



Centre of Full Employment and Equity



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- ... a pattern of thought characterized by self-deception, forced manufacture of consent, and conformity to group values and ethic.
- a “mode of thinking people engage in when they are deeply involved in a cohesive in-group, when the members striving for unanimity override their motivation to realistically appraise alternative courses of action” (Irving Janis, 1982: 9).
- It “requires each member to avoid raising controversial issues” (Janis, 1982: 12).

- Groupthink drives a sort of ‘mob-rule’ that maintains discipline within the group or community of decision-makers.
- These communities become oblivious and hostile to new and superior ways of thinking.
- When a government forces workers to apply for 40 jobs per month when there are clearly not enough jobs to go around – it is caught in a destructive Groupthink.

- Wrong motivation from outset:
 - Obsession with fixed exchange rates – CAP.
 - Franco-German relationship – political but baulked at IGC.
- Early designs:
 - Werner Report 1970 and the MacDougall Report 1977.
 - The ‘snake’ and EMS disaster – Black Friday.
- Monetarist ideology intervenes:
 - Delors Report 1989 => Maastricht Treaty => SGP.
 - Convergence farce.

The Jobwunder and SGP's early failure



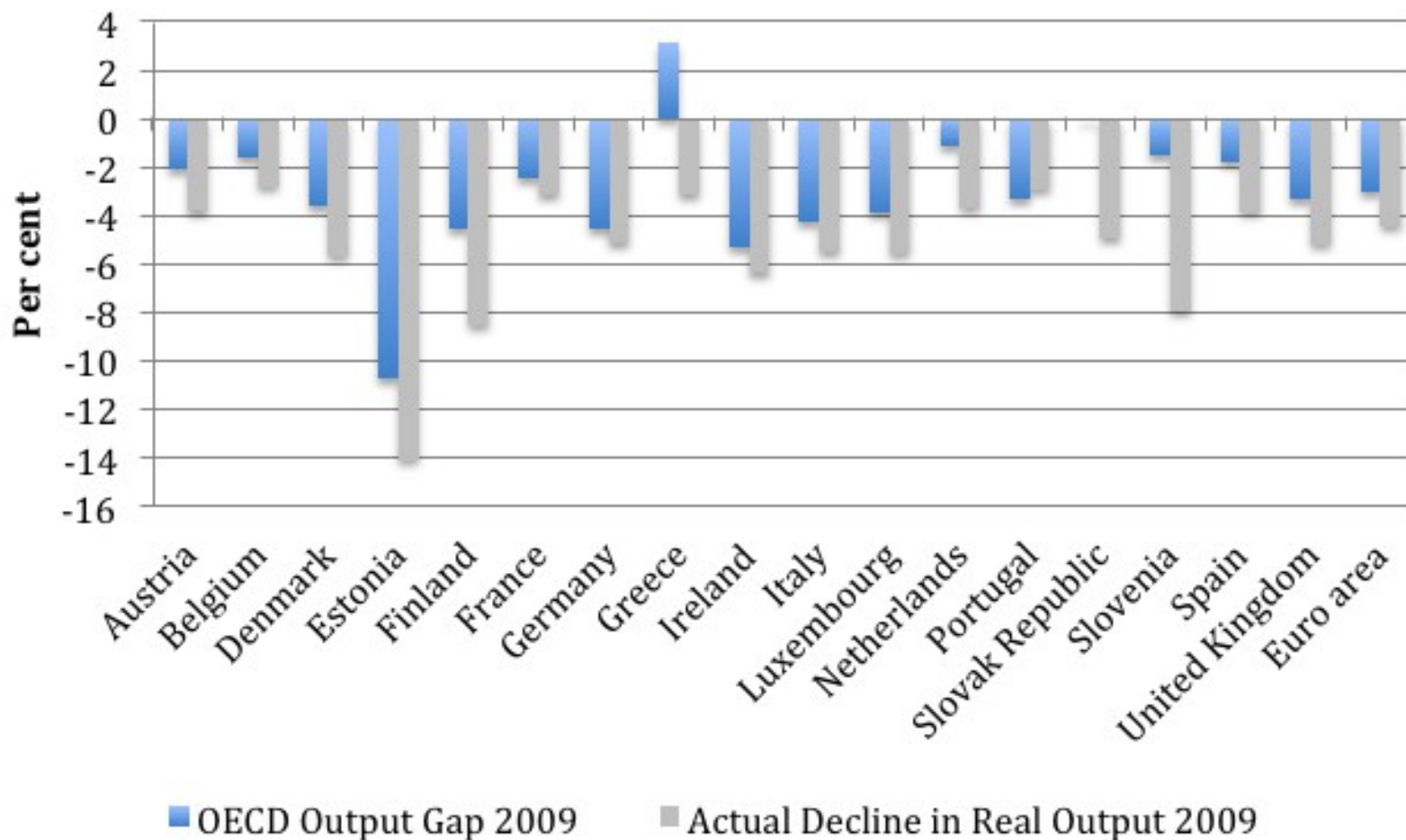
- Period of ‘stability’ – German hypocrisy and austerity!
- The 2003 crisis – France and Germany.
- “3 doesn’t mean 3.0”

- Period of crisis – flawed design exposed.
 - Automatic stabilisers blew SGP limits.
- Policy response has been a categorical failure.
 - Austerity? – pro-cyclical fiscal response
 - Who has measured the daily income losses?
 - Fiscal compact.
- Treaty already violated – at least in spirit.
 - Role of ECB – SMP (May 2010) – saved the Eurozone but monetary policy cannot stimulate growth.
 - Role of Troika – incompetent to say the least.
 - Bailout – last Greek bailout amounted to a default.

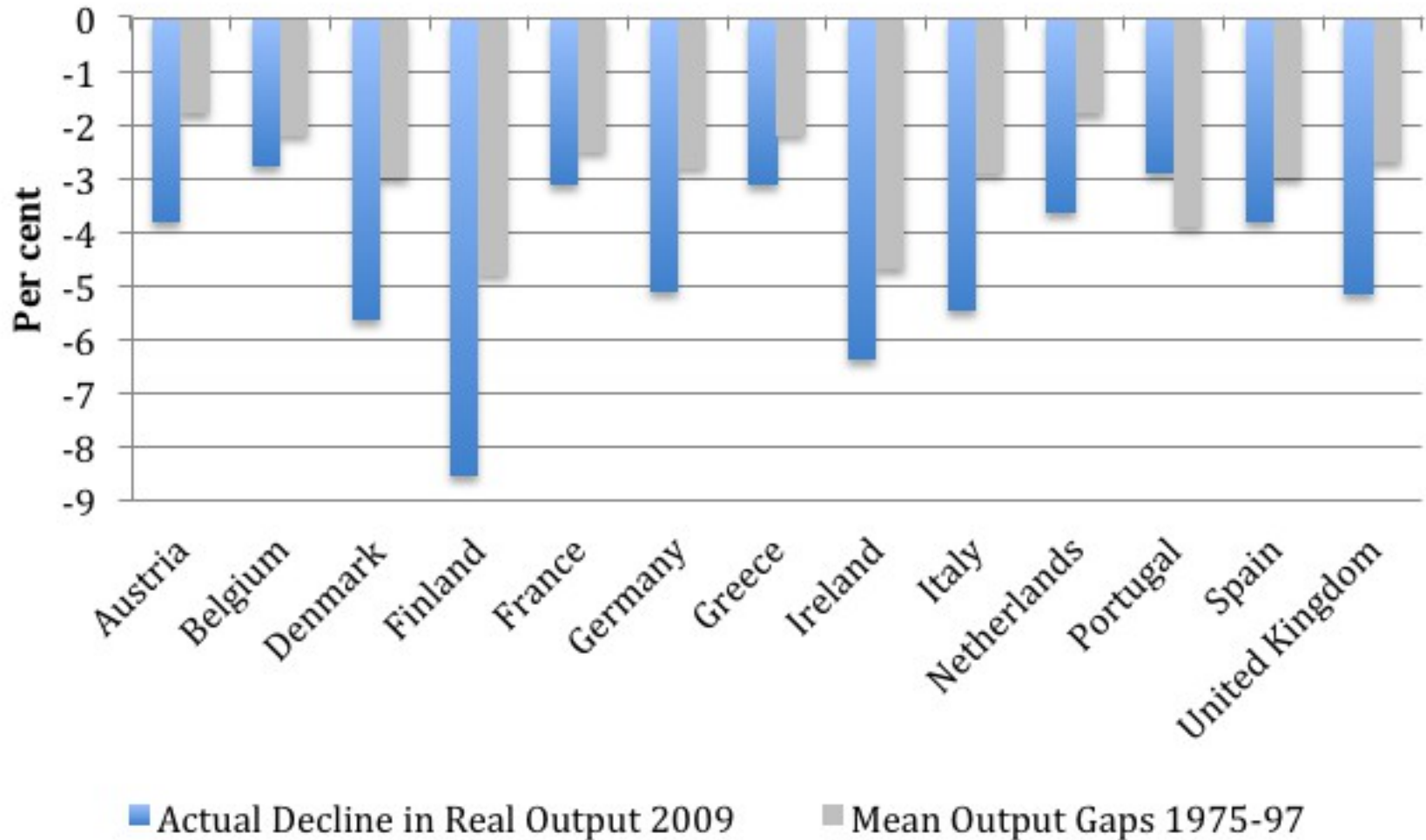
Table 7 IMF forecasts for Greece and reality

	Real GDP Growth (%)			Unemployment rate (%)		
	IMF Forecast	Actual Outcome	Error	IMF Forecast	Actual Outcome	Error
2010	-4.0	-4.9	-0.9	11.8	12.6	1.2
2011	-2.6	-7.1	-4.5	14.6	17.7	3.1
2012	1.1	-7.0	-8.1	14.8	24.3	9.5
2013	2.1	-4.2	-2.1	14.3	27.3	13.0

Groupthink in action ...



Groupthink in action ...



- Tightening fiscal rules – only make matters worse – bias towards stagnation and race to bottom.
- Creation of true supra-national fiscal capacity – would work but will not happen. – there is no “Europe”.
- Overt Monetary Financing
- Default and exit.
- OMF and exit – preferred option.

- How can a simple monetary operation between a central bank and its corresponding treasury department (both part of what we call the ‘consolidated’ government sector) possibly be considered a taboo?
- Die Angst vor der Inflation – most people have never really understood what happened in the Weimar era nor in Zimbabwe.

- Quantitative easing has been a failure – why? Banks do not need reserves to lend. The problem was never a shortage of reserves.
- Keynes (letter to Roosevelt) reliance on monetary policy – “is like trying to get fat by buying a larger belt”.
- Superior policy option is OMF **and** fiscal expansion.
- Abba Lerner – notion of functional finance – governments do not need revenue to spend.
- Central banks can put any numbers into credit accounts on behalf of the government – out of thin air.

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- QE is also not linked to fiscal expansion – so no impact on spending.
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- Abba Lerner – notion of functional finance – governments do not need revenue to spend.
- Central banks can put any numbers into credit accounts on behalf of the government – out of thin air.
- Fiscal policy has to be counter-cyclical.
- Why is OMF considered taboo?
- Inflationary? Inflation risk accompanies spending not the monetary operations that might be associated with it.
- All spending carries a risk of spending.
- Issuing public debt doesn't alter that – portfolio switch.

- According to mainstream theory, Japan has been poised on hyperinflation for 20 years!
- Two arcane textbook notions used:
 - Money multiplier – totally erroneous – banks do not loan out reserves! Central bank cannot control the money supply.
 - Quantity Theory of Money – assumptions unreal – not even close to full employment.
- Measures of output gaps deeply flawed.

- Deficits in most Eurozone nations should be at least twice as large.
- Best option is to restore currency sovereignty and implement national stimulus plans.

