

# **RUNNYMEDE GAZETTE**

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# EDITORIAL

## WHAT RIGHTS?

In an age when most political debate is reduced to sound bites and sloganised generalities, myths become ever easier to create. Two myths in particular surround the Human Rights Act.

The first is that civil liberty and human rights arrived on these shores, out of a clear blue sky, in 1950. It is remarkable how many give credence to such an idea, but in a country where constitutional education is virtually zilch, they can hardly be blamed. If the the Magna Carta celebrations, due shortly, serve no other purpose, they might help disabuse this lobotomy history.

The second is that the Human Rights Act is a particularly strong guarantor of such rights. It is all, so the myth goes, that stands between us and tyranny.

Well, as has been recorded countless times in these pages over the past five years, many elements of the tyranny are already with us. And all of that is perfectly consistent with the 'Human Rights' Act.

The assault, in recent years, on the principle of innocence? Perfectly consistent. Abridgement of rights to due process and *habeous corpus*? Perfectly consistent. The European Convention merely says that a person should be brought to court 'promptly'. In many European jurisdictions, as the 'Magna Carta and Europe' item rightly records, this can mean an accused person spending months, sometimes years, in jail whilst being 'investigated', without any public due process. Neither is there any mention of any right to jury trial, juries being also unknown in many European jurisdictions.

ID Cards, national ID registers, state and corporate mass surveillance, the Civil Contingencies Act ... the list goes on .... are all perfectly consistent.

Rights and liberties acquired in the Common Law jurisdictions are unqualified. There are no qualifying caveats in the United States Bill of Rights. The rights guaranteed are absolute and universal.

In contrast, the European Convention, and the Human Rights Act are heavily qualified. Key articles are limited in the interests of ' ... *national security or public safety, for the prevention of disorder or crime, for the protection of health or morals, ...*' As we know such interests as 'safety and security' trump all else. These caveats can be twisted to mean almost anything.

The absence of *RG* comment on the General Election will be noted. There is little left to say which does not quickly degenerate into platitude.

We have a new government in office, even if it can exert little power over most matters. One of those matters is the 'Human Rights' Act. At least there is a dawning realisation that this is an issue of fundamental constitutional import which requires much more input than a handful of backroom Whitehall draftsmen.

That said, it is inevitable that whatever emerges will involve more of the same. There will be 'security and safety' caveats nullifying much of what is purportedly granted and there will be a further ingress of Roman Law and 'legal positivism' confirming the role of state over person. The challenge to the democratic resistance is whether it can produce anything better.

*Frank Taylor*

# EMPOWERMENT AND DEMOCRACY

## *Neil Lock; Libertarian Alliance*

The bottom up thinker wants to empower everyone. That is, he wants each individual to have maximum possible power over his own life. He sees peace, honesty, justice and respect for human rights as the only valid reasons to restrict anyone's freedom in any way. Beyond this, he desires government of each person, by that person, for that person. In contrast, top down thinkers advocate and admire a charade they call democracy; or in US-speak, Demahcracy. They like to set democracy up on a pedestal, and to make of it an idol to be worshipped.

In democracy, individuals may vote on which of a number of criminal gangs (political parties) they wish to direct a state for the time being. Then, there is a more or less complicated process of totting up the votes. This process determines which gang (or gangs) will have licence to "legally" oppress and exploit everyone for the next several years.

It's obvious that this system entirely ignores the wishes of the minority. It does nothing at all for those who are alienated from politics, and feel that none of the political parties have any concern for them. And, the way the system operates, it usually ends up ignoring the desires of the majority, too.

And yet, top down thinkers talk of democracy as if it was (in Abraham Lincoln's words) "government of the people, by the people, for the people." But to them, the word "people" is singular – really meaning "the populace." So, they believe that democracy delivers a government that reflects "the will of the people." That elected politicians in some way "represent" this will. And that this gives the rulers an all but divine right to do what they want to the ruled, without concern or consideration for rights or anything else.

The bottom up thinker, on the other hand, is mindful of Benjamin Franklin's pithy saying: "Democracy is two wolves and a lamb voting on what to have for lunch." He knows that there is no such thing as "the will of the people." For, indeed, only individual people – that is, persons – have wills. He knows that it's all but impossible for a dishonest, collectivist politician to represent, in any meaningful way, any honest, individual human being.

Furthermore, he understands that many people who vote – perhaps, even, a majority – do so, not for the party they want most, but for the one they hate least. And he knows that any individual's vote in any election that matters is utterly worthless. It's rare enough for a politician to be elected by a margin of only one vote. But further; when was the last time one vote made a discernible difference to any policy or legislation?

It gets worse. On many if not most issues, all the parties and politicians want the same. What they want is more and more state power. So, far from empowering the individual, democracy falsely makes it appear legitimate to subordinate innocent people to the Causes currently favoured by those in power and their hangers-on.

It's worse yet. For, on fuller consideration, the bottom up thinker sees that a vote for any of the criminal gangs – or at least, for one that has a realistic chance of winning – is an act of cowardly aggression. It's an assault against everyone who has been, is being, or will be, harmed by the policies of that gang. It's morally equivalent to punching on the nose, hard, people you have never even met; and then running away.

Thus, democracy divides. It inexorably pulls societies apart. The victims of bad policies feel harshly treated, and become disaffected. They come to view politics and politicians with contempt and loathing. And, slowly but surely, they lose all fellow feeling with those that support the criminal gangs by voting for them. Yet, top down thinkers agonize over why the "social cohesion," which they expect to see among the populace, is increasingly becoming unglued.

# MAGNA CARTA AND EUROPE – YESTERDAY & TODAY

*Torquil Dick-Erikson; via Dave Barnby*

Magna Carta crossed the oceans. In all the lands where English is spoken, its principles are known and recognised. But it never crossed the Channel. In 1215, in England the Barons were confronting King John; in Rome Pope Innocent III was setting up the machinery of the Holy Inquisition. A major purpose of Magna Carta was to limit the powers of the King – the central State authority.

In contrast, the Inquisition expanded and deepened the power of the authorities over the individual. Not only actions, and words, but even thoughts, were scrutinised and, if “culpable”, punished. In ancient Rome, an accuser faced a defendant, and the case was decided by a judge, independent from both. Under the Empire, the Emperor’s word became law. The dark ages saw more primitive forms of judgement (trial by ordeal, by combat...)

As analysed by the late, great, Italo Mereu, Professor of the History of Law at Ferrara University, in his painstakingly detailed history of the Inquisitorial system from the origins to the 1970s, “Sospettare e Punire” (“To suspect and to punish”), the Inquisition brought together the functions of prosecutor and investigator with that of the judge, in the new figure of the Inquisitor. The Inquisitor’s job was to identify, seize, and interrogate a suspect, in order to arrive at the “truth”. Or, it might be said, at the desired result.

The arbitrary powers of the inquisitor, and of his superiors, were clearly vast. The machinery of the Law became a tool for the ruler to ensure complete command and control over his subjects.

Clearly Magna Carta constituted a potent obstacle to such arbitrary exercise of power. In fact the Pope was furious when informed about what had happened at Runnymede, and wrote to the English bishops and abbots who had helped set it up telling them they had done something “abominable” and “illicit”.

The specific constraints on the power of the State provided by Magna Carta include the famous and much celebrated clauses 39 “No free man shall be.... punished... save by judgement of his peers and by the law of the land”, and 40 “To no-one shall we deny, delay, or sell justice”. Clause 39 in particular removed from rulers a crucial power of government, the power to decide who should be punished and who not. This power was placed in the hands of a jury of the defendant’s peers, thus laying a foundation stone of democracy, and a bulwark against arbitrary punishments.

For eight hundred years since then, the English and the continental criminal procedures have gone off in different directions.

The Inquisition ravaged the nations of continental Europe for centuries, persecuting and prosecuting witches, heretics, and.... scientists. Initially an ecclesiastical institution, its methods were adopted by secular rulers, as a means of suppressing opposition of any kind.

England alone escaped its grip. We fought off the Spanish Armada, which would have brought the Spanish Inquisition to our shores. Elisabeth I rejected the inquisitional method – “I will not make windows into men’s souls”. A sort of papal “fatwa” promised a fast track to heaven for any Catholic who murdered her. Yet she did not outlaw those who followed the old religion, though subjecting them to some constraints.

The power of Parliament grew and in the mid-seventeenth century prevailed over that of the king in the civil war. Parliamentary supremacy – representing ultimately the will of the people – was then firmly consolidated with the glorious – and bloodless – revolution of 1688-89.

Meanwhile across the channel absolutism held sway. The King of France famously proclaimed “I am the State”.

The French Revolution swept away much of the old order. The “rights of man” were proclaimed. Then soon Napoleon took over the helm of France, and his armies set about invading most of Europe to export his notion of the “rights of man”. His codes of law to this day underlie the

legal systems used on the continent.

Some of the original thinkers of the enlightenment, like Voltaire, whose ideas helped spark the French revolution, had drawn inspiration from the very different system of government they had seen in England. But Napoleon did not adopt Magna Carta, nor its principles, in criminal procedure. He adopted and adapted the basic elements of the inquisition, redirecting it to serve not the Church, but the State.

In the traditional English system, the powers of jurisdiction governing the different parts of criminal procedure are attributed to different bodies. Essentially, the police, divided into 43 independent local constabularies, investigate a case; the magistrates (mostly non-lawyers, unpaid volunteers working part-time) sign arrest warrants, and then decide bail and committal to trial in public hearings; a barrister is hired to conduct the prosecution in court, where he or she faces another barrister hired by the defence; the judge presides over the proceedings in court deciding procedural disputes between the parties, and handing down the sentence after a guilty verdict. And crucially, the verdict is entirely in the hands of a jury of 12 ordinary citizens, voters selected by lot from the electoral register, peers of the defendant, just as was established by Magna Carta so long ago.

The distribution of these powers into different hands provides essential checks and balances, not just between the legislative, executive and judicial functions, as famously prescribed by Montesquieu, but within the judicial function itself, on whose delicate balance depends the individual freedom of each and every citizen from arbitrary arrest and wrongful imprisonment. The use of legal violence on people's bodies, by arrest and imprisonment, is an exclusive prerogative of the sovereign State in any society. Its arbitrary use is a prime tool of tyranny. This is why effective legal safeguards against misuse are so necessary. Here lies the genius of Magna Carta, which 800 years ago in England provided the first legal safeguards against such arbitrary misuse. Compare and contrast with today's Napoleonic-inquisitorial systems, where a career judiciary, whose members are State employees, comprises prosecutors and judges, but excludes defenders. The prosecutor is nowadays no longer the selfsame person as the judge, but they are both servants of the State (though they may sometimes be institutionally independent from political control), and they are close colleagues, who can work in tandem together on case after case. The judges may have been prosecutors during the course of their careers, but normally they will never have been defenders.

Under the Napoleonic-inquisitorial dispensation used in continental Europe, all these powers are placed in the collective hands of one brotherhood – the career judiciary.

In Italy, for example, criminal investigations, prosecutions, assessments of evidence, decisions on arrest, bail or remand, the direction of courtroom proceedings, judgements of guilt or innocence and sentencing are all under the exclusive control of members of the career judiciary (“magistratura” – not to be confused with the idea of an English “magistrate” for which there is no equivalent).

After a law degree, young law graduates face three career alternatives: attorney, notary, or the judiciary (“magistrato”). To become a judge, they must pass a stiff State exam (set and marked by existing members of the judiciary), and then they are in. After one year's “apprenticeship” (“uditorato”), they are assigned to a judicial office as a prosecutor/investigator or a judge, where they sit, pen in hand, empowered to order criminal investigations, arrests, bail, committals, etc. They are not trained in detective techniques, relying on their book knowledge of the law. But they direct the police (who may have such training) in the conduct of criminal investigations. It is said that this separation between competence and responsibility in criminal investigations explains why numbers of cases are not investigated as fruitfully as might be hoped.

Trial by Jury – that great heritage of Magna Carta – has no place in the Napoleonic-inquisitorial dispensation. Most cases are dealt with by professional judges alone. Very serious cases are heard by what might look like a jury of ordinary citizens chosen by lot. Actually, the verdict and the sentence are decided by a mixed panel of six lay “jury-people” and two professional career judges. They all go into the jury-room together, where the “judge's summing-up” is delivered

in secret. Although the six jury-people can outvote the two professionals, the latter obviously take a leading role in guiding the verdict. They also have other means of ensuring that what they consider a “perverse” verdict can be appealed against. There are no safeguards against double jeopardy – the prosecution are perfectly entitled to appeal against an acquittal, even if no fresh evidence has emerged.

Two other direct legacies of Magna Carta are clause 40 – “to no-one shall we delay justice”, and the not-so-often celebrated clause 38. The latter is worth quoting in the original: “Nullus ballivus ponat de cetero aliquem ad legem simplici loquela sua, sine testibus fidelibus ad hoc aductis” – “No judicial officer shall initiate legal proceedings against anyone on his own mere say-so, without reliable witnesses brought for that purpose”.

These provisions are ensured by Habeas Corpus. Under Habeas Corpus, a suspect if arrested must be brought into open court within hours (or at the very most, a few days), and there charged formally. And the charge must be based on enough hard evidence, already collected, to shew that there is a *prima facie* case to answer.

It is perhaps taken for granted in English-speaking countries that any proceedings must be based on evidence. Not so however on the continent. In Italy, for example, a person may be arrested on the orders of two members of the judiciary (one acts as “prosecutor-cum-investigator” and the other as “judge of the preliminary investigations”), at the outset, on mere suspicion based on clues (“indizi”). Hence the title of Professor Mereu’s book. The prisoner becomes a “person-under-investigation” (“indagato”), and can be kept in prison during the investigation, which can last months, before the authorities are ready to commit him. There is no right to any public hearing during this time. Within hours of arrest, the prisoner is interrogated by the two judges who ordered his arrest, in a secret hearing. He is assisted by his lawyer (or by a lawyer appointed by his interrogators if he cannot afford his own), and he can try to persuade them that they have got the wrong person, but he cannot see any evidence against him until much later.

All this directly violates clauses 38 and 40 of Magna Carta. Yet this is what happens to British subjects and others who are subjected to the European Arrest Warrant. Under the EAW no British court is allowed to ask to see any evidence of a *prima facie* case. Presumably the Parliamentarians who voted for this measure must have believed that the foreign judicial authority issuing the EAW would already have the necessary evidence, to be exhibited in a public hearing soon after extradition took place. Yet numbers of innocent Britons can testify that this is not the case. Famously, Andrew Symeou spent 11 months in a Greek prison before his first appearance in an open court hearing, where the case was dropped, owing to lack of any serious evidence.

It is thought that the European Convention of Human Rights offers adequate safeguards for the innocent. It does not. The ECHR makes no provision for Habeas Corpus, let alone Trial by Jury. Article 6 vouchsafes an appearance in a public hearing within a “reasonable” time after arrest, but does not specify what is “reasonable”. For us it is a matter of hours or at most days. In Europe it can be months or even longer.

Our forefathers, in their wisdom, laid down these safeguards for our freedom. Their words have rolled down eight centuries, to protect us. Yet today, we are abandoning them, for an illusion, based on wishful thinking.

This 800th year after Magna Carta is also the 200th anniversary of Waterloo. How ironic if Napoleon should have the last laugh after all.

## **COUNTERING THE LIES OF THE MAINSTREAM MEDIA**

***Colin Todhunter; Global Research***

The site you are reading this article on is part of the ‘alternative’ or ‘independent’ media. Many of these sites do not take advertising and are run on the basis of donations from readers. Many of the

authors whose articles appear on these sites write for no or little financial remuneration. Contrast this situation with the so-called 'mainstream' print and TV media.

The corporate mainstream media with its well-paid journalists and increasing concentration of ownership bows to the concerns of advertisers. It tends to be privately owned and its owners have a vested interest in maintaining an economic system based on private ownership and in manufacturing consent for it. Moreover, such outlets these days are increasingly part of major conglomerates, which may include armaments manufacturers, banking or industrial concerns, and will not therefore adopt stances or report on stories that are harmful to the interests of the wider organisation.

The public is thus given access to a world view that is distorted in favour of state-corporate interests. Such interests have succeeded in getting across the message that, for example, the 'free market' is the best way to deliver goods and services to people, state provided welfare is bad and 'individual responsibility' is good, 'austerity' is necessary, privatisation increases efficiency, an endless 'war on terror' must be waged on designated enemies, well-being is measured in terms of a never-ending quest for GDP growth, the US and NATO are the 'world's policemen', giant agribusiness must displace peasant farmers to secure food security and gross inequalities and unregulated corporate power are both necessary and legitimate.

Over the past 15 years, numerous 'alternative' news websites have sprung up that challenge these assumptions and the belief that ordinary citizens should be passive consumers of a predetermined news agenda. There are now dozens of popular news sites that inform people of issues the mainstream media has deliberately failed to tell people the truth about. There are also many more sites with global reach that exist to scrutinise specific sectors, hold practices to account and counter corporate propaganda (for example, GMWatch, Corporate Europe Observatory, Food & Water Watch, Campaign Against the Arms Trade, etc.).

The existence of 'alternative' independent sites has led the European Union to express concerns about the 'damaging' effects of people having access to these sources of information. The EU argues that societal consensus is being eroded as people are being 'led astray' by dissenting voices on the internet. In the report 'A free and pluralistic media to sustain European democracy', the EU feels there is a danger that people are being misguidedly radicalised. It advocates EU funding for 'responsible' journalism, getting the EU's viewpoint across regularly and prominently in the media and placing controls on the net. The EU perceives this to be 'pluralism'.

### ***What is 'responsible journalism'?***

An article by Annie Day indicates that as a result of its destabilisations, coups, mass bombings and death squads, the US military and the CIA have been responsible for a figure of an estimated ten million deaths since 1945. Yet the corporate media never describes any of this as constituting a form of mass terror. Through the cynical hijacking of the concept of 'terror', the US now attempts to justify its ongoing tyranny through a 'war on terror', which goes unquestioned on a daily basis by the mainstream media.

Ukraine is the latest example of a US-backed terror campaign, which the corporate media has consistently failed to question. As the world edges ever closer to nuclear war, the mainstream media merely parrots the official lie coming from Washington that the situation is all due to 'Russian aggression'.

You can also add to that ten million, countless others whose lives have been sacrificed on the altar of corporate profit, which did not rely on the military to bomb peoples and countries into submission but on the IMF, World Bank and WTO. It begs the question how many lives have been cut short across the world because of the inherent structural violence or silent killing of the everyday functioning of predatory capitalism?

The appropriation of wealth through a system that funnels it from bottom to top via a process of accumulation by dispossession is celebrated by the corporate media as growth, prosperity, and freedom of choice, despite evidence that, from Greece to Spain and beyond, the reality for the majority has been falling wages, increasing poverty, the stripping away of choice and misery.

So where is the 'responsible journalism' that the EU calls for? Does it lie with those journalists in the corporate media whose claim to respectability is their rigid professionalism, their accountability, their objectivity?

If you can call professionalism, accountability and objectivity being in the pay of and not wishing to offend advertising interests, officialdom and powerful corporate interests then they are paragons of absolute responsibility.

Peddling their high salaried deceptions, they have failed and continue to fail the public and genuinely hold power to account. By shining their 'investigative' light on 'parliamentary procedures', personalities, the rubber stamping of policies and the inane machinations of party politics, they merely

serve to maintain and perpetuate the status quo and keep the public in the dark as to the unaccountable self-serving nature of power broking and the unity of interests that enable Big Oil, Big Finance, Big Pharma, Big Agra and the rest of them via their secretive think tanks and policy initiatives to keep bleeding us all dry.

But that's the role of the media: to help reinforce and reproduce the material conditions of a divisive social system on a daily basis. It's called having a compliant, toothless media. It's what the corporate media itself calls part of 'liberal democracy'. And in this type of 'liberal democracy', it is people like Edward Snowden or Julian Assange who expose the wrongdoings of the political-corporate elites that are hounded.

It was George Orwell who said that journalism is printing what someone else does not want printed and everything else is public relations. Orwell was correct. Former CIA boss General Petraeus stated in 2006 that his strategy was to wage a war of perceptions conducted continuously through the news media, while John Pilger observes that the role of respectable journalism in western state crimes – from Iraq to Iran, Afghanistan to Libya - remains taboo. Its role has been to serve as first-choice cheerleader for illegal wars.

### ***Intelligence agencies secure media compliance***

There are of course some good journalists working in the corporate mainstream media. But if you think this article mounts to little more than a one-sided attack on the 'mainstream' media, you may need to think again. Many readers will be aware of a recent story about the former editor of Frankfurter Allgemeine Zeitung, one of Germany's largest newspapers, who claimed that he accepted news stories written and given to him by the CIA and published them under his own name.

This revelation came as a shock to many. But it should not have because in the UK, for example, the British intelligence agencies along with the CIA has for decades strived to ensure that the mainstream press and TV complied with the interests of the Establishment. In addition to making sure that the British left was subverted, infiltrated and made toothless, the mainstream media was molded by the intelligence agencies to parrot the Establishment's viewpoints and aims.

How this was achieved is described in the article 'The Psyops War: British Intelligence and the Covert Propaganda Front and the CIA's Interference in British Politics.' The article reveals the tight-knit relationship between senior journalists and MI5:

*MI5 targeted labour correspondents in both newspapers and broadcasting right up to the 80s; they were recruited in droves for their contacts with a wide range of trade union officials and with each other. According to Peter Wright, MI5 always had about twenty senior journalists working for it in the national press. "They were not employed directly by us, but we regarded them as agents because they were happy to be associated with us."*

As the national public service broadcaster funded by the state, special attention was paid to the BBC. At the BBC, Brigadier Ronald Stonham liaised with MI5 and Special Branch and advised the corporation on whether or not to employ people. Names of applicants for editorial posts in the BBC were similarly 'vetted' by MI5. From the article, it becomes clear were the elite thinks journalism's loyalty should ultimately lie:

*"There should be times when the journalist, when he's examined all the facts and tested all his sources, should come down on the side of the government of the day, the established order and the Establishment as a whole." - Chairman of the Radio Authority*

And the working class in particular should certainly know its place (Toxteth is an urban district and is used here to signify the social unrest that gripped a number of British cities in the early eighties):

*"We are in a period of considerable social change. There may be social unrest, but we can cope with the Toxteths... but if we have a highly-educated and idle population, we may possibly anticipate more serious conflict. People must be educated to once more know their place." – from a secret Department of Education Report. The article makes clear who the British Establishment regards as the 'enemy within' and what it perceives the role of the much-heralded 'free press' (much heralded by people belonging to this 'free press') to be.*

*With massive decreases in readership, however, the print media seems to be in terminal decline. The Establishment's grip on the control of information has been in danger of slipping as the internet has become a major vehicle for the dissemination of information.*

The state-corporate-financial elite has presided over a bought and paid for mainstream media for



some time. Now it is engaged in an ongoing strategy of global mass surveillance and a clamp down on internet freedom. The goal is to eventually have a fully controlled internet that mirrors the shackled 'free press' that the Establishment has for so long cherished.

## UNLAWFUL GOVERNANCE

*John Bingley; via Dave Barnby; reviewed by Frank Taylor*

Firstly, it is worth establishing some definitions. Sovereignty is the ultimate power to control and decide. Treason, in negating and subverting such a power, is a crime against sovereignty. It might be worth noting that treason can have different dimensions. Allowing control of the economy to pass into the hands of multinational corporations might be considered (as I do) economic treason.

Bingley rightly views liberty as reliant on the supremacy of the rule of law, and as our birthright as free beings. He tells us that one way of entrenching liberty is to ensure that a commitment to upholding liberty is confirmed on oath by all who occupy public office.

Much of Bingley's tract is taken up with two questions. Firstly, is Parliamentary power unlimited? As an example of such unlimited power, he cites the act enabling the public boiling to death of one Richard Roose for poisoning in 1531. He might have mentioned other examples such as the Act of Attainder against the Earl of Strafford in 1641.

Secondly, is the passing of our power of self-determination to the European Union ( or for that matter any other supranational entity) an act of treason?

To return to the first question, Bingley claims, in my view rightly, that, "We are in the midst of a battle or usurped parliamentary power versus constitutional principle". The current interpretation is that parliamentary power is absolute. Thus laws are laws because parliament says so, and the only response is blind obedience under all circumstances, regardless of any questions of natural ethics and justice ... let alone common sense and proportionality ... which might arise. Although he lays much of the blame for this perversion of the constitution on the constitutionalist A.V Dicey during the latter part of the nineteenth century, he might have looked back further.

Dicey was doing little more than echoing Bagehot, writing earlier in the century. Going back further we might cite the defeat of the principle enunciated by Sir Edward Coke in *Bonham's Case* (1610) and *Calvin's Case* (1607) in which Coke held that statute could be struck down if it were 'against common right and reason ... repugnant ... or impossible to perform ... '.

According to Catherine Drinker Bowen in her biography of Coke, *The Lion and the Throne*, (available online. This is a must read for anyone wishing to fully understand these issues. As usual in British constitutional matters, this source is American) Coke was told very firmly by James I that there must be no repetition of this 'impious and mischievous doctrine'. So this principle died there and then. It was revived in the American constitution, and confirmed in the Supreme Court in *Marbury vs Madison* (1803) ... that fundamental constitutional principles will override any statute ... but has otherwise remained very firmly on the other side of the Atlantic.

We might go back further still and cite Sir William Bereford, Chief Justice to Edward II. 1309-1326 that, 'bad law is no law', and to the statute of Richard 1 of 1189 (cited via the Matthew Hale treatise of 1713 in the last *Runnymede Gazette*) by which unwritten law "which has existed from before the time of memory" was given equal status to written statute. The importance of this statute is mostly overlooked, indeed mostly unknown. Yet it established the principle that law must be rooted in natural justice and ethics.

Bingley cites such sources as Blackstone and Chatham is refuting this version of the constitution. The following quote from Chatham is key;-

*" instead of the arbitrary power of a King, we must submit to the arbitrary power of the House of Commons. If this be true, what benefit do we derive from the exchange? Tyranny ... is detestable in every shape, but none so formidable as where it is assumed by a number of tyrants ... this is not the fact, this is not the Constitution, we have a law of parliament. We have a Statute Book and the Bill of Rights .. "*

The key lies in the notion of the 'Crown in Parliament'. If, under the dispensation of the Magna Carta, (and others such as the Charter of Liberties, the statute of 1189, the Petition of Right might be added), the Crown is subject to law and not above law, it follows that Parliament is also subject to law, and thus cannot act unconstitutionally or contrary to natural ethics and justice. For example it cannot (as it has been doing!) abridge the principle of innocence, the right to due process, trial by jury, *habeous corpus*, or inflict 'cruel and unusual punishments'.

That 'cannot' perhaps should read 'ought not'. As in all these matters we find ourselves dealing with *force majeure* rather than justice and constitutional probity.

Although Bingley tells us that juries are a means of limiting state power against an accused person, any consideration of jury nullification (dealt with in previous editions of *RG*), is a glaring omission.

Thus we now live under a fundamental ... and no doubt deliberate ... misinterpretation of the constitution; a pastiche common law versus 'proper' common law. The greatest modern acolyte of legal positivism is perhaps Vernon Bogdanor. Such governance is unconstitutional and unlawful.

The second question ties in closely with the first. A cursory examination of the Bill of Rights, the Act of Settlement, the Coronation Oath, and the Privy Councillor's Oath, will confirm that the handing of powers of national self-determination to any supranational agency is unconstitutional unlawful and treasonous. Indeed, flagrantly so. It might be added that to rub salt into the wound, whole rafts of EU officials, parliamentarians, commissioners and judges are immune from prosecution. Any notion that public authority can thus place itself above the law is wholly repugnant to our own constitutional settlement.

But much of Europe functions, more or less under forms of Roman Law, which emphasises the role of the state ... 'The Law is the prince/king/fuhrer/ state speaking': 'what is not permitted is forbidden' as against 'that is not forbidden is permitted'.

More broadly Bingley's case is akin to Tony Benn's frequent point, that we are effectively governed by people and institutions which cannot be dismissed. He quotes Lord Hewatt (1929). Hewatt was attacking the principle of statutory instruments which have now burgeoned to 3 or 4000 per annum, many being EU 'Directives'. These another aspect of unlawful governance and are effectively government by executive decree, covered by a Parliamentary figleaf. Hewatt said:-

*"If the powers of governance pass to those whom the electorate cannot dismiss, or if juries are not wholly responsible for determination of verdicts, then we are in a state of arbitrary power that is diametrically opposed to the rule of law and liberty."*

Bingley has much to say about the role of the Crown and the Coronation oath to uphold the constitution. In my view the notion of the Crown as a gate guardian of the constitution is highly fanciful. It is not and has never been like that. Prior to the restoration many monarchs were much pre-occupied in finding methods of circumventing the constitution, only to be returned to the rightful when in need of parliamentary taxation. Since the restoration the Monarchy has increasingly been a cypher.

There are three schools of constitutional thought regarding the modern relationship between the Monarchy and the constitution ... that the Crown has been deceived, that it has been a willing and active participant in the subversion of the constitution, and that it is powerless. The true answer probably lies somewhere between the last two,

In light of this it is difficult to evaluate the true cash value, in practical terms, of the concept of sovereign power being invested in the Monarch. A modern constitution would ... hopefully ... be explicit in vesting sovereignty with the people.

Elsewhere Bingley deals effectively with the myth of the unwritten constitution. In fact the fundamental principles are in writing but not codified into a single document. That said, these documents say nothing (unlike most other constitutions) about the specific structures of government.

Bingley is trying ... in my view correctly ... to re-establish a principle, not seen since Bonham,

of the supremacy of common law rooted in natural justice and ethics. In my view, that cannot happen against a backdrop of EU supremacy, and the doctrine of parliamentary supremacy and legal positivism. To re-connect with these older and truer notions will require, at the very least, a form of national convention. That, in turn will require, a colossal exercise in public constitutional education.

Bingley's tract is to the point, well researched and written, and ... importantly ... likely to inspire further research.

# **THE BANK OF INTERNATIONAL SETTLEMENTS: MEET THE SECRETIVE GROUP THAT RUNS THE WORLD**

*Adam Lebor; Zero Hedge; Global Research*

Over the centuries there have been many stories, some based on loose facts, others based on hearsay, conjecture, speculation and outright lies, about groups of people who “control the world.” Some of these are partially accurate, others are wildly hyperbolic, but when it comes to the historic record, nothing comes closer to the stereotypical, secretive group determining the fate of over 7 billion people, than the Bank of International Settlements, which hides in such plain sight, that few have ever paid much attention. This is their story. The following is an excerpt from TOWER OF BASEL: The Shadowy History of the Secret Bank that Runs the World by Adam LeBor.

The world's most exclusive club has eighteen members. They gather every other month on a Sunday evening at 7 p.m. in conference room E in a circular tower block whose tinted windows overlook the central Basel railway station. Their discussion lasts for one hour, perhaps an hour and a half. Some of those present bring a colleague with them, but the aides rarely speak during this most confidential of conclaves. The meeting closes, the aides leave, and those remaining retire for dinner in the dining room on the eighteenth floor, rightly confident that the food and the wine will be superb. The meal, which continues until 11 p.m. or midnight, is where the real work is done. The protocol and hospitality, honed for more than eight decades, are faultless. Anything said at the dining table, it is understood, is not to be repeated elsewhere.

Few, if any, of those enjoying their haute cuisine and grand cru wines— some of the best Switzerland can offer—would be recognized by passers-by, but they include a good number of the most powerful people in the world. These men—they are almost all men—are central bankers. They have come to Basel to attend the Economic Consultative Committee (ECC) of the Bank for International Settlements (BIS), which is the bank for central banks. Its current members [ZH: as of 2013] include Ben Bernanke, the chairman of the US Federal Reserve; Sir Mervyn King, the governor of the Bank of England; Mario Draghi, of the European Central Bank; Zhou Xiaochuan of the Bank of China; and the central bank governors of Germany, France, Italy, Sweden, Canada, India, and Brazil. Jaime Caruana, a former governor of the Bank of Spain, the BIS's general manager, joins them.

In early 2013, when this book went to press, King, who is due to step down as governor of the Bank of England in June 2013, chaired the ECC. The ECC, which used to be known as the G-10 governors' meeting, is the most influential of the BIS's numerous gatherings, open only to a small, select group of central bankers from advanced economies. The ECC makes recommendations on the membership and organization of the three BIS committees that deal with the global financial system, payments systems, and international markets. The committee also prepares proposals for the Global Economy Meeting and guides its agenda.

That meeting starts at 9:30 a.m. on Monday morning, in room B and lasts for three hours. There King presides over the central bank governors of the thirty countries judged the most important to the global economy. In addition to those who were present at the Sunday evening dinner, Monday's meeting will include representatives from, for example, Indonesia, Poland, South Africa, Spain, and Turkey. Governors from fifteen smaller countries, such as Hungary, Israel, and New Zealand are allowed to sit in as observers, but do not usually speak. Governors from the third tier of member banks, such as Macedonia and Slovakia, are not allowed to attend. Instead they must forage for scraps of information at coffee and meal breaks.

The governors of all sixty BIS member banks then enjoy a buffet lunch in the eighteenth-floor dining room. Designed by Herzog & de Meuron, the Swiss architectural firm which built the “Bird's Nest”

Stadium for the Beijing Olympics, the dining room has white walls, a black ceiling and spectacular views over three countries: Switzerland, France, and Germany. At 2 p.m. the central bankers and their aides return to room B for the governors' meeting to discuss matters of interest, until the gathering ends at 5.

King takes a very different approach than his predecessor, Jean-Claude Trichet, the former president of the European Central Bank, in chairing the Global Economy Meeting. Trichet, according to one former central banker, was notably Gallic in his style: a stickler for protocol who called the central bankers to speak in order of importance, starting with the governors of the Federal Reserve, the Bank of England, and the Bundesbank, and then progressing down the hierarchy. King, in contrast, adopts a more thematic and egalitarian approach: throwing open the meetings for discussion and inviting contributions from all present.

The governors' conclaves have played a crucial role in determining the world's response to the global financial crisis. "The BIS has been a very important meeting point for central bankers during the crisis, and the rationale for its existence has expanded," said King. "We have had to face challenges that we have never seen before. We had to work out what was going on, what instruments do we use when interest rates are close to zero, how do we communicate policy. We discuss this at home with our staff, but it is very valuable for the governors themselves to get together and talk among themselves."

Those discussions, say central bankers, must be confidential. "When you are at the top in the number one post, it can be pretty lonely at times. It is helpful to be able to meet other number ones and say, 'This is my problem, how do you deal with it?'" King continued. "Being able to talk informally and openly about our experiences has been immensely valuable. We are not speaking in a public forum. We can say what we really think and believe, and we can ask questions and benefit from others."

The BIS management works hard to ensure that the atmosphere is friendly and clubbable throughout the weekend, and it seems they succeed. The bank arranges a fleet of limousines to pick up the governors at Zürich airport and bring them to Basel. Separate breakfasts, lunches, and dinners are organized for the governors of national banks who oversee different types and sizes of national economies, so no one feels excluded. "The central bankers were more at home and relaxed with their fellow central bankers than with their own governments," recalled Paul Volcker, the former chairman of the US Federal Reserve, who attended the Basel weekends. The superb quality of the food and wine made for an easy camaraderie, said Peter Akos Bod, a former governor of the National Bank of Hungary. "The main topics of discussion were the quality of the wine and the stupidity of finance ministers. If you had no knowledge of wine you could not join in the conversation."

And the conversation is usually stimulating and enjoyable, say central bankers. The contrast between the Federal Open Markets Committee at the US Federal Reserve, and the Sunday evening G-10 governors' dinners was notable, recalled Laurence Meyer, who served as a member of the Board of Governors of the Federal Reserve from 1996 until 2002. The chairman of the Federal Reserve did not always represent the bank at the Basel meetings, so Meyer occasionally attended. The BIS discussions were always lively, focused and thought provoking. "At FMOC meetings, while I was at the Fed, almost all the Committee members read statements which had been prepared in advance. They very rarely referred to statements by other Committee members and there was almost never an exchange between two members or an ongoing discussion about the outlook or policy options. At BIS dinners people actually talk to each other and the discussions are always stimulating and interactive focused on the serious issues facing the global economy."

All the governors present at the two-day gathering are assured of total confidentiality, discretion, and the highest levels of security. The meetings take place on several floors that are usually used only when the governors are in attendance. The governors are provided with a dedicated office and the necessary support and secretarial staff. The Swiss authorities have no jurisdiction over the BIS premises. Founded by an international treaty, and further protected by the 1987 Headquarters Agreement with the Swiss government, the BIS enjoys similar protections to those granted to the headquarters of the United Nations, the International Monetary Fund (IMF) and diplomatic embassies. The Swiss authorities need the permission of the BIS management to enter the bank's buildings, which are described as "inviolable."

The BIS has the right to communicate in code and to send and receive correspondence in bags covered by the same protection as embassies, meaning they cannot be opened. The BIS is exempt from Swiss taxes. Its employees do not have to pay income tax on their salaries, which are usually generous, designed to compete with the private sector. The general manager's salary in 2011 was 763,930 Swiss francs, while head of departments were paid 587,640 per annum, plus generous allowances. The bank's extraordinary legal privileges also extend to its staff and directors. Senior managers enjoy a special status, similar to that of diplomats, while carrying out their duties in Switzerland, which means their bags cannot be searched (unless there is evidence of a blatant criminal act), and their papers are inviolable. The central bank governors traveling to Basel for the bimonthly

meetings enjoy the same status while in Switzerland. All bank officials are immune under Swiss law, for life, for all the acts carried out during the discharge of their duties. The bank is a popular place to work and not just because of the salaries. Around six hundred staff come from over fifty countries. The atmosphere is multi-national and cosmopolitan, albeit very Swiss, emphasizing the bank's hierarchy. Like many of those working for the UN or the IMF, some of the staff of the BIS, especially senior management, are driven by a sense of mission, that they are working for a higher, even celestial purpose and so are immune from normal considerations of accountability and transparency.

The bank's management has tried to plan for every eventuality so that the Swiss police need never be called. The BIS headquarters has high-tech sprinkler systems with multiple back-ups, in-house medical facilities, and its own bomb shelter in the event of a terrorist attack or armed conflagration. The BIS's assets are not subject to civil claims under Swiss law and can never be seized.

The BIS strictly guards the bankers' secrecy. The minutes, agenda, and actual attendance list of the Global Economy Meeting or the ECC are not released in any form. This is because no official minutes are taken, although the bankers sometimes scribble their own notes. Sometimes there will be a brief press conference or bland statement afterwards but never anything detailed. This tradition of privileged confidentiality reaches back to the bank's foundation.

"The quietness of Basel and its absolutely nonpolitical character provide a perfect setting for those equally quiet and nonpolitical gatherings," wrote one American official in 1935. "The regularity of the meetings and their almost unbroken attendance by practically every member of the Board make them such they rarely attract any but the most meager notice in the press."<sup>8</sup> Forty years on, little had changed. Charles Coombs, a former foreign exchange chief of the New York Federal Reserve, attended governors' meetings from 1960 to 1975. The bankers who were allowed inside the inner sanctum of the governors' meetings trusted each other absolutely, he recalled in his memoirs. "However much money was involved, no agreements were ever signed nor memoranda of understanding ever initialized. The word of each official was sufficient, and there were never any disappointments."

What, then, does this matter to the rest of us? Bankers have been gathering confidentially since money was first invented. Central bankers like to view themselves as the high priests of finance, as technocrats overseeing arcane monetary rituals and a financial liturgy understood only by a small, self-selecting elite.

But the governors who meet in Basel every other month are public servants. Their salaries, airplane tickets, hotel bills, and lucrative pensions when they retire are paid out of the public purse. The national reserves held by central banks are public money, the wealth of nations. The central bankers' discussions at the BIS, the information that they share, the policies that are evaluated, the opinions that are exchanged, and the subsequent decisions that are taken, are profoundly political. Central bankers, whose independence is constitutionally protected, control monetary policy in the developed world. They manage the supply of money to national economies. They set interest rates, thus deciding the value of our savings and investments. They decide whether to focus on austerity or growth. Their decisions shape our lives.

The BIS's tradition of secrecy reaches back through the decades. During the 1960s, for example, the bank hosted the London Gold Pool. Eight countries pledged to manipulate the gold market to keep the price at around thirty-five dollars per ounce, in line with the provisions of the Bretton Woods Accord that governed the post-World War II international financial system. Although the London Gold Pool no longer exists, its successor is the BIS Markets Committee, which meets every other month on the occasion of the governors' meetings to discuss trends in the financial markets. Officials from twenty-one central banks attend. The committee releases occasional papers, but its agenda and discussions remain secret.

Nowadays the countries represented at the Global Economy Meetings together account for around four-fifths of global gross domestic product (GDP)—most of the produced wealth of the world—according to the BIS's own statistics. Central bankers now "seem more powerful than politicians," wrote *The Economist* newspaper, "holding the destiny of the global economy in their hands." How did this happen? The BIS, the world's most secretive global financial institution, can claim much of the credit. From its first day of existence, the BIS has dedicated itself to furthering the interests of central banks and building the new architecture of transnational finance. In doing so, it has spawned a new class of close-knit global technocrats whose members glide between highly-paid positions at the BIS, the IMF, and central and commercial banks.

The founder of the technocrats' cabal was Per Jacobsson, the Swedish economist who served as the BIS's economic adviser from 1931 to 1956. The bland title belied his power and reach. Enormously influential, well connected, and highly regarded by his peers, Jacobsson wrote the first BIS annual reports, which were—and remain—essential reading throughout the world's treasuries. Jacobsson was an early supporter of European federalism. He argued relentlessly against inflation, excessive

government spending, and state intervention in the economy. Jacobssen left the BIS in 1956 to take over the IMF. His legacy still shapes our world. The consequences of his mix of economic liberalism, price obsession, and dismantling of national sovereignty play out nightly in the European news bulletins on our television screens.

The BIS's defenders deny that the organization is secretive. The bank's archives are open and researchers may consult most documents that are more than thirty years old. The BIS archivists are indeed cordial, helpful, and professional. The bank's website includes all its annual reports, which are downloadable, as well as numerous policy papers produced by the bank's highly regarded research department. The BIS publishes detailed accounts of the securities and derivatives markets, and international banking statistics. But these are largely compilations and analyses of information already in the public domain. The details of the bank's own core activities, including much of its banking operations for its customers, central banks, and international organizations, remain secret. The Global Economy Meetings and the other crucial financial gatherings that take place at Basel, such as the Markets Committee, remain closed to outsiders. Private individuals may not hold an account at BIS, unless they work for the bank. The bank's opacity, lack of accountability, and ever-increasing influence raises profound questions— not just about monetary policy but transparency, accountability, and how power is exercised in our democracies.

WHEN I EXPLAINED to friends and acquaintances that I was writing a book about the Bank for International Settlements, the usual response was a puzzled look, followed by a question: "The bank for what?" My interlocutors were intelligent people, who follow current affairs. Many had some interest in and understanding of the global economy and financial crisis. Yet only a handful had heard of the BIS. This was strange, as the BIS is the most important bank in the world and predates both the IMF and the World Bank. For decades it has stood at the center of a global network of money, power, and covert global influence.

The BIS was founded in 1930. It was ostensibly set up as part of the Young Plan to administer German reparations payments for the First World War. The bank's key architects were Montagu Norman, who was the governor of the Bank of England, and Hjalmar Schacht, the president of the Reichsbank who described the BIS as "my" bank. The BIS's founding members were the central banks of Britain, France, Germany, Italy, Belgium, and a consortium of Japanese banks. Shares were also offered to the Federal Reserve, but the United States, suspicious of anything that might infringe on its national sovereignty, refused its allocation. Instead a consortium of commercial banks took up the shares: J. P. Morgan, the First National Bank of New York, and the First National Bank of Chicago.

The real purpose of the BIS was detailed in its statutes: to "promote the cooperation of central banks and to provide additional facilities for international financial operations." It was the culmination of the central bankers' decades-old dream, to have their own bank—powerful, independent, and free from interfering politicians and nosy reporters. Most felicitous of all, the BIS was self-financing and would be in perpetuity. Its clients were its own founders and shareholders— the central banks. During the 1930s, the BIS was the central meeting place for a cabal of central bankers, dominated by Norman and Schacht. This group helped rebuild Germany. The New York Times described Schacht, widely acknowledged as the genius behind the resurgent German economy, as "The Iron-Willed Pilot of Nazi Finance." During the war, the BIS became a de-facto arm of the Reichsbank, accepting looted Nazi gold and carrying out foreign exchange deals for Nazi Germany.

The bank's alliance with Berlin was known in Washington, DC, and London. But the need for the BIS to keep functioning, to keep the new channels of transnational finance open, was about the only thing all sides agreed on. Basel was the perfect location, as it is perched on the northern edge of Switzerland and sits al- most on the French and German borders. A few miles away, Nazi and Allied soldiers were fighting and dying. None of that mattered at the BIS. Board meetings were suspended, but relations between the BIS staff of the belligerent nations remained cordial, professional, and productive. Nationalities were irrelevant. The overriding loyalty was to international finance. The president, Thomas McKittrick, was an American. Roger Auboin, the general manager, was French. Paul Hechler, the assistant general manager, was a member of the Nazi party and signed his correspondence "Heil Hitler." Rafaele Pilotti, the secretary general, was Italian. Per Jacobssen, the bank's influential economic adviser, was Swedish. His and Pilotti's deputies were British.

After 1945, five BIS directors, including Hjalmar Schacht, were charged with war crimes. Germany lost the war but won the economic peace, in large part thanks to the BIS. The international stage, contacts, banking networks, and legitimacy the BIS provided, first to the Reichsbank and then to its successor banks, has helped ensure the continuity of immensely powerful financial and economic interests from the Nazi era to the present day.

FOR THE FIRST forty-seven years of its existence, from 1930 to 1977, the BIS was based in a former hotel, near the Basel central railway station. The bank's entrance was tucked away by a

chocolate shop, and only a small notice confirmed that the narrow doorway opened into the BIS. The bank's managers believed that those who needed to know where the BIS was would find it, and the rest of the world certainly did not need to know. The inside of the building changed little over the decades, recalled Charles Coombs. The BIS provided the "the spartan accommodations of a former Victorian-style hotel whose single and double bedrooms had been transformed into offices simply by removing the beds and installing desks."

The bank moved into its current headquarters, at 2, Centralbahnplatz, in 1977. It did not go far and now overlooks the Basel central station. Nowadays the BIS's main mission, in its own words, is threefold: "to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in these areas, and to act as a bank for central banks." The BIS also hosts much of the practical and technical infrastructure that the global network of central banks and their commercial counterparts need to function smoothly. It has two linked trading rooms: at the Basel headquarters and Hong Kong regional office. The BIS buys and sells gold and foreign exchange for its clients. It provides asset management and arranges short-term credit to central banks when needed.

The BIS is a unique institution: an international organization, an extremely profitable bank and a research institute founded, and protected, by international treaties. The BIS is accountable to its customers and shareholders—the central banks—but also guides their operations. The main tasks of a central bank, the BIS argues, are to control the flow of credit and the volume of currency in circulation, which will ensure a stable business climate, and to keep exchange rates within manageable bands to ensure the value of a currency and so smooth international trade and capital movements. This is crucial, especially in a globalized economy, where markets react in microseconds and perceptions of economic stability and value are almost as important as reality itself.

The BIS also helps to supervise commercial banks, although it has no legal powers over them. The Basel Committee on Banking Supervision, based at the BIS, regulates commercial banks' capital and liquidity requirements. It requires banks to have a minimum capital of eight percent of risk-weighted assets when lending, meaning that if a bank has risk-weighted assets of \$100 million it must maintain at least \$8 million capital. The committee has no powers of enforcement, but it does have enormous moral authority. "This regulation is so powerful that the eight percent principle has been set into national laws," said Peter Akos Bod. "It's like voltage. Voltage has been set at 220. You may decide on ninety-five volts, but it would not work." In theory, sensible housekeeping and mutual cooperation, overseen by the BIS, will keep the global financial system functioning smoothly. In theory.

The reality is that we have moved beyond recession into a deep structural crisis, one fueled by the banks' greed and rapacity, which threatens all of our financial security. Just as in the 1930s, parts of Europe face economic collapse. The Bundesbank and the European Central Bank, two of the most powerful members of the BIS, have driven the mania for austerity that has already forced one European country, Greece, to the edge, aided by the venality and corruption of the country's ruling class. Others may soon follow. The old order is creaking, its political and financial institutions corroding from within. From Oslo to Athens, the far right is resurgent, fed in part by soaring poverty and unemployment. Anger and cynicism are corroding citizens' faith in democracy and the rule of law. Once again, the value of property and assets is vaporizing before their owners' eyes. The European currency is threatened with breakdown, while those with money seek safe haven in Swiss francs or gold. The young, the talented, and the mobile are again fleeing their home countries for new lives abroad. The powerful forces of international capital that brought the BIS into being, and which granted the bank its power and influence, are again triumphant.

The BIS sits at the apex of an international financial system that is falling apart at the seams, but its officials argue that it does not have the power to act as an international financial regulator. Yet the BIS cannot escape its responsibility for the Euro-zone crisis. From the first agreements in the late 1940s on multilateral payments to the establishment of the European Central Bank in 1998, the BIS has been at the heart of the European integration project, providing technical expertise and the financial mechanisms for currency harmonization. During the 1950s, it managed the European Payments Union, which internationalized the continent's payment system. The BIS hosted the Governors' Committee of European Economic Community central bankers, set up in 1964, which coordinated trans-European monetary policy. During the 1970s, the BIS ran the "Snake," the mechanism by which European currencies were held in exchange rate bands. During the 1980s the BIS hosted the Delors Committee, whose report in 1988 laid out the path to European Monetary Union and the adoption of a single currency. The BIS midwived the European Monetary Institute (EMI), the precursor of the European Central Bank. The EMI's president was Alexandre Lamfalussy, one of the world's most influential economists, known as the "Father of the euro." Before joining the EMI in 1994, Lamfalussy had worked at the BIS for seventeen years, first as economic adviser, then as the bank's general manager.

For a staid, secretive organization, the BIS has proved surprisingly nimble. It survived the first

global depression, the end of reparations payments and the gold standard (two of its main reasons for existence), the rise of Nazism, the Second World War, the Bretton Woods Accord, the Cold War, the financial crises of the 1980s and 1990s, the birth of the IMF and World Bank, and the end of Communism. As Malcolm Knight, manager from 2003–2008, noted, “It is encouraging to see that—by remaining small, flexible, and free from political interference—the Bank has, throughout its history, succeeded remarkably well in adapting itself to evolving circumstances.”

The bank has made itself a central pillar of the global financial system. As well as the Global Economy Meetings, the BIS hosts four of the most important international committees dealing with global banking: the Basel Committee on Banking Supervision, the Committee on the Global Financial System, the Committee on Payment and Settlement Systems, and the Irving Fisher Committee, which deals with central banking statistics. The bank also hosts three independent organizations: two groups dealing with insurance and the Financial Stability Board (FSB). The FSB, which coordinates national financial authorities and regulatory policies, is already being spoken of as the fourth pillar of the global financial system, after the BIS, the IMF and the commercial banks.

The BIS is now the world’s thirtieth-largest holder of gold reserves, with 119 metric tons—more than Qatar, Brazil, or Canada. Membership of the BIS remains a privilege rather than a right. The board of directors is responsible for admitting central banks judged to “make a substantial contribution to international monetary cooperation and to the Bank’s activities.” China, India, Russia, and Saudi Arabia joined only in 1996. The bank has opened offices in Mexico City and Hong Kong but remains very Eurocentric. Estonia, Latvia, Lithuania, Macedonia, Slovenia, and Slovakia (total population 16.2 million) have been admitted, while Pakistan (population 169 million) has not. Nor has Kazakhstan, which is a powerhouse of Central Asia. In Africa only Algeria and South Africa are members—Nigeria, which has the continent’s second-largest economy, has not been admitted. (The BIS’s defenders say that it demands high governance standards from new members and when the national banks of countries such as Nigeria and Pakistan reach those standards, they will be considered for membership.)

Considering the BIS’s pivotal role in the transnational economy, its low profile is remarkable. Back in 1930 a New York Times reporter noted that the culture of secrecy at the BIS was so strong that he was not permitted to look inside the boardroom, even after the directors had left. Little has changed. Journalists are not allowed inside the headquarters while the Global Economy Meeting is underway. BIS officials speak rarely on the record, and reluctantly, to members of the press. The strategy seems to work. The Occupy Wall Street movement, the anti-globalizers, the social network protesters have ignored the BIS. Centralbahnplatz 2, Basel, is quiet and tranquil. There are no demonstrators gathered outside the BIS’s headquarters, no protestors camped out in the nearby park, no lively reception committees for the world’s central bankers.

As the world’s economy lurches from crisis to crisis, financial institutions are scrutinized as never before. Legions of reporters, bloggers, and investigative journalists scour the banks’ every move. Yet somehow, apart from brief mentions on the financial pages, the BIS has largely managed to avoid critical scrutiny. Until now.

## **THE ALTERNATIVE TO LONG-TERM AUSTERITY: LESS WORK, HIGHER WAGES, NO MERE UTOPIAN DREAM**

*Alan Nasser; Global Research*

Url of this article: <http://www.globalresearch.ca/the-alternative-to-long-term-austerity-less-work-higher-wages-no-mere-utopian-dream/5441136central-banks-economy>

*“A spectre is haunting the treasuries and central banks of the West – the spectre of secular stagnation. What if there is no sustainable recovery of the economic slump of 2008-2013? What if the sources of economic growth have dried up – not temporarily, but permanently?” – preeminent Keynes scholar and economic historian Robert Skidelsky, “Secular Stagnation and the Road to Full Investment,” Social Europe Journal, May 22, 2014*



Both Karl Marx and J.M. Keynes concluded that the trajectory of capitalist development placed a radically emancipatory possibility on the political-economic agenda. For the first time in modern history work time could be dramatically reduced with no reduction in our standard of living. In fact, if living standards are measured not merely by money wages but also by increased leisure, i.e. increased time available to develop and exercise our broad range of gratifying capabilities, the reduction in work time would elevate our standard of living to a degree hitherto unimaginable.

In what follows we'll see that less work with higher wages is at this historical juncture not merely economically possible, but desirable as the only practical alternative to the secular stagnation grimly forecast with much flurry by such luminaries as Paul Krugman, Larry Summers and Robert J. Gordon, and by the IMF in its April 2014 World Economic Outlook. Both Marx and Keynes saw their prescriptions as not merely a "better idea," but as the alternative to severe ongoing crisis, understood as dramatic reductions in real production, employment and wages.

The stakes are very high; even the mainstream is pricking up its ears. Krugman recently referred to "a growing consensus among economists that much of the damage to the economy is permanent, that we'll never get back to our old path of growth." ("Does He Pass the Test?", *The New York Review*, July 10, 2014)

The secular stagnation portended is defined by Krugman as "a persistent state in which a depressed economy is the norm, with episodes of full employment few and far between." ("A Permanent Slump?" *The New York Times*, November 17, 2013) Austerity hell forever.

There is an alternative, and the only one that is capable of addressing a situation in which profits and economic growth can no longer be achieved by investing in real production and hiring workers. An overripe, industrially saturated economy can be made into one that can deliver on capitalism's false promises. All workers can be employed, but for far fewer hours, and a just living wage can be provided to all. This is the arrangement recommended by Marx and Keynes. Keynes the Enlightenment liberal imagined that this could be accomplished by rational persuasion within the framework of a democratic capitalist economy. Marx knew better. Capitalism's property relations, along with its insatiable drive for increased profits, are incompatible with the desired prescription.

Marx understood that a genuinely free society, with both political and economic democracy, would come about only if capitalist power was overcome by mass mobilization. But he was no historical determinist. There was no guarantee that a workers' movement aiming to replace capitalism with a workers' democracy, democratic socialism, would materialize. It is the responsibility of the Left to contribute, through education and organization/mobilization, to the emergence of such a movement.

In case this does not happen, the alternative is a persistent state of political-economic crisis featuring declining living standards and the withering away of such democracy as exists in a social order dominated by owners of Big Wealth. The alternatives were identified by Rosa Luxemburg: socialism or barbarism.

### ***Marx and Keynes on the Obsolescence of Standard Work Time***

Marx's observation that soaring productivity under capitalism "makes it possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticise after dinner" was echoed by Keynes in *Economic Possibilities For Our Grandchildren* (Collected Writings, vol. IX, 321-332). Under productively mature capitalism, "a point may soon be reached, much sooner perhaps than we all of us are aware of, when [basic economic] needs are satisfied in the sense that we prefer to devote our further energies to non-economic purposes." (p. 326) What makes this feasible is that heightened productivity reduces the time it takes to produce the requirements of a decent and just standard of living. "In quite a few years – in our own lifetimes I mean – we may be able to

perform all the operations of agriculture, mining, and manufacture with a quarter of the human effort to which we have been accustomed." (p. 325)

That workers will be able to produce the value of living-wage goods in one quarter of the time formerly required was regarded by Keynes as "the greatest change which has ever occurred in the material environment of life for human beings in the aggregate." (p. 331) It enables us to seize the day by liberating workers from having to devote most of their waking hours to laboring. "[W]e shall endeavor to spread the bread thin on the butter – to make what work there is still to be done to be as widely shared as possible. Three-hour shifts or a fifteen-hour week... For three hours a day is quite enough to satisfy... most of us!" (p. 329)

It is the nature of capitalist development to expel labor from production in both the capital- and consumer-goods sectors. As Keynes put it in *Economic Possibilities*, "The increase in technical efficiency has been taking place faster than we can deal with the problem of labour absorption.." (p. 321) This creates "technological unemployment... due to our discovery of means of economising the use of labour outrunning the pace at which we can find new uses for labour." (p. 325) Capital's productive power has never been more prodigious than it is today, as the system continues to render labor increasingly superfluous to production. Productivity increases proceed apace while fewer and fewer workers are needed to bring this about.

In the face of rising productivity and unorganized labor, the interests of capital and labor are conspicuously opposed. The Marx-Keynes alternative addresses the interests of working people. What Keynes did not address was that the interests of capital call for more, not less, work in the same circumstances.

If wages can be held constant or decreased and, better still, work time increased as productivity rises, the windfall to capital will be enormous. This is exactly what we have seen during the current crisis.

### ***Expanding Work Hours When Productivity Rises***

The Marxian-Keynesian response to capital's tendency to render production ever more efficient -to increase the output produced per unit of labor input- is never so much as mentioned in mainstream economics. Reducing labor time is out of the question. According to respectable analysis, the principal benefit of productivity growth is to allow us to increase our material standard of living without having to work longer hours. By reducing unit labor costs increased efficiency also permits enhancing household purchasing power either by lowering prices or raising wages, or both. But monopoly pricing power precludes the former, and the effective defeat of organized labor rules out the latter. Only one alternative remains: capital's share of total income increases absolutely and relative to labor's share. This is the world we currently inhabit.

With productivity up 75-80 percent since 1979 and wages continuing to decline as they have since 1974, we are not surprised that the profits of financial and nonfinancial corporations to have hit record highs. And the situation is worse than it looks. The productivity gains of the past three decades are surely underestimated; they record only official work time. Glassdoor, which tracks employment time, reports that "Fear is still motivating people to not be away from the workplace." Workers are always afraid that a pink slip can be just around the corner, and with workers almost always connected to smartphones, laptops and tablet computers, employers are exploiting these anxieties to squeeze work out of employees after work and during vacations.

Not only did workers use only half of their eligible vacation time between April 2013 and April 2014, reports Glassdoor, but "61 percent of people who take time off are working during vacation." ("Americans only take half of their paid vacation," Quentin Fottrell, August 22, 2014 <http://www.marketwatch.com/story/americans-only-take-half-of-their-paid-vacation-2014-04-03>) Many employers require that workers be responsive to electronic alerts after work

hours. This dramatic increase in unpaid work time is unacknowledged in official statistics. That productivity gains are much greater than reported surely accounts for much of the whopping gains made by the very wealthy since 1980.

The increase in unpaid work hours has been especially conspicuous since 2008, when employers were able to take advantage of workers's insecurity during the financial crisis and the faux "recovery." This is one of the consequences of the United States being the only industrialized country that does not guarantee, by law, 25-30 paid days off. There is thus virtually no limit to the amount of work employers can squeeze out of workers. The Economic Policy Institute reports that in 2007 the average worker worked 181 more hours than in 1979, an increase of almost 11 percent, the equivalent of each worker working 4.5 additional weeks per year. This began around the same time that the wage-productivity gap began to undo the 1949-1974 Golden Age postwar norm. (Lawrence Mishel, "Vast Majority of Wage Earners are Working Harder, and For Not Much More," Economic Policy Institute, January 30, 2013)

At precisely that stage of capitalist development that Keynes argued would open the door to an historically unparalleled advance for workers, the drastic reduction of work time -from 40+ hours per week to fewer than 15 hours per week- workers' fortunes in this very respect have taken a turn for the worse. Keep in mind that the secular stagnation predicted by "a growing consensus among economists" includes a continuation of this development. Permanently high levels of unemployment, stagnant or declining wages, increased debt and chronically insecure workers combine to force workers to compete for scarce work by committing more and more of their time to what Marx and Keynes regarded as unnecessary labor.

Keynes imagined that with civilized discourse and good arguments, a public-spirited political leadership could in the end cajole business into conceding the necessity of reduced work hours with no reduction in pay. Keynes's political naivete is remarkable. There is no recognition that political and economic power are the key determinants here. The amount and distribution of work time are not, as Keynes implied, settled under capitalism by political leaders, but by the firm. Rising productivity, displaced workers and stagnant or declining wages gives a tremendous boost to profits. Why would capitalists endorse an arrangement where workers spent virtually all of their much-shortened work time earning the wages they need for a comfortable life and practically no time creating profit for capitalists?

Marx understood that the expansion of leisure and its correlative aversion of crisis would come about only if working people make it happen through mass mobilization. Otherwise, the outcome we witness now is inevitable. Keynes was right that shorter hours at stable or rising wages would turn out to be necessary to avert crisis, but he did not grasp, as Marx did, that this outcome is politically impossible under capitalism. Similarly, faux Keynesians like Krugman bemoan the persistence of secular stagnation but do not permit themselves to consider the obvious argument that this might be a decisive demonstration of the undesirability, the practical unfeasibility, of capitalism for the working majority. It's called capitalism, not laborism. The idea is to increase The Wealth of Nations, not the wages or even the income of nations. And ever-growing wealth is the possession of the few.

### ***The Accuracy of Keynes's Forecasts***

Mainstream economists take no interest in Marx's analysis, but they have addressed at length Keynes's predictions. Eighteen distinguished economists contributed to a collection of essays titled *Revisiting Keynes* (The MIT Press, 2010), devoted to an assessment of Economic Possibilities For Our Grandchildren.

The economists are generally agreed that Keynes's forecast that "the standard of life in progressive countries one hundred years hence [from 1930 to 2030] will be between four and eight times as high as it is today" is not only confirmed but has in fact been overachieved. (p. 28)

Keynes's forecast implies an annual growth rate as high as 2.1 percent. In fact, the actual growth rate for the relevant grouping of countries between 1950 and 2000 was 2.9 percent; per capita GDP increased four times between 1950 and 2000, half the time forecast by Keynes. Projecting 2.9 percent over one century, we find a seventeen-fold increase in standards of living, "more than double Keynes's upper bound." (p, 28) We do in fact now have the material means of providing a decent standard of living for all. (We are talking here of the advanced capitalist countries. Keynes ignored the question of global distribution. While that issue is beyond the scope of this article, what has been established is that current possibilities for developed countries can be reproduced on a global scale. Neither a shortage of resources nor of labor prevents the possibilities created by the advance of globally distributed technology from being realized worldwide. What does stand in the way of universal democracy is the existing distribution of political and economic power, and the absence of a comparably global movement of resistance. And we must note that what is not possible is that the entire world shares the American standard of living of the Golden Age, comprising as it does an enormous surfeit of redundant and wasteful production.)

The prescience of Keynes's growth forecast is, the economists concur, counterbalanced by the failure of his prediction of increased leisure time and a shorter work week to come to pass. Keynes was right that economic growth creates the means to emancipate us from the struggle for survival and to dramatically reduce the portion of our lives devoted to "making a living," but wrong to think that this possibility would be actualized.

Why has the liberating possibility not been actualized? On this the economists are virtually unanimous. "[I]t is hard to believe that there will come a moment when people feel that the economic problem is solved and capital accumulation comes to an end. The aspiration for improvement is always there, no matter what level of living standard has been achieved, and with it the need to save accumulate and work." (p. 12) The key term here is 'improvement', and it is clear that the authors take it to connote increased consumption. This merely repeats the "unlimited wants" component of the scarcity thesis with which every economics textbook begins. We live in a world of scarcity. Resources are limited but our wants are not, so, lest we enter a Hobbesian war of each against all in a mad scramble for scarce stuff, we must channel our competitive energies through the circuitry of the market.

That human wants are unlimited is treated by the mainstream as unfalsifiable. The claim is therefore not empirical, but metaphysical. No pre-capitalist culture held the boundless wants thesis. What is plausible is that there are no limits to the possibilities of human improvement. There is no reason to equate improvement with increased consumption, as the contributors to Revisiting Keynes do. Classical political economy was not blind to this point. John Stuart Mill shared Marx's conception of human improvement as the development of satisfying and fulfilling capacities. He saw maturing capitalism as headed toward a "stationary state" much like Marx and Keynes's industrially fleshed-out capitalism. As Mill put it in *Principles of Political Economy*, "There will be as much scope as ever for all kinds of mental culture, and moral and social progress; as much room for improving the Art of Living, and much more likelihood of its being improved, when minds cease to be engrossed by the art of getting on." (Book IV, ch. 6) These ends would be facilitated, Mill thought, through legislation redistributing property by promoting "equality of fortunes."

Pressing moral, political and ecological considerations lead us to arrange human wants and desires on a scale of priorities. The kind of society we struggle for is one which can satisfy the most fundamental of these desires, those which any reasonable person would see as essential to human welfare under any modern political-economic arrangements, and does so because it can. On our scale, health care is not on the same level as private swimming pools. The most widely propagated critique of the recommendation to shorten work time is nicely expressed by the Berkeley economist Bradford DeLong, and illustrates the inability of mainstream analysis to take seriously the distinction between essential and luxury

consumption:

*"[W]hat is our long-run economic destiny? Keynes looked forward to a time, perhaps 2050, when everyone (in England, at least) would be able to have the lifestyle of a Keynes. And, because he imagined that no sane person could want more of the necessities, conveniences, and luxuries of life than a Keynes had, the economic problem would be solved. We are wiser – and perhaps sadder – than Keynes. We know that we want hip replacements and heart transplants and fertility treatment and cheap air travel and central heating and broadband Internet and exclusive beachfront access." (<http://www.project-syndicate.org/commentary/a-long-run-economic-destiny-of-mounting-inequality-by-j-bradford-delong>)*

It is bizarre to include advances in health care and "exclusive beachfront access" in a list of what "we" want. Egalitarian values lead us to ask first whether our society can provide a satisfying life for all. Do we have the human and nonhuman resources to provide every working person with a just, satisfying living wage? We do. Why, then, are the requirements of economic justice not met? Authorities as diverse as Marx, John Stuart Mill, Keynes and Thomas Piketty have demonstrated that the property arrangements definitive of capitalism preclude just outcomes. That productive capital is privately owned and put to use only to increase profits results in a distribution of wealth and income that denies the majority a guarantee of the essentials of a good life. But can we afford it? The 400 wealthiest Americans are worth just over \$2 trillion, roughly equivalent to the GDP of Russia. (Forbes, September 16, 2013)

Inequality is not the only factor denying essential benefits to the majority. The vast resources absorbed by the military, artificial product differentiation, marketing, property law, divorce law and the luxury consumption of the wealthy are more than enough to cover "hip replacements and heart transplants."

A society run on democratic socialist principles would, as capitalism would not and cannot, produce no additional luxury goods until everyone was provided with the essentials of a good life. This is now economically practicable. The task is to make it politically possible. This cannot be done in a capitalist future. The system has reached the developmental point at which stagnation and austerity punctuated by financial bubbles are all that capitalism can promise. There are four types of demand that are candidates for restoring economic security for the majority. None can do the trick.

### ***Why Investment Will Not Deter Austerity***

here are four kinds of spending that can contribute to the growth of production and employment. These are the species of demand that generate the Gross Domestic Product. (GDP) There are investment demand, consumption demand, government spending and net (minus imports) export demand for US goods and services. Let's look at investment.

All developed capitalist economies are overripe; they are industrially saturated. This means that these economies have the existing means to reproduce and advance their material standard of living with little or no additional (net) capital or labor input. Put differently, net investment and additional productive workers are no longer required in order to augment society's productive potential. Detailed empirical research has established that new, productivity-enhancing investment can be and is financed from depreciation reserves set aside to replace existing equipment. (For a detailed empirical defense of this claim, see the 20-page statistical Appendix to James Livingston's *Against Thrift*.) These funds are untaxed and not counted as profit. One of the key justifications of the capitalist's need to appropriate profit, that it is necessary to fund investment and research, is now yesterday's papers. In 1995, Paul Sweezy, the distinguished and prescient editor of *Monthly Review*, calculated that "[T]he big corporate enterprises of today can and do finance a large and steady stream of innovations out of depreciation funds without any net investment at all." ("Economic Reminiscences," May 1995)

Two considerations, one more general and inherent in capitalism, the other specific to industrially mature capitalism, are relevant here. Capital must always seek to lower production costs. Productive equipment, physical capital, is a cost of production, and the capital-goods-producing industry has a built-in incentive to produce cheaper and more efficient equipment. And indeed capital costs have been in secular decline since the dawn of industrialization. With the emergence of industrially overripe capitalism, the digital revolution has produced technologies requiring relatively small investments compared to those required to get the railroad, steel and automobile industries off the ground. Increasingly, existing capital equipment has been enhanced or replaced by computerized and robotized innovations. The corresponding investments come to peanuts. They are typically financed out of depreciation reserves.

A few examples are typical of very many. A company that makes the steel crossbeams supporting the bodies of tractor/trailer rigs ordered a robotic welding system and developed its own automated tooling to customize the performance of a standard robotic welding cell to its specific needs. The company invested a measly \$135,000 in the robotic welding cell, and approximately another \$50,000 to \$60,000 to develop the automated tooling and fixturing. With this investment, productivity was improved more than 300 percent. The entire project displaced many workers, and the robots never rest, take time out, ask for a raise, require health insurance, complain of unsafe working conditions or form a union. (Robotics Industries Association [http://www.robotics.org/content-detail.cfm/Industrial-Robotics-Editorials/Purchasing-Your-First-Robotic-Welding-System/content\\_id/663](http://www.robotics.org/content-detail.cfm/Industrial-Robotics-Editorials/Purchasing-Your-First-Robotic-Welding-System/content_id/663))

Robots have greatly reduced production costs in the computer electronics industry. They do nearly all the work in making the most valuable part of computers, the motherboard, housing microprocessors and memory. Workers slip in the batteries and snap on the screen. These robots cost \$20,000-25,000, a pittance. A long-time analyst of the industry predicts that “[Robots] will replace most of the workers, though you will need a few people to manage the robots.” (Catherine Rampell, “When Cheap Foreign Labor Gets Less Cheap”, The New York Times, Dec. 7, 2012.) In the auto industry robots cost \$28,00-50,000, a fraction of the company’s depreciation set-asides. The digital replacement of checkout clerks, travel agents, bank tellers and gas station attendants was just the tip of the iceberg.

Notable mainstream scholars have begun to broach these hitherto forbidden possibilities. Robert Skidelsky recalls that Keynes and his eminent American student Alvin Hansen forecast “that new inventions would require less capital than in the past. This has now come to pass... Kodak needed and built vastly more infrastructure than its digital successors Instagram and Facebook – and (of course) employed many more workers. The inventions of the future may well consume even less capital (and labor)” (Skidelsky, *ibid.*) Even Larry Summers avers that “Declines in the cost of durable goods, especially those associated with information technology, mean the same level of saving purchases more capital every year.” (“Why Stagnation Might Prove To Be The New Normal,” Financial Times, December 15, 2013)

Capital goods are like computers. Over time they become both more efficient and cheaper. Their acquisition -investment- does not require the tiniest fraction of the investment capital that brought the nation’s industrial infrastructure to maturity. The existing stock of capital equipment has yielded record profits; new private investments would be money down the drain. Thus, both financial and nonfinancial corporations are presently sitting on trillions of dollars they have no incentive to lend or invest. They are using this cash to speculate in international currency markets, purchase high-yielding foreign bonds and buy back their own stocks, and they still have plenty left over.

The current crisis does not account for the origins of this development. Both private and public investment per worker dropped significantly from the Golden Age, 1947-1973 to the Age of Austerity, with its declining wages and growing inequality. During the period of relative prosperity, in the private sector capital equipment per worker grew at an average annual rate

of 3.3 percent. From 1974-1990 the figure dropped to 1.9 percent. In the public economy the corresponding figures are 1.6 and 0.09 percent. (U.S. Department of Commerce, Survey of Current Business, January 1992)

The drop in private investment was due primarily to three factors, the exhaustion of the grand nationwide projects that stimulated output and employment in every major industry for thirty years after the war: the automobilization of the country, suburbanization, the construction of a system of interstate highways and roads, the buildup from scratch of the Military-Industrial Complex and the re-industrialization of Europe; the re-emergence of international competition after the restoration of Europe and Japan, which drove down profit rates at home and curtailed investment; the cheapening of the means of production resulting from technological advances in the capital goods industry. When this last element morphed into the full development of the "digital revolution," the atrophy of net investment was greatly accelerated as computerization and robotization became increasingly ubiquitous features of the production process.

The decline of private investment is not necessarily the danger sign that many commentators take it to be. The higher productivity and lower cost of capital goods in these times simply means that productive equipment offers more bang for the buck. Huge corporate savings no longer necessary for productive investment are now potentially available to increase living standards by raising wages, and to initiate public investment in infrastructure, green energy, education and health care. Instead these funds make their way into financial speculation. That would not happen if they were socially owned and controlled.

In sum, private investment on a grand scale will not avert secular stagnation. As noted above, three possibilities remain: private consumption, government spending and export demand.

### ***Private Consumption and Exports as Non-Starters***

General Electric CEO Jeffrey Immelt, two years before he was appointed head of The President's Council on Jobs and Competitiveness, reminded the Detroit Economic Club that "We all know that the American consumer cannot lead our recovery. This economy must be driven by business investment and exports..."

(<http://www.reliableplant.com/Read/18494/american-renewal-immelt-addresses-detroit-econ-club>) Immelt takes it as a no-brainer that wage-driven consumption is not in the cards. Wages have been in decline for 40 years, an astonishing development and politically impossible unless it is part of post-Golden-Age policy. Immelt's remarks identify one of the key connections between low wages and official policy. Not only must the economy be "driven by...exports," but "This country ought to be, and we can be, not just the world's leading market, but a leading exporter as well."

Obama expressed the same sentiments in his 2010 State of the Union address, in which he aimed at doubling the nation's exports by 2014. Since that address the increase in exports of goods and services has been only 30.9 percent. (U.S. Department of Commerce, Bureau of Economic Analysis ) Obama's goal was hopelessly unrealistic. (Will we match German quality and Chinese wage levels?) We can imagine the administration's response: "This only shows that wages have not dropped enough." Competitiveness in exports means price competition, and this requires low wages. The fifty percent wage decreases in the auto industry tell us the magnitude of wage reduction perceived by elites as necessary in a global neoliberal order featuring a race to the bottom on the wage front. It is abstractly conceivable that the U.S. might become a leader in world trade, but this would be founded upon having created a nation of low-wage debt peons.

Technological labor-displacing developments supplement the politics of austerity. We have seen that the same innovations that reduce the cost of capital goods and tend to render net investment obsolete also displace labor. Net job loss is the New Future. In his new study of

the economics of austerity and the corresponding irrelevance of Golden-Age faux-Keynesian remedies, James Galbraith argues that “The big function of the new technologies is to save labor costs... The ratio of jobs killed to jobs created in this process is high...The plain result of the new technology is unemployment.” (The End of Normal, Simon & Schuster 2014, 133, 139, 141) Galbraith might have added “and continuing downward pressure on wages.”

Private investment, private consumption and exports will not contribute to growth in the real economy that will greatly raise employment and wages. The only remaining source of a reversal in the fortunes of working people is public investment, government spending. The financialization of both the domestic and the global economy is premised on the cardinal tenet of neoliberalism, that government spending for social purposes is taboo. This is now a defining feature of post-Keynesian financialized capitalism.

The majority of economists know that massive public investment in employment-generating projects is possible. They prefer to be in tune with capital’s current key signature, so they opt instead for the only alternative consistent with the imperatives of neoliberalism, the perpetuation of financial bubbles. Asset inflation is fine. Product-market inflation, an essential concomitant of a revived real economy, is the archenemy of banks and their chief lobbyist, the Federal Reserve. Wage inflation is the worst of all. Capital has painted the rest of us into a corner. The only acceptable alternative is bubbles ad aeternam.

Summers and Krugman explain why.

### ***The Perverse Case For Everlasting Bubbles (and Crashes)***

In his 2013 speech which started the widespread discussion of secular stagnation, Summers centered his argument around the fact that a series of bubbles has been necessary to avert stagnation since the 1980s. Yet even with the excessive stimulus that bubbles provide the economy’s growth and employment rates remained sluggish. And we never saw the mild-to-moderate inflation normal in times of robust growth. Secular stagnation had become visible with runaway thrift institutions and the commercial real estate bubble during the Reagan recovery, when low growth and employment improved somewhat but remained well below peak postwar rates. The dot.com bubble of the 1990s also buoyed growth and employment from very low to low, well below peak rates while inflation remained below target levels. Writing in the Financial Times (December 15, 2013) of the biggest bubble of all, Summers reminds us that “..manifestly unsustainable bubbles and loosening of credit standards during the middle of the past decade, along with very easy money, were sufficient to drive only moderate economic growth.”

Summers concludes that “The implication of these thoughts is that the presumption that normal economic and policy conditions will return at some point cannot be maintained.” “[T]he underlying problem,” a chronic demand shortfall and secular stagnation, “may be there forever [my emphasis],” Summers forecasts. Beginning to restore healthy growth rates cannot be done “without the help of unconventional policy support.” Since bubbles have been found to be necessary to sustain even moderate growth, the lesson, Summers maintains, is clear: central bank support of admittedly unsustainable bubbles must become normal “policy support.”

The likes of Summers and Krugman are in accord that the deep-structural problem is a radical shortfall of demand. With private investment, wage-driven growth, government social spending and export demand ruled out as antidotes, the only alternative to secular stagnation envisioned by these economists is bubble-driven debt spending. Summers states, in a guarded way, that financial regulation is undesirable because it discourages the reckless borrowing and spending constitutive of bubbles. Krugman, a strong supporter of Summers’s position, states Summers’s position explicitly. “[Summers] says, a bit fuzzily but bravely all the same, that even improved financial regulation is not necessarily a good thing – that it may discourage irresponsible lending and borrowing at a time when more spending of any kind is good for the



economy.” (Krugman, “Secular Stagnation, Coalmines, Bubbles, and Larry Summers,” The New York Times, November 16, 2013)

There is the bankruptcy of conventional economics writ large. We are told that “irresponsible lending and borrowing” is tolerable because it is “good for the economy”! Much as foreign policy strategists identify the “national interest” with what’s good for Big Capital, our erstwhile liberals identify what’s good for the economy with what benefits the wealthiest. The present crisis shows that what’s bad for the majority is best for elites. This implication of Summers’s and Krugman’s recommendation is cleverly masked by their claim that a good economy would benefit all. It’s just that acceptable policy measures have been unable to make the economy good. Even the huge bubbles of recent decades failed to bring about inflation, which, we are to believe, is a sign of restorative growth and would be good for the rich and the non-rich alike. But it is false that there has been no inflation, and it is false that inflation benefits all. The dot.com bubble produced great asset-price inflation, as did the housing bubble. Currently, household and corporate debt are once again rapidly rising, and subprime auto loans -the rate of car repossessions jumped 70.2 percent in the second quarter- are dangerously high and rising. (Tyler Durden, ‘Car Repos Soar 70% As Auto Subprime Bubble Pops; “It’s Contained” Promises Fed’ Zero Hedge August 20, 2014) Predictably, stock prices have zoomed to record heights. It’s heaven on earth for the very wealthiest and hell for many of the rest.

Asset inflation and increasing inequality will attend each of the alternatives identified by the economists, unsustainable bubbles and long-term stagnation. Heads they win, tails we lose. Bubbles always climax in a blow to the productive economy, whose secular stagnation makes the bubbles necessary in the first place. So secular stagnation is not really an alternative to unsustainable bubbles; it is the common denominator of both “alternatives” on offer. The logic gets increasingly perverse. Krugman infers from the failure of near-zero interest rates to stimulate production and employment that “the market wants a strongly negative interest rate.” (“Secular Stagnation, Coalmines, Bubbles, and Larry Summers,” The New York Times, November 16, 2013) One way to get there, Krugman suggests, is to “pay negative interest rates on deposits.” Workers who can manage to save a bit in the face of hard times will be penalized by having their savings reduced by interest rates below the rate of inflation. Krugman anticipates the obvious objection and responds heartlessly:

*“Any such suggestions are...met with outrage. How dare anyone suggest that virtuous individuals, people who are prudent and save for the future, face expropriation. How can you suggest steadily eroding their savings either through inflation or through negative interest rates? It’s tyranny! But in a liquidity trap saving [is] a social vice. And in an economy facing secular stagnation, this isn’t just a temporary state of affairs, it’s the norm. Assuring people that they can get a positive rate of return on safe assets means promising them something the market [AN: wealthy bondholders] doesn’t want to deliver...”*

How many nails can these guys hammer into the coffin of the working class? Five months earlier Krugman had apparently not yet resigned himself to the grisly side of secular stagnation:

*“I worry that a more or less permanent depression could end up simply becoming accepted as the way things are, that we could suffer endless, gratuitous suffering, yet the political and policy elite would feel no need to change its ways.” (“On the Political Economy of Permanent Stagnation,” Krugman’s New York Times blog, July 5, 2013) And about the “we” that would “suffer endless, gratuitous suffering” under secular stagnation, this is the same “we” that permitted Krugman to “include hedge fund managers and CEOs among the workers” when he began studying income distribution. (“Rise of the Robots,” The New York Times, December 8, 2012)*

## ***High Wages and Short Hours, or Barbarism***

Technological innovations in these digital times generate ongoing efficiencies in the production of capital goods, cheapening them and leaving corporations “sitting on a huge hoard of cash” (Krugman, “Secular Stagnation, Coalmines...”) far in excess of existing and prospective investment opportunities. These same innovations promise to mechanize/automate/robotize increasing numbers of workers out of their jobs.

This is the outcome of a secular tendency of capital, to expel workers first from agriculture, then from the production of capital goods, then from the production of consumer goods and finally from the provision of services. The number of employed workers shrinks and their wages decline; labor’s share of GDP (same as Gross National Income) declines. Inequality increases and the rich become richer, absolutely and relative to the rest. Intense international competition makes export demand sufficiently great to resurrect the productive economy a pipe dream.

Industrial maturity has rendered the private productive economy unable to bring about the returns demanded by investors. What has misleadingly been called the “investment-seeking surplus” is directed into financial activity by investors who see speculation as more remunerative than widget production. Financialized capitalism is more intensely opposed to government social investment than was industrial capital, which reluctantly tolerated a modicum of “Keynesian” public spending.

Thus, neither consumption, private investment, government social spending nor exports will avert long-term stagnation.

The upshot of these combined developments is that capitalism has reached an overripe state in which workers are suffering slow-motion but inexorable obsolescence and pauperization and are forced to rely increasingly on borrowing to make ends meet, while the system is now capable of producing unparalleled private profits which cannot be profitably invested in private production, lent to cash-strapped households or entirely consumed. This surplus comes to be increasingly composed of interest payments under the financialized regime. An ever-larger portion of the national income goes to those whose contribution to material production is zilch.

We are left with a superfluity of both workers and funds representing potential purchasing power and/or investment, and a paucity of profitable investment opportunities in the private sector. This is typical of capitalist crisis, in which we have too much capital and too many workers. At the same time, the system is now capable of delivering the means of a decent and just living for all working people.

The diagnosis of the current malaise points to the only workable prescription. No one thinks that an entirely automated economic system is possible or desirable. There is always work to be done that can and should be done by people. Since there are too many workers for the work that needs to be done, if what work there is were to be distributed among all workers, all workers would be employed, and at much shorter hours.

Leisure time would increase greatly. This is what Keynes cleverly called “spreading the bread thin on the butter.” Wages could under these circumstances be increased by directing to workers the revenue gains from ever-increasing productivity, and no less importantly, by turning the uninvestible trillions held by financial and nonfinancial corporations over to working people.

There you have it: full employment, less work, more leisure and higher incomes.

The economic surplus must be directed to public-investment- and (household) consumption-seeking if working people are to have the well-being that is objectively within reach. The need for large-scale government spending to create jobs for infrastructure projects, education, health care, green technologies and more, is acknowledged by just about everyone. These are not just better ideas. They appear to be the sole means of averting persistent stagnation and creating the kind of society we want to live in.

By the way, this option is unavailable under an economy organized along capitalist lines. We have here to my mind a very powerful rationale for an explicitly anti-capitalist politics. More-or-less democratic capitalism cannot deliver a workable alternative to secular stagnation. An institutional structure capable of accommodating the Marx-Keynes prescription is the order of the day.

We have real-world examples that can serve as a starting point for a working model of a democratic socialist economy. Mondragon leaps to mind. For about twenty-five years Yugoslavia under Tito had an economy in which workers leased productive facilities from government, organized production themselves and determined the distribution of the firm's revenues between wages and reinvestment in the firm. In *After Capitalism* (Rowman and Littlefield, 2011), David Schweickart offers a refined and realistic model of what a practicable democratic socialist economy would look like, based in part on the Yugoslav experiment. Gar Alperovitz (*What Then Must We Do?*, Chelsea Green, 2013) and Michael Albert (*Parecon: Life After Capitalism*, Verso, 2003) have also contributed to the discussion. There's plenty of grist for our mill.

The historical determinists who thought capitalism was programmed for extinction are now rightly dismissed. There is no reason to think that capitalism's days are limited. What we do have good reason to believe is that democratic capitalism cannot be sustained. Keynes argued, correctly, that the labor market could reach equilibrium, with the supply of and demand for labor equal, at any level of unemployment. But what is economically possible would be politically catastrophic. Keynes offered his prescription partly as a response to his conviction that the history of the 1930s in the US, the UK and Europe demonstrated that prolonged crisis under capitalism breeds either socialist revolution or fascism. He took the one to be as bad as the other. He would not be surprised at the rise of far-Right tendencies in Europe and the US during this crisis. Were socialist movements to be in evidence, Keynes would be no less distressed. Here we depart from Keynes.

In the US, the present prospects for the revival of organized resistance in the form of socialist politics are grim. But prolonged hardship for the majority will surely breed unorganized resistance in the form of social dislocation of all kinds. The apparatus of State repression, already in full evidence, would come down like a sledgehammer. That's barbarism. The times have never made radical activism more imperative.

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## **ICELAND CONSIDERS STRIPPING POWER TO CREATE CURRENCY FROM BANK**

*Alex Newman; New American; via Activist Post*

Still reeling from the economic catastrophe that struck in 2008, Iceland and its Parliament are debating a plan that would dramatically restructure the tiny nation's monetary system by stripping commercial banks of the legal ability to create currency out of thin air — and handing that power exclusively to politicians and central bankers under what is being labelled a “sovereign money” system. The proposal to quash private bankers' fractional-reserve system, where banks literally bring new currency into existence with government permission and then charge interest on it, is already making major waves. It is being described by analysts as everything from “radical” and “revolutionary” to a prescription for “an almost Soviet-style banking system.” Either way, the

implications of the debate are enormous.

In a parliamentary report released on March 31, commissioned by the prime minister about the monetary idea, Chairman Frosti Sigurjónsson on Parliament's Committee for Economic Affairs and Trade suggested that a "fundamental reform" of Iceland's monetary system was needed. "Iceland, being a sovereign state with an independent currency, is free to abandon the present unstable fractional reserves system and implement a better monetary system," explained MP Frosti, who authored the report. "Such an initiative must however rest on further study of the alternatives and a widespread consensus on the urgency for reform."

The explosive 110-page report, entitled "Monetary Reform: A Better Monetary System for Iceland," offers a great deal of educational material on the inherent flaws of the current fractional-reserve banking system. In essence, with full government backing, the existing monetary system literally allows commercial banks to create fiat currency out of nothing, based on the amount of deposits held by the commercial bank. The banks then charge customers interest payments on the currency that they created out of nothing. Countless analysts have blasted the existing system as a scam and a fraud that serves mostly to loot the public.

Of course, The New American magazine has been attempting to raise awareness of this system for decades — along with the inherent instability it produces, as well as how it allows government-backed bankers to get rich at public expense. The Icelandic report, if nothing else, should serve as a valuable educational tool to create more widespread public understanding of the systemically flawed system now in place across virtually the entire globe. The parliamentary document itself acknowledges that education on the existing system is necessary if it is ever going to be seriously reformed.

*"For more than half a century, Iceland has suffered from serious monetary problems including inflation, hyperinflation, devaluations, an asset bubble and ultimately the collapse of its banking sector in 2008," the report's preface explains, pointing to the fractional-reserve system as the culprit and adding that other countries have also experienced similar problems. "Despite its frequent failures, the banking system has remained essentially unchanged and homogenous around the world.... A necessary step toward monetary reform is to increase awareness of the drawbacks and risks of the present system and why reform is needed."*

In the summary of the report, it explains that "commercial banks expanded the money supply nineteen-fold in the fourteen year period that ended with the banking crisis of 2008." And while the monetary lunacy was not limited to Iceland — in the United States, the privately owned Federal Reserve created more than \$20 trillion to bail out mega-banks and crony companies around the world — the Icelandic economy was among the most deeply affected. In fact, the economy of the tiny island, with a population of around 300,000, practically imploded as the European Union and "banksters" tried to foist unimaginable debts incurred by private banks onto the backs of bewildered taxpayers.

*"There is also indication that the fractional reserve system may have been a long term contributing factor to various monetary problems, including: hyperinflation in the 1980s, chronic inflation, devaluations of the Icelandic Krona (ISK), high interest rates, the government foregoing income from money creation, and growing debt of private and public sectors," the report continues. To deal with all of that, the explosive report proposes adopting the "Sovereign Money system" in which "only the central bank, owned by the state, may create money as coin, notes or electronic money."*

Commercial banks, meanwhile, would be banned from creating money, it added. The report explains clearly that after quashing bankers' ability to create money, politicians — hardly notorious for their sound financial stewardship anywhere in the world at any time in history — would take over that power. "Crucially, the power to create money is kept separate from the power to decide how that new money is used," Frosti, also a businessman and economist, wrote in the report. "As with the state budget, the parliament will debate the government's proposal for allocation of new money." Also giving pause for thought, multiple analysts have pointed out that such a monetary

system would be enormously lucrative to the government — a point that may not sit well with free-market advocates.

Icelandic Prime Minister Sigmundur Davíð Gunnlaugsson, though, celebrated the report he commissioned from Parliament upon its release. “I am very pleased to receive this new report on monetary reform,” Sigmundur Davíð said in a statement. “The findings will be an important contribution to the upcoming discussion, here and elsewhere, on money creation and monetary policy.”

Some financial heavyweights lent credence to the debate. In a foreword to the report, former U.K. Financial Services Authority boss Lord Adair Turner, for example, noted that despite regulatory schemes to stabilize the financial system, a “fundamental issue” has still not been addressed. That issue, he said, is “the ability of banks to create credit, money and purchasing power, and the instability which inevitably follows.” As a result, Turner continued, “the reforms agreed to date still leave the world dangerously vulnerable to future financial and economic instability.” While stopping short of endorsing the proposal, which he said should be debated based on its merits and feasibility, Turner said that any policies pursued “must be grounded in the philosophy which this report proposes — that money creation is too important to be left to bankers alone.”

The report is already drawing a fair amount of attention. In a remarkable admission for an “establishment” media source about how the current monetary regime operates, Max Ehrenfreund with the Washington Post even gave a brief, if simplistic, explanation of fractional-reserve banking. “It sounds strange to say it, but creating money is indeed something that banks do all the time,” Ehrenfreund reported, offering a hypothetical example to illustrate his point that “the total amount of money out there actually multiplies with each cycle.” He also acknowledged that the current system is “unstable.”

In his article about the plan, Ehrenfreund cited at least one expert as saying that the Icelandic proposal does not go far enough. However, he also quoted Ted Truman, a former Federal Reserve economist and a fellow at the establishment-minded Peterson Institute for International Economics, warning against the plan. “You essentially don’t have a banking system,” Truman argued. “You would have, actually, an almost Soviet-style banking system. It’s a monobank, in the terms of Russia, the former Soviet Union.”

Of course, the privately owned “Federal Reserve” banking cartel, owned and run for the benefit of its currency-creating member banks, is hardly a reliable or unbiased source for information on developing a prudent monetary policy. In fact, the Fed and its hangers-on are probably the worst possible people to go to on money matters. Still, Truman makes an important point — stripping commercial banks of the power to create currency but then handing that power to government is unlikely to bring about either stability or sanity. As such, the Icelandic plan is hardly ideal from a truly free-market perspective.

Indeed, seizing the awesome power to manufacture credit from commercial banks and handing it over to politicians is unlikely to solve the problem. In fact, it could even make matters worse, since governments also have coercive powers — the ability to wage war, imprison, tax, and more — that commercial banks do not possess. Still, the fact that there is now an ongoing debate surrounding bankers’ ability to create currency from thin air is undoubtedly a positive development. The discussion is crucial if mankind is ever to have a truly prosperous economy in which the fruits of peoples’ labor are not secretly siphoned away by government-backed banking gimmicks and politicians.

Instead of further empowering governments and central bankers at the expense of commercial banks, there is a far better solution to create a monetary system that would benefit the public, not just the establishment. It would include quashing everyone’s ability to create fiat currency — commercial banks, central banks, and politicians. In place of inherently unstable fiat currency that can be printed or extinguished based on the edicts of governments and bankers, the economy could once again rely on honest money based on real value and hard assets that cannot be manipulated or created out of nothing. Gold and silver, for example, have been used successfully throughout almost all of human history, and remain excellent candidates for the job.

Abolishing entirely the government-granted or -controlled power to create currency out of nothing, of course, would be fiercely resisted by those who benefit from the current monetary regime at humanity's expense. That includes bankers, politicians, and those connected to them. For the sake of free markets, liberty, prosperity, everyday workers, and financial sanity, though, restoring honest and sound currency is essential. Anything less would ultimately mean more of the same chaos and looting — and the world can no longer afford it.

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# POSITIVE MONEY POSTS

## LOWERING INTEREST RATES OR SOVEREIGN MONEY?

**Frank Van Lerven**

Seven years have passed since the start of the financial crisis, and the vast majority of central banks around the world have already lowered their interest rate to the zero lower bound\* or are still continuously lowering their benchmark interest rates.

It appears that the majority of central banks think they have to choose between the lesser of two evils, either: 1) allowing banks to create more money to finance more debt-based spending, asset bubbles, and growth, or 2) less debt-based spending, limiting the build-up in debt, at the cost of low or zero growth. In this post we ask whether there really is no alternative.

### **Why Central Banks Lower Interest Rates?**

In the last couple of weeks, interest rates have been lowered by Romania, Australia, Serbia, Russia, Thailand, Hungary, and China. A few others have signalled that they are considering similar moves (i.e. New Zealand and Norway). In fact, since January this year over 20 central banks have lowered their interest rates, compared to nearly 5 for the same period last year.

The reason central banks have been lowering interest rate across the world is largely as response to falling prices and the threat of global deflation – prompted by falling oil prices and the hangover effects of the financial crisis.

The theory is that by lowering the interest rates on the reserves banks hold at their central bank, banks should be incentivised to increase lending, creating more money and lowering the interest rates they offer to borrowers. In turn, the lower interest rates should incentivise consumers/investors to borrow more, and thus spend more, boosting economic growth. In short: Lower Interest Rates => More Borrowing => Money Creation => More Spending => More Growth.

### **Some Reasons for Caution**

Lowering interest rates should be approached with caution for a number of reasons – especially when the majority of central banks are doing it at the same time. Firstly, governments and their central banks are actively relying on banks to create more money and for the private sector to take on more debt at a quicker rate. This is dangerous because rapid rates of borrowing, excessive leverage and irresponsible lending are all factors that help promote financial crises.

Secondly, low interest rates incentivise investors to take on more risky investments in the search for greater returns. Janet Yellen, chairwoman of the US Federal Reserve Bank, warned that this “reach-for-yield type of behaviour” induced by low interest rates poses a variety of “potential dangers”. The Joint Committee of the European Supervisory Authorities warns that “Persistently low interest rates have sustained the demand for riskier investments and provided investors with incentives for enhancing their portfolio returns.”

Thirdly, low interest rates and the ‘reach-for-yield type of behaviour’ often leads to asset price increases, and even asset bubbles. For example, last week Federal Reserve Bank of St. Louis President James Bullard said:

*“A risk of remaining at the zero lower bound too long is that a significant asset-market bubble will develop...If a bubble in a key asset market develops, history has shown that we have little ability to contain it,” he said, citing the housing bubble that preceded the last recession.”*

## **China and Global Debt**

China provides a great example of why lowering interest rates can backfire. In the last six months China has lowered interest rates three times and has been progressively doing so since 2011. Chinese private sector debt has quadrupled in the last 7 years, and with a debt-to-GDP ratio of 282% China's debt as a share of GDP is higher than in the US and Germany. According to McKinsey Global Institute, China's soaring debt levels are one of three of the biggest threats to global financial stability.

Every time the interest has been lowered, the Shanghai Composite Index of shares has responded with a significant price increase. Decreasing interest rates has prompted investors toward Chinese stocks despite a plethora of evidence of an impending economic slowdown. The Wall Street Journal recently suggested that China had a lesson to learn from the recent crisis. Mainly, that while stock markets can give some insight into economic activity, it is worth remembering that the Dow Jones Industrial average hit record highs in October 2007, right after the FED had begun reacting to the worsening debt crisis.

At the global level, since 2007, rather than deleverage, global debt has increased by about 35% (\$57 trillion). By continuously lowering their interest rates, all of the world's biggest economies currently have more borrowing in respect to their GDP than in 2007. Indeed, the global debt to GDP ratio has increased by 17% since the crisis, posing even more risk to a fragile financial system.

## **IMF and the Lesser of Two Evils**

While the IMF has previously warned that the lowering of interest rates incurs significant financial risk, it holds that "the threat of global economic anaemia outweighs potential asset bubbles". Which effectively suggests that we have to rely on increased levels of lending (or money creation), higher levels of risk, and more asset bubbles to spur economic growth.

Clearly, the IMF thinks it is stuck between a rock and a hard place, and that it must choose between the lesser of two evils. Either they encourage more debt-based spending (money creation for spending), which will fuel growth but may also result in asset prices bubbles, or they encourage deleveraging (paying down of debts), avoid another credit bubble, but sacrifice their targets for economic growth. Is there really no alternative? Paul Hannon, of the Wall Street Journal, recently pondered a similar question:

*"What central banks have been doing for the past seven years doesn't seem to have removed the need for more of what central banks have been doing. It seems increasingly possible that central banks should have been doing something different, and that what they've been doing is part of the problem."*

## **Sovereign Money as an Alternative**

At Positive Money, we think that there is an alternative that would address many of these problems. Instead of trying to prompt growth by lowering interest rates in order to encourage more debt and money creation, central banks should be creating 'Sovereign Money' and spending this money directly into the real economy.

Sovereign money could be created in the public interest, without anyone else having to go further into debt. The Treasury could issue a certain amount of 'perpetual zero-coupon bonds'. These would be interest free and would never need to be repaid. The central bank could then purchase these bonds by crediting the Treasury account with newly created money. So that the central bank's balance sheet would balance out, the newly created money would appear as a liability of the central bank and an asset of the Treasury. The perpetual zero coupon bonds would be an asset to the central bank and a liability of the Treasury.

To prevent the abuse of such money creating powers, the central bank would be responsible for deciding how much money to create, in line with its inflation targets. The money would then be transferred to the government. Politicians would have no influence over how much money to create, while the central bank would have no influence on where to spend the money.

This money would be spent into the economy through government budgets instead of being lent into the economy by banks. Rather than prompting asset bubbles and more debt, this form of stimulus would fuel the real economy, create jobs, and make it possible for ordinary people to start reducing their own debts. \*A zero-bound interest rate normally refers to a central bank short-term interest rate, which is at or near zero.



# COULD SOVEREIGN MONEY OFFER A SOLUTION TO THE HOUSING CRISIS?

Britain is facing a mounting housing crisis amid a shortage of supply that the country's new government will have to address as a priority, according to the Royal Institution of Chartered Surveyors.

UK house prices grew at their fastest pace in five months in March. In the ten years up to the start of the financial crisis, house prices tripled. And house prices rise much faster than wages, which means that houses become less and less affordable. As Frances O'Grady, general secretary of the TUC said at the London housing rally:

*"This is a country where people are homeless while mansions and penthouses stand empty. The property market has become a giant casino where a generation of young people grow up without a hope whatsoever of getting a council house or buying their own home."*

But why have house prices gone up so quickly?

And can the answer to that question reveal the solution to the problem of unaffordable houses?

Where does the money to fund these ever-larger mortgages actually come from?

If you – as most people – assumed that banks are taking money from savers and lending it to borrowers, here's a surprising fact: When we borrow from a bank, we're not borrowing money from someone else's life savings. It's actually newly created money. In fact, brand new money is created by banks every time somebody takes out a loan, overdraft or credit card. In the 10 years running up to 2007, the banks had collectively created over £417 billion of new money in the form of larger and larger mortgages, with every new mortgage creating an equivalent amount of new debt and new money.

There are many factors contributing to this increase, but the 300% increase in house prices in the UK between 1997 and 2010 would never have happened without the creation of £417bn of new mortgage credit by the banking system. The key fundamental driver of rising house prices is the ability of banks to create money when they make loans. Watch our video "Why are house prices so high"

## ***Building affordable housing***

According to Cambell Robb, chief executive of Shelter, successive governments have failed to build the affordable homes that this country needs. Now the shortage has reached crisis point and the only solution is to build more affordable homes.

Consensus opinion is that the UK is currently building far fewer homes than it needs to every year. Unfortunately, the private sector is unlikely to meet the demand for new houses. As the market is failing to provide the UK with the optimum number of new houses, there is "a clear case for government intervention, at least in the short term".

However, an increase in house building financed from usual government budgets would require the diversion of funds from elsewhere. But there's a solution whereas this need not be the case:

In our report Sovereign Money Creation, we have outlined how the Bank of England could create money in a similar way to Quantitative Easing, but whereas QE relied on flooding financial markets and hoping that some of this money would 'trickle down' to the real economy, Sovereign Money Creation would inject new money directly into the real economy. This idea is advocated by many prominent economists. In a recent letter to the Financial Times, 19 economists supported this very idea by signing a call for quantitative easing for the real economy.

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