic and an invaluable lesson on which to base a valid and effective alternative strategy.

We have a lot going for us!

Alas, each time at bat, empties the treasury. To donate, send a cheque made out to COMER and designated "Lawsuit Fund" to COMER c/o Ann Emmett, 83 Oakwood Avenue, Toronto, ON M6H 2V9.

Several reasons we can't quit:

"I can think of no greater cause to support. This is about the survival of our country."

"I am *so* grateful you are doing this. I hope people…realize how we are losing $160 million per day in interest paid to private bankers, instead of borrowing from the Bank we all *own!!!*"

"I am a Bangladeshi citizen and currently I am studying in Canada. I saw an interview of Mr. Rocco Galati on YouTube and I decided to help him and his great cause. He is fighting for the Truth, Justice, and Democracy and I always want to be on the side of

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The Kingston Chapter of COMER

The Kingston Chapter of COMER evolved from The Kingston Study Group on Monetary Policy which was formed in the fall of 1998 and recognized as a Chapter of COMER a year later. Its immediate objective was to increase public awareness of how monetary policy affected the community, how changes to it in 1975 had led to higher taxes and reduced public services, and to discuss ways to change it again for the benefit of society as a whole.

Prior to forming the Study Group some participants in Council of Canadians meetings (Kingston branch) began talking about monetary policy. These included Don Findlay (who had been actively involved with COMER for several years), Bill and Nora Parish, Hugh Jenny, Kevin Connolly, Mort Barken, Peter Mautner and Richard Priestman. Some were members of the NDP and Green Party and others had no political affiliation.

Maude Barlow showed no interest in discussing monetary policy so it never got on the agenda; those who were interested eventually formed the Kingston Study Group on Monetary Policy.

On June 25/98 we sent a letter to William Krehm, COMER Publications, explaining who we were, that although we knew we could join COMER as individuals we would like to know what we could do as a group to promote "economic reform." We received a reply from Bill on July 4/98, welcoming our group and being delighted to know that there are a group in the Kingston area "who have been active on the same issues as "COMER" has." He also said we would be hearing from Herb Wiseman who would be coming onto the COMER board and would be happy to visit us and discuss what he and COMER can do to help us in setting up a Kingston Chapter providing, for example, speakers as we needed them, and reasonable quantities of literature, books and current issues of ER on consignment.

The December 21/98 meeting was held in the home of Dolores and Richard Priestman. Present were Don Findlay, Kevin Connolly, Bill Parish, Nora Parish, Hugh Jenney, Mort Barken, Peter Mautner, Dolores Priestman, Richard Priestman. Guest: Herb Wiseman. The purpose of the meeting was to develop strategy for public education on monetary reform that would enable to the public to make sound judgments based on fact. Herb outlined some of the history of COMER and Bill Krehm, recommended about ten books and over a dozen actions the group might consider. Regarding the formation of the Kingston Chapter it was decided to postpone that until we had gelled into a more cohesive group.

October 23/99 – Letter to Bill Krehm:

We have been asked by the Kingston Chapter of Council of Canadians to organize a presentation on "money creation" for a public meeting to be held on November 15 at the public library. It will help the advertising if we are known as the "Kingston Chapter" of COMER, and if you have no objection to that we will adopt this name.

Reply from Bill: Of course, the board of COMER will be happy to welcome the Kingston Branch. I will make it formal at our next meeting. I hope you have noticed Ottawa's semi-conspiratorial adoption of capital budgeting as covered in the leading articles of recent *ER* issues. We are still missing an acknowledgment of this important step from other socially-minded organizations. Would welcome any suggestions and of course your chapter's cooperation in bringing this vital issue to the fore.

All the best Bill Krehm.

October 24/99 – Letter to Larry Farquharson:

A new member to our group, Darko Matovic, has sent his cheque for membership in COMER. The Kingston Chapter of COMER (KCC) now has 10 members including Darko and Walter Robbins. We have counted couples as two members of COMER although they may have only paid one fee because they are fully involved as a couple and could not afford a double fee. If this is not acceptable please let me know. Three questions were raised at our October 24 meeting: (1) When do COMER members get a financial statement of the organization? (2) What are the obligations of a chapter to COMER? (3) What are the names and addresses (particularly email addresses) of other COMER chapters?

October 24/99. Regular meeting to plan for public meeting to be held on November 15/99. Agenda was so full we did not have time to plan the November 15 meeting; planning postponed to November 1/99.

November 1/99. Planning for public meeting: Kevin, Martha, Don, Darko, Richard, Peter, Nora, Bill. Agenda outline for November 15 decided: Richard – Introduction of meeting and presenters; (1) Don Findlay – "what is money, who creates it and why is it important to know this"; (2) Kevin Connolly – the Bank of Canada, what it is, when it started, how it helped us get out of the depression, finance WWII and give us the best economic times we ever had until 1975 when it turned its back on us which eventually led to huge debts and unstable economic times; (3) Richard Priestman – how Kingston can save $20M a year in financing charges on the cost of rebuilding the city's infrastructure. A question and answer period followed.

November 15/99. Public meeting took place at the public library. Well attended; 12 people added their names to our mailing list sheet.

The foregoing explains how the Kingston Chapter of COMER began and what it went through during its first year. This may give others some idea of how to start a chapter in their own community.

Richard Priestman

Our Comment

The Kingston Chapter has been lively and effective and, despite the loss of several aged members, continues alive and well.

Richard Priestman, a bout of serious illness along the way notwithstanding, works hard to spread the truth about money, and to spur politicians and others to support economic reform.

Now, like the Kingston group, groups elsewhere are seeking information about setting up a COMER Chapter. This is extremely encouraging for it is from the community level that the most effective pressure for change must come.

Thanks to the Kingston Chapter for their example, and to Richard Priestman for his ongoing initiatives.

For information about how you might get a similar group together, direct your request to comerpub@rogers.com.

Élan

A Terrible Normality: The Massacres and Aberrations of History

By Michael Parenti, Global Research, August 18, 2014, Dandelion Salad and Global Research January 27, 2013

Through much of history the abnormal has been the norm.

This is a paradox to which we should attend. Aberrations, so plentiful as to form a terrible normality of their own, descend upon us with frightful consistency.

The number of massacres in history, for instance, are almost more than we can record. There was the New World holocaust, consisting of the extermination of indigenous Native American peoples throughout the western hemisphere, extending over four centuries or more, continuing into recent times in the Amazon region.

There were the centuries of heartless slavery in the Americas and elsewhere, followed by a full century of lynch mob rule and Jim Crow segregation in the United States, and today the numerous killings and incarcerations of Black youth by law enforcement agencies.

Let us not forget the extermination of some 200,000 Filipinos by the US military at the beginning of the twentieth century, the genocidal massacre of 1.5 million Armenians by the Turks in 1915, and the mass killings of African peoples by the western colonists, including the 63,000 Herero victims in German Southwest Africa in 1904, and the brutalization and enslavement of millions in the Belgian Congo from the late 1880s until emancipation in 1960 – followed by years of neocolonial free-market exploitation and repression in what was Mobutu's Zaire.

French colonizers killed some 150,000 Algerians. Later on, several million souls perished in Angola and Mozambique along with an estimated five million in the merciless region now known as the Democratic Republic of the Congo.

The twentieth century gave us – among other horrors – more than sixteen million lost and twenty million wounded or mutilated in World War I, followed by the estimated 62 million to 78 million killed in World War II, including some 24 million Soviet military personnel and civilians, 5.8 million European Jews, and taken together: several million Serbs, Poles, Roma, homosexuals, and a score of other nationalities.

In the decades after World War II, many, if not most, massacres and wars have been openly or covertly sponsored by the US national security state. This includes the two million or so left dead or missing in Vietnam, along with 250,000 Cambodians, 100,000 Laotians, and 58,000 Americans.

Today in much of Africa, Central Asia, and the Middle East there are "smaller" wars, replete with atrocities of all sorts. Central America, Colombia, Rwanda and other places too numerous to list, suffered the massacres and death-squad exterminations of hundreds of thousands, a constancy of violent horrors. In Mexico a "war on drugs" has taken 70,000 lives with 8,000 missing.

There was the slaughter of more than half a million socialistic or democratic nationalist Indonesians by the US-supported Indonesian military in 1965, eventually followed by the extermination of 100,000 East Timorese by that same US-backed military.

Consider the 78-days of NATO's aerial destruction of Yugoslavia complete with depleted uranium, and the bombings and invasion of Panama, Grenada, Somalia, Libya, Yemen, Western Pakistan, Afghanistan, and now the devastating war of attrition brokered against Syria. And as I write (early 2013), the US-sponsored sanctions against Iran are seeding severe hardship for the civilian population of that country.

All the above amounts to a very incomplete listing of the world's violent and ugly injustice. A comprehensive inventory would fill volumes. How do we record the countless other life-searing abuses: the many millions who survive wars and massacres but remain forever broken in body and spirit, left to a lifetime of suffering and pitiless privation, refugees without sufficient food or medical supplies or water and sanitation services in countries like Syria, Haiti, South Sudan, Ethiopia, Somalia, and Mali.

Think of the millions of women and children around the world and across the centuries who have been trafficked in unspeakable ways, and the millions upon millions trapped in exploitative toil, be they slaves, indentured servants, or underpaid laborers. The number of impoverished is now growing at a faster rate than the world's population. Add to that, the countless acts of repression, incarceration, torture, and other criminal abuses that beat upon the human spirit throughout the world day by day.

Let us not overlook the ubiquitous corporate corruption and massive financial swindles, the plundering of natural resources and industrial poisoning of whole regions, the forceful dislocation of entire populations, the continuing catastrophes of Chernobyl and Fukushima and other impending disasters awaiting numerous aging nuclear reactors.

The world's dreadful aberrations are so commonplace and unrelenting that they lose their edge and we become inured to the horror of it all. "Who today remembers the Armenians?" Hitler is quoted as having said while plotting his "final solution" for the Jews. Who today remembers the Iraqis and the death and destruction done to them on a grand scale by the US invasion of their lands? William Blum reminds us that more than half the Iraq population is either dead, wounded, traumatized, imprisoned, displaced, or exiled, while their environment is saturated with depleted uranium (from US weaponry) inflicting horrific birth defects.

What is to be made of all this? First, we must not ascribe these aberrations to happenstance, innocent confusion, and unintended consequences. Nor should we believe the usual rationales about spreading democracy, fighting terrorism, providing humanitarian rescue, protecting US national interests and other such rallying cries promulgated by ruling elites and their mouthpieces.

The repetitious patterns of atrocity and violence are so persistent as to invite the suspicion that they usually serve real interests; they are structural not incidental. All this destruction and slaughter has greatly profited those plutocrats who pursue economic expansion, resource acquisition, territorial dominion, and financial accumulation.

Ruling interests are well served by their superiority in firepower and striking force. Violence is what we are talking about here, not just the wild and wanton type but the persistent and well-organized kind. As a political resource, violence is the instrument of ultimate authority. Violence allows for the conquest of entire lands and the riches they contain, while keeping displaced laborers and other slaves in harness.

The plutocratic rulers find it necessary to misuse or exterminate restive multitudes, to let them starve while the fruits of their land and the sweat of their labor enrich privileged coteries.

Thus we had a profit-driven imperial rule that helped precipitate the great famine in northern China, 1876-1879, resulting in the death of some thirteen million. At about that same time the Madras famine in India took the lives of as many as twelve million while the colonial forces grew ever richer. And thirty years earlier, the great potato famine in Ireland led to about one million deaths, with another desperate million emigrating from their homeland. Nothing accidental about this: while the Irish starved, their English landlords exported shiploads of Irish grain and livestock to England and elsewhere at considerable profit to themselves.

These occurrences must be seen as something more than just historic abnormalities floating aimlessly in time and space, driven only by overweening impulse or happenstance. It is not enough to condemn monstrous events and bad times, we also must try to understand them. They must be contextualized in the larger framework of historical social relations.

The dominant socio-economic system today is free-market capitalism (in all its variations). Along with its unrelenting imperial terrorism, free-market capitalism provides "normal abnormalities" from within its own dynamic, creating scarcity and maldistributed excess, filled with duplication, waste, overproduction, frightening environmental destruction, and varieties of financial crises, bringing swollen rewards to a select few and continual hardship to multitudes.

Economic crises are not exceptional; they are the standing operational mode of the capitalist system. Once again, the irrational is the norm. Consider US free-market history: after the American Revolution, there were the debtor rebellions of the late 1780s, the panic of 1792, the recession of 1809 (lasting several years), the panics of 1819 and 1837, and recessions and crashes through much of the rest of that century. The serious recession of 1893 continued for more than a decade.

After the industrial underemployment of 1900 to 1915 came the agrarian depression of the 1920s – hidden behind what became known to us as "the Jazz Age," followed by a horrendous crash and the Great Depression of 1929-1942. All through the twentieth century we had wars, recessions, inflation, labor struggles, high unemployment – hardly a year that would be considered "normal" in any pleasant sense. An extended normal period would itself have been an abnormality. The free market is by design inherently unstable in every aspect other than wealth accumulation for the select few.

What we are witnessing is not an irrational output from a basically rational society but the converse: the "rational" (to be expected) output of a fundamentally irrational system. Does this mean these horrors are inescapable? No, they are not made of supernatural forces. They are produced by plutocratic greed and deception.

So, if the aberrant is the norm and the horrific is chronic, then we in our fightback should give less attention to the idiosyncratic and more to the systemic. Wars, massacres and recessions help to increase capital concentration, monopolize markets and natural resources, and destroy labor organizations and popular transformative resistance.

The brutish vagaries of plutocracy are not the product of particular personalities but of systemic interests. President George W. Bush was ridiculed for misusing words, but his empire-building and stripping of government services and regulations revealed a keen devotion to ruling-class interests. Likewise, President Barack Obama is not spineless. He is hypocritical but not confused. He is (by his own description) an erstwhile "liberal Republican," or as I would put it, a faithful servant of corporate America.

Our various leaders are well informed, not deluded. They come from different regions and different families, and have different personalities, yet they pursue pretty much the same policies on behalf of the same plutocracy.

So it is not enough to denounce atrocities and wars, we also must understand who propagates them and who benefits. We have to ask why violence and deception are constant ingredients.

Unintended consequences and other oddities do arise in worldly affairs but we also must take account of interest-driven rational intentions. More often than not, the aberrations – be they wars, market crashes, famines, individual assassinations or mass killings – take shape because those at the top are pursuing gainful expropriation. Many may suffer and perish but somebody somewhere is benefiting boundlessly.

Knowing your enemies and what they are capable of doing is the first step toward effective opposition. The world becomes less of a horrific puzzlement. We can only

About Our Commenter

Élan is a pseudonym representing two of the original members of COMER, one of whom is now deceased. The surviving member could never do the work she is now engaged in were it not for their work together over many years. This signature is a way of acknowledging that indebtedness.

resist these global (and local) perpetrators when we see who they are and what they are doing to us and our sacred environment.

Democratic victories, however small and partial they be, must be embraced. But the people must not be satisfied with tinseled favors offered by smooth leaders. We need to strive in every way possible for the revolutionary unraveling, a revolution of organized consciousness striking at the empire's heart with the full force of democracy, the kind of irresistible upsurge that seems to come from nowhere while carrying everything before it.

Michael Parenti's most recent books are The Culture Struggle *(2006),* Contrary Notions: The Michael Parenti Reader *(2007),* God and His Demons *(2010),* Democracy for the Few *(9th ed. 2011), and* The Face of Imperialism *(2011). For further information about his work, visit his website: www.michaelparenti.org.*

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Our Comment. Massacres may be *common* throughout history. Does that mean that they're *normal*? What lesson should we be drawing from this bit of history?

Élan

Change Is Happening Now

We Desperately Need a Twenty-First Century View of the Economy

By Nick Hanauer and Eric Beinhocker, evonomics, The Next Evolution of Economics, September 30, 2015

What prosperity is, where growth comes from, why markets work

For everyone but the top 1 percent of earners, the American economy is broken. Since the 1980s, there has been a widening disconnect between the lives lived by ordinary Americans and the statistics that say our prosperity is growing. Despite the setback of the Great Recession, the US economy more than doubled in size during the last three decades while middle-class incomes and buying power have stagnated. Great fortunes were made while many baby boomers lost their retirement savings. Corporate profits reached record highs while social mobility reached record lows, lagging behind other developed countries. For too many families, the American Dream is becoming more a historical memory than an achievable reality.

These facts don't just highlight the issues of inequality and the growing power of a plutocracy. They should also force us to ask a deeper set of questions about how our economy works – and, crucially, about how we assess and measure the very idea of economic progress.

How can it be that great wealth is created on Wall Street with products like credit-default swaps that destroyed the wealth of ordinary Americans – and yet we count this activity as growth? Likewise, fortunes are made manufacturing food products that make Americans fatter, sicker, and shorter-lived. And yet we count this as growth too – including the massive extra costs of health care. Global warming creates more frequent hurricanes, which destroy cities and lives. Yet the economic activity to repair the damage ends up getting counted as growth as well.

Our economic policy discussions are nearly always focused on making us wealthier and on generating the economic growth to accomplish that. Great debates rage about whether to raise or lower interest rates, or increase or decrease regulation, and our political system has been paralyzed by a bitter ideological struggle over the budget. But there is too little debate about what it is all for. Hardly anyone ever asks: What kind of growth do we want? What does "wealth" mean? And what will it do for our lives?

The Price of Everything, the Value of Nothing

The most basic measure we have of economic growth is gross domestic product. GDP was developed from the work in the 1930s of the American economist Simon Kuznets and it became the standard way to measure economic output following the 1944 Bretton Woods conference. But from the beginning, Kuznets and other economists highlighted that GDP was not a measure of prosperity. In 1959, noted American economist Moses Abramovitz cautioned that "we must be highly skeptical of the view that long-term changes in the rate of growth of welfare can be gauged even roughly from changes in the rate of growth of output."

In 2009, a commission of leading economists convened by President Nicolas Sarkozy of France and chaired by Nobel laureate Joseph Stiglitz reported on the inadequacies of GDP. They noted well-known issues such as the fact that GDP does not capture changes in the quality of the products (think of mobile phones over the past 20 years) or the value of unpaid labor (caring for an elderly parent in the home). The commission also cited evidence that GDP growth does not always correlate with increases in measures of well-being such as health or self-reported happiness, and concluded that growing GDP can have deleterious effects on the environment. Some countries have experimented with other metrics to augment GDP, such as Bhutan's "gross national happiness index."

Our issue isn't with GDP per se. As the English say, "It does what it says on the tin" – it measures economic activity or output. Rather, our issue is with the nature of that activity itself. Our question is whether the activities of our economy that are counted in GDP are truly enhancing the prosperity of our society.

Since the field's beginnings, economists have been concerned with why one thing has more value than another, and what conditions lead to greater prosperity – or social welfare, as economists call it. Adam Smith's famous diamond-water paradox showed that quite often the market price of a thing does not always reflect intuitive notions of its intrinsic value – diamonds, with little intrinsic value, are typically far more expensive than water, which is essential for life. This is of course where markets come into play – in most places, water is more abundant than diamonds, and so the law of supply and demand determines that water is cheaper.

After lots of debate about the nature of economic value in the nineteenth and early twentieth centuries, economists considered the issue largely settled by the mid-twentieth century. The great French economist Gerard Debreu argued in his 1959 *Theory of Value* that if markets are competitive and people are rational and have good information, then markets will automatically sort everything out, ensuring that prices reflect supply and demand and allocate everything in such a way that everyone's welfare is maximized, and that no one can be made better off without making someone else worse off. In essence, the market price of something reflects a collective judgment of the value of that thing. The idea of intrinsic value was always problematic because it was inherently relative and hard to observe or measure. But market prices are cold hard facts. If market prices provide a collective societal judgment of value and allocate goods to their most efficient and welfare-maximizing uses, then we no longer have to worry about squishy ideas like intrinsic value; we just need to look at the price of something to know its value.

Debreu was apolitical about his theory – in fact, he saw it as an exercise in abstract mathematics and repeatedly warned about over-interpreting its applicability to real-world economies. However, his work, as well as related work in that era by figures such as Kenneth Arrow and Paul Samuelson, laid the foundations for economists such as Milton Friedman and Robert Lucas, who provided a devastating critique of Keynesianism in the 1960s and '70s, and recent Nobel laureate Eugene Fama, who pioneered the theory of efficient markets in finance in the 1970s and '80s. According to the neoclassical theory that emerged from this era, if markets are efficient and thus "welfare-maximizing," then it follows that we should minimize any distortions that move society away from this optimal state, whether it is companies engaging in monopolistic behavior, unions interfering with labor markets, or governments creating distortions through taxes and regulation.

These ideas became the intellectual touchstone of a resurgent conservative movement in the 1980s and led to a wave of financial market deregulation that continued through the 1990s up until the crash of 2008. Under this logic, if financial markets are the most competitive and efficient markets in the world, then they should be minimally regulated. And innovations like complex derivatives *must* be valuable, not just to the bankers earning big fees from creating them, but to those buying them and to society as a whole. Any interference will reduce the efficiency of the market and reduce the welfare of society. Likewise the enormous pay packets of the hedge-fund managers trading those derivatives must reflect the value they are adding to society – they are making the market more efficient. In efficient markets, if someone is willing to pay for something, it must be valuable. Price and value are effectively the same thing.

Even before the crash, some economists were beginning to question these ideas. Robert Shiller of Yale University, who ironically shared this year's Nobel with Fama, showed in the early 1980s that stock market prices did not always reflect fundamental value, and sometimes big gaps could open up between the two. Likewise, behavioral economists like Daniel Kahneman began showing that real people didn't behave in the hyper-rational way that Debreu's theory assumed. Other researchers in the 1980s and '90s, even Debreu's famous co-author Arrow, began to question the whole notion of the economy naturally moving to a resting point or "equilibrium" where everyone's welfare is optimized.

An emerging twenty-first century view of the economy is that it is a dynamic, constantly evolving, highly complex system – more like an ecosystem than a machine. In such a system, markets may be highly innovative and effective, but they can sometimes be far from efficient. And likewise, people may be clever, but they can sometimes be far from rational. So if markets are not always efficient and people are not always rational, then the twentieth century mantra that price equals value may not be right either. If this is the case, then what do terms like value, wealth, growth, and prosperity mean?

Prosperity Isn't Money, It's Solutions

In every society, some people are better off than others. Discerning the differences is simple. When someone has more money than most other people, we call him wealthy. But an important distinction must be drawn between this kind of relative wealth and the societal wealth that we term "prosperity." What it takes to make a society prosperous is far more complex than what it takes to make one individual better off than another.

Most of us intuitively believe that the more money people have in a society, the more prosperous that society must be. America's average household disposable income in 2010 was $38,001 versus $28,194 for Canada; therefore America is more prosperous than Canada.

But the idea that prosperity is simply "having money" can be easily disproved with a simple thought experiment. (This thought experiment and other elements of this section are adapted from Eric Beinhocker's *The Origin of Wealth*, Harvard Business School Press, 2006.) Imagine you had the $38,001 income of a typical American but lived in a village among the Yanomami people, an isolated hunter-gatherer tribe deep in the Brazilian rainforest. You'd easily be the richest Yanomamian (they don't use money but anthropologists estimate their standard of living at the equivalent of about $90 per year). But you'd still feel a lot poorer than the average American. Even after you'd fixed up your mud hut, bought the best clay pots in the village, and eaten the finest Yanomami cuisine, all of your riches still wouldn't get you antibiotics, air conditioning, or a comfy bed. And yet, even the poorest American typically has access to these crucial elements of well-being.

And therein lies the difference between a poor society and a prosperous one. It isn't the amount of money that a society has in circulation, whether dollars, euros, beads, or wampum. Rather, it is the availability of the things that create well-being – like antibiotics, air conditioning, safe food, the ability to travel, and even frivolous things like video games. It is the availability of these "solutions" to human problems – things that make life better on a relative basis – that makes us prosperous.

This is why prosperity in human societies can't be properly understood by just looking at monetary measures of income or wealth. Prosperity in a society *is the accumulation of solutions to human problems.*

These solutions run from the prosaic, like a crunchier potato chip, to the profound, like cures for deadly diseases. Ultimately, the measure of a society's wealth is the range of human problems that it has found a way to solve and how available it has made those solutions to its citizens. Every item in the huge retail stores that Americans shop in can be thought of as a solution to a different kind of problem – how to eat, clothe ourselves, make our homes more comfortable, get around, entertain ourselves, and so on. The more and better solutions available to us, the more prosperity we have.

The long arc of human progress can be thought of as an accumulation of such solutions, embodied in the products and services of the economy. The Yanomami economy, typical of our hunter-gatherer ancestors 15,000 years ago, has a variety of products and services measured in the hundreds or thousands at most. The variety of modern America's economy can be measured in the tens or even hundreds of billions. Measured in dollars, Americans are more than 500 times richer than the Yanomami. Measured in access to products and services that provide solutions to human problems, we are hundreds of millions of times more prosperous.

Growth as the Rate of Solution Creation

If the true measure of the prosperity of a society is the availability of solutions to human problems, then growth cannot simply be measured by changes in GDP. Rather, *growth must be a measure of the rate at which new solutions to human problems become available.* Additionally, since problems differ in importance, a new view of growth also must take this into account; finding a universal flu vaccine is more important than creating a crunchier potato chip. But in general, economic growth is the actual experience of having one's life improved. Going from fearing death from a sinus infection one day to having access to life-saving antibiotics the next is *growth.* Going from sweltering in the heat one day to living with air conditioning the next is *growth.* Going from walking long distances to driving is *growth.* Going from needing to go to a library to look up basic information to having all the information in the world instantly available to you on your phone is *growth.* (Obviously, some solutions, like air conditioning, may create other problems, like global warming. How to make the trade-offs between solutions and problems is one of the central challenges of any society – an issue we will return to later in this essay.)

This all implies that we must find new ways to measure progress. In the same way that no good doctor would measure the health of a person by just one factor – her temperature, say – the economy shouldn't be measured with just GDP. No single metric such as GDP can capture the way in which economic activity is actually improving the lives of most citizens and the overall health of the economy.

It is not immediately obvious how the *rate* at which a society solves people's problems might be directly measured. However, there might be ways to do it indirectly. For example, we measure inflation by tracking the price of a basket of goods. What about measuring access to a "basket of solutions" to human problems? How many people have access to good nutrition, health care, education, housing, transportation, a clean environment, information, communications, and other things that make a tangible impact on the quality of life? We could also ask how the basket itself is changing over time as innovation yields new solutions – for example, solving the problem of getting information has dramatically improved with the development of the Web and smartphones. Growth and prosperity could then be measured as a combination of access to existing solutions and the addition of new solutions through innovations.

The UN's Millennium Development Goals, which include a number of measures such as gender equality, child mortality, and environmental sustainability, are an example of an attempt to gauge economic health and societal prosperity in a more multidimensional way. Such an approach could be expanded to include the idea of access to a basket of solutions. Likewise, the Organization for Economic Cooperation and Development (OECD) and the World Bank have been working on multidimensional approaches to determining the health of developed economies and already collect much of the data that would be needed to assess access to and innovation in a basket of solutions. Such measures will inevitably not be as neat and simple as GDP, but finding ways to measure both *the rate at which we solve new problems* and the degree to which *we make those solutions broadly accessible* is a more complete way to measure the health of our economy.

Capitalism: An Evolutionary, Problem-Solving System

If prosperity is created by solving human problems, then the key question for society is what kind of economic system will solve the most problems for the most people the fastest? We have centuries of evidence now that capitalist economies do better at delivering high standards of living to their citizens than do economies run by communist, authoritarian, or other nonmarket systems. The explanation for this in standard economics is that capitalism uses price signals to provide incentives to produce and allocate goods in a way that will maximize people's welfare. But if real-world markets are not the simple mechanistic systems imagined by thinkers of past centuries, but rather are complex, adaptive, and more like ecosystems, then the benefits of capitalism m ay be both different and greater than we imagined.

Every business is based on an idea about how to solve a problem, from the most mundane ("How do you make a potato chip crunchier?") to the most profound ("How do we make a new life-saving cancer drug?"). The process of converting great ideas into products and services that effectively fulfill fast-changing human needs is what defines most businesses. But effectively finding good solutions requires a system that provides incentives and allows for creativity and trial and error. A capitalist economy is best understood as an evolutionary system, constantly creating and trying out new solutions to problems in a similar way to how evolution works in nature. Some solutions are "fitter" than others. The fittest survive and propagate. The unfit die. The great economist Joseph Schumpeter called this evolutionary process "creative destruction." And he highlighted the importance of risk-taking entrepreneurs to make it work.

Thus, the entrepreneur's principal contribution to the prosperity of a society is an *idea that solves a problem.* These ideas are then turned into the products and services that we consume, and the sum of those solutions ultimately represents the prosperity of that society.

Making all but the simplest products and meeting customer demand usually require more than one person, so entrepreneurs with new solutions hire workers. Those jobs in turn provide the means for people to purchase products and services from other entrepreneurs, which then creates the demand that generates more hiring and jobs. This positive feedback loop is the central dynamic found in capitalist economies. The more power this feedback loop has, the more growth and prosperity the economy creates.

Capitalism's great power in creating prosperity comes from the evolutionary way in which it encourages individuals to explore the almost infinite space of potential solutions to human problems, and then scale up and propagate ideas that work, and scale down or discard those that don't. Understanding prosperity as solutions, and capitalism as an evolutionary problem-solving system, clarifies why it is the most effective social technology ever devised for creating rising standards of living.

Confusing Efficiency for Effectiveness

The orthodox economic view holds that capitalism works because it is *efficient.* But viewing the economy as an evolving complex system shows that capitalism works because it is *effective.* In fact, capitalism's great strength is its creativity, and interestingly, it is this creativity that by necessity makes it a hugely *inefficient* and wasteful evolutionary process. Near one of our houses is a site where each year, someone would open a restaurant only to see it fail a few months later. Each time, builders would come in, strip out the old furniture and decor, and put in something new. Then finally an entrepreneur discovered the right formula and the restaurant became a big hit, which it is to this day. Finding the solution to the problem of what the local residents wanted to eat wasn't easy and took several tries. Capitalism is highly effective at finding and implementing solutions but it inevitably involves trial and error that is rarely efficient.

A critical element of understanding capitalism as an evolutionary, problem-solving system is the idea that it is not how hard we try to solve a problem that is critical, but rather, as the University of Michigan theorist Scott Page has shown, it is the diversity of ideas and approaches that matters most in problem-solving effectiveness. This "difference principle" helps makes clear why open and fair markets, diversity, and inclusive institutions are signal features of successful economies.

This feature of successful capitalism also highlights why investing in the middle class with "middle-out" approaches to policy creates a healthier economy. [See "The Middle-Out Moment," Issue #29.] Even the best of us have only a few ideas. Bill Gates, our era's wealthiest entrepreneur, arguably had only one big idea. Giving wealthy people like him tax breaks will not suddenly encourage them to have more ideas. It is far better for our country to enable every citizen to participate in our capitalist economy by ensuring that they have the requisite education and access to capital and training to convert their ideas into products that solve the world's problems. A "middle-out" approach recognizes that effective policy is aimed at creating both new entrepreneurs with new ideas and more customers for those entrepreneurs. If workers have no money, businesses have no customers. Successful capitalist policies recognize and animate this circle-of-life feedback loop by balancing different elements in the economy to create a virtuous cycle of growth and shared prosperity.

The genius of capitalism is the way in which it rewards people for solving other people's problems. People who effectively solve large problems for a large number of other people can be massively rewarded. Steve Jobs made a lot of people's lives better through the products his company created, and he was highly rewarded for it. As Adam Smith observed 230 years ago, a thoughtfully managed and regulated capitalist economy harnesses people's self-interest to the broad interests of society.

It is this freedom and the incentives for every citizen to solve problems that explains why capitalist countries are rich and why authoritarian and communist countries are generally poor. In such countries the problem-solving creativity of people is either circumscribed, prohibited, or quite often directed at solving problems for the regime. The extraordinary difference between the poverty of communist North Korea and the prosperity of capitalist South Korea is a demonstration of this.

It's important to acknowledge, however, that not all solutions to human problems are created by entrepreneurs. A researcher at a university finding a new way to make computers work faster can solve an important problem just as readily as a capitalist (though it may take a capitalist to produce and spread the researcher's idea).

Likewise a teacher who finds a better way to teach algebra is also solving an important problem for society. So also is the diligent government worker who finds a way to deliver better services at lower cost to the public.

But the public sector sometimes struggles to create a culture and incentives that allow space for the experimentation, risk-taking, and failure that are essential to effective problem solving. Bureaucracies and political forces can stifle or distort evolutionary exploration. That said, there are numerous problems that only government can solve, ranging from the provision of public goods such as roads and other infrastructure, to dealing with externalities such as reducing pollution, enforcing property rights, providing security, and addressing social injustices. Realistically, the public sector is going to play a big role in many parts of the economy as well as in many aspects of society. So governments need to be problem solvers, too. It is imperative that we bring the evolutionary processes of problem solving inside the walls of government and build public institutions that have incentives to innovate and space to experiment.

The view that prosperity is solutions, and growth is the rate at which we create them, also makes more obvious the crucial importance of investments by governments in technology, innovation, and education. Technology and innovation are the cornerstones of any society's ability to generate new ideas and solutions. In most cases, it will be businesses and entrepreneurs who bring these solutions to citizens. But it will be the education of the workforce and the scientific, technical, and social innovations available to society that will empower these businesses. Thus, investments in R&D, innovation, and education are not luxuries made possible by growth and prosperity, as many policy-makers seem to believe. Rather, these investments are necessary to *create* growth and prosperity.

The Limits of Laissez-Faire

But the mere fact that communism and authoritarianism fail does not mean that unfettered capitalism succeeds. Traditional economic theory puts perfect markets on a pedestal, and any deviation makes someone worse off, reducing the welfare of society. But such perfect markets can't and don't exist in the real world. Furthermore, this view fails to recognize that the great genius of capitalism – solving people's problems – has by necessity a dark side: *The solution to one person's problem can in turn create a problem for someone else – or even for the same person.*

This is the age-old problem of political economy. How does an economic system resolve conflicts and distribute benefits? A fancy derivative product may help a corporate treasurer solve her problem of managing her company's risk, and it might make a banker rich, but it might also create a problem of greater systemic risk for the financial system as a whole. Likewise, eating a bacon cheeseburger may solve someone's problem of satisfying unconscious desires programmed by millennia of evolution, but might also create new problems of clogged arteries and a society burdened with that person's future health costs.

Overwhelming evidence from the fields of social psychology and behavioral economics shows us that people are not very good at managing these trade-offs, resolving conflicts, or recognizing interdependencies on their own. We overoptimistically believe that house prices will keep rising and that we can refinance when our low teaser rate expires. The corporate treasurer can't really see how her decision to buy a derivative might boomerang back on her own company and contribute to the collapse of the financial system.

Understanding prosperity and growth in this new way allows us to make important distinctions between different kinds of economic activity. We can now see the difference between "empty" or even "harmful" economic activity and "useful" economic activity. It becomes obvious that an engineer earning $100,000 per year who creates a technology to ensure that those in serious auto accidents walk away unharmed is creating prosperity. It is much harder to make the same case for a hedge-fund manager making $500 million per year doing high-frequency trading to seize on information advantages over ordinary investors. And if that high-frequency trading also makes the global economy more fragile, then that implies something even more damning about this activity.

It can be a challenge, however, to distinguish between "problem-solving" and "problem-creating" economic activity. And who has the moral right to decide? In the traditional framework, it was simple – people vote with their pocketbooks, and if an activity is valued by the market, it must be good. But when an activity solves a problem for some but creates a problem for others – or even the same person later on, or for future generations – who should decide what is good economic activity versus bad, and how?

The usual answer has been that government regulators get to decide. But like markets, regulators create problems as well as solve them. So we also need mechanisms to regulate the regulators. Democracy is the best mechanism humans have come up with for navigating the trade-offs and weaknesses inherent in problem-solving capitalism. Democracies allow the inevitable conflicts of capitalism to be resolved in a way that maximizes fairness and legitimacy, and broadly reflects the views of society.

Although regulation in economies is necessary, the costs to society in terms of restricting the freedom to innovate, invent, and compete can sometimes be high, as conservatives correctly point out. But it also needs to be recognized that sometimes new economic activity actually creates more problems than it solves and needs to be limited. At other times, new economic activity merely threatens the old order and should be encouraged. Finding the balance between these competing demands is difficult. Democratic governments are the only institution with the legitimacy and accountability to make such trade-offs, and that is why the corrosion of our democratic institutions by growing crony capitalism is so threatening to our long-term prosperity. It also means that those who truly care about capitalism should be more concerned about the quality and effectiveness of regulation rather than simply its quantity. [See "A Truer Form of Capitalism," Issue #29.]

But responsibility for finding the right balance rests not just with governments, but with citizens, too. Viewing prosperity as solutions to problems helps enable citizens to use common moral sense to more clearly discern which kinds of economic activity actually make their community better off versus activity that merely enriches some of its members. Just as the neoliberal orthodoxy of the late twentieth century led to important shifts in popular culture and beliefs, we believe that new views of economics and a new definition of prosperity have the potential to change our culture, too.

Today our culture celebrates money and wealth as the benchmarks of success. Imagine if instead we celebrated innovative solutions to human problems.

There are places where such an imperative prevails – for example, the MIT Media Lab, where highly talented people from around the world work tirelessly to solve the most challenging problems they can find, such as using robotics to help disabled people, or using information technology to increase civic engagement, or designing more sustainable cities. They might not necessarily make big money doing it, but they have defined their status in terms of solving big, hairy problems to help people and society.

In contrast, 200 miles south of MIT on Wall Street, an equally talented group of people measures status based on the size of their paychecks. Many of these people may do great things for society too – including help the MIT geeks commercialize their inventions – but the culture and values are noticeably different.

Traditional economic orthodoxy makes the people at MIT seem irrational and the Wall Street people seem rational. Our definition of wealth and prosperity reverses this. Solving problems that benefit people is the goal, not making money. Making money might be a necessary condition for solving many problems – businesses need profits to endure and grow. But saying profits are the goal confuses means and ends. Treating profits as the goal is like saying that the purpose of life is to eat – our bodies need food, but it is a means to other ends, not the goal itself.

There are enormous moral implications that grow out of redefining prosperity. We have neither the space, nor frankly, the ability to deal with all those questions here. But we do believe that the obvious moral implications of judging economic activity by the social value of the problem it solves, rather than the money it earns for particular individuals, may lead to cultural and behavioral shifts exceeding the influence of any regulation.

Prosperity and Inequality

Capitalism may be humankind's greatest problem-solving system, but this view says little about how the benefits of such problem solving might be distributed. In any complex society, initial advantages and disadvantages abound – where you are born, who your parents are, what education you had, what opportunities and barriers you face, and so on. One of the great attractions of capitalism is that it doesn't care who your parents are – if you solve a big problem for a lot of people, you can be highly rewarded. Capitalist societies have real Horatio Alger stories. But at the same time, the dynamics and path dependency of capitalism can reinforce starting advantages and disadvantages. Work by Nobel laureate James Heckman and the INET Human Capital and Economic Opportunity initiative at the University of Chicago's Becker Friedman Institute shows how factors such as early childhood nutrition and education can have compounding economic consequences that last through adult life.

Traditional economics looks at inequality through a monetary lens – for example, what share of total income the top 1 percent have. But we can also look at it as a question of access to solutions to human problems. What percentage of the population has access to good housing, transport, health care, entertainment, and so on? How does the quality of that access differ between the rich and the poor? Matt Ridley in his book *The Rational Optimist* makes the strong argument that viewed from this perspective, things have become both significantly better and significantly more equal – particularly when seen against the long sweep of history. The gap in nutrition between a lord and a serf in the Middle Ages was immense. Meanwhile, Warren Buffet's nutritional intake is unlikely to be much better than that of the average middle-class American (in fact, it may be worse, as Buffett is a self-confessed lover of cheeseburgers and Coke). Likewise, Donald Trump may own a number of very nice TVs, but more than half the homes in the United States now have three or more TVs. This narrowing of the gap in material prosperity has happened not just in America but in developing countries as well, as more than a billion Chinese and Indian citizens are entering the global middle class and gaining access to important solutions like indoor plumbing, mobile phones, and motorized transportation.

Inequality as an outcome may actually look less severe than it does from traditional money-based measures. But if we consider inequality not just as an outcome but as an *input* into a capitalist system, things look more problematic – in particular, if it is limiting access to opportunities. As discussed, effective capitalism depends on a population of competitive, diverse problem solvers. If society is not making adequate investments in that population and providing equality of access to opportunities, the circle-of-life feedback loop of growing prosperity is broken. In a recently released international survey of skills of the adult population by the OECD – the first of its kind – the United States ranked 21st out of 23 countries in numeracy, and 14th out of 19 in "problem solving in a technology-rich environment." Most striking was how polarized the results were for the United States. Unlike any other country in the survey, the United States had more people in both the very top and very bottom rankings for many categories. Likewise, most countries saw higher skill levels in younger versus older survey respondents. In contrast, the younger generation in the United States performed roughly the same as older Americans. Decades of underinvestment in the skills of the middle class threaten to stall America's capitalist engine of prosperity.

Concentrating money in the hands of fewer and fewer people has further deleterious effects. It allows the richest people to bid up the price of the things in society that define the good life, such as housing, education, and health care. And concentrating money and wealth also slows down the feedback loop between consumers and businesses, limiting the dynamics of innovation, problem solving, growth, and prosperity. Finally, it also undermines the political legitimacy of capitalism itself.

Prosperity, Growth, and the American Dream

Americans are correct to believe that capitalism has been the source of our historical prosperity. But *knowing* that it works is different than understanding *how and why* it works. Our ancient ancestors *knew* that the stars and planets moved in the sky. But it was the revolutionary Copernican perspective that replaced the Earth with the Sun at the center of the solar system and Newton's laws of gravitation that enabled people to understand *how and why* they move.

Traditional economic orthodoxy assumes that markets are efficient, people are rational, and economies naturally move to an optimal state. But we now understand that markets can be far from efficient, people are not always rational, and the economy is a complex, dynamic, evolutionary problem-solving system – more like an interdependent ecosystem than an efficient machine. This recent Copernican-like shift in perspective provides a powerful new framework for understanding *how and why* capitalism works, what wealth *truly* is, and where growth comes from. This twenty-first-century way to understand economics allows us to understand capitalism as an *evolutionary problem-solving system.* It allows us to see that the *solutions* capitalism produces are what create real prosperity in people's lives, and the *rate* at which we create solutions is true economic growth. This perspective also allows us to see that good moral choices will be the ones that create true prosperity.

This new perspective also makes obvious why both the laissez-faire policies of the far right and the statism of the far left fail. Policies that provide opportunities for all citizens to fulfill their potential, and investments that enable them to expand their potential, are the surest ways to animate prosperity and growth. Recognizing the ecosystem-like nature of economies highlights the essential feedback loop between businesses and customers. Policy must aim to create customers as well as entrepreneurs, and to create as many of these feedback loops as possible.

We must have the courage to enact policies that are good for capitalism broadly, not policies that benefit a few capitalists narrowly. There can be an immense difference. We must recognize that a thriving middle class isn't a *consequence* of growth, but rather, the *cause* of growth and prosperity.

Measuring the number, quality, and availability of solutions to human problems rather than just GDP alone could have a radically positive effect on our economy and the lives of our citizens. By creating incentives for problem solving and disincentives for problem creation, we would focus the nation's incredible creativity and energy on the things that truly make our lives better. The market failures, moral failures, collective-action problems, and externalities that plague our economy and our lives today would be moderated as we refocused on the quality of growth, not just the quantity. Resolving the tension that orthodox economic thinking creates between a moral world and a prosperous one could unite us around a new set of economic and social principles. Seeing prosperity as the contribution we make to our community reveals economic malfeasance and rent seeking more clearly for what they are, while reaffirming the age-old lessons of our faiths and moral traditions.

Our great country is knit together by the American Dream, the idea that if we work hard and play by the rules we will have a better life than our parents, and that our children will have a better life than we did. Indeed, the golden age of American capitalism in the 1950s and '60s was not so much marked by the accumulation of great fortunes, but by the massive dispersal of new solutions to human problems that virtually every American family enjoyed – houses, cars, televisions, dishwashers, and good schools. It was also a period of great investment in research and infrastructure, and a period of opening up of opportunities to minorities and women that greatly increased the diversity and problem-solving power of our society. We believe deeply in the core idea of the American Dream – not just because it is a moral imperative, but also because it is the surest way to build prosperity for every American.

Our Comment

Making a Silk Purse out of a Sow's Ear?

What a stimulating, timely invitation to *think* about this pressing issue!

The very title identifies what is perhaps our most essential problem, expresses the urgency of the matter, and raises the first question.

Is a *view* of the economy what we need, or is that simply a preliminary step to what we "desperately need" – a 21st century *political economy*? In short, is it possible to update the present system? Or would that be trying to "make a silk purse out of a sow's ear"?

While there are many valid observations made here, good questions raised and criticisms levelled, this article is, on the whole, an apologia for capitalism. It argues that capitalism is an "evolutionary, problem-solving system" that, despite its weaknesses, is our best bet, as long as we recognize its shortcomings and control its excesses through regulation and in the light of new insights into complexity and systems thinking. Given that, the authors contend, capitalism may yield "benefits…different and greater than we imagined."

In *Philosophy in a New Key,* Suzanne Langer develops the theme that, while western science has made possible remarkable accomplishments, its scientific methods – pigeonholing knowledge – has caused us to lose track of the connectedness of things and so let us down a garden path in terms of understanding reality.

Nowhere is this more true than in Economics!

Join COMER's exploration of this and other important themes, as we expand our website, and develop a program to more effectively promote monetary and economic reform! Stay tuned!

World Bank economist, Herman Daly (*For The Common Good: Redirecting the Economy Toward Community, the Environment and a Sustainable Future*, Herman E. Daly and John B. Cobb Jr.), applies this criticism specifically to economics – accounting thereby for its disconnect from reality, and developing "an alternative approach to the economy. Instead of shaping the study to the requirements of a science, this approach proposes that reflection be ordered to the needs of the real world" (Daly and Cobb, p. 20).

He contends that "we human beings are being led to a *dead* end – all to literally. We are living by an ideology of death and accordingly we are destroying our own humanity and killing the planet" (Daly and Cobb, p. 21).

He points out that "the work of Adam Smith and other early British economists had a strong historical and humanistic component" (Daly and Cobb, p. 28).

He notes that "Adam Smith lived and thought before the effort had been made to organize all knowledge into disciplines. He saw the economy as being part of the whole of humanity, and he investigated it historically and empirically" (Daly and Cobb, p. 32). *For The Common Good* is about "establishing economics for community" which, Daly says, is "precisely the feature of reality that has been most consistently abstracted from in modern economics" (Daly and Cobb, p. 43).

The contention that capitalism is an evolutionary problem-solving system that can be geared to new purpose is open to question.

It would be interesting to research the history of capitalism with respect to what problems it has solved and what problems it has created, exaggerated or simply ignored.

The eminent economist, John Kenneth Galbraith wrote, in the early '70s, that the system must be changed, and that the first step would be "the emancipation of belief" (*Economics and the Public Purpose*, John Kenneth Galbraith).

Nick Hanauer and Eric Beinhocker have brought our attention to many of the reasons change is a must, and to the potential for change, as they see it.

They cite disconnects between reality and statistics, like those that misrepresent the health of the economy. They recognize the need to make careful distinctions like that between price and value, to re-examine prevailing ideas and beliefs like the notion that if someone is willing to pay for something it must be valuable. They acknowledge significant flaws in the prevailing economic theory, like the idea of "equilibrium." They assert that "perfect markets can't and don't exist in the real world." They also make debating "about what it's all for," a priority.

While they realize that politics and economics are two sides of the same coin, and acknowledge the threat in "unfettered" capitalism – although they raise the question, "how does an economic system resolve and distribute benefits?," accepting that the system "has by necessity a dark side," they oversimplify our situation when they suggest that with a new view and some regulations, the present system can solve our problems.

For example, they explain that "an emerging twenty-first century view of the economy is that it is a dynamic, constantly evolving, highly complex system – more like an ecosystem than a machine." But they fail to take into account that systems can also break down. John McMurtry has argued that capitalism has devolved into "the cancer stage" (*The Cancer Stage of Capitalism*, John McMurtry). A sub-system, he explains, the financial sector, is "killing the host" (*Killing the Host*, Michael Hudson).

Neither do they address the problem of power, except to note its existence and the need to rein it in.

Valiant efforts have persisted through time to do that – notably after the Great Depression. Reform measures like those of the New Deal have afforded only temporary relief. Any that survived that critical period have been summarily dismantled or defused during the past three or four decades.

Can the proposed transformation happen without these new 21st Century insights being shared by those in whose self-interest the present system operates as it is? How likely is that? Indeed, is not the final step in the transfer of sovereign power from national governments to banks upon us, in the current thrust to establish the cashless society? (This would eliminate the difference between government-created money and money created by private banks.)

One could hardly expect to exhaust the implications of these matters in an article.

This one, however, includes a wide range of related items that raise questions that should generate much needed interest and discussion!

Can we fix it? Or is it time for a new model – one that recognizes the difference between price and value – one that begins with the identification of what we value and ends in a political economy that reflects these values?

Perhaps the answer lies in where *we* are in *our* evolution at this point.

Élan

The Populist Revolution: Bernie and Beyond

By Ellen Brown, Huffpost Business, January 27, 2016

The world is undergoing a populist revival. From the revolt against austerity led by the Syriza Party in Greece and the Podemos Party in Spain, to Jeremy Corbyn's surprise victory as Labour leader in the UK, to Donald Trump's ascendancy in the Republican polls, to Bernie Sanders' surprisingly strong challenge to Hillary Clinton – contenders with their fingers on the popular pulse are surging ahead of their establishment rivals.

Today's populist revolt mimics an earlier one that reached its peak in the US in the 1890s. Then it was all about challenging Wall Street, reclaiming the government's power to create money, curing rampant deflation with US Notes (Greenbacks) or silver coins (then considered the money of the people), nationalizing the banks, and establishing a central bank that actually responded to the will of the people.

Over a century later, Occupy Wall Street revived the populist challenge, armed this time with the Internet and mass media to spread the word. The Occupy movement shined a spotlight on the corrupt culture of greed unleashed by deregulating Wall Street, widening the yawning gap between the 1% and the 99% and destroying jobs, households and the economy.

Donald Trump's populist campaign has not focused much on Wall Street; but Bernie Sanders' has, in spades. Sanders has picked up the baton where Occupy left off, and the disenfranchised Millennials who composed that movement have flocked behind him.

The Failure of Regulation

Sanders' focus on Wall Street has forced his opponent Hillary Clinton to respond to the challenge. Clinton maintains that Sanders' proposals sound good but "will never make it in real life." Her solution is largely to preserve the status quo while imposing more bank regulation.

That approach, however, was already tried with the *Dodd-Frank Act*, which has not solved the problem although it is currently the longest and most complicated bill ever passed by the US legislature. Dodd-Frank purported to eliminate bailouts, but it did this by replacing them with "bail-ins" – confiscating the funds of bank creditors, including depositors, to keep too-big-to-fail banks afloat. The costs were merely shifted from the people-as-taxpayers to the people-as-creditors.

Worse, the massive tangle of new regulations has hamstrung the smaller community banks that make the majority of loans to small and medium sized businesses, which in turn create most of the jobs. More regulation would simply force more community banks to sell out to their larger competitors, making the too-bigs even bigger.

In any case, regulatory tweaking has proved to be an inadequate response. Banks backed by an army of lobbyists simply get the laws changed, so that what was formerly criminal behavior becomes legal. (See, for example, CitiGroup's redrafting of the "push out" rule in December 2015 that completely vitiated the legislative intent.)

What Sanders is proposing, by contrast, is a real financial revolution, a fundamental change in the system itself. His proposals include eliminating Too Big to Fail by breaking up the biggest banks; protecting consumer deposits by reinstating the *Glass-Steagall Act* (separating investment from depository banking); reviving postal banks as safe depository alternatives; and reforming the Federal Reserve, enlisting it in the service of the people.

Time to Revive the Original Populist Agenda?

Sanders' proposals are a good start. But critics counter that breaking up the biggest banks would be costly, disruptive and destabilizing; and it would not eliminate Wall Street corruption and mismanagement.

Banks today have usurped the power to create the national money supply. As the Bank of England recently acknowledged, banks create money whenever they make loans. Banks determine who gets the money and on what terms. Reducing the biggest banks to less than $50 billion in assets (the Dodd-Frank limit for "too big to fail") would not make them more trustworthy stewards of that power and privilege.

How can banking be made to serve the needs of the people and the economy, while preserving the more functional aspects of today's highly sophisticated global banking system? Perhaps it is time to reconsider the proposals of the early populists. The direct approach to "occupying" the banks is to simply step into their shoes and make them public utilities. Insolvent megabanks can be nationalized – as they were before 2008. (More on that shortly.)

Making banks public utilities can happen on a local level as well. States and cities can establish publicly-owned depository banks on the highly profitable and efficient model of the Bank of North Dakota. Public banks can partner with community banks to direct credit where it is needed locally; and they can reduce the costs of government by recycling bank profits for public use, eliminating outsized Wall Street fees and obviating the need for derivatives to mitigate risk.

At the federal level, not only can postal banks serve as safe depositories and affordable credit alternatives, but the central bank can provide is it just a source of interest-free credit for the nation – as was done, for example, with Canada's central bank from 1939 to 1974. The US Treasury could also reclaim the power to issue, not just pocket change, but a major portion of the money supply – as was done by the American colonists in the 18th century and by President Abraham Lincoln in the 19th century.

Nationalization: Not As Radical As It Sounds

Radical as it sounds today, nationalizing failed megabanks was actually standard operating procedure before 2008. Nationalization was one of three options open to the FDIC when a bank failed. The other two were (1) closure and liquidation, and (2) merger with a healthy bank.

Most failures were resolved using the merger option, but for very large banks, nationalization was sometimes considered the best choice for taxpayers.

The leading US example was Continental Illinois, the seventh-largest bank in the country when it failed in 1984. The FDIC wiped out existing shareholders, infused capital, took over bad assets, replaced senior management, and owned the bank for about a decade, running it as a commercial enterprise.

What was a truly radical departure from accepted practice was the unprecedented wave of government bailouts after the 2008 banking crisis. The taxpayers bore the losses, while culpable bank management not only escaped civil and criminal penalties but made off with record bonuses.

In a July 2012 article in *The New York Times* titled "Wall Street Is Too Big to Regulate," Gar Alperovitz noted that the five biggest banks – JPMorgan Chase, Bank of America, Citigroup, Wells Fargo and Goldman Sachs – then had combined assets amounting to more than half the nation's economy. He wrote:

"With high-paid lobbyists contesting every proposed regulation, it is increasingly clear that big banks can never be effectively controlled as private businesses. If an enterprise (or five of them) is so large and so concentrated that competition and regulation are impossible, the most market-friendly step is to nationalize its functions….

"Nationalization isn't as difficult as it sounds. We tend to forget that we did, in fact, nationalize General Motors in 2009; the government still owns a controlling share of its stock. We also essentially nationalized the American International Group, one of the largest insurance companies in the world, and the government still owns roughly 60 percent of its stock."

A more market-friendly term than nationalization is "receivership" – taking over insolvent banks and cleaning them up. But as Dr. Michael Hudson observed in a 2009 article, real nationalization does not mean simply imposing losses on the government and then selling the asset back to the private sector. He wrote:

"Real nationalization occurs when governments act in the public interest to take over private property…. Nationalizing the banks along these lines would mean that the government would supply the nation's credit needs. The Treasury would become the source of new money, replacing commercial bank credit. Presumably this credit would be lent out for economically and socially productive purposes, not merely to inflate asset prices while loading down households and business with debt as has occurred under today's commercial bank lending policies."

A Network of Locally-Controlled Public Banks

"Nationalizing" the banks implies top-down federal control, but this need not be the result. We could have a system of publicly-owned banks that were locally controlled, operating independently to serve the needs of their own communities.

Continued on page 16

The New Geo-Economics

Joseph Stiglitz, www.socialeurope.eu/2016/01/the-new-geo-economics

Last year was a memorable one for the global economy. Not only was overall performance disappointing, but profound changes – both for better and for worse – occurred in the global economic *system.*

Most notable was the Paris climate agreement reached last month. By itself, the agreement is far from enough to limit the increase in global warming to the target of 2º Celsius above the pre-industrial level. But it did put everyone on notice: The world is moving, inexorably, toward a green economy. One day not too far off, fossil fuels will be largely a thing of the past. So anyone who invests in coal now does so at his or her peril. With more green investments coming to the fore, those financing them will, we should hope, counterbalance powerful lobbying by the coal industry, which is willing to put the world at risk to advance its shortsighted interests.

Indeed, the move away from a high-carbon economy, where coal, gas, and oil interests often dominate, is just one of several major changes in the global geo-economic order. Many others are inevitable, given China's soaring share of global output and demand. The New Development Bank, established by the BRICS (Brazil, Russia, India, China, and South Africa), was launched during the year, becoming the first major international financial institution led by emerging countries. And, despite US President Barack Obama's resistance, the China-led Asian Infrastructure Investment Bank was established as well, and is to start operation this month.

The US did act with greater wisdom where China's currency was concerned. It did not obstruct the renminbi's admission to the basket of currencies that constitute the International Monetary Fund's reserve asset, Special Drawing Rights (SDRs). In addition, a half-decade after the Obama administration agreed to modest changes in the voting rights of China and other emerging markets at the IMF – a small nod to the new economic realities – the US Congress finally approved the reforms.

The most controversial geo-economic decisions last year concerned trade. Almost unnoticed after years of desultory talks, the World Trade Organization's Doha Development Round – initiated to redress imbalances in previous trade agreements that favored developed countries – was given a quiet burial. America's hypocrisy – advocating free trade but refusing to abandon subsidies on cotton and other agricultural commodities – had posed an insurmountable obstacle to the Doha negotiations. In place of global trade talks, the US and Europe have mounted a divide-and-conquer strategy, based on overlapping trade blocs and agreements.

As a result, what was intended to be a global free-trade regime has given way to a discordant managed-trade regime. Trade for much of the Pacific and Atlantic regions will be governed by agreements, thousands of pages in length and replete with complex rules of origin that contradict basic principles of efficiency and the free flow of goods.

The Worst Trade Agreement in Decades

The US concluded secret negotiations on what may turn out to be the worst trade agreement in decades, the so-called Trans-Pacific Partnership (TPP), and now faces an uphill battle for ratification, as all the leading Democratic presidential candidates and many of the Republicans have weighed in against it. The problem is not so much with the agreement's trade provisions, but with the "investment" chapter, which severely constrains environmental, health, and safety regulation, and even financial regulations with significant macroeconomic impacts.

In particular, the chapter gives foreign investors the right to sue governments in private international tribunals when they believe government regulations contravene the TPP's terms (inscribed on more than 6,000 pages). In the past, such tribunals have interpreted the requirement that foreign investors receive "fair and equitable treatment" as grounds for striking down new government regulations – even if they are non-discriminatory and are adopted simply to protect citizens from newly discovered egregious harms.

While the language is complex – inviting costly lawsuits pitting powerful corporations against poorly financed governments – even regulations protecting the planet from greenhouse-gas emissions are vulnerable. The only regulations that appear safe are those involving cigarettes (lawsuits filed against Uruguay and Australia for requiring modest labeling about health hazards had drawn too much negative attention). But there remain a host of questions about the possibility of lawsuits in myriad other areas.

Furthermore, a "most favored nation" provision ensures that corporations can claim the best treatment offered in any of a host country's treaties. That sets up a race to the bottom – exactly the opposite of what US President Barack Obama promised.

Even the way Obama argued for the new trade agreement showed how out of touch with the emerging global economy his administration is. He repeatedly said that the TPP would determine who – America or China – would write the twenty-first century's trade rules. The *correct* approach is to arrive at such rules *collectively,* with all voices heard, and in a *transparent* way. Obama has sought to perpetuate business as usual, whereby the rules governing global trade and investment are written by US corporations for US corporations. This should be unacceptable to anyone committed to democratic principles.

Those seeking closer economic integration have a special responsibility to be strong advocates of global governance reforms: If authority over domestic policies is ceded to supranational bodies, then the drafting, implementation, and enforcement of the rules and regulations has to be particularly sensitive to democratic concerns. Unfortunately, that was not always the case in 2015.

In 2016, we should hope for the TPP's defeat and the beginning of a new era of trade agreements that don't reward the powerful and punish the weak. The Paris climate agreement may be a harbinger of the spirit and mindset needed to sustain genuine global cooperation.

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Our Comment. Why do we let corporations rule the world?! Is *anyone* keeping track of the benefits and losses resulting from our many "free trade" deals?! (Not to mention who gets which!) *Élan*

Psst, Trudeau: IMF Now Pegs Our Fossil Fuel Subsidies at $46 Billion

By Mitchell Anderson, Today, TheTyee.ca; February 1, 2016

Fastest way to transition Canada to a green economy? Quit the giveaways.

Justin Trudeau has a problem. How can Canada meet our international climate commitments so recently inked in Paris with an increasingly empty economic larder? The International Monetary Fund may have the answer. Last summer, the IMF updated its global report on energy subsidies and found that Canada provides a whopping $46.4 billion in subsidies to the energy sector in either direct support or uncollected taxes on externalized costs.

Globally, this figure balloons to US$5.3 trillion or 6.5 percent of the world's GDP. To put that enormous sum in perspective, the global giveaway to the energy sector amounts to 40 times more money than is contributed in aid to the world's poorest people.

To be clear, the IMF is including all untaxed externalized costs of energy use under their definition of subsidies. The figures flagged for Canada still include $1.4 billion in direct "pre-tax" subsidies – the kind of direct public giveaways that Trudeau campaigned to eliminate. The remaining $44.6 billion is in the form of externalized costs to society from dirty and dangerous fossil fuels – things like air pollution, traffic congestion and climate change.

I realize that the folks at the Fraser Institute might get rankled by such a broad definition of subsidies by those pinkos at the IMF, and in fact they already have. But as they say in business, there's no free lunch, so why should all taxpayers have to pick up the tab for very real costs resulting from our ongoing addiction to fossil fuels?

Let's get down to brass tacks. How much money is being left on the table in favour of the fossil fuel sector? According to IMF economists, Canadian carbon-based fuels should be taxed an additional $17.2 billion annually to compensate for climate change, $6 billion for air pollution, $14.9 billion for traffic congestion and $2.1 for traffic accidents. Tacking on another $3.5 billion for uncollected value-added taxes, $880 million for road damage and of course the $1.4 billion in direct subsidies, we arrive at almost $50 billion annually that could help transition to a greener economy.

That's a Lot of Subway

And what could Canada do with another $46 billion each year? In terms of badly needed public transit, we could immediately pay for both the new Broadway SkyTrain line and the Bloor Street subway extension in Toronto, and still have $40 billion left over. There are also 120 kilometres of proposed light rail projects in the country we could finally build and only be down to $35 billion. Remember, these badly needed infrastructure investments are one-time expenses and the subsidies identified by the IMF rack up every year.

Other urgent needs include building and maintaining affordable housing, estimated to be about $3 billion annually. The public portion of a national pharmacare program might amount to an extra $1 billion each year (though it could also save us money too). That still leaves billions of annual public revenue that could provide tax relief to those shifting away from fossil fuels as well as transition training for displaced workers in our beleaguered oil sector.

So is Ottawa going to eliminate all $48 billion in giveaways identified by the IMF? Of course not. Politics is the art of the possible, and public opinion – while heading in the right direction – is not there yet.

For instance, $30 billion of our total subsidies flagged by the IMF are for petroleum. Canadians buy around 58 billion litres of gas and diesel each year. Covering all externalized costs of that fuel use would require additional taxes of about $0.50 per litre, a tall order even for a politician of Trudeau's current popularity.

Stop the Hosing

But if the sticking point of getting to full-cost pricing on transportation fuels is public resistance, let's have a hard look at current pump prices. Crude has plunged more than two-thirds in the last 18 months when the average price for regular unleaded in Canada was $1.30 per litre and oil was at $110 per barrel.

And today when West Texas Intermediate is hovering around $30? Pump prices have come down a mere 32 percent. In fact, national gas prices are now four cents per litre more than they were a year ago when crude was $20 per barrel higher. Meanwhile in the US, retail gas prices have plunged to half of what they were in 2014. What's going on?

It's not just you and me getting hosed at the pump; it's progressive energy policy. If retail gas prices fell half as much as crude has, or even in line with current pricing across the border, there would be a lot more room to include the full cost of our energy use without imposing historically high costs on consumers.

Strangely, the integrated oil companies who control Canadian extraction rights, refinery infrastructure and retail gas outlets seem to have other priorities. It's not just the interests of consumers that Ottawa should have in mind when considering acting on potential price gouging at the pumps – it is getting ripped off, too. Obviously oil companies would like to subsidize their failing upstream operations by padding their refinery margins and the federal government needs to act quickly to ensure we all aren't taking a bath.

Can't Cry Poverty

Let's look at the rest of the energy mix. The IMF says we should be taxing natural gas consumption by another $10.8 billion annually. Current prices are near historic lows, less than 20 percent of what they were in 2008. Canadians use about 4.3 billion GJ of natural gas each year. Raising $10.8 billion of additional tax revenue would result in industry and consumers paying the same price they did in 2011, which was cheaper than it was at any time in the preceding decade. Let's do it.

Which brings us to coal, the dirtiest of fuels. IMF analysts say we are under-taxing coal consumption by $4.92 billion – incidentally about the same amount as Canada provided in foreign aid in 2014. I'm not even going to bother to crunch the numbers. This climate-killing 19th century fuel is rapidly going the way of the dodo bird and should be taxed without mercy.

But shouldn't we be going easy on the fossil fuel industry, which is obviously going through some hard times? Nonsense. Of course we need to scale up support for the thousands of workers displaced from a collapsing oilsands sector and help them transition to more sustainable careers. But the corporate entities masquerading as humans under the law and their investors that made bad bets on global commodity prices should take their lumps in the marketplace like the proud free traders they are.

There is plenty of money on the table to transition to a greener economy, and the best way of getting there (and paying for it) is to rapidly move to full cost accounting for carbon based fuels.

Trudeau has so far taken the Canadian political scene by storm, and he should continue to act boldly on the energy-pricing file. And if some vocal vested interests in the fossil fuel sector don't like it, they can take it up with those woolly headed hippies over at the IMF.

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Our Comment. Speaking of "the art of possible," why not tax not; use government-created money, instead, for subsidies that will inspire the development of alternatives to fossil fuels? *Élan*

Krugman versus Sanders

By Peter Radford, Real-World Economics Review Blog, February 21, 2016

Paul Krugman seems to be spending an awful lot of his time nowadays trying to discredit Bernie Sanders. The last two of his blog entries at *The New York Times* are devoted to explaining why Sander's extravagant claims are wrong and potentially damaging to the Democratic cause.

I can understand why Krugman is so vexed. What I don't understand is why he seems so unable to understand why so many people are embracing Sander's message.

To me it is obvious: the so-called "wonkery" that Krugman loves both to indulge in and to explain to us lesser souls is precisely what has created the world in which we live. So if we are dissatisfied with that world we, to put it mildly, are being consistent if we want to toss overboard that jargon laden, leaden souled, wonkish stuff.

Now, I am equally sure that Krugman will retort that his version of the wonkery is not the cause of our woes. He would, I am sure, point to the right wing economics of that part of the mainstream currently exerting influence, and explain that it's all the fault of those who advocate the mysticism of markets to be found in that part of the mainstream.

Except, of course, that Krugman is hardly an outsider. He has taken great pains to explain to us all in the past few years that what he calls "textbook" economics is perfectly capable of both diagnosing and curing what ails the economy. It's just that, according to him, right wing politicians apparently haven't read the textbook. Krugman is thus more an apologist for a tweaked version of the mainstream than he is an advocate of a more radical revision of it.

In this regard he is hardly alone. Last week's revelation that four recent so-called left of center economists, all of whom have lead the Council of Economic Advisors to the President [CEA], wrote an open letter to the Sanders campaign decrying the heresy of Sanders with respect to conventional economic thought added fuel to Krugman's fire. See, he told us, it isn't just me, these other people are serious economists and they agree with me.

Serious economists.

Krugman is someone who has made quite a reputation debunking the wisdom of what he calls "serious people" who are those advocating policies he disagrees with, but who are seen as expert by the Washington establishment and its media critics. All through the Obama era Krugman has lambasted such serious people – think, for example, of Simpson and Bowles – for proffering advice based upon their accumulated wisdom, but which Krugman disagrees with. And, more often or not, Krugman has opposed that advice based upon what he calls "macro 101" or the "textbook."

In other words, throughout the recent intellectual and political conflicts over economic policy, Krugman has steadfastly defended what he sees as textbook economics. Which in his case is a much watered down version of Keynes via John Hicks.

Somehow, though, Bernie Sanders has hit upon something. A controversial something. He has energized a whole slew of Democrats with a much more radical version of the Democratic vision, one that harkens back to a pre-Reagan New Deal era.

Let me quote Obama on Reagan: "I think Ronald Reagan changed the trajectory of America in a way that…Richard Nixon did not and in a way that Bill Clinton did not."

Obama said this back in 2008 in an interview in Nevada.

It is an indisputable truth. Reagan did change America. Radically. Profoundly. And he eviscerated the Democrats by so doing. His legacy is as much the loss of the New Deal basis for the left in America as it is the modern Republican party. More to the point for us: Reagan's rise coincided with the dramatic loss of direction in economics. It was the moment that the ascendancy of market magic and all the mysticism associated with it seduced a generation of economists and sent the bulk of the profession off into irrelevancy. Lost in that tide were a few, like Krugman, who clung to a slightly more useful version of economics. And it was these few who then emerged as the core advisory group to the newly neutered and reoriented Democratic party. Hence the letter I mentioned above.

Now the befuddlement of Krugman-like analysts comes into focus: they, like Hillary Clinton, have dedicated their lives to tinkering with the Reagan era and in modest disagreement with its right wing economist enablers. So overwhelmed were they by the radical success of Reaganism and that of its right wing economics, and so difficult has it been for them to mount even a modest counter-attack on them, that they have become unable to conceive of a more radical line of attack. They have become so bogged down in eking out tiny nudges here and there, in endless battles over minor fine details, and in the expenditure of enormous amounts of energy to take back a single yard of lost ground, that they can no longer think in grand terms.

Indeed the very thought of a radical move to the left is anathema to them. They see everything through the lens of their initial epic defeat. They have been absorbed by the very thing they espouse opposition to, and now justify their ineffective opposition by retreating into ultra-pragmatism.

Their attacks on Sanders are not based on ideological difference so much as on practicality. Bernie Sanders, we are told, cannot execute on his proposals because they will stir up such a reaction on the right that we will lurch along in ever greater gridlock and no progress will be made at all. It is thus better, so they tell us, to nudge around a little more and be content with a few scraps of progress. "A half loaf is better than no loaf" has become their favorite phrase.

Except it isn't a half loaf. It is more like a single percent of a loaf. It is hopelessly inadequate.

To the shock of the Clinton/Krugman wing of the Democratic party a very large number of people, and especially young people, are saying that the appeasement of the Reaganites and their right wing economist advisors is no longer sufficient. There has to be a more radical way to achieve progress. After all progressives are supposed to, well, progress.

As I see it the Clinton/Krugman generation has spent its energy buried in policy formation and in policy tweaking. It hasn't spent its energy articulating politics. By which I mean that since the 1980's the entire left-of-center establishment has devoted itself to making accommodations to Reaganism and not in developing an alternative. The American political economy has been dominated by right wing thinking for over three decades. The results of that domination are clear and are expressed in the form of the economy around us. All the nudging and tweaking have had no noticeable effect. Other, perhaps, than to soften temporarily the steady descent in living standards experienced by an ever increasing percentage of the population.

But we have now reached a moment when enough people have noticed and are rejecting that descent. They want a break with the past, not a continuation of it. Such a break cannot be provided by pragmatism. Before the pragmatists get busy installing the new order and making it work in a practical way, someone has to imagine it. Someone has to articulate it.

And that is what Sanders is doing. And that, apparently, is what confuses Krugman.

Our Comment

Nudging and tweaking for a half loaf?!

Is this what happened to the NDP in the last federal election?

"Before the pragmatists get busy installing the New Order and making it work in a practical way, someone has to imagine it. Someone has to articulate it."

Élan

Revolution *from page 12*

As noted earlier, banks create the money they lend simply by writing it into accounts. Money comes into existence as a debit in the borrower's account, and it is extinguished when the debt is repaid.

This happens at a grassroots level through local banks, creating and destroying money organically according to the demands of the community.

Making these banks public institutions would differ from the current system only in that the banks would have a mandate to serve the public interest, and the profits would be returned to the local government for public use.

Although most of the money supply would continue to be created and destroyed locally as loans, there would still be a need for the government-issued currency envisioned by the early populists, to fill gaps in demand as needed to keep supply and demand in balance. This could be achieved with a national dividend issued by the federal Treasury to all citizens, or by "quantitative easing for the people" as envisioned by Jeremy Corbyn, or by quantitative easing targeted at infrastructure.

For decades, private sector banking has been left to its own devices. The private-only banking model has been thoroughly tested, and it has proven to be a disastrous failure. We need a banking system that truly serves the needs of the people, and that objective can best be achieved with banks that are owned and operated by and for the people.

Our Comment

History can be an important source of strength and a priceless incentive to action.

Knowledge of the ceaseless struggle for a better society – whatever disappointments may have peppered its progress – provides inspiration and a sense of indebtedness to yesterday's activists, and of an obligation to tomorrow's youth.

A constant theme has been that the powerful *play*, and the rest of humanity *pays* – whatever game's afoot.

Today, money is power, and the entire political economy has been usurped by the finance sector where those who have managed to privatize the money system have bought control. Their game now is to maintain it.

At issue is whose needs the system shall be made to serve.

May the American people elect themselves a president with the understanding, the integrity, and the courage to make their system serve the needs of the people.

Élan

Democracy or Bust in Europe

By Yanis Varoufakis, www.project-syndicate.org, February 22, 2016

Berlin – "Europe will be democratized or it will disintegrate!" That maxim is more than a catchphrase from the manifesto of the Democracy in Europe Movement – DiEM25, the group I just helped to launch in Berlin. It is a simple, if under-acknowledged fact.

Europe's current disintegration is all too real. New divisions are appearing seemingly everywhere one looks: along borders, within our societies and economies, and in the minds of Europe's citizens.

Europe's loss of integrity became painfully evident in the latest turn in the refugee crisis. European leaders called upon Turkish President Recep Tayyip Erdoğan to open his country's borders to refugees from the war-torn Syrian city of Aleppo; in the same breath, they chastised Greece for letting the same refugees into "European" territory, and even threatened to erect fences along Greece's borders with the rest of Europe.

Similar disintegration can be seen in the realm of finance. If an American citizen won some lottery jackpot, she would not care whether her prize dollars were deposited in a bank domiciled in Nevada or New York. This is not so in the eurozone. The same sum of euros has very different "expected" value in a Portuguese, Italian, Greek, Dutch, or German bank account, because banks in the weaker member states are reliant on bailouts from fiscally stressed governments. That is a sure sign of the single currency's disintegration.

Meanwhile, political rifts are dividing and multiplying in the European Union's heartland. The United Kingdom is torn on whether to exit or not – a reflection of its political establishment's own chronic unwillingness both to defend the EU and to confront its authoritarianism. The result is an electorate prone to blaming the EU for everything that goes wrong, but with no interest either in campaigning for more European democracy or in leaving the EU's single market.

More ominously, the Franco-German axis powering European integration has fractured. Emmanuel Macron, France's Economy Minister, could not have put it more chillingly when he said that the two countries are edging toward a modern version of the Catholic-versus-Protestant Thirty Years' War.

Meanwhile, southern countries languish in a state of permanent recession that they blame on Europe's north. And, as if this were not enough, another menacing fault line has appeared along the former Iron Curtain, with governments of formerly communist countries openly defying the spirit of solidarity that used to characterize (at least in theory) the European project.

Why is Europe disintegrating? And what can be done about it?

The answer lies in the EU's origins. The EU began life as a cartel of heavy industries determined to manipulate prices and redistribute monopoly profits through a bureaucracy located in Brussels. To fix prices across European borders, there was a need to fix exchange rates as well. During the Bretton Woods era, the Unites States provided this "service." But as soon as the US ditched Bretton Woods in the summer of 1971, the Brussels-based cartel's administrators began to design a European fixed exchange-rate system. After a series of (often spectacular) failures, the euro was born to superglue exchange rates together.

As with all cartel managers, the EU technocrats treated genuine pan-European democracy as a threat. Patiently, methodically, a process of de-politicizing decision-making was put in place. National politicians were rewarded handsomely for their acquiescence, while anyone opposed to the cartel's technocratic approach was labeled "un-European" and treated as an outsider.

Thus, although European countries remained democratic, the EU institutions, where sovereignty over crucial decisions was transferred, have remained democracy-free. As Margaret Thatcher explained during her last Parliamentary appearance as British Prime Minister, who controls money and interest rates controls the politics of Europe.

Handing Europe's money and politics to a cartel administration did not only spell the end of European democracy; it has also fueled a vicious cycle of authoritarianism and poor economic results. The more Europe's establishment chokes off democracy, the less legitimate its political authority becomes. That leads European leaders to double down on authoritarianism in order to stick to their failed policies when recessionary economic forces strengthen. This is why Europe is the world's only economy that has failed to recover since 2008.

It is through this vicious cycle that Europe's crisis is turning its peoples inward and against one another other, amplifying latent jingoism and xenophobia. Indeed, it is what has rendered Europe incapable of absorbing external shocks – like last summer's refugee influx.

What we should do now is what democrats should have done in 1930 to prevent a catastrophe that is now becoming imaginable once again. We should establish a pan-European coalition of radical, social, green, and liberal democrats to put the "demos" back into democracy, countering an EU establishment that sees people power as a threat to its authority. This is what DiEM25 is about and why it is necessary.

Are we utopian? Maybe. But it is more realistic than the EU establishment's attempt to hang on to our disintegrating, anti-democratic, cartel-like union. If our project is utopian, it is also the only alternative to a dystopia in the making.

The real danger is not that we shall aim too high and miss. The real danger is that Europeans train their eyes on the abyss and end up there.

Yanis Varoufakis, a former finance minister of Greece, is Professor of Economics at the University of Athens.

Our Comment

Was there ever a better example of the relationship between economic democracy and political democracy?

"The real danger is not that we shall aim too high and miss. The real danger is that Europeans train their eyes on the abyss and end up there."

It won't be Varoufakis' fault if they do!

Élan

Lawsuit *from page 1*

truth and justice."

"Keep up the great work; this is the financial 'revolution' we need!"

"Please keep up this very worthy struggle."

"If you can imagine our government not having to pay interest to use our own money for the good of the nation then donate to this cause."

"A small $10 donation to this lawsuit by COMER is a big investment in your future and the future of Canada. Help ensure the success of this case and spread the word to family, workers and friends."

(These are just a few comments from donors toward the lawsuit.)

Ann Emmett

Why Michael Hudson is the World's Best Economist

By Paul Craig Roberts, www.counterpunch.org February 9, 2016

Michael Hudson is the best economist in the world. Indeed, I could almost say that he is the *only* economist in the world. Almost all of the rest are neoliberals, who are not economists but shills for financial interests.

If you have not heard of Michael Hudson it merely shows the power of the Matrix. Hudson should have won several Nobel prizes in economics, but he will never get one.

Hudson did not intend to be an economist. At the University of Chicago, which had a leading economics faculty, Hudson studied music and cultural history. He went to New York City to work in publishing. He thought he could set out on his own when he was assigned rights to the writings and archives of George Lukacs and Leon Trotsky, but publishing houses were not interested in the work of two Jewish Marxists who had a significant impact on the 20th century.

Friendships connected Hudson to a former economist for General Electric who taught him the flow of funds through the economic system and explained how crises develop when debt outgrows the economy. Hooked, Hudson enrolled in the economics graduate program at NYU and took a job in the financial sector calculating how savings were recycled into new mortgage loans.

Hudson learned more economics from his work experience than from his PhD courses. On Wall Street he learned how bank lending inflates land prices and, thereby, interest payments to the financial sector. The more banks lend, the higher real estate prices rise, thus encouraging more bank lending. As mortgage debt service rises, more of household income and more of the rental value of real estate are paid to the financial sector. When the imbalance becomes too large, the bubble bursts. Despite its importance, the analysis of land rent and property valuation was not part of his PhD studies in economics.

Hudson's next job was with Chase Manhattan, where he used the export earnings of South American countries to calculate how much debt service the countries could afford to pay to US banks. Hudson learned that just as mortgage lenders regard the rental income from property as a flow of money that can be diverted to interest payments, international banks regard the export earnings of foreign countries as revenues that can be used to pay interest on foreign loans. Hudson learned that the goal of creditors is to capture the entire economic surplus of a country into payments of debt service.

Soon the American creditors and the IMF were lending indebted countries money with which to pay interest. This caused the countries' foreign debts to rise at compound interest. Hudson predicted that the indebted countries would not be able to pay their debts, an unwelcome prediction that was confirmed when Mexico announced it could not pay. This crisis was resolved with "Brady bonds" named after the US Treasury Secretary, but when the 2008 US mortgage crisis hit, just as Hudson predicted, nothing was done for the American homeowners. If you are not a mega-bank, your problems are not a focus of US economic policy.

Chase Manhattan next had Hudson develop an accounting format to analyze the US oil industry balance of payments. Here Hudson learned another lesson about the difference between official statistics and reality.

Using "transfer pricing," oil companies managed to avoid paying taxes by creating the illusion of zero profits. Oil company affiliates in tax avoidance locations buy oil at low prices from producers. From these flags of convenience locations, which have no tax on profits, the oil was then sold to Western refineries at prices marked up to eliminate profits. The profits were recorded by the oil companies' affiliates in non-tax jurisdictions. (Tax authorities have cracked down to some extent on the use of transfer pricing to escape taxation.)

Hudson's next task was to estimate the amount of money from crime going into Switzerland's secret banking system. In this investigation, his last for Chase, Hudson discovered that under US State Department direction Chase and other large banks had established banks in the Caribbean for the purpose of attracting money into dollar holdings from drug dealers in order to support the dollar (by raising the demand for dollars by criminals) in order to balance or offset Washington's foreign military outflows of dollars. If dollars flowed out of the US, but demand did not rise to absorb the larger supply of dollars, the dollar's exchange rate would fall, thus threatening the basis of US power. By providing offshore banks in which criminals could deposit illicit dollars, the US government supported the dollar's exchange value.

Hudson discovered that the US balance of payments deficit, a source of pressure on the value of the US dollar, was entirely military in character. The US Treasury and State Department supported the Caribbean safe haven for illegal profits in order to offset the negative impact on the US balance of payments of US military operations abroad. In other words, if criminality can be used in support of the US dollar, the US government is all for criminality.

When it came to the economics of the situation, economic theory had not a clue. Neither trade flows nor direct investments were important in determining exchange rates. What was important was "errors and omissions," which Hudson discovered was an euphemism for the hot, liquid money of drug dealers and government officials embezzling the export earnings of their countries.

The problem for Americans is that both political parties regard the needs of the American people as a liability and as an obstacle to the profits of the military/security complex, Wall Street and the mega-banks, and Washington's world hegemony. The government in Washington represents powerful interest groups, not American citizens. This is why the 21st century consists of an attack on the constitutional protections of citizens so that citizens can be moved out of the way of the needs of the Empire and its beneficiaries.

Hudson learned that economic theory is really a device for ripping off the *untermenschen.* International trade theory concludes that countries can service huge debts simply by lowering domestic wages in order to pay creditors. This is the policy currently being applied to Greece today, and it has been the basis of the IMF's structural adjustment or austerity programs imposed on debtor countries, essentially a form of looting that turns over national resources to foreign lenders.

Hudson learned that monetary theory concerns itself only with wages and consumer prices, not with the inflation of asset prices such as real estate and stocks. He saw that economic theory serves as a cover for the polarization of the world economy between rich and poor. The promises of globalism are a myth. Even left-wing and Marxist economists think of exploitation in terms of wages and are unaware that the main instrument of exploitation is the financial system's extraction of value into interest payments.

Economic theory's neglect of debt as an instrument of exploitation caused Hudson to look into the history of how earlier civilizations handled the build up of debt. His research was so ground-breaking that Harvard University appointed him Research Fellow in Babylonian economic history in the Peabody Museum.

Meanwhile he continued to be sought after by financial firms. He was hired to calculate the number of years that Argentina, Brazil, and Mexico would be able to pay the extremely high interest rates on their bonds. On the basis of Hudson's work, the Scudder Fund achieved the second highest rate of return in the world in 1990.

Hudson's investigations into the problems of our time took him through the history of economic thought. He discovered that 18th and 19th century economists understood the disabling power of debt far better than today's neoliberal economists who essentially neglect it in order to better cater to the interest of the financial sector.

Hudson shows that Western economies have been financialized in a predatory way that sacrifices the public interest to the interests of the financial sector. That is why the economy no longer works for ordinary people. Finance is no longer productive. It has become a parasite on the economy. Hudson tells this story in his recent book, *Killing the Host* (2015).

Readers often ask me how they can learn economics. My answer is to spend many hours with Hudson's book. First, read the book through once or twice in order to get an idea of what is covered. Then study it closely section by section. When you understand the book, you will understand economics better than any Nobel prize-winning economist.

Treat this column as an introduction to the book. I will be writing more about it as current events and time permit. As far as I am concerned, many current events cannot be understood independently of Hudson's explanation of the financialized Western economy. Indeed, as most Russian and Chinese economists are themselves trained in neoliberal economics, these two countries might follow the same downward path as the West.

If you put Hudson's analysis of financialization together with my analysis of the adverse impact of jobs offshoring, you will understand that the present economic path of the West is the road to destruction.

Paul Craig Roberts is a former Assistant Secretary of the US Treasury and Associate Editor of The Wall Street Journal. *Roberts'* How the Economy Was Lost *is now available from CounterPunch in electronic format. His latest book is* The Neoconservative Threat to World Order.

Our Comment

It's interesting that – like John Kenneth Galbraith – Michael Hudson did not set out to become an economist. It might be worthwhile to consider how that might have contributed to the kind of economist each became. (Critical of the system!)

What a telling comment that Hudson learned more from the work he was doing than from his PhD studies in economics! Perhaps research into such work should become part of the course.

One has to wonder that something so significant as the dynamic relationships among bank lending, inflation, and the boom-bust pattern typical of the system, never made its way to the course either.

For a stunning insight into the "creative bookkeeping" that facilitates maneuvers like transfer pricing, read *Swindlers,* by Al Rosen and Mark Rosen.

Another excellent resource is Michael Hudson's *Finance Capitalism and its Discontents.* This is an anthology of outstanding articles and interviews that includes a compelling critique of *austerity.*

And, of course, Counter Punch is a highly informative resource!

Élan

The Bat and Ball Problem

By Herb Wiseman

The promised answer to the puzzle.

In the last issue I wrote about our eyes wide shut and presented the bat and ball problem. I did not include the solution because I wanted people to struggle with the answer. Let me restate the problem, show the solutions and explain what it means.

If a bat and ball have a combined price of $1.10, and the bat has a price of $1 more than the ball, how much is the ball?

Most people automatically answer 10 cents. But inspection quickly reveals that this is the incorrect answer because that would make the bat's price $1.10 and the combined price $1.20. There are 10 cents too much which means that the ball must be less than 10 cents.

There are two basic ways to solve this problem. One is trial and error. Choose a number less than 10 cents and more than zero and repeat the inspection. If you choose 4 cents as the price of the ball, then the bat is $1.04 and the combined amount is $1.08 or 2 cents shy of the correct total. If you choose 5cents you arrive at the correct answer.

The second way to solve the problem is with algebra which I have not used for almost 50 years but I believe is as follows.

Bat + ball = $1.10

Let x = the price of the ball

Therefore the Bat is $1 + x

Thus the Bat and ball together is

$1 + $x + x$ = $1.10 or 100 +$2x$ = 110

Solve for x

$2x = 110\text{-}100 = 10$

$x = 10/2 = 5$

Once solved people realize how easy it is to do. But to solve this is similar to many other problems we experience in the monetary reform movement with people to whom we speak. The thinking required is what Kahneman called system two and requires more energy than system one which is automatic or intuitive.

Thus, when we send letters to MPs or finance ministers as many of us have done for decades, we experience our message falling on deaf ears.

For us the solution is easy but for those hearing the message for the first time, the energy required to "compute" what we are saying requires more energy than what they want to put into it and more time than they wish to spend. They already have a different ideology that they have absorbed and they prefer the easy answer. If this explanation is wrong then we have to assume that people who refuse to consider our views are malevolent or uninformed.

Too often we assume malice, a lack of intelligence or, more often, ignorance requiring education when it may be the failure to think at a system two level.

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Our Comment. How do we get to a system too level? Is this what John Kenneth Galbraith identified as "the emancipation of belief"?

They're coming!

By David Ruccio, Real-World Economics Review Blog, February 16, 2016

As everyone knows, robots and artificial intelligence are coming. The question is, what effects will they have on us? In particular, will they replace workers and lead to massive unemployment? And what about the other workers, the ones who manage to keep their jobs?

According to Moshe Vardi, in a speech to the American Association for the Advancement of Science, "AI could drive global unemployment to 50%, wiping out middle-class jobs and exacerbating inequality."

Unlike the industrial revolution, Vardi said, "the AI revolution" will not be a matter of physically powerful machines that outperform human laborers, but rather a contest between human wit and mechanical intelligence and strength. In China the question has already affected thousands of jobs, as electronics manufacturers, Foxconn and Samsung among them, develop precision robots to replace human workers.

Martin Ford, author of *Rise of the Robots: Technology and the Threat of a Jobless Future,* also foresees dire consequences for workers. Here are some excerpts of an interview with him by *National Geographic:*

An Oxford University survey suggested that 47 per cent of the world's jobs will be taken by robots in the coming decades. What's involved and which jobs are most at risk? This is a big issue that is not science fiction and is happening already. It involves what we call narrow artificial intelligence, which can do relatively routine, predictable things. By predictable, I mean you can predict what a person doing a job is going to be doing based on that they've done in the past.

Like flipping burgers? It could be flipping burgers or a lot of factory and warehouse jobs like stocking shelves. One of the most dramatic impacts isn't going to involve actual robots. It's going to involve software. Some of the people most threatened are what we might call office drones: people who sit in front of computers doing relatively routine, formulaic things. If your job is to produce the same kinds of reports again and again, software is getting smarter and better at doing that. We already have lots of examples, even in journalism. There's smart software that is able to write basic news stories. Lots of white-collar jobs held by college graduates are going to be threatened.

What will the effect on the world economy be? In the long run, it could have a dramatic impact and I think we are already beginning to see that. As you eliminate workers and people become unemployed or their wages fall, consumers will have less purchasing power to buy the products and services produced by the economy. As a result, there will be less and less demand. Economists all over the world are talking about this issue. In Europe, for example, there are concerns about inflation because there is not enough demand for products and services. If you project this forward, there are going to be a lot of people who are either unemployed, underemployed, or struggling financially, who simply won't have discretionary income to spend.

Massive unemployment is one problem associated with the increased use of robots and artificial intelligence. The other concerns workers who, for whatever reason, are able to keep their jobs.

Think about the current situation at AT&T, which is seeking to retrain its workers and, at the same time, threatening to layoff up to one third of its workforce.

Eboni Bell, 24, a product manager for smartphone software in AT&T's Atlanta office, sees the Vision 2020 retraining as the chance of a lifetime. The company provided tuition assistance for much of her two-year Udacity/Georgia Tech master's degree in computer science, which it says cost $6,600. Single and childless, she doesn't mind the hours it takes.

"I leave the office at 7 pm, work at home until midnight, and Saturdays and Sundays are committed to school," she said.

What we have, then, is a situation in which, as a consequence of robots and artificial intelligence, it's quite possible that many workers will be made redundant, while workers who retain their jobs are going to face lower wages, increased work loads, and longer hours.

There's nothing inevitable about these effects. It's not robots and artificial intelligence per se that are going to negatively affect workers. What matters is how the robots and new kinds of software are created and utilized within the current set of economic institutions – as a way of increasing profits and exacerbating inequality.

We can, of course, imagine an entirely different set of effects – ways that robots and artificial intelligence might serve to eliminate onerous tasks and lessen the amount of work we all have to do.

But that's going to require fundamentally changing the existing set of economic institutions. That, and not robots and artificial intelligence, is the real challenge facing us.

Our Comment

The real challenge facing us is actually far more profound!

We can deal quite simply with the need to provide purchasing power – some form of guaranteed annual income…. And making *living* rather than *earning* a living the priority, is an exciting, though daunting promise.

Learning how to live with freedom will pose a wide range of problems. Will we spend the time entertaining ourselves to death? Or will we grasp the unprecedented opportunity to develop the human potential?

Who will be in charge? Who will decide how those robots are to be programmed? Who will *own* this breathtaking technology and determine its purpose?

How will we prepare for such a tomorrow?

Better to think on the consequences of *that* "brave new world" – *before* it's upon us!

Élan