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The Violence of Austerity: A Book Report

"Austerity is a class project that disproportionately targets and affects working class households and communities and, in so doing, protects concentrations of elite wealth and power." – The Violence of Austerity, Edited by Vickie Cooper and David Whyte, p. 11.

"Austerity is not necessary. Today's debt crisis is a political result of relinquishing regulatory and tax power to the financial sector. Its lobbyists are now trying to use this crisis, (The Great Financial Crisis), to their advantage, as an opportunity to lock in their gains and rewrite the social contract. Governments hence forth are to serve high finance not labour and industry." – Finance Capitalism and Its Discontents, *Michael Hudson, p. 41*

In their excellent introduction to this anthology, its editors – Vickie Cooper and David Whyte – trace a wide spectrum of social ills such as ruthless evictions and community violence, to cuts in public sector funding.

Their primary goal is to show how the consequences of the politics of austerity, "[have] left none but the most privileged in the UK untouched," and how that is, "simply part of the price that has been paid to maintain the basic structure of social inequality, whether measured by politicians as 'collateral damage' or by economists as 'externalities'" (p. 2).

They define *austerity* as, "a period of fiscal discipline in which governments make significant cuts to public expenditure as a means of reducing public debt" (p. 4).

They soundly refute, "three deceptions that have led to the 'logic' of austerity that legitimizes fiscal consolidation" (p. 5):

- The public sector is to blame for the Global Financial Crisis (GFC);
- Austerity is necessary;
- We're all in this together.

They argue that, "If one fact stands above all others as an indication that austerity is not all it claims to be, it is that the UK's national debt has *risen* by at least 50 percent since the austerity programme began in 2010. It is this fact that demonstrates most clearly that the politics of austerity is less concerned with reducing the deficit than it is with preserving the wealth of those at the top."

They point out that this is not new, and quote John McMurtry, (*The Cancer Stage of Capitalism*), who noted – a decade before the GFC – that cuts to public services were attacking the "life-serving systems of social bodies" in order to ensure public resources are "re-channelled to the expansion of money-to-more money circuits with no commitment to life function." "The pattern of redistributing sources from public to private hands is so aggressive, he argued, that the signifiers of its agents do not disguise the underlying violence of the appropriation – 'axing social programs, slashing public services, subjecting societies to shock treatments'" (p. 17).

They go on to quote geographer, David Harvey, "who introduced the widely cited concept of 'accumulation by dispossession'. Harvey claims that the transfer of state assets to private ownership always implies a process of dispossession and general loss of rights. Thus, aspects of neoliberal reform that we are all now familiar with – privatization, commodification, financialisation and the recalibration of people's entitlement to state services and funds – result in the redistribution and accumulation of wealth for some, while ensuring the loss of rights for others. Harvey claims that accumulation by dispossession is the driving force

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FOUNDING EDITOR
John Hotson 1930–1996

PUBLISHER–EDITOR
William Krehm
(comerpub@rogers.com)

INFORMATION SECRETARY
Herb Wiseman
(herb.wiseman@gmail.com)

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Austerity *from page 1*

of contemporary capitalism, and that this process of capital accumulation has become more predatory and violent under austerity programmes" (David Harvey, *The New Imperialism,* New York: Oxford University Press, 2003, p. 148).

They then quote economist Paul Krugman: "The austerity drive in Britain isn't really about debt and deficits at all; it's about using deficit panic as an excuse to dismantle social programs…the drive for austerity was about *[using]* the crisis, not *[solving]* it" (p. 20).

They identify as "the standout beneficiary of austerity," the system of financialization.

They define the violence of austerity as "institutional violence…a form of violence organized and administered through legitimate means" (p. 23).

They quote Hannah Arendt, "whose essay, *On Violence*, sought to dissect the relation between political power and the organization of violence, [and] argued that the use of force to achieve political ends had become so normalized that the 'enormous role that violence plays in human affairs' had become 'taken for granted and therefore neglected.'"

The Violence of Austerity is a catalogue of "institutional violence." "It is about the life-shattering violence caused by decisions that are made in parliamentary chambers and government offices. This book is about the violence of politics" (p. 1).

They "focus attention on the assemblage of bureaucracies and institutions through which austerity policies are made real. Not only do institutions help to convert policies from an abstract level to a material one, they are the very sites through which highly political strategies like austerity, are depoliticized and their harmful effect made to appear moral and mundane" (p. 3).

Cooper and Whyte view austerity as being a "much more naked form of class politics," and observe that "rapidly growing levels of inequality have produced some ugly political phenomena." They report that, for example, "hate crimes against people with disabilities more than doubled between 2008 and 2014. This trend has been widely attributed to 'benefits propaganda'" (p. 15).

They denounce austerity as "a political strategy based on myth, deception and misinformation…a moralizing discourse that supports a viciously immoral politics…a cruel and violent strategy of class domination" (p. 22).

They emphasize that, "the various forms of violence detailed in this book (destitution, homelessness…having electricity or gas cut off), have become a very real possibility for a fast-growing section of the population and, as a number of chapters in this book document, it is the *[threat]* of violence that has become absolutely central to the power that institutional violence wields over its targets" (p. 23).

It is, in their opinion, "imperative that we reverse the effects of the crisis" and they "hope that one contribution made by this book is to show that there is no shortage of opportunity of building solidarity around resistance to the violence of austerity" (p. 25).

They list "activist groups and campaigns that have directly confronted the government in the courts and on the streets," and promise that "some of the chapters in this book help to shine a light on those anti-austerity strategies of resistance" (p. 25).

In the twenty-four chapters that follow, an impressive roster of accomplished academics, researchers, activists and journalists present well documented articles that chronicle the catastrophic assault on planet and people perpetrated through neoliberal austerity politics.

The contributors represent a wide range of perspectives – sociology, criminology, environmental politics and policy, law, geography – and expose a shocking spectrum of disaster.

The result is a treasury of reliable information and ideas, and a compelling case for the urgent need to design and implement a new economic system that will meet the needs of the twenty-first century.

Throughout the slavish commitment to the same globally dominant ideology in Canada, COMER has consistently worked to refute the neoliberal 'logic' and to record and condemn its practice and its consequences.

We are so distracted by endless reports of sensational and obvious crime, that the legal crime behind the failing society that generates such acts of violence either escapes our detection altogether, or is dismissed as being hopelessly beyond our control. Ironically, we leave it, instead, to 'the strong arm of the law' to protect us.

We would do well to share informative and encouraging resources like *The Violence of Austerity* and, thus fortified, to join the growing global movement for fundamental change.

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Capitalist Dynamics

By Martin Parker, The Social Artist, Vol. 5, No. 3, Autumn 2017

The three principles of capitalism taken together – i.e., the search for profitable investment in a competitive market through hiring waged labour – have certain implications for the conduct of economic activities and point to particular dynamics of capital accumulation.

Efficiency

Since profits cannot (always) be obtained by simply charging more money for things, they depend on producing more efficiently: on producing more (things, value) for less (inputs), or maximising the output to input ratio. Capitalist firms will try to squeeze as much surplus value out of labour and other resources as possible, through (for example) work intensification or cost reduction. As Weber noted, this makes some forms of means/ends calculation and rational accounting systems essential to capitalist enterprise and the pursuit of profit.

Management knowledge and practice has developed around this question of rationalisation, and includes many efficiency-increasing technologies and innovations designed to reduce the cost of labour and increase its productivity. Among the most notable of these rationalising technologies was Taylor's 'scientific management' and the subsequent development of the assembly line by Henry Ford. Through careful observation and measurement, a particular task can be divided into various components, timed, formalised and standardised. As a result, jobs can be designed so as to require less skill and to maximise productivity.

In contemporary capitalism, this process of rationalisation, or means/ends calculation, is not confined to the assembly line and the production of things but has been extended to knowledge or immaterial work. The figure of the call centre worker is emblematic here of how the delivery or 'knowledge' work can be divided up, measured and controlled. And a similar process of quantification and control has occurred with professional labour. Doctors, teachers, probation officers find their labour increasingly subject to performance measures, standardization and audit.

The deregulation and flexibilisation of labour markets has also provided more cost effective ways of hiring, firing and deploying labour according to needs. Another strategy for reducing labour cost is delocalisation. Over the last couple of decades at least, many Western organisations have delocalised production to developing countries offering cheaper labour; China has become the 'workshop of the world' and India the 'office of the world' on the grounds of their cheap labour and low levels of taxation and regulation. For example, much of the labour used in the publishing industry to format, proofread, print, market or distribute books and journals is increasingly outsourced to low-cost economies.

Market Expansion and Growth

Another obvious way to increase profit is to sell more things. Finding new markets has been central to capitalist expansion. As local or national markets get saturated, capitalist firms have to expand further afield. So, for example, nineteenth-century cotton mill owners in Manchester sold their fabric to India, US farmers sell corn to Mexico, Nestlé sells its infant formula in developing countries and so on.

But selling more things is not just about finding new markets for a particular product, first because the market might eventually become saturated, and second because a profitable market will attract competitors which in turn will make the rate of profit fall. It also requires constantly inventing or finding more things to sell. This may be through making improvements in existing products (producing safer, faster or greener cars, healthier burgers…), inventing new products (televisions, phones, antidepressants, e-book readers…), or selling things that previously were *not for sale but were common property (e.g., drinking water, health, education, genes…).* In its search for more and more things that can be exchanged on the market for profit, capitalism has managed to transform goods that were outside market relations into commodities that can be sold for a profit, a point we will explore later.

The relentless innovation of capitalist firms in designing and selling new products goes hand in hand with relentless consumption. It has become a truism to claim that we live in an increasingly commodified world, that more and more of our lives is mediated by the market. An increasing proportion of the goods and services we rely on for survival or pleasure (e.g., food, water, child care, sports and leisure, and so on) are acquired on the market for a price, rather than through self-provisioning or a mutual network of exchange with friends or family.

In order to pay our way through all this consumption, we are increasingly reliant on waged labour, and debt. If mass consumption is essential to capital accumulation, so is the provision of credit to sustain consumption. Indeed, there is a whole credit industry which since the 1980s has been able to develop with fewer and fewer regulatory restrictions to provide consumer credit for everything from cars to education, toys, houses or holidays, including to poorer and poorer sections of society as we saw recently with subprime mortgages. The provision of credit is not only essential to underwrite consumption, it also provides another avenue for profitable capital investment as capital invests in capital itself.

In short, capitalism and its quest for accumulation rests on producing, selling and consuming ever more. It relies on and requires endless growth. The centrality of growth to capitalist economies is evident both at firm and national levels. Growth in GDP is considered as the holy grail of economic policy by most national governments and international institutions from the World Bank to the European Central Bank. Growth has become the fetish of capitalism and is supposed not only to deliver increased profit for capitalist firms, but also jobs, prosperity and better lives for all.

The growth imperative is also evident at the level of firms where the profit motive encourages expansion. The continuous need to accumulate capital means that capitalist firms have a tendency to grow larger and larger, both through internal growth and through acquisition. For example, through the sorts of mergers and acquisitions *Informa* has engaged in, the global market for academic publishing has become dominated by just a few key players. More generally, the history of capitalism since the nineteenth century has been the history of the increasing concentration of capital around a decreasing number of multinational corporations that have acquired enormous power not only within their particular industries but also over governments. Some corporations have become so large that their sales far exceed the GDP of some countries. Of the 100 largest economies in the world in 2000, 51 were corporations and 49 were countries (based on comparison of corporate sales and countries' GDPs).

Producing Capitalist Subjects

Capitalism not only signals a great transformation in the mode of production, but also in individuals' subjectivity: the way people understand themselves, and relate to each other. Capitalism requires and produces certain types of human beings: "free" autonomous agents maximising their own utility through both work and consumption, *or homo economicus*. Indeed, the two figures of the freely choosing consumer and the self-investing flexible worker are central motifs of contemporary capitalism.

As mentioned earlier, increased labour flexibility is an important cost-reduction strategy for contemporary organisations. Individual workers may be redeployed across different jobs or functions of an organisation, across different locations, or simply dismissed. Demand for ever-increasing flexibility in the labour market means that individual workers constantly have to restyle, retrain themselves, and invest in themselves to remain employable. These investment decisions do not take place solely in the workplace or even in education, but embrace all of social life. For example, Grey illustrates how accountants invest in their appearance or in building appropriate social networks in order to advance their career. Similarly, students may take on extra-curricular activities to build their CV. The self becomes an enterprise, a project to be managed in order to maximise returns (in terms of salary, career prospects and so on).

In short, modern capitalism constitutes subjects as free autonomous, rational, utility maximising agents in at least two ways: as consumers freely choosing on the market, and as workers personally Both contribute to the individualisation of selves living more and more isolated from each other. As Margaret Thatcher famously proclaimed, "there is no such thing as society," only free individuals responsible for their own success and failures.

And indeed, who wouldn't like to think of themselves as "free," as able to do what they wanted free of interference from government, bureaucracy, trade unions, God, or the force of tradition? The market leaves us free to choose between all sorts of products and services to consume, job opportunities to apply for, or even better, free to set up our own business, to become the next Mark Zuckerberg or Richard Branson. This freedom to become what we want constitutes one of the greatest appeals of capitalism. The strength of market capitalism is not only its supposed economic superiority or "efficiency," but also as Hayek, Friedman or Nozick have argued (albeit in different ways) its close association with individual freedom, at least a certain kind of freedom. But efficiency, growth and freedom, the hallmarks of capitalism, are all contested ideas.

Martin Parker is Professor of Culture and Organisation, School of Management, University of Leicester.

Our Comment

Quantification and control can stultify creativity, and curtail the exercise of judgement and attention to individual need – all of which diminishes both the quality of professional labour and the humanity of the professional.

In *The Great Transformation,* Karl Polanyi describes how the market economy has reduced man to *labour*, and nature to *land*, and exposes the deplorable consequences of that.

Here Martin Parker analyzes the further dehumanization of man, and the relentless exploitation of resources wrought by capitalist dynamics.

There is globally a mounting recognition that the present system is inadequate, and an earnest quest for one that will meet the needs of the twenty-first century.

Élan

The Sad State of Economics Education

By Lars Syll, Real-World Economics Review Blog, March 14, 2016

Nowadays there is almost no place whatsoever in economics education for courses in the history of economic thought and economic methodology.

This deeply worrying.

A science that doesn't self-reflect and ask important methodological and science-theoretical questions about the own activity, is a science in dire straits.

How did we end up in this sad state?

Philip Mirowski gives the following answer: "After a brief flirtation in the 1960s and 1970s, the grandees of the economics profession took it upon themselves to express openly their disdain and revulsion for the types of self-reflection practiced by 'methodologists' and historians of economics, and to go out of their way to prevent those so inclined from occupying any tenured foothold in reputable economics departments. It was perhaps no coincidence that history and philosophy were the areas where one found the greatest concentrations of skeptics concerning the shape and substance of the post-war American economic orthodoxy."

High-ranking economics journals, such as the *American Economic Review*, the *Quarterly Journal of Economics* and the *Journal of Political Economy*, declared that they would cease publication of any articles whatsoever in the area, after a prior history of acceptance.

Once this policy was put in place, and then algorithmic journal rankings were used to deny hiring and promotion at the commanding heights of economics to those with methodological leanings. Consequently, the grey-beards summarily expelled both philosophy and history from the graduate economics curriculum; and then, they chased it out of the undergraduate curriculum as well. This latter exile was the bitterest, if only because many undergraduates often want to ask why the profession believes what it does, and hear others debate the answers, since their own allegiances are still in the process of being formed. The rationale tendered to repress this demand was that the students needed still more mathematics preparation, more statistics and more tutelage in "theory," which meant in practice a boot camp regimen consisting of endless working of problem sets, problem sets and more problem sets, until the poor tyros were so dizzy they did not have the spunk left to interrogate the masses of journal articles they had struggled to absorb.

Methodology is about how we do economics, how we evaluate theories, models and arguments. To know and think about methodology is important for every economist. Without methodological awareness it's really impossible to understand *what* you are doing and *why* you're doing it. Dismissing methodology is dismissing a necessary and vital part of science.

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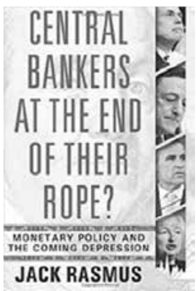
Our Comment. Honest neglect? Or was there method in their madness? *Élan*

Central Banks as Engines of Income Inequality and Financial Crisis

By Jack Rasmus, Global Research, August 30, 2017

My just published book, Central Bankers at the End of Their Rope?: Monetary Policy and the Coming Depression, *Clarity Press, July 2017, is now available for immediate purchase on Amazon.com, as well as from this blog.*



The following is an excerpt from an article by the title of this blog post, that appears in 'Z magazine's September 1 issue describing how central bank policies have become a major contributor to income inequality, subsidizing and boosting capital incomes, as well as now are a primary cause of recurrent financial crises.

This September 2017 marks the nineth year since the last major financial crisis erupted in 2008. In that crisis investment banks Bear Stearns and Lehman Brothers collapsed. So did the Fannie Mae and Freddie Mac, the quasi-government mortgage agencies, that were then bailed out at the last minute by a $300 billion US Treasury money injection. Washington Mutual and Indymac banks, the brokerage Merrill Lynch, and scores of other banks and shadow banks went under, or were forced-merged by the government, or were consolidated or restructured. The finance arms of General Motors and General Electric were also bailed out, as were the auto companies themselves, to the tune of more than a hundred billion dollars. Then there was the insurance giant, AIG, that speculated in derivatives and ultimately required more than $200 billion in bailout funds. The "too big too fail" mega banks – Citigroup and Bank of America – were technically bankrupt in 2008 but were bailed at a cost of more than $300 billion. And all that was only the US. Banks in Europe and elsewhere also imploded or recorded huge losses. The US central bank, the Federal Reserve, helped bail them out as well by providing more than a trillion US dollars in loans and swaps to Europe's banking system as well.

Although the crisis at the time was deeply influenced by the crash of residential housing in the US. Few US homeowners were bailed out, unlike the big banks, insurance companies, auto companies, and other businesses. More than 14 million US homeowners were allowed to foreclose on their homes. A mere $25 billion was provided to rescue homeowners, and most of that going to bank mortgage servicing companies who were supposed to refinance their mortgages but didn't. More than $10 trillion conservatively was provided to financial institutions, banks and shadow banks, and big corporations, and foreign banks by US policy makers in the government and at the US central bank, the Federal Reserve. $25 billion for 14 million vs. more than $10 trillion for capitalists and investors.

The Federal Reserve Bank as Bail Out Manager

A common misunderstanding is that the banking system bailouts were managed by the US Congress passing what was called the Trouble Asset Relief Program, TARP. Introduced in October 2008, TARP provided the US Treasury a $750 billion blank check with which to bail out the banks. But less than half of TARP was used, and most of that went to the auto companies and smaller banks. Only half of the $750 billion was actually spent. By early 2009 the remainder returned to the US Treasury. So Congress didn't actually bail out the big banks – the AIG, Bank of America, Citibank, investors in the subprime mortgage bonds that collapsed, etc. The real bail out was engineered by the US central bank, the Federal Reserve, in coordination with the main European central banks – the Bank of England, European Central Bank, the Bank of Japan.

The Central banks bailed out the big banks. That has always been the primary function of central banks. That's why they were created in the first place. It's called the 'lender of last resort' function. Whenever there's a general banking crisis, which occurs periodically in all capitalist economies, the central bank simply prints the money (electronically today) and injects it free of charge into the failing private banks, to fill up and restore the private banks massive losses that occur in the case of banking crashes. Having a central bank, with operations little understood by the general public, is a convenient way for capitalism to rescue its banks without having to have capitalist politicians – i.e., in Congress and the Executive – do so directly and more publicly. Central banks take the heat off of the politicians, who otherwise would have to raise taxes to bail out the banks – and thus incur the ire of the general public even more so than they do for not preventing the crisis.

From Bail Outs to Perpetual Bank Subsidization

But central banks since 2008 have been evolving toward a new primary function. No longer just bailing out the banks when they get in trouble. But providing a permanent regime of subsidization of the banks even when they're not in trouble. The latter function is new, and has become a permanent feature of the capitalist global banking feature in the post-2008 period. For the US banks were fully bailed out by 2010. But the US central bank, the Federal Reserve, as well as other major central banks, have simply kept the flow of free money, often just printed money, into the banking system even after the banks were effectively bailed out. In other words, since 2010 the Federal Reserve has continued to provide free money to the banks and continued to buy up the collapsed subprime mortgage bonds from banks and individual investors. In short, it has been subsidizing the profits of the financial system for the past nine years.

With the Fed in the lead, in 2008-09 the central banks of the advanced capitalist economies simply created money – i.e., the dollars, the pounds, euros and yen – and allowed banks and investors to borrow it virtually free. That is, the Fed and other central banks simply opened electronic accounts for the banks within the central bank. Banks were then allowed to borrow that money that was "electronically printed," at essentially no interest. It was free money.

But free money in the form of near zero interest was still not the full picture. The Fed and other central banks were also proactive in providing money to the banks. The Fed and other central banks went directly to the banks, as well as other institutional and even private investors, and said, we'll also buy up your bad assets that virtually collapsed in price as a result of the 2008-09 crash. This direct buying of bad mortgage and government bonds – and in Europe and

Japan, buying of corporate bonds and even company stocks – was called "quantitative easing," or QE for short. And what did the central banks pay for the assets they bought from banks and investors, many of which were worth as low as 15 cents on the dollar? No one knows, because the Fed to this day has kept it secret how much they overpaid for the bad assets they bought from individual investors, bankers or corporations.

But the QE and the effectively zero interest rates continued for nine years in the US and the UK. And in 2015 it was accelerated even faster in Europe. And since 2014 faster still in Japan. And even in China after 2015, when its stock market bubble burst. Central banks of the major economies after 2008 have thus opened a "fire hose" of free money to their private banks and their investors. And in the course of the past nine years, the private capitalist banking system has become addicted to the free money. They cannot "earn" profits on their own any longer, it appears. They are increasingly dependent on the free money from their central bankers. This is a fundamental change in the global capitalist economic system in the past decade – a change which is having historic implications for growing income inequality worldwide in the advanced economies as well as for another inevitable global financial crisis that will almost certainly erupt within the next decade.

The $25 Trillion Banking System Bailout

In the last financial crisis of 2008-09, central banks rescued their private banks by ensuring zero interest rates at which they could borrow funds. But central banks went a step further. The Fed and others pro-actively went directly to banks and investors and bought up their collapsed subprime bonds and other securities as well. But we do know the total amount of "bad assets" they bought? The total was more than $20 trillion – i.e., in free money provided at zero rates and by central banks buying the 'bad assets' from the banks and investors by paying them more than the collapsed market prices at the time for those mortgage bonds and securities.

In the US, the Fed officially purchased $4.5 trillion in "bad assets" between 2009 and 2014. But it was actually more, perhaps as much as $7 trillion. That's because as some of the Fed purchased bonds matured and were paid off, the Fed reinvested the money once again to maintain the $4.5 trillion. So US banks and shadow banks got free money loans at 0.1% interest rates for nine years, plus the Fed directly bought up additional securities from investors in the amount of around $7 trillion. The cumulative totals from the zero rates and QE bond buying are likely more than $10 trillion for the US alone. That's how the US banks got "bailed out," not by the US Congress and the TARP program.

But the same occurred by other central banks of the advanced economies. The 2008-09 crash was global, so the Fed was not the only central bank player is this massive money printing and bailout scam. The European Central bank, as of 2017, has bailed out Europe banks via its QE and other programs to the tune of $4.9 trillion so far. The Bank of England, another $.7 trillion. And the Bank of Japan as of mid-2017 by more than $5 trillion. The People's Bank of China, PBOC, did not institute formal QE programs. But after 2011 it too started injecting trillions of dollar in equivalent yuan, its currency, to prevent its private sector from defaulting on bank loans, to bail out its local governments that over invested in real estate, and to stop the collapse of its stock markets in 2015-16. PBOC bailouts to date amount to around $6 trillion. And the totals today continue to rise for all, as the UK, Europe, Japan, and China continue their central bank engineered bail out binge, and in the case of Europe and Japan are actually accelerating their QE programs.

Conservatively, therefore, the total bail outs from QE and QE-like programs among the big central banks globally – US, UK, Europe, Japan, and China – amount easily to more than $25 trillion. That's $25 trillion of money created out of thin air.

Contrary to many critiques of rising debt levels since 2009, it is not the level of debt itself that is the problem and the harbinger of the next financial crash. It is the inability to pay for the debt, the principal and interest on it, when the next recession occurs. So long as economies are growing, businesses and households and even government can 'finance' the debt, i.e., continue to pay the principal and interest some way. But when recessions occur, which they always do under capitalism, that ability to keep paying the debt collapses. Business revenues and profits fall, employment rises and wages decline, and government taxes collections slow. So the income with which to pay the principal and interest collapses. Unable to make payments on principal and or interest, defaults on past incurred debt occur. Prices for financial assets – stocks, bonds, etc. – then collapse even faster and further. Businesses and banks go bankrupt, and the crisis deepens, accelerating on itself in a vicious downward spiral. That's a great recession – or worse, a bona fide economic depression.

Think of it another way: the $25 trillion plus is what the central banks transferred in bad debt from the balance sheets of the banks and private corporations to their own central bank balance sheets. In other words, the private corporate debt at the heart of the last crisis has not been removed from the globally economy. It has only been shifted, from the business sector to the central banks. And this central bank debt has nothing to do with national governments' debt. That's a totally additional amount of government debt, as is consumer household debt which, in the US, is more than $1 trillion each for student loans, auto loans, credit cards, and multi-trillions for mortgage loans. Ominously, moreover, in recent months defaults on student, auto and credit card debt have begun to rise again, already in the highest in the last four years in the US.

Finally, it's not quite correct, moreover, to even say that the $25 trillion injection of money into the banking system since 2008 has successfully bailed out the banks globally. Despite the total, there are still more than $10 trillion in what are called 'non-performing bank loans' worldwide. Most is concentrated in Europe and Asia – both of which are likely the locus of the next global financial crisis. And that crisis is coming.

In the interim, the central banks' free money and bank subsidization machine is generating a fundamental dual problem within the global economy. It is feeding big time the trend toward income inequality and it is helping fuel financial asset bubbles worldwide that will eventually converge and then burst, precipitating the next global financial crash.

The Fed as Engine of Income Inequality

In the US, the US central bank's $4.5 trillion balance sheet – and the nine years of free money at 0.1% rates – have been at the heart of a massive income shift to US investors, businesses, and the wealthiest 1% households.

Where did all this $4.5 trillion (really $7 trillion), plus the virtually free borrowed money at 0.1%, go? The lie fed to the public by politicians, businesses, and the media was this massive free money injection was necessary to get the economy going again. The trillions would jump-start real investment that would create jobs, incomes, consumption and consequently economic growth or GDP. But that's not where it went, and the US economy experienced the weakest nine year post-recession recovery on record. Little of the money injection financed real investment – i.e., in equipment, buildings, structures, machinery, inventories, etc. Instead, investors got QE bail outs and banks borrowed the free money from the Fed and then loaned it out at higher interest rates to US multinational companies who invested it abroad in emerging markets; or they loaned it to shadow bankers and foreign bankers who speculated in financial asset markets like stocks, junk bonds, derivatives, foreign exchange, etc.; or the banks borrowed and invested it themselves in financial securities markets; or they just hoarded the cash on their own bank balance sheets; or the banks borrowed the money at 0.1% from the central bank and then left it at the central bank, which paid them 0.25%, for a 0.15% profit for doing nothing.

This massive money injection, in other words, was then put to work in financial markets and multiplied several fold. Behind the 9 year bubbles in stock and bond markets (and derivatives and exchange as well) is the massive $7 to $10 trillion Federal Reserve bank money injections. And how high have the stock-bond bubbles grown? The Dow Jones US stock market has risen from a low in 2009 of 6,500 to almost 22,000 today. The US NASDAQ tech-heavy market has surpassed the 2001 peak before the tech bust. The S&P 500 has also more than tripled. Business profits have also tripled. Bond market prices have similarly accelerated. The 9 year near zero rates from the Fed have enabled corporations to issue corporate bonds by more than $5 trillion in just the last five years.

So how do these financial asset market bubbles translate into historic levels of income inequality, one might ask?

The wealthiest 1% – i.e., the investor class – cash in their stocks and bonds when the bubbles escalate. The corporations that have raised $5 trillion in new bonds and seen their profits triple in value then take that massive $6 to $9 trillion cash hoard to buyback their stocks and to issue record level of dividends to their shareholders – i.e., the 1%. Nearly $6 trillion of the profits-bond raised cash was redistributed in the US alone since 2010 to shareholders in the form of stock buybacks and dividends payouts. The 1% get $6 trillion or more and the corporations and banks sit on the rest in the form of retained cash.

Congress and Presidents play a role in the process as well. Shareholders get to keep more of the $6 trillion plus distributed to them as a result of passage of legislation that sharply cuts capital gains and dividend taxable income. Corporations gain by getting to keep more profits after-tax, to distribute via buybacks and dividends, as a result of corporate taxation cuts as well.

The Congress and President sit near the end of the distribution chain, enabling through tax cuts the 1% and shareholders to keep more of their distributed income. But it is the central bank, the Fed, which sits at the beginning of the process. It provides the initial free money that, when borrowed and reinvested in stock markets, becomes the major driver of the stock price bubble. The Fed's free money also drives down interest rates to near zero, allowing corporations to raise $5 trillion more cash from issuing new corporate bonds. Without the Fed and the near zero rates, there would be nowhere near $5 trillion from new bonds, to distribute to shareholders as a consequence of buybacks and dividends. Furthermore, without the Fed and its direct $4.5 trillion QE program, investors would not have the historic excess money to invest in stocks and bonds (and derivatives and currencies) that drive up the stock and bond prices to bubble levels.

The Fed, the central bank, is thus the initial enabler of the process, i.e., of the accelerating stock and bond prices that transfer so much income to the 1% when the buybacks and dividend payouts kick in. The Fed, as well as other central banks, is an originating source of the runaway income inequality that has plagued the US since late 1970s decade. It is not coincidental that income inequality began to accelerate about that time, which is also the period of which the Fed, and other central banks, themselves began to provide massive money injections to bankers and investors.

Income inequality is a function of two things. One the one hand, accelerating capital incomes of the 1% as a result of buybacks and dividend payouts that generate capital gains for the 1% which constitute nearly 100% of the 1%'s total income. On the other, stagnating or declining wage incomes of non-investor households. Inequality may rise if capital gains drive capital incomes higher; or may rise if wage incomes stagnate or decline; or may rise doubly fast if capital incomes rise while wage incomes stagnate or decline. Since 2000 both forces have been in effect: capital incomes of the 1% have escalated while wage incomes for 80% of households have stagnated or declined.

Mainstream economists tend to focus on the stagnation of wage incomes, which are due to multiple causes like deunionization, rise of temp-part-time-contract employment, free trade treaties' wage depressing effects, failure to adjust minimum wages, high wage industry offshoring, cost shifting of healthcare from employers to workers, reduction in retirement benefits, shifting tax burdens, etc. But they engage little in explaining why capital incomes have been accelerating so fast. Perhaps it is because mainstream economists simply don't understand financial markets and investment very well; or perhaps some do, and just don't want to 'go there' and criticize runaway capital incomes.

Central Banks as Source of Financial Instability

The fire hose of money that central banks still continue to provide the capitalist banking system provides the basis for the growing financial asset bubbles that have been occurring worldwide once again since 2009.

The zero interest rate and direct QE money continue to inject massive money and liquidity into the banking systems, at a rate far faster than investors can choose to reinvest it in real investment projects that produce real things, that hire real people, and provide real wage incomes that stimulate economic growth. As previously noted, the massive money injections are not flowing through the private banks into real investment and growth. The trillions of central bank provided money is flowing out of the advanced economies and into emerging economies; or it is flowing through the banks into the financial asset markets – i.e., stock markets, bonds, derivatives, etc. – driving up asset prices and creating bubbles in those markets; or it is being distributed in stock buybacks and dividend payouts; or it is just being hoarded in the trillions of dollars, euros, etc., on balance sheets of private corporations.

As a result of Fed and other central banks' money injections now for decades, and especially since 2008, there is a mountain of cash – virtually trillions of dollars – sitting "on the sidelines." That money is looking for quick, speculative capital gains profit opportunities. That means for reinvestment short term in financial asset markets worldwide. The mountain of cash moves in and out of these global financial markets, creating and bursting bubbles as its shifts and moves. Periodically a major bubble bursts – like China's stock market in 2015. Or a housing speculation bubble here or there. Or junk bonds or consumer debt in the US. Or the bubble in US stocks which is nearing its limit.

A new global finance capital elite has arisen in recent decades, having directly benefited from and controlling this mountain of cash. There are about 200,000 of them worldwide, mostly concentrated in the US and UK, some in Europe, but with numbers rising rapidly in Asia as well. They now control more investible assets than all the traditional commercial banks combined. Their preferred institutional investment vehicles are the global "shadow banking system." Their preferred investment targets are the global system of highly liquid financial asset markets. This system of new finance capitalists, their institutions, and their preferred markets is the real definition of what is meant by the "financialization" of the global economy. That financialization is generating ever more instability in the global capitalist system. But it would not exist were it not for the decades of past central bank injection of free money into the global economy – an injection which has been accelerating since 2008.

Will the Central Banks Retreat?

In 2017 a minority of policymakers in the Fed and other central banks have begun to recognize the fundamental danger to their own system from their providing free money and QE bond and stock buying money injections. The injections have not succeeded in stimulating their real economies, they have not raised prices for goods and services which continue instead to slow and stagnate, they have not sufficiently reduce unemployment (when contingent jobs are considered), and they have not raised wage incomes while bloating capital incomes instead. They have been creating financial bubbles.

So led by the Fed, the central banks of the major economies are now considering raising interest rates from the zero floor and trying to reverse their QE buying. Central bankers will meet in late August 2017 at their annual Jackson Hole, Wyoming gathering. The main topic of discussion will be raising rates and reducing their QE bloated, $15 trillion cumulative balance sheets.

But as this writer has argued, they will fail in both raising rates and selling off their balance sheets. Just as they failed in generating real economic recovery since 2009. For the banking system has become addicted and dependent therefore upon their free money injections and their firehose of central bank bond-stock buying QE programs. Should the central banks attempt to retreat, they will provoke yet another financial and economic crisis. The global capitalist system has become dependent on the permanent subsidization of the banking system by their central banks after 2008. Bail outs and lender of last resort functions by central banks have transformed into a permanent subsidization function. The global capitalist system entered a new period after 2008, changing in ways fundamentally. One of those ways is a greater dependency on the capitalist state to maintain and expand levels of profitability. One of those ways is for their central banks to continue to provide free money.

But the contradiction is that continued free money provisioning is driving further income inequality as well as fueling the next financial crash.

Jack Rasmus blogs at jackrasmus.com.

Our Comment

No wonder such importance is attached to the *notion* that central banks must be *"independent"!* (Of what? Of whom?) "Having a central bank with operations little understood by the general public" is *such* a convenience!

Their "new primary function" since 2008 is evidence of the relentless decline of an outworn system – the reliance on secrecy, some measure of the truth about our *democracy.*

The resultant growing income inequality can only lead to a cataclysmic global financial crisis, that economist Michael Hudson predicts will dwarf the depression of 1929.

Daily, jolly, mainstream media reports of growth in stock-bond bubbles suggest that these statistics reflect a healthy economy. Their connection with income inequality doesn't make it into what is "news."

Central banks and governments promote both the increase in rentier income, and "stagnating or declining wage incomes." The result is that money is flowing out of the real economy and gushing into the financial sector and "safe havens."

The status quo cannot prevail. Each crisis adds to the gathering force that must, in the end, propel the system into economic Armageddon.

Between now and then we must come up with a *new* system. It's in everyone's best interest to engage in that enterprise – to join others already involved, and work for the transition to a better world.

Élan

Pension Schemes Face 30-year Funding Gap

By David Oakley and Norma Cohen, Financial Times, October 16, 2012

Employees face a much greater risk their pensions will not pay out than regulators have made assumptions for, amid growing efforts by the industry to tackle the problem of underfunded schemes.

Companies such as BT Group and British Airways, which have some of the largest UK pension funds, face the biggest risks because they have mature schemes that must pay out millions of pounds to retired members every year.

Analysis by Towers Watson, a consultancy, shows that managers of defined benefit schemes, which offer a fixed annual pension, are far more exposed to the threat of volatile equity markets than had been calculated.

This is because they need nearly 30 more years before they will be able to fully "de-risk" their schemes – switch out of riskier investments, such as equities, and move into safer assets like index-, or inflation-linked, bonds, which allow fund managers to offer close to guaranteed payments.

Towers Watson says UK schemes have liabilities of £2tn compared with index-linked gilts supply of £0.5tn and that it will take until 2039 before the supply of index-linked gilts matches liabilities.

This is much longer than the estimate of about 10 years by the UK Pensions Regulator. Schemes must match their liabilities – current and future payments – with assets, revenue from equity or bonds, to make sure they can meet all their pension obligations.

Although schemes use other fixed income assets, such as conventional gilts and corporate bonds to match liabilities, index-linked government bonds are thought the best instruments to buy as they guard against inflation and are also considered almost risk free.

Fund managers have reduced the amount of equities they hold to 40 percent from 60 percent since 2006, but some want to cut their exposure further, as the recent rollercoaster ride in equity markets has put pressure on deficits and increased fears over the ability of schemes to pay out.

BT, which has suffered from the sharp falls in equity markets, was this year forced to make a £2bn payment to halve a pension "black hole," but fund managers say the company's scheme is likely to remain underfunded, or without enough money to guarantee pensions will be paid in full, for years.

Alasdair MacDonald, head of investment strategy at Towers Watson, said: "Some pension schemes may not need to remove all their risk because they have plenty of time before their members retire, but those mature schemes that have to make payments to pensioners every month are more likely to want to take as much risk off the table as possible.

"They need guaranteed fixed income payments, protected from inflation, so they can pay their retired members."

Worries over the lack of suitable assets to match liabilities has prompted the National Association of Pension Funds, which represents 1,200 pension schemes with combined assets of nearly £800bn, to look at alternative ways to match liabilities with safe assets, such as the creation of a debt market linked to infrastructure projects.

Joanne Segars, chief executive of the NAPF, said: "There is simply not a big enough supply of index-linked bonds. We need other gilt-like instruments to help schemes match liabilities. We are currently looking at other assets, such as infrastructure instruments, that might offer ways to de-risk portfolios."

The Towers Watson calculations are based on UK Debt Management Office projections and assumptions that index-linked issuance will remain constant.

Separately, on Tuesday, the National Association of Pension Funds warned that workers' pension pots were at risk of losing up to a quarter of funds under the government's pension plans, as workers switched jobs and schemes. The charity called for a low-cost "aggregator scheme" where savings could be pooled in a single place.

Steve Webb, minister for pensions, said: "Far too many people have absurdly small amounts of money scattered between far too many pension schemes. I am determined to make sure that people start to build up decent pension pots and keep track of them.

"For too long, an overly complex system has made it hard for people to transfer their money between pension schemes. We need a big shake-up to make it safe, cost-effective and easy to move your pension pot around."

Massively underfunded public and private pensions, and all the risks inherent therein, have been a frequent topic of conversation for us recently. Today, Tobias Levkovich at Citigroup published a report pointing out just how dire the situation is for the S&P 500's largest corporate pension funds. The study found that pensions of just the companies in the S&P 500 alone were over $375BN underfunded at the end of 2015 with the top 25 underfunded plans accounting for over $225BN of the underfunding. Moreover, Citi pointed out that pensions don't seem to be participating in the massive equity rally that has grown ever so "bubbly" since 2009 and issue we explained in detail here:

Pension Duration Dilemma – Why Pension Funds Are Driving the Biggest Bond Bubble In History

Pension under-funding continues to be a major issue for S&P 500 constituents as very respectable equity market gains over the last seven years have not substantially alleviated pension pressures. The S&P 500 has appreciated by more than 200% at the end of 2015 since the low in March 2009 but the aggregate underfunded status of $376 billion in December 2015 is now 22% higher than the $308 billion underfunding peak seen in December 2008 (see Figure 1). While the funding status in 2013 recovered by more than $225 billion versus 2012 alongside strengthening equity market performance and a higher discount rate, this trend reversed in 2014 and only improved moderately in 2015.

Specifically, the slightly higher discount rate contributed to the progress in 2015's pension funding status, not higher equity prices.

Per the table below, S&P 500 corporate pensions went from being fully funded in 2007, in aggregate, to $375BN underfunded in just 8 years.

The primary problem, of course, is the Fed's low interest rate policies which are crushing both sides of the pension equation.

Pension assets have basically stagnated since 2007, up less than 10%, as pensions struggle to "find yield." Meanwhile, lower yields on corporate bonds have driven discount rates through the floor causing the present value of liabilities to skyrocket over 40% over the same period.

After dipping in 2014, the discount rate rose modestly in 2015, causing pension obligations to ease but pensions remain

Figure 1: S&P 500 Pension Breakdown

	Pension Assets $ Millions	Pension Obligations $ Millions	Pension Funding Status $ Millions	Pension Funding Status Ratio
1995	750,907	676,150	74,757	11.06%
1996	859,478	723,084	136,394	18.86%
1997	991,008	793,773	197,235	24.85%
1998	1,144,454	1,018,479	125,975	12.37%
1999	1,274,083	994,061	280,022	28.17%
2000	1,238,920	1,012,893	226,027	22.31%
2001	1,089,896	1,086,950	2,946	0.27%
2002	950,963	1,169,472	-218,509	-18.68%
2003	1,113,478	1,278,265	-164,787	-12.89%
2004	1,265,338	1,429,667	-164,328	-11.49%
2005	1,318,010	1,458,439	-140,430	-9.63%
2006	1,470,964	1,511,301	-40,337	-2.67%
2007	1,504,516	1,441,135	63,380	4.40%
2008	1,100,149	1,408,580	-308,432	-21.90%
2009	1,160,202	1,420,912	-260,709	-18.35%
2010	1,273,321	1,518,314	-244,993	-16.14%
2011	1,321,962	1,676,615	-354,654	-21.15%
2012	1,534,448	1,986,156	-451,708	-22.74%
2013	1,622,693	1,847,151	-224,458	-12.15%
2014	1,681,892	2,070,963	-389,071	-18.79%
2015	1,654,258	2,030,901	-376,643	-18.55%

Source: FactSet, S&P Dow Jones Indices LLC and Citi Research – US Equity Strategy

severely underfunded. The present value of corporate pension obligations is heavily influenced by interest rates and thus lower yields typically cause deterioration in funding status. While forecasts for higher yields in the future should lead to decreased concerns over the underfunded status of US pensions, Other Post Employment Benefit

(OPEB) accounts remain significantly under-funded as corporations attempt to shift these costs onto individuals, but that may take some time.

Canada's Looming Pension Wars

By Tamsin McMahon and Ken MacQueen, MACLEANS, June 3, 2014

Boomers are only now starting to take stock of retirement and many don't like what they see

As the City of Regina debated its largest tax hike in more than a decade, 76-year-old George Malish looked at his household balance sheet to see how he would pay for it all. Taxes were rising, along with utilities and phone bills. Yet Malish's Old Age Security (OAS) cheque had gone up by just 55 cents a month. "I ask [city officials] to please put their heads together and decide how to divide 50 cents a month and forgo the other increases they are demanding," he wrote in a letter to the local newspaper, suggesting that politicians and bureaucrats should also try limiting their own wage increase to 55 cents a month.

Despite what he sees as the growing demands on his meagre benefits, Malish considers himself one of the lucky ones when it comes to financing his retirement. Aside from income from CPP and OAS, he receives a company pension after retiring from what he calls "blue-collar work" in 1994. Two decades of inflation have steadily eroded his income, but at least Malish's pension covers prescription benefits for himself and his wife. "Very few people have that," he said in an interview. "That's what's giving us a very decent living."

Like many of his generation, Malish is at the forefront of the coming pension wars, the growing divide between the haves, whose retirement is secured by guaranteed workplace pensions, and the have-nots, left to scrape by on their own meagre savings. It's shaping up to be a battle between politicians and government bureaucrats armed with pensions that offer guaranteed payouts and the remaining 80 percent of Canadians in the private sector who are preparing for retirement with a patchwork of different savings programs. With the first wave of Baby Boomers heading into retirement, Canadians are only now starting to take stock of what kind of lifestyle they can afford with their savings and comparing that to their neighbours working government jobs. Many don't like what they see.

"As people are becoming aware of the divide that exists, I think there is going to be resentment over the fact that some people are retiring much earlier and are going to have a much more financially secure retirement," says Bill Tufts, a benefits consultant and founder of advocacy group Fair Pensions For All.

Already that resentment is starting to spill over into public policy. In Ontario, Liberal Premier Kathleen Wynne has staked her election hopes on voters' angst over their retirement savings by promising a made-in-Ontario pension plan aimed at middle-class workers. Meanwhile her opponent, Progressive Conservative Tim Hudak, has attacked the plan as a job-killing payroll tax and is promising instead to cut spending by firing 100,000 government workers.

Public sector unions are pushing back against the growing threat of pension envy that is putting pressure on governments to cut back on their retirement benefits. The Public Service Alliance of Canada, the union that represents federal government workers, argues that at $25,000 the average pension payment for its members is hardly lavish.

Yet governments are struggling to afford even those benefits. This month, auditor-general Michael Ferguson warned the pension system for federal public servants was underfunded by more than $150 billion, representing Ottawa's biggest liability next to the $668 billion federal debt. The federal government also paid $9.2 billion worth of interest payments on pension-related debt – nearly a third of the government's total interest payments for 2012. Ottawa has also channelled another $1 billion into its pension fund from other tax revenues to help cover the roughly $15 billion in pension benefits it pays out every year, representing 5.5 percent of all federal government spending.

Proponents of generous public sector pensions have traditionally argued that governments need better benefits in order to compete for workers who can find higher salaries in the private sector. Calgary Mayor Naheed Nenshi said as much this month when he warned that the Alberta government's proposed public sector pension reform "could have a crippling effect on our labour force," by encouraging an exodus of municipal workers to the private sector.

But it's no longer the case that public sector workers are paid less than their private sector counterparts. A study by the Ontario Institute for Competitiveness and Prosperity (ICP), a government-funded think tank, found that for many jobs – particularly non-management positions – government workers now receive both higher salaries and better benefits than their private sector counterparts. Such generous guaranteed pensions make it difficult for politicians and bureaucrats to enact good policy because they can't empathize with the struggles of average Canadians, says Gregory Thomas, federal director of the Canadian Taxpayers Federation. "You create a separate class of people who really identify with the government as opposed to the people they're governing."

Increasingly the anger over "gold-plated" public sector pensions isn't focused on how much government workers are earning in retirement, but that they have access to a pension at all. Thanks to the decline of manufacturing jobs, the percentage of private sector workers enrolled in defined benefit pensions dropped from 35 percent in 1970 to 12 percent by 2010. Nearly all public sector workers in the largest provinces are covered by workplace pensions, regardless of whether they are junior secretaries or senior managers. By contrast, even the most skilled private sector workers have roughly a one-in-two shot of landing a job with a pension. Even then, most of the private sector pensions are defined contribution plans, where the benefit payouts depend on how a worker's individual retirement account performs. The differences between the two types of pensions are huge. The ICP estimates the typical defined benefit plan for a manufacturing worker is worth $255,000 compared to $43,000 for a defined contribution plan.

That is the kind of discrepancy that riles taxpayers, who end up paying out more to fund public pensions than they get from their own employers. The ICP estimates that governments contribute an average of $4,530 a year for every worker, compared to an average contribution of $3,230 for private sector employers. Those are tax dollars not available to fund health care and infrastructure spending, says Tufts.

Yet others argue that growing pension envy is pushing policy-makers in the wrong direction, by encouraging governments to pare back their own pension benefits rather than expand benefits in the private sector. That will end up hitting taxpayers in other ways, such as through government programs like the Guaranteed Income Supplement for low-income seniors. A Boston Consulting Group study last year, funded by Canada's largest public sector pensions, found that 15 percent of pensioners with a defined benefit plan collect GIS compared to as many as 50 percent of retirees without one. "If there's not going to be the ability to bargain defined benefit plans then the pressure is going to come out somewhere else," says Herb John, head of the National Pensioners and Senior Citizens Federation, who retired from Ford at age 49. "It's like a bubble under a rug. You can't get rid of it. You can push it around, but it's always going to be there."

Many worry that the grumblings of pension envy today will eventually explode in a full-blown crisis as young workers, saddled with student debt, mortgages and stagnant incomes, age into retirement. "The resentment becomes divisive," says Alexandra Lopez-Pacheco. At 53, she's a pensionless freelancer whose retirement wealth is tied up in the rising value of her Oakville, Ont., home. But she wonders what will happen to her three children. "When we start losing things that are really essential to society, we start resenting those who have [them]," she says. "We're not helping ourselves or them. We're bringing down the bar." If anything, the pension wars are just getting started.

Our Comment

In my own profession, the trend to entrust pension funds to riskier investments for promise of greater dividends, was recognized by a colleague as an unwise move from the regulated limits imposed throughout earlier times. He was valiantly struggling during the eighties to educate colleagues to the danger, and to stir opposition to that temptation.

Not long ago, I was disgusted to read, in that pension's journal, that those handling the fund were patting themselves on the back as being progressive. The example they touted was an investment in toll roads in Mexico.

Continued on page 13

The Dumbledore Beetle

By Elizabeth McArdle, The Social Artist, Vol. 5, No. 2, Summer 2017

When you hear the word Dumbledore, I guarantee that the wise old wizard from Harry Potter will immediately come to mind. However, the real Dumbledore is not a wizard at all but an awesome beetle.

The word Dumbledore comes from an old word for slow or blundering and dore refers to a large flying, winged insect. Indeed, the Dumbledore Beetle can fly well, most frequently on warm summer evenings. They are found in pastures and meadows and wherever there are grazing herbivores.

Because they excavate vertical burrows under cowpats to rear their young, this practice has earned them the additional name of dung beetle. Before you say "yuk" and stop reading, consider that this beetle is one of the most important creatures on the planet.

In the course of their day to day activities they recycle the nutrients from dung back to the soil. This maintains a healthy soil fertility on which all of life depends.

Also by breaking up cowpats and animal waste they greatly reduce the amount of greenhouse gas produced and released into the atmosphere. Therefore the Dumbledore beetle plays a large role in combating destructive climate change.

Another important task they perform is simply cleaning up the animal wastes from the countryside and turning it into usable material for bacteria and fungi. If they did not provide this service, it would constantly build up and what would we do then? The consequences do not bear thinking about. In short, we cannot do without them.

In the world of small creatures there are many real celebrities and they deserve our attention and respect for the indispensable, unnoticed work they do. The Dumbledore beetle is chief among these and God in His wisdom has ensured that all creatures have their valuable place in the great scheme of life on earth.

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Our Comment. A tremendously important feature of today's growing environmental consciousness is the appreciation of nature's dynamics and the need to better understand the contributions of its multifarious participants, however humble their role, and to learn from its circular model. *Élan*

How to Fund a Universal Basic Income Without Increasing Taxes or Inflation

By Ellen Brown, The Web of Debt Blog, October 7, 2017

The policy of guaranteeing every citizen a universal basic income is gaining support around the world, as automation increasingly makes jobs obsolete. But can it be funded without raising taxes or triggering hyperinflation? In a panel I was on at the NexusEarth cryptocurrency conference in Aspen September 21-23, most participants said no. This is my rebuttal.

In May 2017, a team of researchers at the University of Oxford published the results of a survey of the world's best artificial intelligence experts, who predicted that there was a 50 percent chance of AI outperforming humans in all tasks within 45 years. All human jobs were expected to be automated in 120 years, with Asian respondents expecting these dates much sooner than North Americans. In theory, that means we could all retire and enjoy the promised age of universal leisure. But the immediate concern for most people is that they will be losing their jobs to machines.

That helps explain the recent interest in a universal basic income (UBI) – a sum of money distributed equally to everyone. A UBI has been proposed in Switzerland, trials are beginning in Finland, and there is a successful pilot ongoing in Brazil. The cities of Ontario in Canada, Oakland in California, and Utrecht in the Netherlands are planning trials; two local authorities in Scotland have announced such plans; and politicians across Europe, including UK Labour Party leader Jeremy Corbyn, have spoken in favor of the concept. Advocates in the US range from Robert Reich to Mark Zuckerberg, Martin Luther King, Thomas Paine, Charles Murray, Elon Musk, Dan Savage, Keith Ellison and Paul Samuelson. A new economic study found that a UBI of \$1,000/month to all adults would add \$2.5 trillion to the US economy in eight years.

Welfare can encourage laziness, because benefits go down as earned income goes up. But studies have shown that a UBI distributed equally regardless of income does not have that result. In 1968, President Richard Nixon initiated a successful trial showing that the money had little impact on the recipients' working hours. People who did reduce the time they worked engaged in other socially valuable pursuits, and young people who were not working spent more time getting an education. Analysis of a similar Canadian trial found that employment rates among young adults did not change, high-school completion rates increased, and hospitalization rates dropped by 8.5 percent. Larger experiments in India have reached similar results.

Studies have also shown that it would actually be cheaper to distribute funds to the entire population than to run the welfare services governments engage in now. It has been calculated that if the UK's welfare budget were split among the country's 50 million adults, each of them would get £5,160 a year.

But that is not enough to cover basic survival needs in a modern economy. Taxes would need to be raised, additional debt incurred, or other programs slashed; and these are solutions on which governments are generally unwilling to embark. The other option is "qualitative easing," a form of central bank quantitative easing in which the money flows directly into the real economy rather than simply into banks. In Europe, politicians are taking another look at this once-derided "helicopter money." A UBI is being proposed as monetary policy that would stimulate productivity without increasing taxes. As Nobel prize-winning economist Joseph Stiglitz, former senior vice president of the World Bank, explains: "… [W]hen the government spends more and invests in the economy, that money circulates, and recirculates again and again. So not only does it create jobs once: the investment creates jobs multiple times.

"The result of that is that the economy grows by a multiple of the initial spending, and public finances turn out to be stronger: as the economy grows, fiscal revenues increase, and demands for the government to pay unemployment benefits, or fund social programmes to help the poor and needy, go down. As tax revenues go up as a result of growth, and as these expenditures decrease, the government's fiscal position strengthens."

Why "QE for the People" Need Not Be Inflationary

The objection to any sort of quantitative easing in which new money gets into the real economy is that when the money supply grows too large and consumer prices shoot up, the process cannot be reversed. If the money is spent on a national dividend, infrastructure, or the government's budget, it will be out circulating in the economy and will not be retrievable by the central bank.

But the government does not need to rely on the central bank to pull the money back when hyperinflation hits (assuming it ever does – it has not hit after nearly nine years and \$3.7 trillion in quantitative easing). As Prof. Stiglitz observes, the money issued by the government will return to it simply through an increase in fiscal revenues generated by the UBI itself.

This is due to the "velocity of money" – the number of times a dollar is traded in a year, from farmer to grocer to landlord, etc. In a good economy, the velocity of the M1 money stock (coins, dollar bills, demand deposits and checkable deposits) is about seven; and each recipient will pay taxes on this same dollar as it changes hands. According to the Heritage Foundation, total tax revenue as a percentage of GDP is now 26 percent. Thus one dollar of new GDP results in about 26 cents of increased tax revenue. Assuming each of the seven trades is for taxable GDP, \$1.00 changing hands seven times can increase tax revenue by \$7.00 x 26 percent = \$1.82. In theory, then, the government could get more back in taxes than it paid out.

In practice, there will be a fair amount of leakage in these returns due to loopholes and deductions for costs. But any shortfall can be made up in other ways, including closing tax loopholes, taxing the \$21 trillion or more hidden in offshore tax havens, or setting up a system of public banks that would collect interest that came back to the government.

A working paper published by the San Francisco Federal Reserve in 2012 found that one dollar invested in infrastructure generates at least two dollars in "GSP" (GDP for states), and "roughly four times more than average" during economic downturns. Whether that means \$4 or \$8 is unclear, but assume it's only \$4. Multiplying \$4 by \$0.26 in taxes would return the entire dollar originally spent on infrastructure to the government, year after year. For precedent, consider the G.I. Bill, which is estimated to have cost $50 billion in today's dollars and to have returned $350 billion to the economy, a nearly sevenfold return.

What of the inflation formula typically taught in economics class? In a May 2011 *Forbes* article titled "Money Growth Does Not Cause Inflation!," Prof. John Harvey demonstrated that its assumptions are invalid. The formula is "MV = Py," meaning that when the velocity of money (V) and the quantity of goods sold (y) are constant, adding money (M) must drive up prices (P). But as Harvey pointed out, *V and y are not constant*. As people have more money to spend (M), more money will change hands (V), and more goods and services will get sold (y). Demand and supply will rise together, keeping prices stable.

The reverse is also true. If demand (money) is not increased, supply or GDP will not go up. New demand needs to *precede* new supply. The money must be out there searching for goods and services before employers will add the workers needed to create more supply. Only when demand is saturated and productivity is at full capacity will consumer prices be driven up; and they are not near those limits yet, despite some misleading official figures that omit people who have quit looking for work or are working only part-time. As of January 2017, an estimated 9.4 percent of the US population remained unemployed or underemployed. Beyond that, there is the vast expanding potential of robots, computers and innovations such as 3D printers, which can work 24 hours a day without overtime pay or medical insurance.

The specter invariably raised to block legislators and voters from injecting new money into the system is the fear of repeating the notorious hyperinflations of history – those in Weimer Germany, Zimbabwe and elsewhere. But according to Professor Michael Hudson, who has studied the question extensively, those disasters were not due to government money-printing to stimulate the economy. He writes: "Every hyperinflation in history has been caused by foreign debt service collapsing the exchange rate. The problem almost always has resulted from wartime foreign currency strains, not domestic spending. The dynamics of hyperinflation traced in such classics as Salomon Flink's *The Reichsbank and Economic Germany* (1931) have been confirmed by studies of the Chilean and other Third World inflations. First the exchange rate plunges as economies pay for foreign military spending during the war, and then – in Germany's case – reparations after the war ends. These payments led the exchange rate to fall, increasing the price in domestic currency of buying imports priced in hard currencies. This price rise for imported goods creates a price umbrella for domestic prices to follow suit. More domestic money is needed to finance economic activity at the higher price level. This German experience provides the classic example."

In a stagnant economy, a UBI can create the demand needed to clear the shelves of unsold products and drive new productivity. Robots do not buy food, clothing, or electronic gadgets. Demand must come from consumers, and for that they need money to spend. As robots increasingly take over human jobs, the choices will be a UBI or to let half the population starve. A UBI is not "welfare" but is simply a dividend paid for living in the 21st century, when automation has freed us to enjoy some leisure and engage in more meaningful pursuits.

Our Comment

While economic historian Karl Polanyi, in *The Great Transformation,* was premature in celebrating the end of the market economy, his historical account of its development and his analysis of its destructive impact on society, provide a highly pertinent insight into our present historical period of transformation.

R.M. MacIver, in his forward to *The Great Transformation*, comments – let us hope prophetically – the reduction of man to labour and of nature to land under the impulsion of the market economy, turns modern history into a high drama in which society, the chained protagonist, at last bursts its bonds.

Ironically, one of the arguments promoting industrialization was that it would free man from labour through mechanization.

Wages have almost always been another form of slavery for most workers – hardly their rightful share of the commons! Is the loss of this practice really a prospect to be feared? Surely, in a just society, everyone has the right to adequate purchasing power, hence a decent standard of living.

However important work may be, for most people there must be more to life than work.

Trials are subject to sabotage by those seeking to discredit them. Nor do all advocates share the same motivation. Some may welcome UBI as an opportunity to complete the demolition of present social services and replace them with minimal subsistence payments to the peasants of a new feudal age. Trials should be carefully designed and executed.

Change, however positive, creates new needs as well as new opportunities. The end of work, for example, will have enormous implications for, among other elements of society, education. More than ever, nurturing the human potential will be both a need *and* an opportunity.

Perhaps when work ceases to define us as it has come to do, we'll be free as never before to concentrate more on being and becoming than on getting and consuming.

Élan

Schemes *from page 11*

The reference to "the creation of a debt market linked to infrastructure projects," as a way "to match liabilities with save assets" should catch our attention, given the P3 Canada Infrastructure Bank.

Pitting public sector unions against those who are less well protected is one way to deflect attention from the common enemy, and an excellent example of the need for a united front in promoting a secure retirement pension for all. We all deserve and *could* have universal, adequate, just, old-age security. Those who may today *seem* assured a "much more financially secure retirement" may yet be cheated of that, and should resent the pension gap on both their own account, and others,' on both pragmatic and moral grounds resent the pension gap as much as those more immediately threatened by it. We are – *none* of us – secure, until we are *all* secure!

The government *ought* to set good employment standards. In a truly democratic society a well informed electorate would hold the government accountable for social security at *every* stage of life.

Interesting to recall that Mark Wiseman (Canada Pension Plan Investment Board) was appointed by Finance Minister Bill Morneau, to his Advisory Council on Economic Growth, shortly before "moving on from the CPPIB, to bigger and better things at Larry Fink's BlackRock" (BlackRock: the world's biggest investor (CEO Larry Fink); Bank of America's biggest shareholder; part owner of Merrill Lynch), where he was appointed top executive and chairman of its Alternative Investors"…leaving him "well positioned to advance BlackRock's infrastructure investment business in Canada and elsewhere" (Joyce Nelson, *Beyond Banksters*).

Élan

As Robots Take Jobs, Europeans Mull Free Money For All

By John Leicester, The Associated Press, January 19, 2017

"Universal basic income" is an idea that's gaining traction among lawmakers and tech leaders alike.

Paris – I am, therefore I'm paid.

The radical notion that governments should hand out free money to everyone – rich and poor, those who work and those who don't – is slowly but surely gaining ground in Europe. Yes, you read that right: a guaranteed monthly living allowance, no strings attached.

In France, two of the seven candidates vying to represent the ruling Socialist Party in this year's presidential election are promising modest but regular stipends to all French adults. A limited test is already underway in Finland, with other experiments planned elsewhere, including the United States.

Called "universal income" by some, "universal basic income" or just "basic income" by others, the idea has been floated in various guises since at least the mid-19th century. After decades on the fringes of intellectual debate, it became more mainstream in 2016, with Switzerland holding a referendum – and overwhelmingly rejecting – a proposed basic income of around $3,300 per month.

"An incredible year," says Philippe Van Parijs, a founder of the Basic Income Earth Network that lobbies for such payments. "There has been more written and said on basic income than in the whole history of mankind."

But before you write a resignation letter to your boss in anticipation of never needing to work again, be warned: there are multiple questions, including how to finance such schemes.

Why the mounting interest?

In a word, robots. With automated systems and machines increasingly replacing human workers, France could lose three million jobs by 2025, says Benoit Hamon, a former education minister campaigning for the French presidency on a promise of gradually introducing no-string-attached payments for all.

As work becomes scarcer, a modest but regular guaranteed income would stop people from fearing the future and free up their time to family, the needy and themselves, he argues.

It could also encourage people to take risks, start businesses and try new activities without the risk of losing welfare benefits.

The other pro-basic income candidate for the Socialist Party presidential ticket is outsider Jean-Luc Bennahmias. Like Hamon, the former European Parliament lawmaker argues that it is pointless to expect the return of economic boom times, with jobs for all.

"Growth at two, three, four or five percent in western countries: it's finished," he said in a televised debate last week. "We have to speak the truth."

Outside research backs up their arguments. An Oxford University study in 2015 estimated nearly half of the American workforce is at risk of automation.

Put to the Test

Finland's small-scale, two-year trial that started Jan. 1 aims to answer a frequent question from basic income opponents: With a guaranteed 560 euros ($780) a month, will the 2,000 human guinea pigs – drawn randomly from Finland's unemployed – just laze around?

Budget constraints and opposition from multiple quarters stymied ambitions for a broader test, says Olli Kangas from the Finnish government agency KELA, which is responsible for the country's social benefits.

"It's a pretty watered down version," he said in a telephone interview. "We had to make a huge number of compromises."

Still, he argues that such studies are essential in helping societies prepare for changed labor markets of the future.

"I'm not saying that basic income is the solution," he said. "I'm just saying that it's a solution that we have to think about."

In the Netherlands, the city of Utrecht this year plans to trial no-strings welfare payments that will also allow test groups to work on the side if they choose – again, in part, to study the effect on their motivation to find work.

To prepare for "a world where technology replaces existing jobs and basic income becomes necessary," Silicon Valley startup financier Y Combinator says it plans a pilot study in Oakland, California, paying recipients an unconditional income because "we want to see how people experience that freedom."

The Cost

Obviously, expensive. Hamon proposes the gradual introduction of basic income schemes in France, starting with 600 euros per month for the nation's poor and 18-25-year-olds before scaling up payments to 750 euros for all adults – for a total estimated annual cost of 400 billion euros.

Part of the cost could be financed by taxing goods and services produced by automated systems and machines, he says. Opponents argue that doing so would simply prompt companies to move robots elsewhere, out of reach of French tax collectors.

Doing away with housing, family, poverty and unemployment benefits could free up more than 100 billion euros to fold into a replacement basic income scheme.

There'd also be less red tape, saving money that way, too, but switching to basic income would still require new taxes, a 2016 Senate report said.

It estimated that paying everyone 500 to 1,000 euros per month would cost 300 billion to 700 billion euros annually. It recommended starting with three-year pilot schemes with trials involving 20,000-30,000 people.

The Cons

Costs aside, opponents argue that guaranteed incomes would promote laziness and devalue the concept of work. Hamon's opponents for the Socialist presidential ticket dispute as false his argument that jobs for humans are growing scarcer.

Ultimately, to see the light of day, basic income schemes will need political champions, said Van Parijs.

"We need radical ideas as targets and then we need clever tinkering to move in that direction," he said.

Our Comment

A just economy is essential to a just society, and adequate purchasing power is both requisite to a successful economy, and everyone's basic right in a just society. Luckily, these needs can be met through a truly democratic government.

No one measure, such as a universal basic income, can " make it all better," for economies and societies are complex systems whose dynamics are governed by interrelationships. Thus the elimination of *work* as the key method of supplying purchasing power, (and wages have never been adequate anyway, and have predominantly turned out to be – for most workers – wage slavery!), will require more than "clever tinkering" and a few "political champions."

People need to be prepared for so dramatic a change. Education, for example, cannot be simply training for employment, but will need to focus on the development of the human potential.

A lot will depend on who gets to establish our priorities and to set the parameters, the conditions of trial, the goal, and the rationale.

Present attempts will need to be recognized as a temporary response to new needs in an age of transformation – and prevented from being manipulated in efforts to discredit the concept. Existing conservative reactions to the idea of a minimum annual income, for example, seem to be more focused on doing away with existing benefits than on ensuring a decent standard of living for all.

A prominent justification for the industrial revolution was that it promised a better life through mechanization.

We are not lacking good ideas. There have always been realists able to assess what was and, on that basis, what might or could come to be. In his time, for example, William Wordsworth wrote, in despair:

The World is too much with us; late and soon,
Getting and spending, we lay waste our powers:
Little we see in Nature that is ours;
We have given our hearts away, a sordid boon!…

We do not lack prescient insights past and present, and vibrant ideas. We have only to tap into them and to collaborate on how to build on them, and to *act.*

Élan

Saving Illinois: Getting More Bang for the State's Bucks

By Ellen Brown, Counter Punch, July 24, 2017

Illinois is insolvent, unable to pay its bills. According to Moody's, the state has $15 billion in unpaid bills and $251 billion in unfunded liabilities. Of these, $119 billion are tied to shortfalls in the state's pension program. On July 6, 2017, for the first time in two years, the state finally passed a budget, after lawmakers overrode the governor's veto on raising taxes. But they used massive tax hikes to do it – a 32% increase in state income taxes and 33% increase in state corporate taxes – and still Illinois' new budget generates only $5 billion, not nearly enough to cover its $15 billion deficit.

Adding to its budget woes, the state is being considered by Moody's for a credit downgrade, which means its borrowing costs could shoot up. Several other states are in nearly as bad shape, with Kentucky, New Jersey, Arizona and Connecticut topping the list. US public pensions are underfunded by at least $1.8 trillion and probably more, according to expert estimates. They are paying out more than they are taking in, and they are falling short on their projected returns. Most funds aim for about a 7.5% return, but they barely made 1.5% last year.

If Illinois were a corporation, it could declare bankruptcy; but states are constitutionally forbidden to take that route. The state could follow the lead of Detroit and cut its public pension funds, but Illinois has a constitutional provision forbidding that as well. It could follow Detroit in privatizing public utilities (notably water), but that would drive consumer utility prices through the roof. And taxes have been raised about as far as the legislature can be pushed to go.

The state cannot meet its budget because the tax base has shrunk. The economy has shrunk and so has the money supply, triggered by the 2008 banking crisis. Jobs were lost, homes were foreclosed on, and businesses and people quit borrowing, either because they were "all borrowed up" and could not go further into debt or, in the case of businesses, because they did not have sufficient customer demand to warrant business expansion.

And today, virtually the entire circulating money supply is created when banks make loans When loans are paid down and new loans are not taken out, the money supply shrinks. What to do?

Quantitative Easing for Munis

There is a deep pocket that can fill the hole in the money supply – the Federal Reserve. The Fed had no problem finding the money to bail out the profligate Wall Street banks following the banking crisis, with short-term loans totaling $26 trillion. It also freed up the banks' balance sheets by buying $1.7 trillion in mortgage-backed securities with its "quantitative easing" tool. The Fed could do something similar for the local governments that were victims of the crisis. One of its dual mandates is to maintain full employment, and we are nowhere near that now, despite some biased figures that omit those who have dropped out of the workforce or have had to take low-paying or part-time jobs.

The case for a "QE-Muni" was made in an October 2012 editorial in *The New York Times* titled "Getting More Bang for the Fed's Buck" by Joseph Grundfest et al. The authors said Republicans and Democrats alike have been decrying the failure to stimulate the economy through needed infrastructure improvements, but shrinking tax revenues and limited debt service capacity have tied the hands of state and local governments. They observed: "State and municipal bonds help finance new infrastructure projects like roads and bridges, as well as pay for some government salaries and services….

"[E]very Fed dollar spent in the muni market would absorb a larger percentage of outstanding debt and is likely to have a greater effect on reducing the bonds' interest rates than the same expenditure in the mortgage market….

"[L]owering the borrowing costs for states, cities and counties should not only forestall tax increases (which dampen individual spending), but also make it easier for local governments to pay for police officers, firefighters, teachers and infrastructure improvements."

The authors acknowledged that their QE-Muni proposal faced legal hurdles. The *Federal Reserve Act* prohibits the central bank from purchasing municipal government debt with a maturity of more than six months, and the beneficial effects expected from QE-Muni would require loans of longer duration. But Congress was then trying to avoid the "fiscal cliff," so all options were on the table. Today the fiscal cliff has come around again, with threats of the debt ceiling dropping on an embattled Congress. It could be time to look at "QE for Munis" again.

Getting More Bang for the Pensioners' Bucks

Scott Baker, a senior advisor to the Public Banking Institute and economics editor at OpEdNews, has another idea. He argues that the states are far from broke. They may not be able to balance their budgets with taxes, but a search through their Comprehensive Annual Financial Reports (CAFRs) shows that they have massive surplus funds and rainy day funds tucked away around the state, most of them earning minimal returns. (Recall the 1.5% made by the pension funds collectively last year.)

The 2016 CAFR for Illinois shows $94.6 billion in its pension fund alone, and well over $100 billion if other funds are included. To say it is broke is like saying a retired couple with a million dollars in savings is broke because they can earn only 1.5% on their savings and cannot live on $15,000 a year. What they need to do is to spend some of their savings to meet their budget and invest the rest in something safe but more lucrative.

So here is Baker's idea for Illinois: (1) Make an iron-clad pledge by law, even in the State Constitution if they can get quick agreement, to provide for pension payouts at the current level and adjusted for inflation in the future. (2) Liquidate the current pension fund and maybe some of the other liquid funds too to pay off all current debts. (3) This will leave them with a great credit rating…. (4) Put the remaining tens of billions into a new State Bank, partnering with the beleaguered small and community banks…. Use that money to finance state and local businesses and individuals instead of Wall Street schemes and high fund manager fees that will no longer be necessary or advisable, saving the state hundreds of millions a year.

The Public Bank could be built roughly on the model of the hugely successful Bank of North Dakota example, one of the country's greatest banks, measured by Return on Equity, and scandal-free since its founding in 1919.

The Bank of North Dakota (BND), the nation's only state-owned bank, has had record profits every year for the last 13 years, with a return on equity in 2016 of 16.6%, twice the national average. Its chief depositor is the state itself, and its mandate is to support the local economy, partnering rather than competing with local banks. Its commercial loans range from 2.4% to 7.5%. The BND makes cheaper loans as well, drawing on loan funds for special programs including infrastructure, startup businesses and affordable housing. Its loan income after deducting allowances for loan losses was $175 million in 2016 on a loan portfolio of $4.7 billion. (2016 BND CAFR, pages 28-29.) That puts the net return on loans at 3.7%.

Illinois could follow North Dakota's lead. Looking again at the Illinois CAFR (page 45), the amount paid out for pension benefits in 2016 was only $1.833 billion, or less than 2% of the $94.6 billion pool. An Illinois state bank could generate that much in profit, even after paying off the state's outstanding budget deficit.

Assume Illinois guaranteed its pension payouts, as Baker recommends, then liquidated its pension fund and withdrew $10 billion to meet its current budget shortfall. This would significantly improve its credit rating, allowing it to refinance its long-term debt at a reduced rate. The remaining $85 billion could be put into the state's own bank, $8 billion as capital and $77 billion as deposits. [See Table 1.] At a loan to deposit ratio of 80%, $60 billion could be issued in loans. At a return similar to the BND's 3.7%, these loans would produce $2.2 billion in interest income. The remaining $17 billion in deposits could be invested in liquid federal securities at 1%, generating an additional $170 million. That would give a net profit of $2.37 billion, enough to cover the $1.8 billion annual pensioners' payout, with $570 million to spare.

The salubrious result: the pension fund would be self-funding; the state would have a bank that could create credit to support the local economy; the pensioners would have money to spend, increasing demand; the economy would be stimulated, increasing the tax base; and the state would have a good credit rating, allowing it to borrow on the bond market at low interest rates. Better yet, it could borrow from its own bank and pay the interest to itself. The proceeds could then go to its pensioners rather than to bondholders.

Where there is the political will, there is a way. Politicians and central bankers will take radical, game-changing steps in desperate times. We just need to start thinking outside the box, a Wall Street-imposed box that has trapped us in austerity and economic servitude for over a century.

Ellen Brown is an attorney, founder of the Public Banking Institute, and author of twelve books including the best-selling Web of Debt. *Her latest book,* The Public Bank Solution*, explores successful public banking models historically and globally. Her 300+ blog articles are at EllenBrown.com.*

Table 1

State Pension Fund: $95B
Pay off existing debt with $10B, leaving $85B
Establish State Bank with $85B ($77B deposits + $8B capital)
The $77B can be used to:
– Make $60B loans earning 3.7%, yielding $2.2B/year
– Buy $17B in US bonds at 1%, yielding $170M/year
Total – $2.37B, which can be used to:
– Pay pension needs ($1.8B)
– Cover bank expenses (perhaps $100M)
– Leaving $300M for miscellaneous/profit

Our Comment

As Michael Hudson emphasizes: "Debt that cannot be paid will not be paid."

It is inane to imagine a 'credit downgrade' as any part of a solution! Clearly, that can only exacerbate the problem. Does Moody's – can its creditors – not understand that higher borrowing costs will, at best, mean paying off the debt by taking on a bigger one?! Hard to believe! Why, then, would Moody's consider a credit downgrade?

Why does that bring to mind the top-credit rating of toxic mortgages on the eve of the Great Financial Crisis?

The vulnerability of pension funds should give us pause. Has not deregulation resulted in riskier "investment" of Canadian pension funds?

Why should a corporation enjoy a safety valve like bankruptcy but a state be denied any comparable recourse? (Or need one?)

Proffered solutions like privatizing public utilities may offer some clue to explaining such a discrepancy.

Money is the lifeblood of the economy. Why should we support a system of money creation that leaves us vulnerable to such financial hemorrhage? Could it be that the debt trap is not a mistake or an accident but a strategy?

"Quantitative easing" and massive bailouts have exposed the truth about the potential for government-crated money. Increasingly and dramatically that potential is being seriously considered globally.

A new world is possible!

Élan

British Banks Can't be Trusted — Let's Nationalise Them

By Owen Jones, The Guardian, October 19, 2017

Sometimes the case for a policy is as overwhelming as the level of ridicule it will get from the punditocracy. The nationalisation of Britain's failed banking industry – the sector responsible for most of our country's current ills – is one such example. According to a recent poll, half the electorate support nationalising the banks, despite almost no one arguing for such a policy in public life.

It may well be because the banks plunged Britain into one of its worst economic crises in modern history, spawning, according to the Institute for Fiscal Studies, perhaps our worst squeeze in living standards since the 1750s. The fact that they have been bailed out by the taxpayer but allowed to carry on as though little happened – including more top British bankers in 2013 being gifted bonuses worth over €1m than all EU countries combined – while public services are gratuitously slashed, has rightly riled some British voters.

Nationalisation of the banks is not about vengeance, though. Sure, the rip-off inefficiency of rail privatisation, or the failure of the great energy sell-off, or the fact that even the *Financial Times* has argued that privately run water is an indefensible debacle – all are testament to the intellectual poverty of the "private good, public bad" argument. None quite compete, however, with the matter of the banks leaving the entire western world consumed with the gravest series of crises since the second world war.

Would Brexit, Donald Trump, or the gathering demands for Catalonia to secede from crisis-ridden Spain have happened without the financial collapse? Almost certainly not. It is now somewhat darkly comic to note that most commentators and politicians claimed Labour lost the 2015 election because it was too leftwing. It is notable, then, that over four in 10 voters back then believed Labour was too soft on banks and big business, compared to just over one in five who differed.

Economist Laurie Macfarlane says the banks make a mockery of the nostrums of free-market capitalism. Because the banks were given state bailouts after their catastrophic failures, there is the assumption that, when another crisis hits, the same will happen again.

No other industry enjoys the same protection. They are "too big to fail," which means they benefit from an implicit subsidy – worth £6bn in 2015. The Bank of England is their lender of last resort. State-backed deposit insurance of up to £85,000 per consumer is another de facto mass public subsidy.

As the New Economics Foundation says, it is commercial banks who are now responsible for creating the vast majority of money in economies like the UK, a source of vast profit. This is called "seigniorage" and – as the foundation puts it – it represents a "hidden annual subsidy" of £23bn a year, or nearly three-quarters of the banks' after-tax profits. And banks are an essential public utility: it is almost impossible to be a citizen without a bank account, and there is no public option when it comes to making electronic payments.

Even now, as Macfarlane notes, the British state technically owns a fifth of the retail banking industry because of its stake in Royal Bank of Scotland. Repeated RBS scandals, and the aftermath of the EU referendum result, have dented the worth of the company's shares, meaning that the state selling its stake would result in eye-watering losses. Meanwhile, small businesses have struggled to get the credit they need, and escalating household debt threatens the foundations of the stagnating British economy. But the state's arms-length approach means RBS has failed both its customers and the broader economy. A profit-driven banking sector closed 1,150 branches in 2014 and 2015; about a third of those were owned by RBS. The bank once promised never to close the last branch in town; the pledge was broken, and 1,500 communities have been left with no bank branch. Vulnerable customers and small businesses inevitably suffer the most.

By contrast, foreign publicly owned banks are self-evident successes. Take Germany: KFW, the government-owned development bank, is crucial in developing national infrastructure as well as the renewable energy revolution. On a regional level, state-owned *Landesbanken* are responsible for industrial strategy. Then at the most local level, there are *Sparkassen*: they focus on developing relationships with local businesses and consumers. They're not beholden to shareholders – instead, they have a stakeholder model, focused on helping local economies – indeed, their capital has to remain in local communities.

It is impossible to understand Britain's current plight without examining the country's rapid deindustrialisation in favour of a financial sector concentrated in London and the south-east. And according to New Economics Foundation, while foreign stakeholder banks lend two thirds of their assets to individuals and businesses in the real economy, that's true with only a tiny proportion of British shareholder banks. Overwhelmingly, it goes to mortgage lending and lending to other financial institutions.

Our current banking system is rigged in favour of a crisis-ridden City. The New Economics Foundation suggests transforming RBS – in which the state still has a three-quarter share – into a network of local banks. Labour's 2017 manifesto backed a review into these plans. A management board would run the network day to day, but a board of trustees would ensure the bank was accountable to the broader economy and customers, not shareholders.

A third would be elected by workers, a third by local authorities and a third by local stakeholders. The mandate of each local bank would be to promote local economies – not least their small businesses – rather than the City of London. Here is a model of democratic ownership that can, in time, be extended to the rest of the economy.

Can it really be argued that private ownership of the banks is a case study of the glorious success of free market capitalism? The principle architect of Labour's recent manifesto, Andrew Fisher, called for the nationalisation of Britain's banking sector in his 2014 book *The Failed Experiment: And How to Build an Economy That Works*. He was surely right then and he is right now. As Macfarlane notes, there are different possible routes to the banks' nationalisation: whether it be swapping corporate shares for

Continued on page 19

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.

Public Transit, Privatization and the Canada Infrastructure Bank

Canadian Union of Public Employees, The Bullet, Socialist Project, E-Bulleting No. 1449, July 17, 2017

The Canada Infrastructure Bank (CIB) will create a pipeline of privatization for our public transit systems. Corporations will be able to extract long-term profit from public transit fares and public subsidies.

Our governments subsidize public transit because it's critical infrastructure for our communities: to get us from place to place, to reduce traffic congestion, and to green our environment. When we allow corporations to plan, finance, operate, maintain and own public transit, we funnel ridership fares and government funding into corporate coffers.

The CIB will give unprecedented control and decision-making power over our public transit infrastructure to private sector investors. This means the public interest will take a back seat in transit planning and development.

Many of our public transit systems in recent years have been built using public-private partnerships (P3s). The CIB will open the door to even further privatization, allowing profit to drive public transit planning and decision-making.

Transit Privatization

Almost one-third of the $81.3 billion in new infrastructure spending promised in Budget 2017 is for transit infrastructure over 11 years. This includes $20.1 billion through new public transit bilateral agreements between the federal government and provinces and territories and $5 billion through the new CIB. Canadian and foreign investors are expected to put in up to $4 in private funds for every public dollar in the CIB.

The Liberals have played a privatization shell game. While the mandatory P3 screen will end, which had forced all large infrastructure projects through a P3 evaluation process, the CIB is explicitly designed to promote privatization. And 20 percent of federal public transit funding will be funneled through this privatization bank in addition to the expected private sector investment.

The privatization of public transit systems will likely mean long-term P3 contracts where the private sector finances, operates and maintains the service – all at a cost.[1] No public transit system in North America has been able to cover all its operating costs through transit fares. Governments provide ongoing funding to help residents get from place to place. With public transit privatization, private companies extract long-term profits while governments continue to subsidize the service.

Transit Privatization Hurts CUPE Members and the Public

Pushing public transit projects through the "privatization bank" will hurt the 9,000+ CUPE members who work in the sector. It will also hurt citizens particularly lower or middle-income earners who will have to pay for this higher cost public transit either directly through transit fares or indirectly through our tax system.

A majority of CUPE members in the transit sector – over 7,100 – are bus drivers employed by 19 municipal transit authorities in Quebec. CUPE also represents workers who do maintenance work on public transit systems that can be outsourced in many transit privatization projects.

Privatization hurts workers by putting downward pressure on wages and working conditions. Contracting-out and low-waged precarious work are key ways private corporations can profit from infrastructure like public transit. This hurts workers but it also affects public services. Private sector ownership, operating and maintenance shift public transit from serving the public good to supporting private profit.

Privatization also hurts the public. Transit users may face higher transit fares or have to use systems where decision-making on routes has been guided by private profit rather than the public interest. Privatization projects may also limit community involvement and participation in key decisions. Furthermore, broader societal priorities such as reducing greenhouse gas emissions are easily ignored in privatization projects.

Privatization Gone Wrong: Réseau électrique métropolitain (REM)

There are many examples of transit privatization in recent years that can give us some indication of the dangers involved. One example, which may receive funding through the CIB, is the $6 billion Réseau électrique métropolitain (REM) light rail project in Montreal.

This project to connect Montreal's south shore, the airport, the city centre and Deux-Montagnes has been designed and partially financed by the Caisse de dépôt et placement du Québec, which manages the funds of the Quebec Pension Plan and other public pension funds. Decisions about the route, technology and compatibility with existing transit lines have been driven by what suits the profit interests of the Caisse and private developers rather than the public.

The rail line will be maintained, operated and even owned by the Caisse – at significant extra cost. A *La Presse* investigation estimated the REM will operate with a funding shortfall of approximately $240 million per year. It's possible public transit fares across the entire city will increase in order to generate these profit levels.[2] Regardless, the public will pay for the higher costs through subsidies from municipalities or the Quebec government or higher fares for transit users.

With the REM, the Quebec government has outsourced public transit planning, design, operation and maintenance to the Caisse. They've even sold off segments of their core public transit infrastructure. This will make it difficult to further expand Montreal's public transit system, integrate it with other transportation networks such as Via Rail and properly oversee the service. This privatization scheme has resulted in a public transit plan that maximizes private profit at the public's expense.

Unfortunately, we have many cases of public transit privatization gone wrong across the country. The Canada Line P3 in Vancouver, British Columbia went overbudget, lacked innovation and integration with the broader transit system and undermined public accountability. The Ontario Auditor General review of P3 projects, including six transit projects, found that P3s cost $8 billion more than if they had been delivered publicly due to increased private-sector financing costs and a lack of risk transfer. Furthermore, a review of Edmonton's P3 LRT development indicated that savings were likely going to be found through poor labour practices. Unfortunately, more transit privatization blunders will be coming our way through the privatization bank.

Conclusion

We need to build the public transit infrastructure that reduces traffic congestion, helps the environment and gets us from place to place. This infrastructure helps grow our communities and our economy. But building our public transit infrastructure through the Canada Infrastructure Bank will lead to a pipeline of privatization. Our infrastructure needs to be built in a way that benefits communities, not private investors. It needs to be built in the most cost-effective way – through low-cost public financing. And it needs to include good green jobs for transit workers.

Canadian Union of Public Employees (CUPE) is the largest union in Canada, representing some 650,000 workers in healthcare, education, municipalities, libraries, universities, social services, public utilities, transportation, emergency services and airlines. This article was first published on their website.

End Notes

1. Dachis, B. Commentary No. 473, New and Improved: How Institutional Investment in Public Infrastructure can Benefit Taxpayers and Consumers, *C.D. Howe Institute*, March 2017.
2. Schepper, B. "CDPQ et le REM, un projet qui démantèle le réseau de transport en commun de Montréal," *IRIS*, février 2017.

Our Comment

Who asked permission of the citizens of Canada for this transfer of power? Ask around: many people have never even heard of the Canada Infrastructure Bank! Most Canadians have no idea of the infrastructure bank they have owned since 1935, and of their right to the funding of infrastructure through the use of government-created money.

Privatization, another prized "principle" of neoliberalism, is, for most of us, the road to endless debt.

Given a decent chance to respond to the CIB project, we might have called on the wisdom of Dr. John Hotson, co-founder of COMER. In 1996, in a presentation on *Understanding Money*, he attributed the economic "mess" at that time to our leaders' violation of "four common sense rules regarding their fiscal and monetary policies:

1. No sovereign government should ever, under any circumstances, give over democratic control of its money supply to bankers.

2. No sovereign government should ever, under any circumstances, borrow any money from any private bank.

3. No National, provincial, or local government should borrow foreign money to increase purchases abroad when there is excessive domestic unemployment.

4. Governments, like businesses, should distinguish between "capital" and "current" expenditures, and when it is prudent to do so, finance capital improvements with money the government has created for itself.

With these rules in mind and the historic record of our use of the Bank of Canada we might have mounted a successful campaign against this monstrous ploy to end-run the Bank of Canada.

By-passing our constitutional and legal right to borrow money at near-zero interest, threatens to pull that zipper of the neoliberal body bag clear up to the top of our heads!

The disastrous impact of this scheme on priorities such as the environment, on national sovereignty, and on our political economy cannot be overestimated.

It is a downright demonic theft of the commons!

Unless we take a united stand against the present system, there will, one day be *no public* employees. *All* but the rentiers will be twenty-first-century serfs in a vassal state of a global neofeudal society.

Élan

Austerity *from page 2*

"The true criticism of market society is not that it was based on economics – in a sense, every and any society must be based on it – but that its economy was based on self-interest." *The Great Transformation*, Karl Polanyi.

Vickie Cooper is Lecturer in Social Policy Criminology at The Open University. David Whyte is Professor of Socio-Legal Studies at the University of Liverpool and the editor of How Corrupt is Britain?

Ann Emmett

British Banks *from page 17*

government bonds, using quantitative easing to buy up shares, or simple nationalisation without compensation. Labour is right to call for a German-style public investment bank, backed up by similar publicly run local banks.

But such proposals are not in themselves sufficient. Britain's privately run banks have proved a disaster for everyone except their shareholders. The only good alternative is public stakeholder banks, run by workers, consumers and local authorities, with an obligation to defend the best interests of our communities. Privately owned banks have proved a catastrophic failure – for our economy, our social cohesion and our politics. There is surely no alternative to public ownership.

Owen Jones is a Guardian columnist.

Our Comment

What is the state of democracy when half of the electorate (the portion who know what's going on?), support a policy for which no one in public life is arguing?

The good news is that the news about private money creation has been made public as never before through the monstrous, meltdown bailout, that battered taxpayers and rewarded handsomely those responsible for the crisis, and sacrificed public services to the private purpose.

Britain is not alone in sacrificing the real economy to financialization. As Michael Hudson points out in *Finance Capitalism and its Discontents,* "Governments henceforth are to serve high finance, not labour and industry." "Today's warfare is financial in character. Creditors now achieve by financialization and privatization what armies used to seize by military force."

In *Debt or Democracy, Public Money for Sustainability and Social Justice,* Mary Mellor argues that, "As it is the public collectively who underpin the money system, it is the public at all levels who should determine how money is created and circulated. As public money is free of debt at the point of creation, it could be spent, lent or allocated into the economy at the local, national, or global level."

Indeed, Mellor maintains, "Democracy would mean reclaiming public control of money and using it for publicly determined ends. This would end the need to accumulate public debt. In fact, surplus public expenditure (deficit), should be welcomed as it creates money that can circulate without being reclaimed as tax or debt repayment. (Mary Mellor is Emeritus Professor at Northumbria University.)

Élan

Canada Revealed as Quiet Tax Haven

Sputniknews.com, January 26, 2017

As many tropical islands have become associated with dark tax-evasion and money-laundering schemes, a new shady corporate tax haven has emerged, this time located in the far, cold north.

After digging through the Panama Papers – a massive leak of documents from law firm Mossack Fonseca – a joint investigation by *The Toronto Star* and CBC/Radio Canada has revealed that Canada's tax legislation provides favorable conditions for evading taxes, creating anonymous business entities, and cleaning illegally-gained cash.

According to the investigation, one of Canada's key features is its near-perfect business reputation, as any company registered in Canada is naturally assumed to be law-abiding.

Another key feature is national tax legislation that allows companies to keep the real names of owners secret, instead hiring a phony director who simply provides a face.

Also, several Canadian provinces allow the registering of a certain type of company, called a limited partnership, that does not have to pay taxes if the company's owners do not live in the country.

Canada has tax agreements with 115 foreign countries, more than any other country in the world, making moving money in and out of the country a simple matter.

As such, the country is not generally used as a place to park ill-gotten gains, but rather as a middle point, where dirty money becomes clean, in a process that Toronto tax lawyer Jonathan Garbutt refers to as "snow washing."

"You got this entity that's in Canada, [and] banks or other parties in other countries are going to presume that it's legitimate and OK because it's Canadian – pure as the driven snow of the Great White North," he said, cited by Toronto Star/CBC. "They are trying to pretend that it's Canadian when it's really not."

"It's like the ultimate tax haven entity in the world," said Mark Morris, an independent tax consultant based in Zurich. "Everyone loves Canadian [limited partnerships] because they're not viewed as a tax haven."

According to the investigation, Mossack Fonseca promoted Canada as a "good place to create tax planning structures to minimize taxes like interest, dividends, capital gains, retirement income and rental income" as early as 2010.

When Mossack Fonseca first investigated tax legislation in Canada, it discovered that a company registered in the country must pay taxes to the Canada Revenue Agency. Mossack representatives offered a risky solution:

"Every single year, [the companies] just submit the annual return and annual income declaration with false information, just writing that the Canada company did not have activities,*" Ramses Owens, Mossack Fonseca's managing director in Panama, wrote in an internal letter to colleagues.*

"It is impossible for the Canada revenue governmental system to look into such information for every single company formed in Canada…. This is risky, but we will try to provide the service," he added.

Mossack is not the only "corporate service provider" operating in Canada, however. Toronto Star and CBC identified over two-dozen companies offering their services to assist corporations and private individuals in creating a tax-evasion proxy entity that could enjoy Ottawa's brilliant reputation.

Canada also has a mild justice system, with regard to white-collar crime, according to Chris Mathers, a former RCMP officer who worked undercover on money-laundering cases.

"If you launder money in Canada and get caught, [Financial Transactions and Reports Analysis Centre of Canada] suspends your golf membership. No one goes to jail in Canada for even the most significant financial crimes."

"Things you'd do 20 years for in the US, you might get a fine in Canada and that's not lost on criminals," Mathers said.

According to *The Star*, Canada's Federal Finance Minister Bill Morneau commented on the issue in a formal statement.

"We as a government, and I personally, am committed to making progress on ensuring that we are not providing any haven for any inappropriate activities and that we're having companies and individuals paying the share of tax that should be due," Morneau said.

Our Comment

We are not alone! Small comfort! Too bad that "a near-perfect business reputation" should wind up being nothing more substantial than a cover for something like "the ultimate tax haven entity in the world"!

Hardly a deterrent that, if you get caught washing your dirty laundry here, all you have to lose is a few rounds of golf!

It would seem that Federal Finance Minister Bill Morneau can truthfully commit to "making progress on ensuring that we are not providing any haven for any inappropriate activities and that we're having companies and individuals paying the share of the tax that should be due."

But one might question the *legal* definition of words like *inappropriate* and the *legal* concept of "the *share* of tax that *should* be due."

The time has come to challenge laws that make gated communities of tax havens designed to safeguard the lions' *share!*

Élan