International Forum on Financial Systems – Sustainable Finance for Sustainable Development.

11-12 September, 2013, Istanbul, Republic of Turkey.

Ann Pettifor, Director, Policy Research in Macroeconomics.

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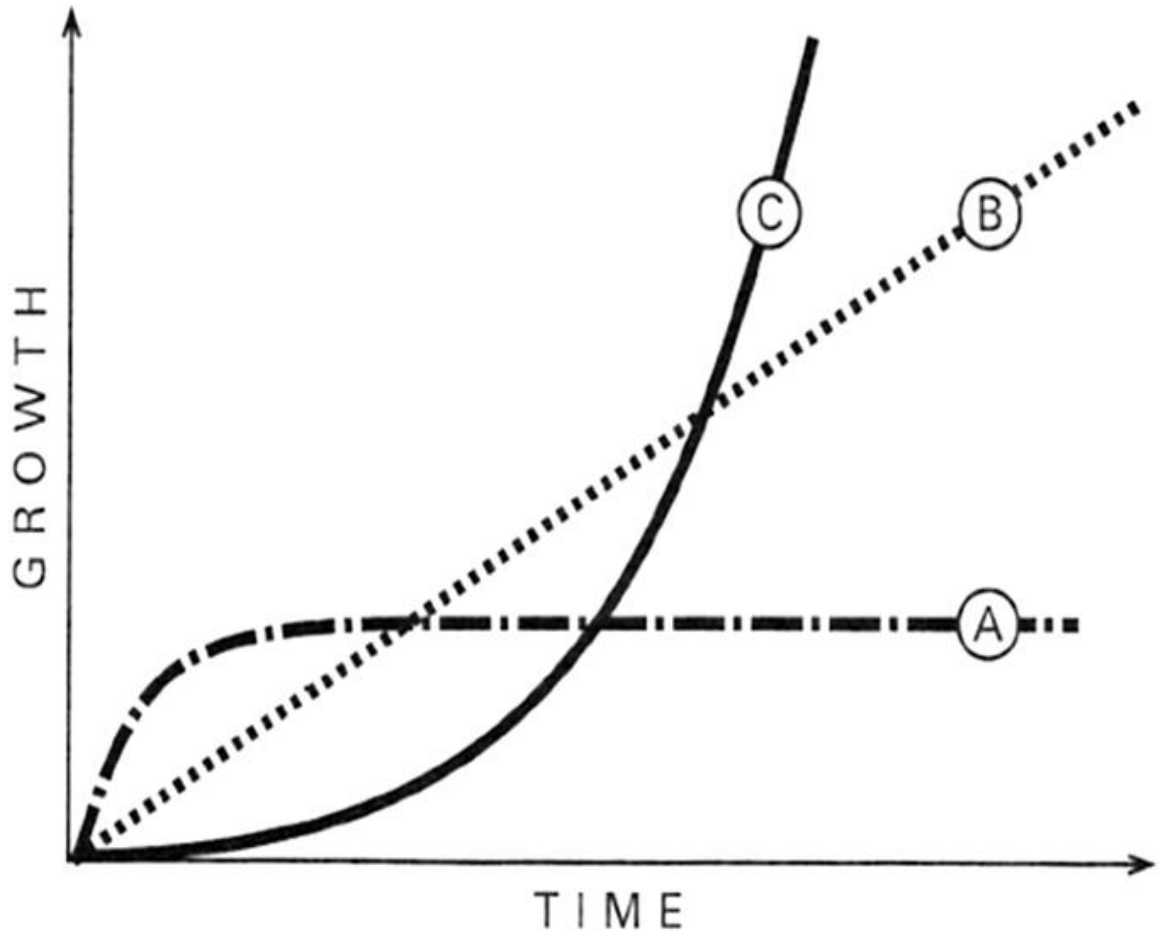
Frederick Soddy (1877- 1956)

“Debts are subject to the laws of mathematics rather than physics.

Unlike wealth which is subject to the laws of thermodynamics, **debts do not rot with old age** and are not consumed in the process of living

Basic Types of Growth Patterns



Curve A-
Natural Growth Pattern
Curve B-
Linear Growth Pattern
Curve C-
Exponential Growth Pattern

Economic Orthodoxy:

assumption that money or credit
- like a commodity -
is subject to **market forces** of supply and demand.

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Economic Orthodoxy: assumption that **the rate of interest** – on the full spectrum of lending – is subject to **market forces** of supply and demand.

The “natural rate” of interest = wrong!

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Economic Orthodoxy: The rate of interest determined by a demand for savings.

The rate of interest determined by the demand for assets – as John Maynard Keynes explains with his liquidity preference theory

Economic orthodoxy deeply flawed.

Credit, money, finance - is man-made

Credit is a **social construct**

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The rate of interest is **man-made – a social construct, made**

- By committees of men and women in **central banks**, setting the base, or policy rate
- By the back-room ‘fixers’ in banks like Barclays, **manipulating LIBOR**

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Orthodoxy: assumption that banks use their **reserves** for lending – “**fractional reserve banking”** – a myth.

Repeat After Me: Banks Cannot And
Do Not "Lend Out" Reserves-
the (flawed) money multiplier view of credit creation…

By **Paul Sheard**, Chief Global Economist and Head of Global Economics and Research, Standard and Poor's, New York. 13 August, …ard and Poor's Rating Services.*

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Treasury Secretary Tim Geithner,
Testimony to Congress
23 September, 2009

Geithner: **denies existence of credit**

"Stripped of its complexities, the purpose of a financial system is to let those who want to ***save*** -whether for vacation, retirement or a rainy day - ***save***."

Treasury Secretary Tim Geithner,
Testimony to Congress
23 September, 2009

"It is to let those who want to ***borrow*** -whether to buy a house or build a business - borrow. "

Treasury Secretary Tim Geithner,
Testimony to Congress
23 September, 2009

“And it is to use our banks and other financial institutions to bring **savers’ funds** and **borrowers’ needs** together and carefully manage the risks involved in **transfers** between them.”

Because credit **not subject to supply and demand**, because bankers are not intermediaries between savers and borrowers –

– the price of credit – or the rate of interest – is necessarily ***a social construct, man-made -*** *and should always be low*.

Credit, unlike gold or oil, not a commodity and so not subject to the laws of supply and demand. ***There need be no limit to its creation.***

A low, reliable rate of interest, below the average rate of profit on investment (3% p.a.) is sustainable – repayable.

A high rate of interest – above the average rate of profit – is unsustainable, unrepayable.

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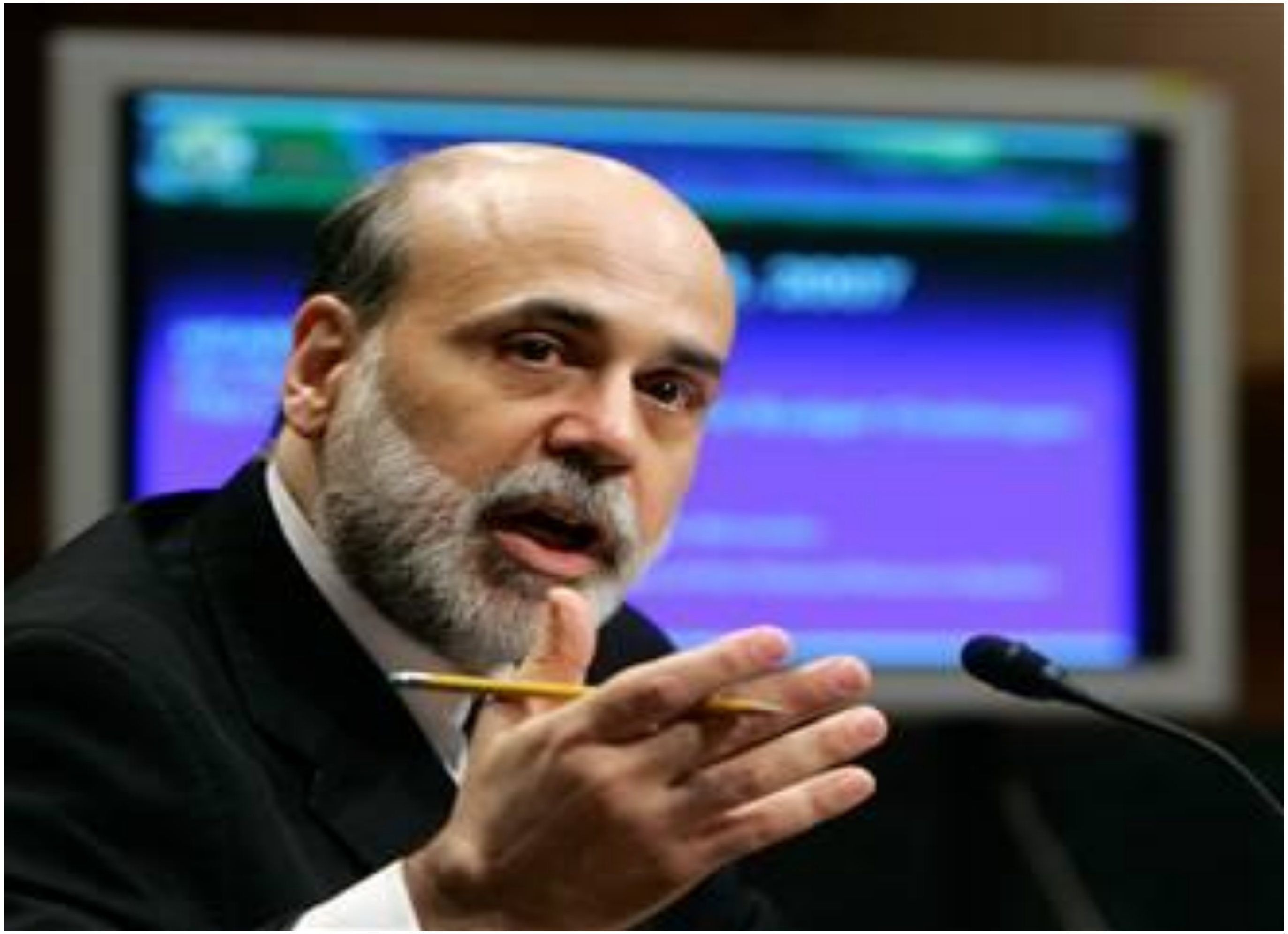
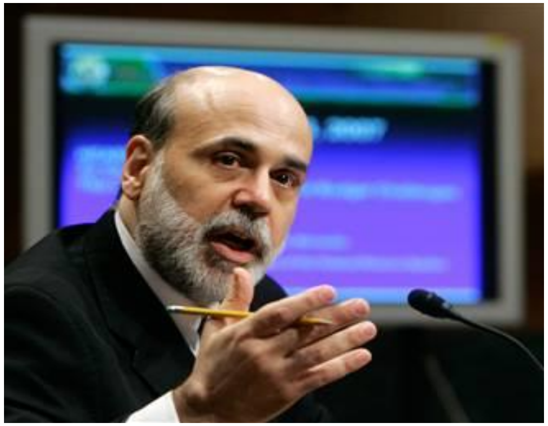


Governor Bernanke’s ‘magic’



Ben Bernanke, Fed Reserve Governor, interviewed on CBS. 60 Minutes Show 15 March 2009, soon after Fed had made $160 billion available to AIG. Was it tax money?

Bernanke: "It's not tax money. The banks have accounts with the Fed, much the same way that you have an account in a commercial bank."

Bernanke: “So, to lend to a bank, we simply use the computer to mark up the size of the account that they have with the Fed.”

Because there is no limit to the availability of credit, employment – and income - is not constrained by finance/income.

Income – to repay debts - is only earned through employment

“There is no money”

Lord Mervyn King: “the banking system, ***which is normally responsible for creating 95 per cent of broad money*** has been contracting its part of the money supply…..”

June 14, 2013: Lunch with the FT: Sir Mervyn King, by Martin Wolf.

“There is no money”

In monetary economies, where both the central bank and private, commercial banks **create money by entering numbers into the keyboard of a computer…..**

“There is no money”

….the relevant consideration is the availability of finance, not savings***, and there need be no constraint on finance***

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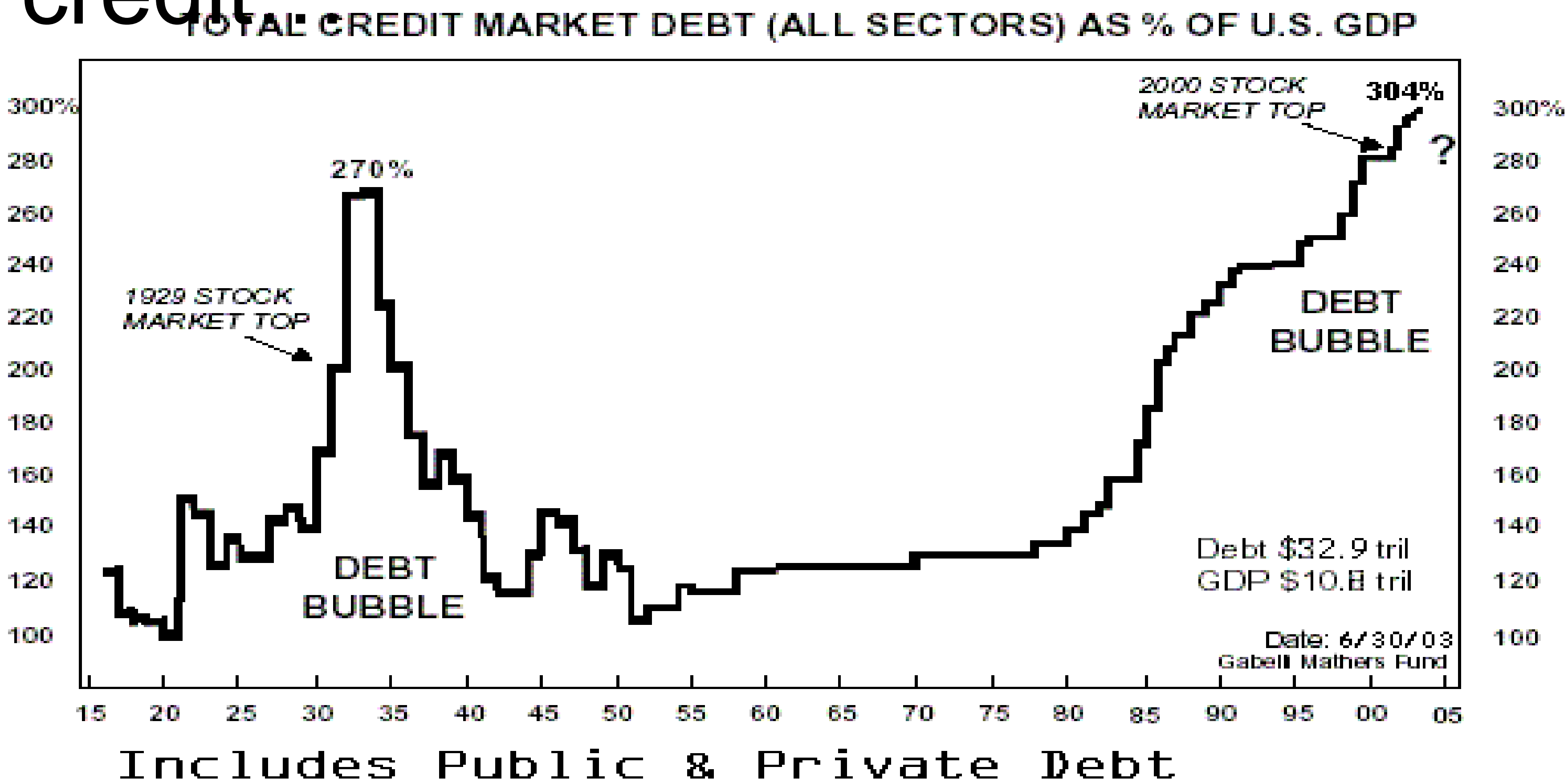
The Anglo-Saxon de-regulation of the financial sector 1971 – 2013

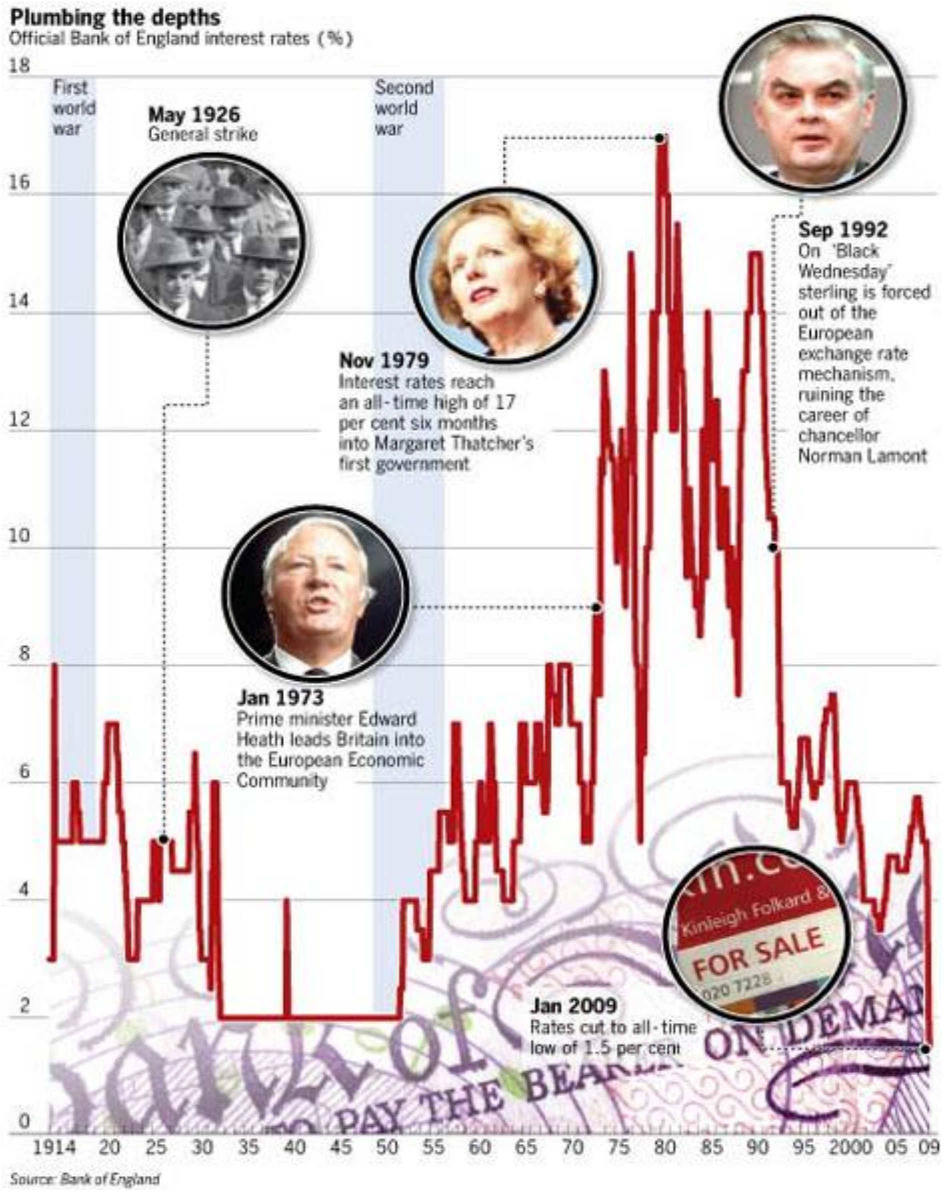
- Introduction of **‘Competition and Credit Control’** – all competition and no control….

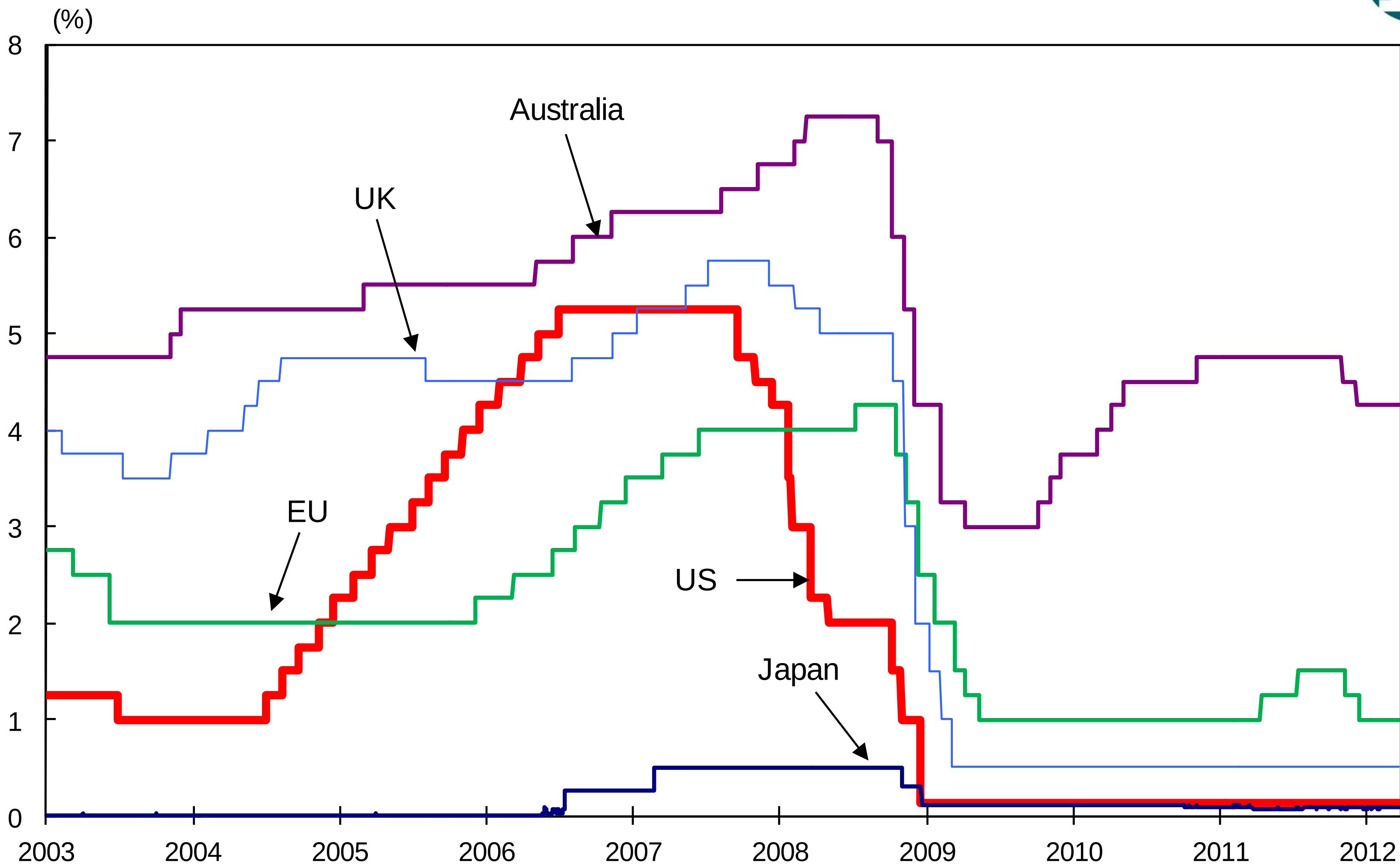
The *elastic* production of credit



Source: Gabelli Mathers Fund
http://www.itulip.com/forums/showthread.php/428-Ka-Poom-Theory-is-a-Rhyme-not-a-Repeat-of-History

High, real rates of interest





Sources: BOJ, FRB, ECB, BOE and RMB Australia. As of Mar. 23, 2012.

Chart taken from presentation by Richard Koo, Chief Economist, Nomura Research Institute, Tokyo, to the INET Conference, Berlin, 14th April, 2012.

Capital Mobility and the Incidence of Banking Crisis: All Countries, 1800-2007:

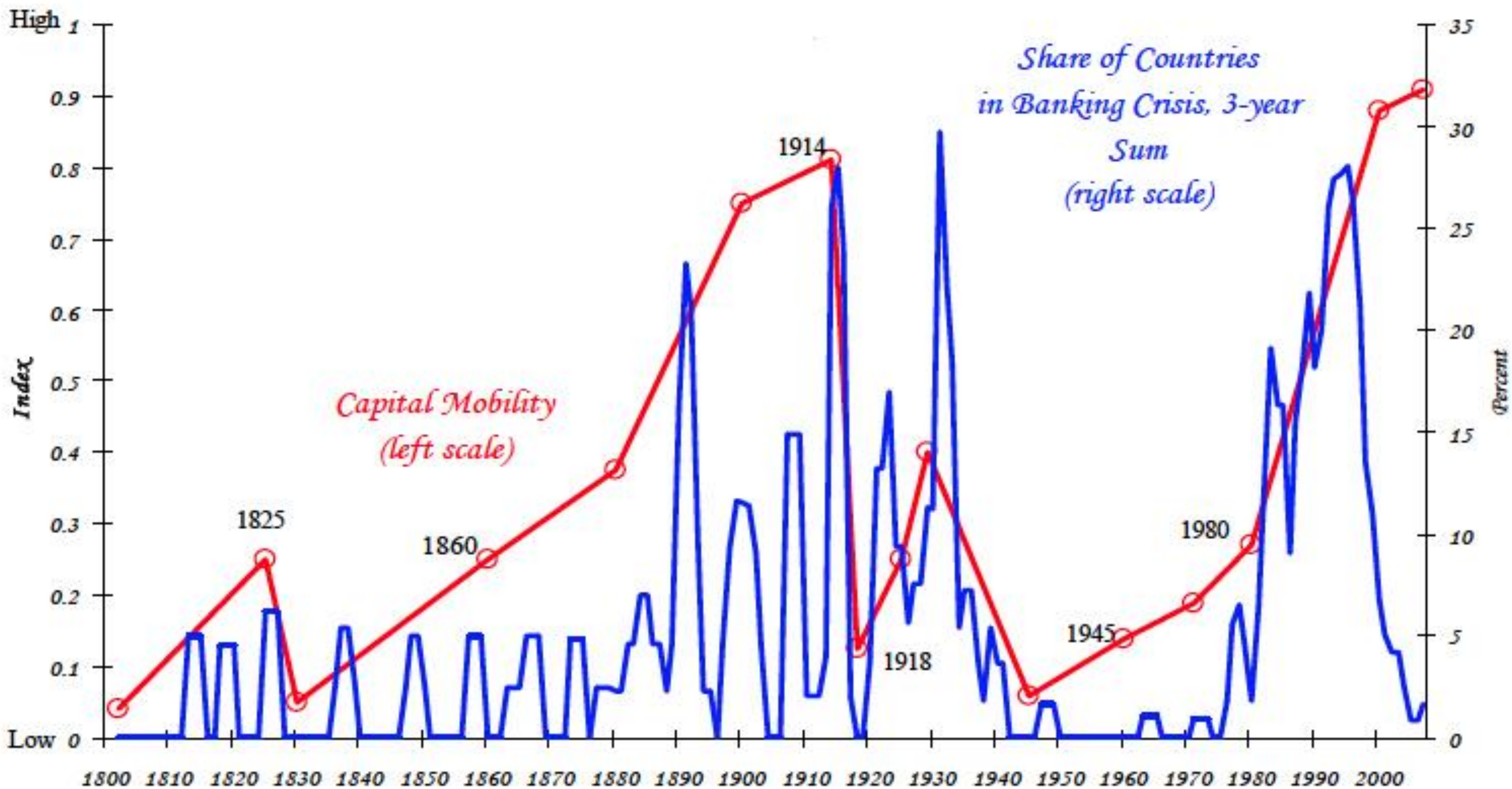


Chart taken from "[This Time is Different: A Panoramic View of Eight Centuries of Financial Crises]" by Carmen M. Reinhart, University of Maryland and NBER; and Kenneth S. Rogoff, Harvard University and NBER.

"The relative calm from the late 1940s to the early 1970s…may be partly explained by booming world growth but perhaps more so by the repression of the domestic financial markets (in varying degrees) and the heavy-handed use of capital controls that followed for many years after World War II. (We are not necessarily implying that such repression and controls are the right approach to dealing with the risk of financial crises.) "

Pages 205-6 *This Time its Differen*t Carmen M Reinhart and Kenneth S Rogoff, 2009, Princeton Press.

"As we also observed in Chapter 10, since the early 1970s, financial and international capital account liberalization – reduction and removal of barriers to investment inside and outside a country – have taken root worldwide. So, too, have banking crises."

Pages 205-6 *This Time its Differen*t by Carmen M Reinhart and Kenneth S Rogoff, 2009, Princeton University Press.

Conclusion:

- To manage the rate of interest – across the full spectrum of lending - central banks must manage flows of capital across borders

Conclusion:

Capital controls central to the management not only of the rate of interest, but to policy autonomy

Conclusion:

….so that governments and central banks can govern in the interest of their people – and not in the interest of footloose, reckless, foreign capital markets.

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Conclusion:

Central banks should create more assets – bonds – across the full range of the liquidity preference spectrum, short, medium, long –

Conclusion:

– in order to fix the rate of interest across the spectrum of lending

Conclusion:

Rate of interest should not be used to manage the exchange rate – otherwise CB focussed on global interests of invisible market players, not domestic interests - exporters, electorate

Conclusion:

….so that governments and central banks can govern in the interest of their people – and not in the interest of footloose, reckless, foreign capital markets.

Conclusion:

….These reforms of **monetary policy** will do most to restore confidence in democracy – and to ensure sustainability.

Thank You

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