

## Islandia: eredurik ereduena

### (1) Islandia mon amour!

#### (1) Sarrera:

Islandiaz aritu gara aspaldi honetan, Ikus, besteak beste, blogeko ondoko sarrerak:

[Islandia: zer gertatu da?](#)

[Islandia: eredu a ote?](#)

[Islandia: bilakaera](#)

[Eredu baten bila: Islandia ala Eskozia?](#)

[Islandiari buruzko zenbait berri](#)

[Txaloak Islandiarentzat](#)

[Islandiak zuzen egin zuen... beste guztiak oker egiten ari dira](#)

[Azken berriak: Islandiak irabazi du](#)

[Islandiaz bi hitz \(gehiago\)](#)

[Islandia: orain zer?](#)

[Iceland, Islandia](#)

[Islandia: bankugintzaz](#)

[Portugal eta Islandia](#)

[Islandia: zenbait irakaspen sendo](#)

[Islandiako presidentea, argiago ezin](#)



Gehigarria: *Iceland's President Explains Why The World Needs To Rethink Its Addiction To Finance*<sup>1</sup>

**(2) DTM eta Islandia** (Bill Mitchell-en ildotik):

Ikus *Iceland's Sovereign Money Proposal – Part 1*<sup>2</sup>

eta

*Iceland's Sovereign Money Proposal – Part 2*<sup>3</sup>

**(3) Albistea:** *Iceland's Biggest Political Party Is Now The "Pirate Party" — and It's Amazing*<sup>4</sup>

Gogoratu Islandia moneta jaulkitzaileko estatua dela, hau da, subiranotasun monetarioa daukala.

Artikuluaren ukitutako punturik garrantzitsuenak:

(a) Inkesta berriak hurrengo hauteskundeetarako: *The Pirate Party* nagusi<sup>5</sup>

1 Ikus <http://www.businessinsider.com/olafur-ragnar-grimsson-iceland-2012-4>.

2 Ikus <http://bilbo.economicoutlook.net/blog/?p=30827>.

3 Ikus <http://bilbo.economicoutlook.net/blog/?p=30833>.

4 Ikus <http://theantimedia.org/icelands-pirate-party-amazing/>.

5 Ingeleseaz: *"Iceland's anti-establishment Pirate Party continues to lead nationwide polls as the most popular choice for the next elections. The party — whose policies include internet freedom, drug decriminalisation,*

(b) 2008ko krisiak gogor jo zuen Islandia<sup>6</sup>

(c) Mirakuluak<sup>7</sup> (sic), Panamako 'paperak'<sup>8</sup> eta hiritarren erantzun ederra, berriz<sup>9</sup>

(d) *Pirate Party*: ustekabea<sup>10</sup>

(e) Alderdia bera eta berorren finantzaketa berezia<sup>11</sup>

*“We did not expect this [kanpoko finantzaketa]. We don’t care. Democracy doesn’t revolve around getting loads of money from the government”*

Perfect!

Berriz, gogoratzekoa:

Islandia EFTAn<sup>12</sup> dago.



Zoritxarrez, eta mirakuluetatik at, Islandian ez dute DTM praktikan jarri. Ikasiko ahal dute!

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*and open democracy — has consistently led the polls for the last year and, as a result, has secured more funding than any of its rivals.”*

6 Ingeleseaz: *“The 2008 financial crisis hit Iceland hard. The following year, the krona was devalued by around 50%, unemployment doubled, and capital controls were introduced.”*

7 Ingeleseaz: *“Miraculously, the country rose from the ashes to become one of Europe’s top performers in terms of growth.”*

8 Ingeleseaz: *“More recently, the political establishment has been in turmoil since three government ministers were implicated in the global Panama Papers scandal.”*

9 Ingeleseaz: *“Despite their struggle, or perhaps because of it, the list of reasons to admire Icelanders keeps on growing. Whether it’s the sentencing of senior bankers — or the mass outrage at the offshore leak, which propelled 10% of the population to the streets and ousted the Prime Minister — the radical refusal of Icelanders to bow down and accept establishment corruption is admirable.”*

10 Ingeleseaz: *“... the surge in popularity of the once-fringe Pirate Party comes as little surprise — recent polls suggest almost half the nation supports them. In Iceland, financial support for political parties is allocated based on how well they have done in polls.”*

11 Ingeleseaz: *“Although the party doesn’t have formal leadership, chair of the parliamentary group and spokesperson, Birgitta Jonsdottir, said they did not expect the funding. Claiming their campaign was, so far, funded at a flea market, she said that was enough and that all the party needs is to be able to pay the salaries of its employees.”*

12 EFTA: <http://www.efta.int/>.

Hala ere, berorren bilakaera, eurolandiatik at, eurotik kanpo, moneta propioa, *koroa* erabiliz, honelakoa izan da: "... *become one of Europe's top performers in terms of growth.*"

Ikasiko ote dugu inoiz?

## (2) Islandia: bankugintzaz

Berriz ere Islandia albistea da. Hona hemen albistea: *Iceland To Take Back The Power To Create Money*<sup>13</sup>

Aipatutako punturik garrantzitsuenak:

- i) Frosti Sigurjonsson-en txostena<sup>14</sup>: "...*suggests taking the power to create money away from commercial banks, and hand it to the central bank and, ultimately, Parliament.*"
- ii) Islandiako Parlamentuak onartu behar du
- iii) Onartzekotan, gauza asko aldatuko dira<sup>15</sup>

Albistek beste berri batzuk sortu ditu. Bi aipatuko ditugu, eredu gisa:

a) *Iceland looks at ending boom and bust with radical money plan*<sup>16</sup>

*"The findings will be an important contribution to the upcoming discussion, here and elsewhere, on money creation and monetary policy," Prime Minister Sigmundur David Gunnlaugsson said.*

*"Under the so-called Sovereign Money proposal, the country's central bank would become the only creator of money. "Crucially, the power to create money is kept separate from the power to decide how that new money is used," Mr Sigurjonsson wrote in the proposal. "As with the state budget, the parliament will debate the government's proposal for allocation of new money," he wrote.*

*"Banks would continue to manage accounts and payments, and would serve as intermediaries between savers and lenders."*

b) *PM Calls for Reform of Iceland's Monetary System*<sup>17</sup>

*"Iceland, being a sovereign state with an independent currency, is free to abandon the present unstable fractional reserves system<sup>18</sup> and implement a better monetary system,"*

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13 Ikus <http://www.theautomaticearth.com/2015/03/iceland-to-take-back-the-power-to-create-money/>.

14 Txostena edo dokumentua: *Monetary Reform. A better monetary reform for Iceland*, <http://www.forsaetisraduneyti.is/media/Skyrslur/monetary-reform.pdf>.

15 Ingeleseaz: *"Can't see commercial banks in the western world be too happy with this. They must be contemplating wiping the island nation off the map. If accepted in the Iceland parliament, the plan would change the game in a very radical way. It would be successful too, because there is no bigger scourge on our economies than commercial banks creating money and then securitizing and selling off the loans they just created the money (credit) with."*

16 Ikus <http://www.telegraph.co.uk/finance/economics/11507810/Iceland-looks-at-ending-boom-and-bust-with-radical-money-plan.html>.

17 Ikus <http://icelandreview.com/news/2015/03/31/pm-calls-reform-icelands-monetary-system>.

18 Ezaguna da sistema hori, gainera txostenaren bibliografian sistema horren aitaponteko bat azaltzen da:

*Frosti maintained, adding, "Such an initiative must however rest on further study of the alternatives and a widespread consensus on the urgency for reform."*

The good news: eztabaida hasi da.

The bad news, or at least not so good news: DTM-koen ikuspuntua faltan botatzen da, oraindik behintzat.

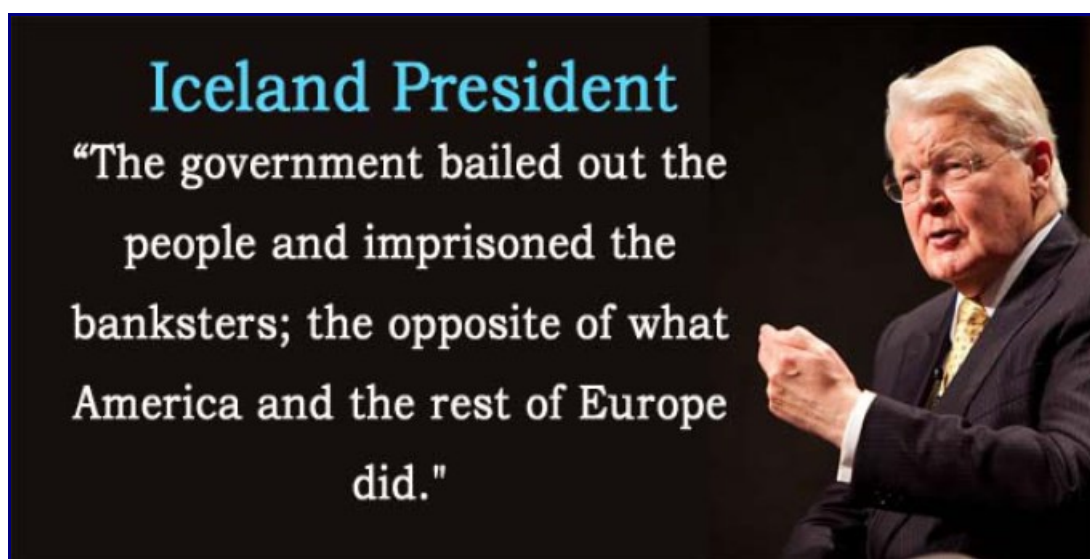
Baina, nork daki? Hasiera ez da batere txarra...

### (3) Islandia: zenbait irakaspen sendo

Euskal progreen hitzetan, Islandiaren bilakaera desastre hutsa izan da.

Desinformazioaren aurka, hona hemen bi albiste adierazgarri<sup>19</sup>:

(a) Lehendabizi bankariak presondegira bidali zituzten<sup>20</sup>.



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Zarlenga, S. A. (2002) *The Lost Science of Money*. American Money Institute.

Hona hemen aspaldian egindako kritika:  
<http://www.unibertsitatea.net/blogak/heterodoxia/2009/01/19/dirua-eta-kreditua/> eta ondoko hau batez ere: <http://www.unibertsitatea.net/otarra/gizarte-zientziak/ekonomia/dirua-eta-kreditua>.

19 Ikus *Unlike the EU and US, Iceland not only jailed their bankers, but will now pay citizens cash after govt takes over bank*: <http://redpilltimes.com/unlike-the-eu-and-us-iceland-not-only-jailed-their-bankers-but-will-now-pay-citizens-cash-after-govt-takes-over-bank/>.

20 Ingelesez: *"First, Iceland jailed its crooked bankers for their direct involvement in the financial crisis of 2008. Now, every Icelander will receive a payout for the sale of one of its three largest banks, Íslandsbanki."*

(b) Orain islandiar bakoitzak 30.000 koroa jasoko ditu, Islandiako gobernuak bankuen jabegoa hartu ondoren<sup>21</sup>.

Gainera,

(c) Islandia da Europako herrialde bakarra “[to recover fully from the 2008 crisis](#).”

(d) Islandiak NMF-ri zorra ordaindu dio<sup>22</sup>.

Berriz,

*“Iceland [recently jailed its 26th banker](#) — with 74 years of prison time amongst them — for causing the financial chaos. Meanwhile, U.S. banking criminals were rewarded for their fraud and market manipulation with an enormous bailout at the taxpayer’s expense.”*

Progreak boterean egongo balira, proposatuko al lituzkete Islandian harturiko neurriak, antzeko desastrea (sic) martxan jartzearren?

DMT-kook, progresia eta ez jakintasun mota guztietatik at, Bill Mitchell-ek proposaturiko irtenbide dotorea praktikan jartzen ahaleginduko ginateke<sup>23</sup>.

Desberdintasuna erabatekoa da. *Jakin ala ez jakin: that's the question!*

#### (4) Islandiako presidentea, argiago ezin

(a) *El president d’Islàndia diu al Quebec que la independència és positiva pels països*<sup>24</sup>

*“...Olafur Ragnar Grimsson ha defensat que la independència ‘no pot ser vista mai com un afer negatiu’ i ha defensat el dret dels pobles a decidir el seu futur, sense cap límit.”*

Aspaldian ere, gauza bera...

(b) *President of Iceland says "independence in itself can never be negative"*<sup>25</sup>

*"The small size of a nation is not an obstacle to its success"*

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21 Ingeleseaz: “If Finance Minister Bjarni Benediktsson has his way — and he likely will — [Icelanders will be paid kr 30,000 after the government takes over ownership of the bank. Íslandsbanki would be second of the three largest banks under State proprietorship.](#)” Ikus <http://grapevine.is/news/2015/10/24/every-icelander-to-receive-30000-isk-from-bank-sale/>.

22 Ingeleseaz: “Iceland even managed to [pay its outstanding debt](#) to the IMF in full —in advance of the due date.”

23 Ikus *Iceland’s Sovereign Money Proposal – Part 1*: <http://bilbo.economicoutlook.net/blog/?p=30827> eta *Iceland’s Sovereign Money Proposal – Part 2*: <http://bilbo.economicoutlook.net/blog/?p=30833>.

24 Ikus <http://www.vilaweb.cat/noticies/el-president-dislandia-diu-al-quebec-que-la-independencia-es-positiva-pels-paisos/>.

25 Ikus <http://www.nationalia.info/new/10469/rss>.

*"Independence is not just a formality, is determined by the will of the people"*

*"Independence in itself can never be negative"*

(c) Euskal progreentzat<sup>26</sup>, zuzen:

*"The President recalled that, when the country declared independence in 1944, its population was merely at 160,000, and "many people" said that such a small nation could not exist for long time. But seven decades after that, Grímsson noted, Iceland enjoys a welfare society -one of the world's best, he argued. Grímsson highlighted the fact that small- and medium-sized countries are on the rise in Europe."*

## (5) Islandia eta DTM (Bill Mitchell-en eskutik) (1)

Ikus goiko (1) Islandia mon amour!

Bertan hauxe azaltzen da:

**"DTM eta Islandia** (Bill Mitchell-en ildotik):

Ikus *Iceland's Sovereign Money Proposal – Part 1*<sup>27</sup>

eta

*Iceland's Sovereign Money Proposal – Part 2*<sup>28</sup>

Segida:

Azter ditzagun Mitchell-en bi lan horiek.

Mitchell-en *Iceland's Sovereign Money Proposal – Part 1*

**DTMz:**

(a) Krisia: funtsean bankugintza dago<sup>29</sup>

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26 Ikus *Grezia delata, heterodoxia versus ortodoxia...*: <http://www.unibertsitatea.net/blogak/heterodoxia/2015/10/14/grezia-dela-eta-heterodoxia-versus-ortodoxia/> eta *Grezia delata, heterodoxia versus ortodoxia...(2)*: <http://www.unibertsitatea.net/blogak/heterodoxia/2015/10/15/grezia-dela-eta-heterodoxia-versus-ortodoxia-2/>.

27 Ikus <http://bilbo.economicoutlook.net/blog/?p=30827>.

28 Ikus <http://bilbo.economicoutlook.net/blog/?p=30833>.

29 Ingeleseaz: *"The crisis was caused by banks becoming non-banks and engaging in non-bank behaviour rather than their intrinsic capacity to create loans out of thin air. A properly regulated banking system does not need to abandon credit-creation. Further, I am aware that in holding this view, I and other Modern Monetary Theory (MMT) proponents are accused of being lackeys to the crooked financial cabals that hold*

(b) Oinarrizko DTM<sup>30</sup>

(c) Diruaren atzean botere erlazioak daude<sup>31</sup>

(d) Ekonomia modernoaren ezaugarri batzuk<sup>32</sup>

(e) Gobernu sektorea eta ez-gobernukoak<sup>33</sup>

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*governments to ransom and brought the world economy to its knees. Let me state my position clearly: I am against private banking per se but consider a properly regulated and managed public banking system with credit-creation capacities would be entirely reliable and would advance public purpose. I also consider a tightly regulated private banking system with credit-creation capacities would also still be workable but less desirable."*

30 Ingeleseaz: "*Basic MMT*

*As background, please read the following blogs – [Operational design arising from modern monetary theory](#) and [Asset bubbles and the conduct of banks](#) – ...*

*Please also read the following introductory suite of blogs – [Deficit spending 101 – Part 1](#) – [Deficit spending 101 – Part 2](#) – [Deficit spending 101 – Part 3](#) – for basic Modern Monetary Theory (MMT) concepts."*

31 Ingeleseaz: "... note that the term 'money' is quite difficult to pin down given that *it is a social construct with embedded power relationships*. For us to understand the history of money requires us to also be sociologists and anthropologists among other things to penetrate the broader relationships that govern the use of a 'thing' which might be called money.

*We have a tendency to think of money in numerical terms and construct additions and subtractions when talking about it. But we should always be mindful that underlying these 'transactions' (or the "arithmetic problem" as Randy Wray calls it in his work – [The Credit Money and State Money Approaches](#)) are complex social relationships.*

*Economic exchange is always embedded in a power hierarchy, which determines, among other things, how the surplus production is generated and how it is distributed."*

32 Ingeleseaz: "Note also that:

- *Modern monetary economies use money as the unit of account to pay for goods and services. An important notion is that money is a fiat currency, that is, it is convertible only into itself and not legally convertible by government into gold, for instance, as it was under the gold standard.*
- *The sovereign government has the exclusive legal right to issue the particular fiat currency which it also demands as payment of taxes – in this sense it has a monopoly over the provision its own, fiat currency.*
- *The viability of the fiat currency is ensured by the fact that it is the only unit which is acceptable for payment of taxes and other financial demands of the government.*

*In a modern monetary economy, the consolidated government sector (central bank and treasury) determines the extent of the net financial assets position (denominated in the unit of account) in the economy."*

33 Ingeleseaz: "*The only way the non-government sector can increase its stocks of net financial assets is if there is a transaction with the government sector (for example, if the government spends).*

*As a matter of accounting between the sectors, a government fiscal deficit adds net financial assets (adding to non government savings) available to the private sector and a fiscal surplus has the opposite effect.*

*Treasury operations which may deliver surpluses (destruction of net financial assets) could also be countered by a deficit (of say equal magnitude) as a result of central bank operations. This particular combination would leave a neutral net financial position.*

*However, most central bank operations merely shift non-government financial assets between reserves and bonds, so for all practical purposes the central bank is not involved in altering net financial assets.*

*The exceptions include the central bank purchasing and selling foreign exchange and paying its own operating expenses.*

*So we are clear – the government is the only entity that can provide the non-government sector with net*



(f) Banku zentrala eta merkataritza bankuak<sup>34</sup>

(h) Dirua: transakzio bertikalak eta horizontalak<sup>35</sup>

(i) Bankuen jarduera: transakzio horizontalak<sup>36</sup>

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*financial assets (net financial savings).*

*In general, the government deficit (treasury operation) determines the cumulative stock of net financial assets in the private sector. Central bank decisions then determine the composition of this stock in terms of notes and coins (cash), bank reserves (clearing balances) and government bonds.*

*A net financial asset created in this way provides the non-government sector with the capacity to spend without any offsetting liability being created.*

*This is not the case, however, in private credit markets, which involve the leveraging of credit activity by commercial banks, business firms, and households (including foreigners).*

*Many economists in the Post Keynesian tradition consider this activity to define the endogenous circuit of money.*

*The theory of endogenous money is central to the horizontal analysis in MMT. When we talk about endogenous money we are referring to the outcomes that are arrived at after market participants respond to their own market prospects and central bank policy settings and make decisions about the liquid assets they will hold (deposits) and new liquid assets they will seek (loans).*

*The essential idea is that the 'money supply' in an 'entrepreneurial economy' is demand-determined – as the demand for credit expands so does the money supply. As credit is repaid the money supply shrinks. These flows are going on all the time and the stock measure we choose to call the money supply, say M3 is just an arbitrary reflection of the credit circuit.*

*Please read my blog – [Understanding central bank operations](#) – ..."*

34 Ingelese: "The supply of money is determined endogenously by the level of GDP, which means it is a dynamic (rather than a static) concept.

*Central banks clearly do not determine the volume of deposits held each day. These arise largely from decisions by commercial banks to make loans. The central bank can determine the price of 'money' by setting the interest rate on bank reserves.*

*However, the only way you can understand why all this non-government leveraging activity (borrowing, repaying etc) can take place is to consider the role of the Government initially – that is, as the centrepiece of the macroeconomic theory.*

*Banks clearly do expand the money supply endogenously – that is, without the ability of the central bank to control it. But all this activity is leveraging the high powered money (HPM) created by the interaction between the government and non-government sectors."*

35 Ingelese: "HPM or the monetary base is the sum of the currency issued by the State (notes and coins) and bank reserves (which are liabilities of the central bank). HPM is an IOU of the sovereign government – it promises to pay you \$A10 for every \$A10 you give them! All Government spending involves the same process – the reserve accounts that the commercial banks keep with the central bank are credited in HPM (an IOU is created). This is why the "printing money" claims are so ignorant.

*The reverse happens when taxes are paid – the reserves are debited in HPM and the assets are drained from the system (an IOU is destroyed).*

*We can think of the accumulated sum of the transactions between the government and non-government sectors as being reflected in an accounting sense in the store of wealth that the non-government sector has. When the government runs a deficit there is a build up of wealth (in \$A) in the non-government sector and vice-versa. Budget surpluses force the private sector to 'run down' the wealth they accumulated from previous deficits.*

(j) Gobernuaren, hots, monopolistaren aukera: kantitatea ala prezioa<sup>37</sup>

## (6) Islandia eta DTM (Bill Mitchell-en eskutik) (2)

### Islandiako *Diru Subiranoko* [Sistemaren] proposamena (DSP):

(a) DSP: ikuspegi orokorra<sup>38</sup>

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*Once we understand the ‘vertical’ transactions between the government and non-government then we can consider the non-government credit creation process [edo transakzio horizontalak].*

*Private capitalist firms (including banks) try to profit from taking so-called asset positions through the creation of liabilities denominated in the unit of account that defines the HPM (for example, \$A). So for banks, these activities – the so-called credit creation – involve leveraging the HPM created by the vertical transactions because when a bank issues a liability it can readily be exchanged on demand for HPM.”*

36 Ingelesez: *“When a bank makes a \$A-denominated loan it simultaneously creates an equal \$A-denominated deposit. So it buys an asset (the borrower’s IOU) and creates a deposit (bank liability). For the borrower, the IOU is a liability and the deposit is an asset (money).*

*The bank does this in the expectation that the borrower will demand HPM (withdraw the deposit) and spend it. The act of spending then shifts reserves between banks.*

*These bank liabilities (deposits) become ‘money’ within the non-government sector. But you can see that nothing net has been created. Only vertical transactions create/destroy assets that do not have corresponding liabilities.*

*The crucial distinction is that the horizontal transactions do not create net financial assets – all assets created are matched by a liability of equivalent magnitude so all transactions net to zero. This has implications for government spending impacts on liquidity in the economy and central bank operations designed to maintain a target interest rate.*

*The other important point is that the commercial banks do not need reserves to generate credit, contrary to the popular representation in standard textbooks.”*

37 Ingelesez: *“Quantity or price*

*The money account defined by the government as the unit it will accept in payment to extinguish non-government tax liabilities is issued under monopoly conditions.*

*The State is the monopolist in the provision of the currency. The private banks cannot issue currency. They can create credit backed by an offsetting debt but not issue the money account.*

*Basic theory tells us that a monopolist has a choice – it can either control the quantity or the price of the monopoly good.*

*It cannot do both. So it could ban private credit leveraging (as the Sovereign Monetary Proposal we discuss next advocates) and thus control the quantity of ‘money’ in the economy. But then it would lose control over monetary policy, if we define that in terms of the capacity to set the interest rate and condition the term structure of interest rates (the longer maturity rates associated with mortgages, investment loans etc).*

*If it then tried to control interest rates, then it would lose control over the quantity of ‘money’ in circulation. This is a point I will return to further on.”*

38 Ingelesez: *“Iceland’s Sovereign Money Proposal – Overview*

*The Iceland Sovereign Money [System] Proposal (SMS) claims the regulatory changes to the financial system since the 2008 financial crises have been substantial (“increasing bank capital and liquidity requirements, developing bank resolution plans, and requiring derivatives trading to go through central clearing houses”).*

*In his introduction to the Icelandic Monetary Reform report, Adair Turner then claims:*

*But they have still failed to address the fundamental issue – the ability of banks to create credit, money and purchasing power, and the instability which inevitably follows. As a result, the reforms agreed to date still leave the world dangerously vulnerable to future financial and economic instability.*

(b) Ikertzeko kasu berezia: Islandiako Parlamentuko *Ikerketa Bereziaren Komisia* (IBK)<sup>39</sup>

(c) Neoliberalismoa Islandian<sup>40</sup>

(d) Krisia ezker ikuspuntutik<sup>41</sup>

(e) Unibertsitatekoak lekuz kanpo<sup>42</sup>

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*The Monetary Reform report goes to this “fundamental issue”.*

*It concludes that the:*

*... the fractional reserve system may have limited the Central Bank’s ability to control the money supply while giving banks both the power and incentive to create too much money.*

*This is the nub of issue for this group. They somehow consider that all the major ills of the capitalist system can be traced to the ability of the private banks to create loans without necessarily having the reserve backing in advance.*

*A whole host of proposals come under this umbrella – “100% Reserves, Narrow Banking, Limited Purpose Banking” etc. They have nuances with differentiate them but they are essentially united in their desire to stop banks creating credit.*

*The so-called “Sovereign Money proposal” says:*

*... only the central bank, owned by the state, may create money as coin, notes or electronic money. Commercial banks would be prevented from creating money.*

*(...)*

*In modern monetary economies, the central bank clearly does not control the money supply. It controls the interest rate. Please read the following blogs for more information:*

- 1. [Money multiplier and other myths.](#)*
- 2. [Money multiplier – missing feared dead.](#)*

*The Report acknowledges that:*

*The Central Bank of Iceland must provide banks with reserves (money in accounts at the CBI) as needed, in order not to lose control of interest rates or even trigger a liquidity crisis between banks. The Central Bank of Iceland therefore had to create and provide new central bank reserves to accommodate banks as they expanded the money supply nineteen fold between 1994 and 2008.*

*This is clearly valid. But it also conflates several points. First, the CBI did have to supply reserves on demand to ensure the clearing system worked each day. All central banks have to do that and as we will see that capacity would not really change under this proposal.*

*The central bank operations might be called something different and the fancy names given to accounts but essentially the money supply would still be endogenous under this proposal unless the central bank was willing to tolerate the interest rate going beyond its control or a lack of funds available for borrowing. I will discuss that more in Part 2.*

*Second, this is not the reason that the privatised banks went crazy. The provision of reserves as Lender of Last Resort can be easily supplemented with other legislative powers either vested in the central bank or a related prudential authority to ensure that banks behave as banks.*

*Consider the following case study of the Icelandic banking explosion before we go on.*

*It is clear that the capacity to create credit was not the reason Iceland’s banking system went overboard.”*

(f) Zer erakusten duen Islandiako esperimentuak<sup>43</sup>

(g) Ondorioak

Hurrengoan ikusiko dugunez, afera ez datza gaurko DSP delakoa hobetzean, sakonagoko erreformak behar dira, non bankuek beren eginkizuna bete behar duten, kredituak sortuz<sup>44</sup>

### (7) Islandia eta DTM (Bill Mitchell-en eskutik) (3)

39 Ingelesez: "*Case study: The Iceland Parliament's Special Investigation Commission (SIC)*

*The Iceland Parliament's Special Investigation Commission (SIC) published a major report in 2010 – [The Report of the Investigation Commission of Althing](#) – covering the Icelandic Banking collapse in 2008.*

*An English language version of aspects of the – [Report of the Special Investigation Commission \(SIC\)](#) – covers Chapters 2, 17, 18, 21 and Appendixes 3 and 8. There is also an English version of the main conclusions of the Working Group on Ethics available.*

*We learned that:*

*1. "The main cause of the failure of the banks was the rapid [growth of the banks and their size](#) at the time of the collapse" – the "big three banks grew 20-fold in size in seven years".*

*2. The "quality of the Icelandic banks loan portfolios eroded under these circumstances" and [internal incentive structures drove the growth](#) rather than commercial risk analysis.*

*3. The rapid [expansion of "global debt financing markets](#) drove the growth of the banks".*

*4. The "Icelandic [banks received high credit ratings](#), which was mostly inherited from Iceland's sovereign debt rating" – the three banks issued more than Iceland's GDP in 2005 into foreign debt markets and most of the debt was relatively short-term (3-5 years), which meant it required refinancing around 2008.*

*5. The [international debt funding markets dried up as early as 2006 and by 2007](#), "foreign deposits and short-term securitised funding became the main source of funding for the three banks". This was highly market-sensitive funding.*

*6. Massive [repayment burdens emerged in 2008](#) while funds available to refinance had dried up.*

*7. The [prudential regulator was inexperienced](#) and understaffed given the massive foreign exposure of the banking system.*

*8. The [Central bank of Iceland did not have sufficient foreign currency reserves](#) relative to the foreign deposits in the banking system (more than 8 times the forex reserves) and the short-term, foreign currency liabilities (more than 16 times the forex reserve).*

*There was no chance the central bank could underwrite the banking system at that stage. It is clear that the central bank was aware of the massive exposure of the system to increased risk and warned the neo-liberal government accordingly. The government chose to talk up the safety of the banking system rather than intervene.*

*There was a massive rise in foreign deposits (in [Dutch and British branches of the banks](#)) from late 2006 to the middle of 2007. Ridiculous deposit rates were being offered to shore up the funding bases. From mid-2007, there was a huge outflow of wholesale deposits from the banks "much more than the inflow rate of retail deposits"*

*9. Things get murkier when you consider that [the corporations that owned the three main banks – Kaupthing, Landsbanki and Glitnir](#) – "were the banks' principal owners". Was lending done "at arms length"?*

*It was found that [the owners had created a sequence of shelf companies with fictitious transactions](#) to hide what was going on.*

*The SIC found that:*

*The operations of the banks were in many ways characterised by their maximising the benefit of majority shareholders, who held the reins in the banks, rather than by running reliable banks with*

## Segida: *Iceland's Sovereign Money Proposal – Part 2*

Lehen partean ikusitakoa<sup>45</sup>

Bigarren parte honetan ikusiko duguna<sup>46</sup>

Segida:

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*the interests of all shareholders in mind and to show due responsibility towards creditors.*

*10. The “banks risks exposure due to funding of own shares was excessive”. That is, they financed the equity of the owners based on borrowing from foreigners.*

*As a result, the capital structure was dodgy in the extreme and “did not reflect the real ability of the banks nor of the financial system as a whole to withstand losses”.*

*The inflated (but essentially fictitious) capital allowed the banks to grow further than they could if the equity was stronger.*

*11. Several large Icelandic investment companies (non-bank financial speculators) borrowed huge amounts in foreign currencies and gained securities from the Icelandic banks, who ultimately had to take “over the financing so that loans to foreign banks could be paid up”.*

*What did these investment companies do with the loans? The:*

*... loans were largely made in order to finance the purchase of shares in the banks themselves. To prevent sales of the shares the banks overtook the financing in an effort to maintain the value of the shares.*

*Again, to maximise the wealth of the banks' owners!*

*The banks were also buying up their own shares to maintain value for the owners.*

*12. By November 2008, the asset values of the three big banks which were on the books as IKR 11,764 billion were adjusted downward to IKR 4,427 billion – a 60 per cent write-down.*

*The SIC said that in 2008, Iceland's GDP was around IKR 1,476 billion, which means “that the write-down of the assets of the financial companies” was equivalent to around 5 years of GDP – five years of national production and income. Massive, in other words.”*

40 Ingeleseiz: *“I know there is debate about the role that neo-liberalism played in Iceland. The free market lobby claim that the period of market liberalism which began in the early 1990s, ended around 2004. After that, Iceland should be better described as being a ‘crony capitalist’ nation, and it was this period that coincided with the massive credit growth.*

*But it was the market liberalism that gave birth to the crooked bankster class.”*

41 Ingeleseiz: *“A coherent left view of the crisis in Iceland is presented by Martin Hart-Landsberg in the Monthly Review, 2013 (Vol 65, Issue 3) – [Lessons from Iceland: Capitalism, Crisis, and Resistance](#).*

*He argues that:*

*In 1991, the Icelandic government began an aggressive program of liberalization and privatization which gave rise to the hyper-expansion of three Icelandic banks.*

*He provides an interesting historical account of the transition from the large, state-owned banks that rationed capital between industries and home-owners” with the central bank setting nominal interest rates under the control of the government.*

*The system was not perfect but “by the 1980s [Iceland] had attained both a level and a distribution of disposable income equal to the Nordic average.”*

*The privatisation of the banking system which began in the 1990s and was complete by 2003, favoured those*

## Diru Subiranoko Proposamena (DSP), akas dun paradigaren oinarriak:

(a) Iritzi okerra<sup>47</sup>

(b) DSP, laburtuz<sup>48</sup>

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with political influence in the new free market-oriented government.

The banks became cash cows for *the owners who used the funds, in part, to fund the political parties that gave them favour*. In this sense, the liberalisation was really reinforcing the crony nature of the state-corporate nexus that dominated Iceland in the Post World War 2 period.

We learn that:

While the banking elite used their access to funds to purchase control of many Icelandic businesses, they also engaged in heavy investing outside of Iceland. Major targets were fashion outlets, toyshops, soccer teams in Britain, and supermarkets in the United States and throughout Scandinavia.”

42 Ingeleseiz: “*They used their influence within the Icelandic government and Chamber of Commerce to build a smokescreen of stability*. In this blog – [Wrong is still wrong and should be disregarded](#) – I traced the role of the credit rating agencies and consulting reports provided by hired academics, which waxed lyrical about the solid state of the economy.

One of those academics was [Columbia University’s Frederick Mishkin](#), who featured in the 2010 movie *Inside Job* and was paid a considerable sum by the Iceland Chamber of Commerce in 2006 to produce the report the – [Financial Stability in Iceland](#).

At the same time that *Mishkin and his co-author were giving the financial system in Iceland a clean bill of health*, the Icelandic banks were engaged in elaborate and not so elaborate growth schemes based on refinancing debt with extra borrowing using both accounting mirages and illegal manipulation of markets to allow them to become many times bigger than they could justify on fundamentals.

*After the crisis broke, Mishkin was caught changing his CV by renaming the paper ‘Financial Instability in Iceland’.*

When the *Inside Job* challenged him about this during an interview, he stumbled, in a dissembling fashion and eventually managed to get it out that it must have been a ‘typo’.

The following year (2007) [LSE Professor Richard Portes](#) co-authored a 65-page consulting report – also for the Iceland Chamber of Commerce – [The Internationalisation of Iceland’s Financial Sector](#) which the NLR says he was paid £58,000. It was actually co-authored by Icelandic economist in collaboration with the Iceland Chamber of Commerce.

It also said that *the banking system in Iceland was “highly resilient”* and that “Overall, the internationalisation of the Icelandic financial sector is a remarkable success story that the markets should better acknowledge.”

43 Ingeleseiz: “*There were many cases documented of that sort of behaviour and deception.*

*What the Icelandic experiment demonstrated was that the instability of capitalism and its tendency to promote dishonest behaviour by the owners of capital will lead to breakdowns more quickly and more profoundly in an unregulated environment.*

It also demonstrated that *if the State intervenes as it did in 2008 and 2009 when the banking system collapsed stability can be restored relatively quickly.*

Ask yourselves whether *the problem was the credit-creation capacity of the banks or other factors that drove Iceland’s banking crisis.*

What other factors?

(c) Diru Sormenaren Komitea (DSK): testuingurua<sup>49</sup>

(d) DSK bera: bankuak eta banku zentrala<sup>50</sup>

(e) Bankuak DSK delakoan<sup>51</sup>

(f) Espekulaziorako bidea<sup>52</sup>

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1. *Banks speculating in foreign-currency debt and assets and no longer behaving like banks.*
  2. *The ownership of the banks engaging in devious and self-serving behaviour.*
  3. *A lack of prudential control.*

*Neo-liberal government serving the interests of the wealthy and ignoring their responsibilities to advance general well-being."*

44 Ingelesez: *"I will consider the mechanics of the SMS in more detail and tell you why it is not an improvement on the current system.*

*I will also outline why broader, quite radical reforms are needed to the banking and financial sectors, which do not involve restricting the capacity of 'banks' to create credit."*

45 Ingelesez: *"In Part 1 [aurreko bi sarreretan], I briefly outlined the Sovereign Money System proposal (SMS) advanced by the Icelandic government as a way forward in banking reform. I also demonstrated that the banking collapse in Iceland in 2008 could hardly be seen as being caused by the banks having the capacity to create credit. Much more was in play including the fact that banks had stopped behaving as banks and were serving the doubtful aspirations of their owners rather than any notion of public purpose. While the Icelandic report claims that the commercial bank lending destabilised the growth cycle in Iceland the reality is that it was other factors that led to the explosion of their balance sheets. The money supply did expand faster than "was required to support economic growth" but that is because the financial system was deregulated and the banksters and fraudsters were allowed to serve their own interests and compromise the national interest. As we will see that sort of duplicity can be reigned in with appropriate structural regulation without scrapping the capacity of the private banks to create credit."*

46 Ingelesez: *"In this Part 2, I consider some of the mechanics of the SMS and argue that essentially we cannot get away from the fact that a central bank always has to fully fund a monetary system. If it tries to restrict funds yet maintain private bank lending then recession would surely follow and interest rates would rise beyond the control of the central bank. I also provide some ideas on where more fundamental monetary system reform is currently needed."*

47 Ingelesez: *"The Sovereign Money Proposal – flawed paradigm underpinnings*  
*The SMS report is written in the context of an erroneous belief that the national government is 'financially constrained'.*

*We see that when it claims that:*

*By delegating the creation of money to private commercial banks, the Central Bank of Iceland, and thereby the state, foregoes considerable income that it would otherwise earn from creating new money to accommodate economic growth.*

*First, banks do not have to be profit-making if they are publicly-owned and motivated to serve the public interest.*

*Second, there is a curious anomaly in the proposal in that it appears to be okay for the private banks to leverage profits from the 'money' created by the state (more of which later) but not from credit. I fail to see why we should make that distinction.*

*Third, and more importantly (to ensure this discussion doesn't hinge on the ownership status of the banks), a national government and its central bank does not need income in order to spend the currency of issue.*

*It is simply a nonsense to worry about 'income lost' when considering the operations of a currency-issuing government.*

## (8) Islandia eta DTM (Bill Mitchell-en eskutik) (eta 4)

Islandiari dagokion lehen artikuluan Mitchell-ek DTM-ko zenbait ezaugarri sakon gogoratu digu, aspaldian behin eta berriz ikusi eta aipatu ditugunak.

Bigarren artikuluan, ikusi dugun moduan, islandiarrek bankugintzan izan dituzten hutsuneak eta erabaki okerrak oso nabarmenak izan dira.

Okerrenaz, alta, hirugarren artikuluan jabetu gara. DTM-koek oso argi eta garbi adierazten duten

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*We also see it when the Report claims the government has to “guarantee bank deposits” under the current system. This is alleged to promote ‘moral hazard’ – risky lending. Again this is really a regulative matter of limiting what banks can do with the assets creates.*

*It makes much more sense to regulate the asset side of the bank rather than the liability side.*

*This should also mean that the government should ensure the banks observe their ‘public’ responsibilities to advance public interest. I would ensure that through public ownership.*

*But it can also be done within a private banking system just as easily through appropriate regulation (see later).*

*But, the ultimate point the Report makes here is that:*

*Should any one of them fail, the insurance fund will not suffice to bail out all depositors. In such circumstances, the government will have to step in with taxpayers’ money to guarantee deposits.*

*Please read my blog – [Taxpayers do not fund anything](#) – for more discussion on this point.*

*The taxpayers use the government’s currency – they do not supply the spending capacity of the government.*

*A sovereign government is never revenue constrained because it is the monopoly issuer of the currency. The government is always capable of underwriting the deposits in the banking system.*

*In the case of a private bank failure, the government can always nationalise the bank, eliminate the shareholder interest (as recognition of the loss) and trade on as usual with all deposits intact.”*

48 Ingeleseaz: “[The Sovereign Money Proposal – in brief](#)

*The Sovereign Money System (SMS) proposed by the Icelandic report has several features, which are shared with longer-standing positive money type proposals. In the following quotes CBI refers to the Central Bank of Iceland but generalises to any central bank.*

*First, “money creation and the payments system is separate from the risky investing and lending of banks”. The “private banks do not create money” and “all money, whether physical or electronic, is created by the Central Bank.”*

*The SMS private bank remains a speculative institution, however. They would offer two types of accounts:*

- *Transaction accounts – Individuals and firms will have “Transaction Accounts” held at the central bank with funds created by the central bank. Banks cannot invest these funds and there is no interest paid on them. They are not liabilities of the banks and therefore their status is independent of the viability of the bank administering them.*
- *Investment accounts – Banks will create “Investment Accounts” for individuals and firms which can accept funds from the Transaction Accounts. If then invested they are like a fixed-term deposit.*

*The bank makes profits by levying fees on the administration of the Transaction Accounts and by taking speculative positions with funds lodged in the investment accounts. So it is clear, that a bank can become insolvent under this plan if its investment portfolio fails.*

*The Transaction Accounts are different to the current system in that the funds are not “backed by risk-bearing assets and can only be withdrawn as long as the bank correctly manages its small stock of liquidity”.*

*In a currency-issuing nation, however, there is no fundamental improvement. Depositors’ funds are safe irrespective if the government is of that will.*



bezala, bankugintzan bi transakzio oso ezberdinak bereizi behar dira: bertikalak eta horizontalak. Eta horretan islandiarrek kale egin dute.

Ikusiko dugun laugarren eta azken parte honetan, Islandiari DTM-koen proposamen zehatz eta sakonak proposatzen ditu Mitchell-ek.

Segi dezagun aurrera...

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*However, in the SMS, the depositor is unable to earn interest on their savings unless they expose the funds to risk via lodgements to bank Investment Accounts.*

*Individuals will have to pay the banks (fees) to lodge their savings in Transaction Accounts. There is no change there as most banks currently levy account keeping fees.*

*Second, while the “commercial banks will no longer create money, they will continue to administer payments services for customers and will make loans by acting as intermediaries between savers and borrowers”. The Investment Accounts serve this purpose.*

*The banks will compete for custom and offer interest to those who wish to transfer funds from their Transaction Accounts into risky Investment Accounts, which provide the banks with the funds to engage in speculative bets.*

*Should the bets fail, the depositor loses. There would be no guarantees on these funds.*

*The fixed-term nature of these funds means they are not able to be used “to pay or settle transactions through the payments system, meaning that they are unable to use Investment Account balances as a form of money.”*

*The difference between the SMS in this regard and the current system is that loans do not create new deposits in the SMS:*

*... commercial bank lending in the Sovereign Money System does not increase the quantity of money in circulation; the act of making loans merely transfers pre-existing money from the bank’s Investment Pool to the borrower’s Transaction Account.*

*At first blush, a lot of people think that this means that bank lending becomes constrained and controlled by the central bank because the latter would determine the total pool of ‘money’ in the system.*

*But as we will see, the central bank would still be beholden to ‘fund’ the system through loans to the commercial banks should there be insufficient ‘money’ in the system at any point in time relative to the demand for loans from households, organisations, and firms.”*

49 Ingelesez: *“The Money Creation Committee (MCC)*

*A crucial part of the SMS proposal is that:*

*The power to create money will be held by the CBI while parliament will decide how any new money is allocated. The power to create money is thereby separated from the power to allocate new money.*

*So you immediately see that the conservative mistrust of elected democratic government persists in this proposal.*

*The SMS proposal says that:*

*Concerns exist that if governments are allowed to create money directly, they will get carried away and create excessive amounts of money to pay for vote-winning projects.*

*Under Sovereign Money, however, the government is not allowed to create money directly. The decision to create money would be made by a money creation committee, independent of government, on the basis of what is appropriate for the economy as a whole.*

Segida:

**Funtsezko erreforma behar da:**

(a) Erabat funtsezkoa<sup>53</sup>

(b) Ideia berriak banku zentralaz, altxor publikoaz, bankuek jarduten dituzten erak eta moduak

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*I do not support frameworks where key economic decisions are handed to an essentially unaccountable body which then constrain the Parliament we elect to be our agents.*

*This would continue the voluntary system of constraints (albeit change the type) that conservatives place on governments to hinder their capacity to generate full employment.*

*I find it odd that we design systems that undermine our collective well-being and punish individuals severely (via unemployment and the resulting poverty) because we don't believe our governments will act honestly or competently.*

*There needs to be much more work done at the grass roots level to ensure our political processes are improved. The process of candidate selection needs to be improved and local communities should resist any central imposition of preferred candidates to act on their behalf.*

*I would argue that political funding should be publicly provided and no lobby group funding accepted. Major electoral reforms are needed to eliminate the influence of lobby groups, to reduce the power of media concentration etc."*

50 Ingeleseaz: "Then we come to *the Monetary Creation Committee*.

The proposal says that:

*Decisions on money creation will be taken by a committee that is independent of government and transparent in its decision-making, as is the current monetary policy committee.*

*So the central bank would increase the money supply in line with its inflation forecast and the target economic growth rate. So if they wanted to maintain inflation, say at 2 per cent per annum, and to support a 3 per cent real GDP growth rate, they would allow the money supply to expand at 5 per cent (which in theory would permit nominal GDP to grow at that rate).*

*I am told that complaining about the anti-democratic nature of this arrangement is moot given the current system has central bank boards determining monetary policy anyway.*

*However, the SMS extends that unaccountable technical expert syndrome further. The idea of independence is interesting in this regard.*

*The concept as used means it is not sensitive to the political process. But *who would appoint the MCC?* Further, like the current arrangements with central bank boards, fiscal advisory bodies (CBO in the US, OBR in the UK etc) *the appointees are typically ideological warriors.**

*In the current system, there is no diversity of opinion or paradigm on these bodies. Straight-down the road neo-liberalism. Which means the decisions of the MCC will reflect the prevailing ideology of the day which is a different thing to promoting society well-being.*

*The fact that nations tolerate entrenched mass unemployment as a ruse to fight inflation, when superior inflation-fighting job creation strategies (for example, *the Job Guarantee*) are available indicates where the biases lie and who would bear the costs.*

*The MCC would likely, under current ruling ideology, promote a growth rate that was too low and adopt 'cold turkey' adjustment paths following the Friedmansque "short sharp shock" approach.*

*It is also likely that cycles would intensify under this arrangement because if the economy was overheating somewhat (with inflation accelerating), the money supply would be restricted to reflect that.*

*It takes time to discipline an inflation cycle and real output changes much more quickly than the price*

aldatuz<sup>54</sup>

(c) Bankuak aspaldian aritzen ziren moduan ari behar izaten dira<sup>55</sup>

(d) FIRE-ko eragiketak eta espekulazioak alboratu behar dira<sup>56</sup>

FIRE dela eta, ikus [Fire: sua ote?](#); [Fire: sua ote? Inflazioa, langabezia eta FIRE delakoa](#); [Sua: fire ote? Burbuila finantzarioak](#) eta [Dena FIRE da](#).

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*dynamics.*

*What if the MCC made a mistake? The previous point would suggest that the MCC would be subjected to conservative biases in the current situation and restrict the money supply unnecessarily.*

*This is a different point to the usual criticism that the MCC would make errors as a result of ignorance (not enough information etc). The SMS proposal acknowledges that possibility but asserts that:*

*... it would also hard to believe that a committee tasked with creating the proper amount of money for the economy would consistently create money to similar excess as the commercial banks have done in the past.*

*Unaccountable organisations such as the IMF have made massive errors costing billions and causing millions to lose their jobs in the past.*

*Policy mistakes are part of living in an uncertain world but if fiscal policy (including money creation) is in the hands of the government then as part of the democratic process we are able to punish the decision-maker who errs, should we choose to do so.*

*Arrangements (such as the SMS proposal) which divorce decision-making from political responsibility and accountability do not allow us to exercise that choice.*

*Perhaps a rule whereby the members of the MCC had to pay a significant fine if the unemployment rate strayed from its true full employment level would concentrate minds and improve accountability!*

*But then I would apply that rule to government ministers as well and leave the decision-making power in their hands.*

*The possibility that the MCC will make errors also leads to another aspect of the SMS proposal.*

*The Report says:*

*The concern has been raised that removing the banks ability to create money for lending may cause a reduction in availability of loans compared with the present system and the reformed system would be too constrained.*

*This is highly likely unless there is an additional source of money available.*

*And, to be sure, in the SMS proposal there is the capacity for the central bank to make loans to the private banks – that is, provide funds to allow the banks to extend credit “to meet demand for loans from creditworthy borrowers and businesses”.*

*At this point you will appreciate that nothing much changes then.”*

51 Ingeleseiz: “Banks can still get funds from the central bank without the need to first try to get funds from the wholesale or retail markets to ensure they can continue to create loans.

*The central bank remains responsible for fully funding the system just as now.*

*The alternative is that the credit market would become tight and banks would be competing among themselves for depositors with the consequence being that the interest rate would rise.*

*In that sense, the central bank would lose control of its monetary policy target. By setting the quantity (money supply) it would be forced to allow the ‘price’ (interest rate) to go to whatever the market determined.*

(e) Mosler-ek ere antzeko proposamenak egin zituen 2010ean<sup>57</sup>

Ikus [Warren Mosler-ek bankugintzaz](#)

Mitchell-en hitzez, *“Once these changes were made (among others), then much of the concerns about financial instability arising from the banking sector would disappear.”*

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*If the MCC underfunded the economy and a credit squeeze occurred, then rates would skyrocket and presumably stifle economic activity (to whatever extent total spending is sensitive to interest rate changes).*

*The alternative is as is the case now – the central bank provides the funds to ensure the rate remains at its target levels and the demand for liquidity in the economy is satisfied.”*

52 Ingeleseaz: *“All the smoke and mirrors about stopping banks creating money falls aside as soon as we understand that the central bank always has to fund the monetary system or else face the fact that recession and financial instability would follow.*

*We also see that the SMS proposal still allows the private banks to leverage off the net financial assets (‘money’) created by the State and profit accordingly. So all the moralising about preventing the private banks from determining the allocation of credit should be seen for what it is.*

*Further, while the SMS proposal says that such loans to the banks will not be able to be on-lent to financial or property companies, it is naive to think that an individual or firm who borrows the funds will not engage in speculative behaviour themselves which are not in the public interest. Just as now.”*

53 Ingeleseaz: *“Fundamental reform is required*

*Drawing lessons from the Icelandic bank collapse and the GFC generally, tells me that more fundamental approaches to financial market reform are required and that the problem is not related to the credit-creation capacity of the banks.*

*In September 2009, I wrote this blog – [Operational design arising from modern monetary theory](#) – which provided some ideas on such reforms.*

*I followed it up in October 2009 with this blog – [Asset bubbles and the conduct of banks.](#)”*

54 Ingeleseaz: *“The ideas can be distilled down to:*

*1. Government treasury and central bank operations should be brought under the “one roof” and the sham of central bank independence abandoned. Please read my blog – [The sham of central bank independence](#) – for more discussion on this point.*

*This aligns the major arms of macroeconomic policy making with the democratic responsibility and accountability.*

*2. All voluntary constraints on net spending and the institutional machinery that has arisen to implement these constraints, which have led to unsustainable outcomes with the costs of the dysfunction being borne mainly by the less advantaged groups in the society, should be abandoned.*

*That is, I would recognise the differences and advantages that a government in a fiat monetary system has over one operating in a convertible currency system (Gold Standard) and create behaviours and institutions that allowed the the government to exploit those advantages to advance public purpose and generate full employment and environmental sustainability.*

*Specifically, I would stop issuing Treasury debt instruments – that is, stop public borrowing.*

*Such borrowing is unnecessary to support the net spending (deficits) given that the national government is not revenue-constrained and does not advance public purpose.*

*This would mean that the net spending would manifest as cumulative excess reserve balances at the central bank.*

*I would maintain that excess liquidity in the system and keep short-term interest rates at zero or just about. All adjustments to aggregate demand are better made using fiscal policy.*

Ondorioak:

(i) Islandian martxan egon den DSP delakoa ez da inongo modelorik sistema finantzario hobeto baterako<sup>58</sup>

(ii) Erreforma funtsezkoagoak behar dira

Harrigarria bada ere, [Islandia \(mon amour\)](#) izeneko blog sarreran ikusi dugun legez, “[mirakuluen](#) (sic)” bidez edo Islandiaren bilakaera, eurolandiatik at, eurotik kanpo, moneta propioa, koroa erabiliz,

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*I would [abandon all tax incentives, which push speculative behaviour](#) in property markets.*

***3. [Central bank lending to its member banks](#) (those who have reserve accounts with the central bank) should never be constrained and should be priced at whatever the current rate for lending to banks is. By rejecting the “money multiplier” view of the world, we learn that commercial bank lending is not reserve-constrained.***

*Please read my blog – [Lending is capital- not reserve-constrained](#) – for more discussion on this point.*

*Also please read the following blogs – [Building bank reserves will not expand credit](#) and [Building bank reserves is not inflationary](#) – for further discussion.*

*The trick is to change the way the banks operate not restrict their capacity to be banks.”*

55 Ingelese:

*“**4. The only useful thing a bank should do is to facilitate a payments system and provide loans to credit-worthy customers.***

*Attention should always be [focused on what is a reasonable credit risk](#). Banks should only be permitted to lend directly to borrowers. All loans would have to be shown and kept on their balance sheets.*

*This would [stop all third-party commission deals which might involve banks acting as ‘brokers’ and on-selling loans or other financial assets for profit](#).*

*It is [in this area of banking that the current financial crisis has emerged](#) and it is costly and difficult to regulate. **Banks should go back to what they were.***

***5. Banks should not be allowed to accept any financial asset as collateral to support loans. The collateral should be the estimated value of the income stream on the asset for which the loan is being advanced. This will force banks to appraise the credit risk more fully.”***

56 Ingelese:

*“**6. Banks should be prevented from having “off-balance sheet” assets, such as [finance company arms which can evade regulation](#).***

***7. Banks should never be allowed to trade in credit default insurance. This is related to whom should price risk.***

***8. Banks should be restricted to the facilitation of loans and not engage in any other commercial activity.***

***9. Eliminate the vast majority of speculative trading in financial products by declaring them illegal. Almost all (around 97 per cent) of [speculative activity in financial markets does nothing to advance public well-being](#). Financial market regulation should always be motivated by allowing activities that improve our collective lives and scrapping the rest.***

*By [eliminating much of what we now call the FIRE industry](#), the life of the banker becomes much simpler and safer.*

***10. Make [banks public institutions](#) and make their non-profit mission to unambiguously [pursue public benefit](#).”***

57 Mitchell-ek dioenez, “*On March 23, 2010, Warren Mosler wrote a similar article on the topic of banking reform – [Proposals for the Banking System. It is worth reading.](#)”*

58 Ingelese: “*There are many other points that could be made but these suffice to show that [the SMS is not a model for a better financial system.](#)”*

honelakoa izan da: "... *become one of Europe's [top performers in terms of growth](#).*"

Zer lortuko zuketuen islandiarrek baldin eta goian aipaturiko DTM-ko proposamenak praktikan jarri izan balituzte?

Islandia herrialda txikia da.

Baina moneta subiranokoa izatea ez dagokio herrialdearen tamainari, DTM-koek erakutsi diguten moduan: ikus [Herrialdearen tamaina, politika fiskala eta bankugintza berria](#).

Hona hemen, Randall Wray-k herrialde tamainaz dioena: [Ekonomia mistoa eta gobernuaren tamaina: etsenplu bat](#).

### (9) Islandiatik ateratako irakaspenak

Aipatu bezala:

"Zer lortuko zuketuen islandiarrek baldin eta goian aipaturiko DTM-ko proposamenak praktikan jarri izan balituzte?

Islandia herrialda txikia da.

Baina moneta subiranokoa izatea ez dagokio herrialdearen tamainari, DTM-koek erakutsi diguten moduan: ikus [Herrialdearen tamaina, politika fiskala eta bankugintza berria](#).

Hona hemen, Randall Wray-k herrialde tamainaz dioena: [Ekonomia mistoa eta gobernuaren tamaina: etsenplu bat](#)."

Busturiako hitzaldian ([Hitzaldia Busturian](#)), galderak eta moneta propioa zirela eta, Euskal Herriko tamainaz aritu ginen. Eta Axularrekin esateko, "*ekharrri zuen solhasak, izan zen perpausa, etzuela, deusek ere hanbat kalte egiten arimako, eta ez gorputzeko ere, nola [tamainaz eztabaidatzearen egitekoen geroko utzteak, egunetik egunera, biharretik biharrera luzatzeak](#).*"

Jakina, Euskal Herria txikia da, ez Islandia bezain txikia.

Islandian, ikusi dugun bezala,

"Islandiaren bilakaera, eurolandiatik at, eurotik kanpo, moneta propioa, krona erabiliz, honelakoa izan da: "... *become one of Europe's [top performers in terms of growth](#).*"

Hortaz?

Busturian esan eta goian aipatu bezala, afera ez dagokio tamainari, moneta propioari baizik. Eta horrekin batera Diru Teoria Modernoari, DTM-ri.

Euskal Herrian, eta nonahi!, ezin da inolako subiranotasun monetarioz hitz egin DTM-tik kanpo. DTM-z ulertu behar da, moneta propioa ongi eta zehazki erabili baino lehen: ikus [Diru Teoria Modernoa hasiberrientzat](#).

Izatez, Stephanie Kelton-ek dioskunez, [Diruari buruz pentsatzen duzuna okerra da!](#)

Are gehiago, 2004an BERRIAN argitaratuta zegoen moduan (*Euskoak, euroak eta abar...*, <https://es.scribd.com/doc/256157796/Euskoak-euroak-eta-abar>),

“... erabat separatista den honek hamaika hitzaldi, prentsa-artikulu eta liburutan hitz egin du ogerlekoaz eta *euskoaz* (...) Balediko Euskal Herri independente baten diru nazional gisa, gutxienez 1993tik 2002ra, hau da, euroa benetan martxan jarri arte, diru nazional horren garrantziaz hamaika biderrez aritu izan naiz...”

(H)ogерlekoa, euskoa,... berdin dio izenak, zeren hitzak polisemikoak baitira. Kontua kontzeptuari dagokio, ez izenari, eta kontzeptua hau da: *moneta propioa*.

Gehigarri gisa, ikus ondoko linkak:

[Separatista? Bai, noski!](#)

[EH eta moneta propioa](#)

[O tempora, o mores!](#)

Beraz, globalizazio honetan zer esan eta, bereziki, zer egin daiteke:

(i) Lehendabizi globalizazioa eta neoliberalismoa ez nahastea:

[Globalizazioa ala neoliberalismoa?](#)

(ii) Geroago, nazio-estatua defendatzea:

[Nazio-estatua ezina omen da](#)

(iii) Azkenik, moneta propioa bultzatzea:

[DTM lau eskematan \(euroa eta lira\) eta Ongi etorri euskoa!](#)

Gure Etxeparek idatzi zuen bezala: *Hitzak ari bira, dugun egina!*

## **(10) Islandiak frogatzen du nazio-estatua bizirik eta ongi dagoela (1)**

Bill Mitchell-en *Iceland proves the nation state is alive and well*<sup>59</sup>

(i) Islandiako datu ekonomikoak onak dira<sup>60</sup>

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59 Ikus <http://bilbo.economicoutlook.net/blog/?p=33707>.

60 Ingeleseaz: “On May 27, 2016, Statistics Iceland (the national statistical agency) released the news – [Iceland](#)

(ii) Eurogunekoak txarrak<sup>61</sup>

(iii) Neoliberalismoak gogor lan egin behar du<sup>62</sup>

(iv) Moneta jaulkitzaileko herrialdeak nagusi dira oraindik<sup>63</sup>

### (1) Zenbait puntu interesgarri:

(a) NMF (aka IMF) orain arte<sup>64</sup>

(b) Oraingo NMF<sup>65</sup>

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*economy to grow by 4.3% in 2016. The nation is enjoying strong household consumption and investment growth and tourism is driving export growth. Inflation is low and the exchange rate, which depreciated sharply during the crisis, is stable, if not steadily appreciating again."*

61 Ingelese: "Compare that to *the Eurozone Member States, which are in varying states of moribund. We also learned this week that the Icelandic government has increased the intensity of its capital controls and is forcing speculative capital to behave itself.*"

62 Ingelese: "For those who think the state is dead, particularly those on the Left who promote grand (delusional) schemes of a Pan Europe Democracy as the only way of taking on the powers of corporations, Iceland proves that neo-liberalism has to work through the legislative capacities of sovereign states. Corporations do not have armies (usually). They have to manipulate the legislative process in their favour."

63 Ingelese: "The currency-issuing state is still supreme – globalisation or not – and the Right know that. The Left have been duped into believing otherwise. That is what has to change before progress is made in restoring some decency to the policy making process around the world."

64 Ingelese: "You can read all about the capital controls policy prevailing in Iceland at present via the Central Bank's – [Capital Accounts Liberalisation Strategy](#) page.

See also – [A tale of two economies – Greece and Iceland](#) and [Are capital controls the answer?](#) – for further discussion about Iceland.

Further, recent revelations coming out of the IMF demonstrate what a schizoid organisation it is becoming as its hard-core neo-liberal ideology keeps coming up against the brick wall of reality.

The June 2016 (Vol 53, No.2) edition of its in-house journal *Finance and Development* carried an article – [Neoliberalism: Oversold?](#) – which has been attracting attention across the media since it was pre-released last week.

In that article, the IMF authors (who did the earlier research on capital controls referred to above) basically eschewed the notion that self-regulating markets – the catchcry of the free market lobby – deliver optimal outcomes.

They define neo-liberalism as resting "on two main planks":

*The first is increased competition—achieved through deregulation and the opening up of domestic markets, including financial markets, to foreign competition. The second is a smaller role for the state, achieved through privatization and limits on the ability of governments to run fiscal deficits and accumulate debt.*

*The sort of policies the IMF has been inflicting at great damage for four decades on poor nations and more recently on advanced nations such as Greece."*

65 Ingelese: "Now, the IMF authors admit that "the neoliberal agenda ... [has] not delivered as expected", particularly in the area of free capital flows and "austerity" (aka "fiscal consolidation").

They now reach "three disquieting conclusions" in relation to this agenda:

– The benefits in terms of increased growth seem fairly difficult to establish when looking at a



(c) Oraingo NMF-tik datozen **ondorioak**<sup>66</sup>

(d) Islandiako gobernuak ongi ulertu du **nork daukan boterea**<sup>67</sup>

(e) Gobernuaren neurriak *offshore* koroa-ko aktiboetarako<sup>68</sup>

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*broad group of countries.*

– *The costs in terms of increased inequality are prominent. Such costs epitomize the trade-off between the growth and equity effects of some aspects of the neoliberal agenda.*

– *Increased inequality in turn hurts the level and sustainability of growth. Even if growth is the sole or main purpose of the neoliberal agenda, advocates of that agenda still need to pay attention to the distributional effects.*

*Rather at odds with the mainstream IMF mantra, one would say!”*

66 Ingelese: “*The upshot of these revelations is that:*

1. *They question the benefits and purpose of “short-term international capital flows” and conclude that “capital controls are a viable, and sometimes the only, option when the source of an unsustainable credit boom is direct borrowing from abroad”.*

2. *There is no economic theory about the optimal size of the state despite all the mainstream economists suggesting otherwise – to wit, that a smaller state is better. They just make that up and the statement reflects their ideological bias rather than any authority drawn from theory.*

*The IMF says that “Austerity policies not only generate substantial welfare costs due to supply-side channels, they also hurt demand—and thus worsen employment and unemployment.”*

3. *“In sum, the benefits of some policies that are an important part of the neoliberal agenda appear to have been somewhat overplayed.”*

*Memorise those conclusions and shout them from rooftops and at dinner parties when your smug, so-called progressive left mates start talking about the incapacity of the ‘state’ to defend a nation against global capital flows and preach austerity lite!”*

67 Ingelese: “*The government of Iceland has clearly understood who has the power – them and not global capital!*

*On May 22, 2016, the Icelandic Parliament approved new “steps toward liberalisation of capital controls in Iceland” ([Ministry of Finance Press Release](#)).”*

68 Ingelese: “*The new laws – [Bill of Legislation on the treatment of króna-denominated assets subject to special restrictions](#) – provided for new measures for dealing with foreign holdings of around 320 billion worth of króna-denominated assets.*

To prevent this cash destabilising the exchange rate when the nation reduces the capital controls, the Government has chosen to “segregate the offshore króna assets in a secure manner so that it will be possible to take the next steps towards lifting the capital controls and re-establishing unrestricted cross-border transactions with krónur.”

The assets in question include “deposits, funds held in custodial accounts, bonds, and bills.”

The Government is giving the asset owners a ‘free choice’ – which the Wall Street Journal article (May 27, 2016) – [Iceland Puts Freeze on Foreign Investors](#) – said was tantamount to offering a [Hobson’s choice](#).

The Government says that the “owners may hold these assets until maturity. Therefore, no one is being forced to sell offshore króna assets.”

The króna-denominated asset holders will have two options:

(f) Kapital espekulatzaileren aurkako neurriak<sup>69</sup>

(g) Bono merkatuak eta Islandiako zor publikoa: aferak argi dauzkate<sup>70</sup>

Oharra Espainiako bititari buruz: galderak gazteriaren etorkizuna dela eta<sup>71</sup>.

*“Iceland is prioritising its youth over the interests of foreign capital. A salutary lesson”*

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1. They can take the “clear exit path where all owners of offshore króna assets will be ensured an exit at a specified minimum price.”

This will be achieved by a “voluntary” decision before September 1, 2016 to sell their holdings to the central bank at one of the central bank auctions in return for króna, which the central bank will then exchange into euros at an exchange rate of 210 króna per euro. The rate can drop to 190 króna per euro under certain conditions.

The current market rate is 139.22 króna per euro.

So this protects the official exchange rate but still gives the asset holders the choice of exiting the currency.

2. Any funds not exchanged for euro will be forced to invest “in Central Bank of Iceland certificates of deposit” which “do not have a specified maturity date” and will receive an “annual interest rate of 0.5%”.

*That is the money is impounded for as long as the government sees fit and receives next to nothing in return.”*

69 Ingeleseaz: “The new Law demonstrates how a sensible government resists the demands of speculative capital and prioritises the well-being of its own people.

The Minister of Finance said in his press release that the changes “will focus on households and businesses in Iceland”, which is a refreshing alternative to those who always claim that governments have to inflict damage on their people to garner the ‘confidence’ of international capital.

*Iceland demonstrates very clearly who is in charge.*

*Capital controls do not sit well with mainstream economists.*

*But the controls in Iceland (as in Malaysia in the late 1990s) have certainly helped them stabilise the economy and put it back on a growth footing. The Government is now slowly relaxing the controls as the recovery unfolds.*

*The conservatives are once again ramping up the argument that foreign investment will dry up, that the government will not be able to fund itself and that the ratings agencies will downgrade public debt and force higher costs onto the government.*

*I laugh when I read some of the journalistic pieces – in one breath saying that the Icelandic government will not be able to fund itself and the next saying Moody’s will impose higher funding costs onto the government.*

*The careful decision-making of the Icelandic government has demonstrated that neither is true. It can fund all its domestic programs in króna without recourse to foreign funds. Indeed, it should completely avoid borrowing in foreign currencies.”*

70 Ingeleseaz: “If the bond markets do not want to invest in Iceland public debt that is their problem – the Government is fully sovereign and can maintain whatever spending program it deems wise in the circumstances.

*The central bank governor told the press that their policies would prevent any new waves of speculative capital in the future.*

*He said of the billions still held up in króna-denominated assets that:*

*We don’t need the money ... These are remnants from the last boom and bust, and we are not going to repeat that mistake.”*

71 Ingeleseaz: “One of the recurring themes during the Q&A sessions that followed my public presentations in Spain recently related to the future of the Eurozone in 20 or so years given the travesty that the elites are

## (11) Islandiak frogatzen du nazio-estatua bizirik eta ongi dagoela (eta 2)

Segida:

### (2) Nola ari da Islandia funtzionatzen?

(h) Alokairu erreala sendo handitzen ari dira<sup>72</sup>

(i) BPG erreala sendo handitu da susperralditik<sup>73</sup>

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foisting onto their children.

'Their' in this context being the 'royal their' – clearly their own children are probably safely ensconced in private schools doing very well with a network of employment opportunities to ease the transition to the labour market.

The point I made on several occasions is that the Euro leadership is severely out of touch with the reality of the situation they have created. What they have now is a disaster on their hands and the costs will linger for generations to come.

An unemployed teenager in Greece or Spain will probably have been unemployed through the entire latter part of their teenage years and have become young adults – with no work experience, limited education and a sense of betrayal.

What is their future and, by definition, the future of their nations looking like? Its gets pretty scary when you think of the legacy that the policy ideology has created."

72 Ingeleseaz: "Real Wages growing strongly in Iceland

Iceland Statistics reports that Real wages (Nominal wages adjusted for changes in the price of goods and services) initially fell after the crisis and the closure of the banks (by 13.1 per cent between February 2008 and May 2010).

However, once the government intervention stabilised the economy, real wages have grown strongly again and are now (April 2016) 12.8 per cent higher than they were at the peak before the crisis (February 2008).

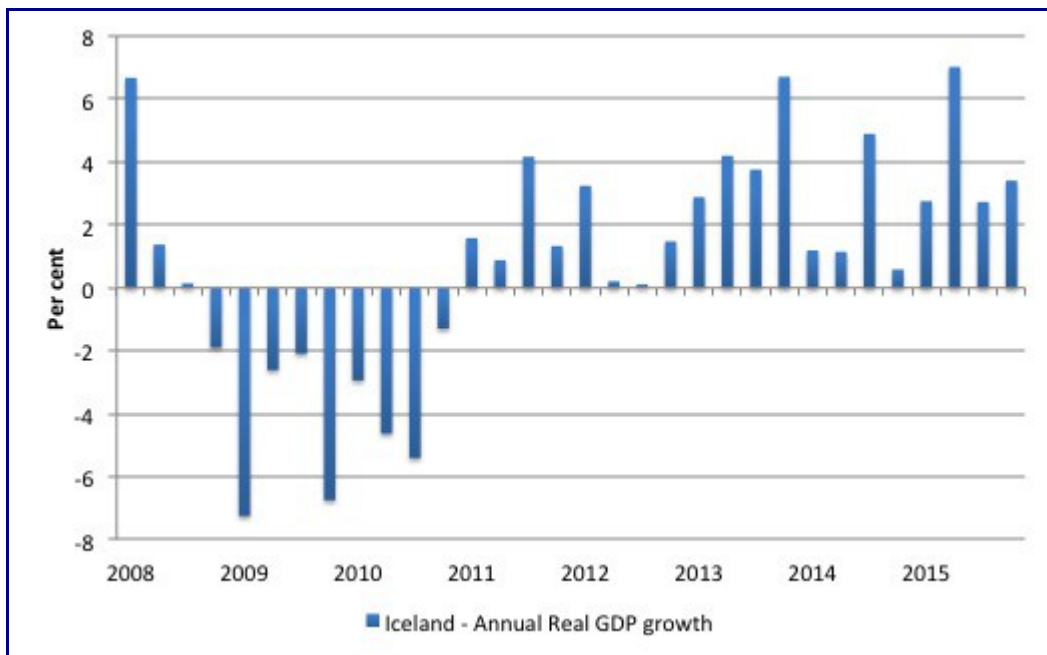
Compare that the the Eurozone area where real wages overall have only grown by 4.8 between 2000 and 2015. For Greece, real wages have fallen by 14.1 per cent over that period; Spain growth by 6.1 per cent, Italy zero growth and Portugal a decline of 5.1 per cent."

73 Ingeleseaz: "Real GDP has grown strongly since recovery in Iceland

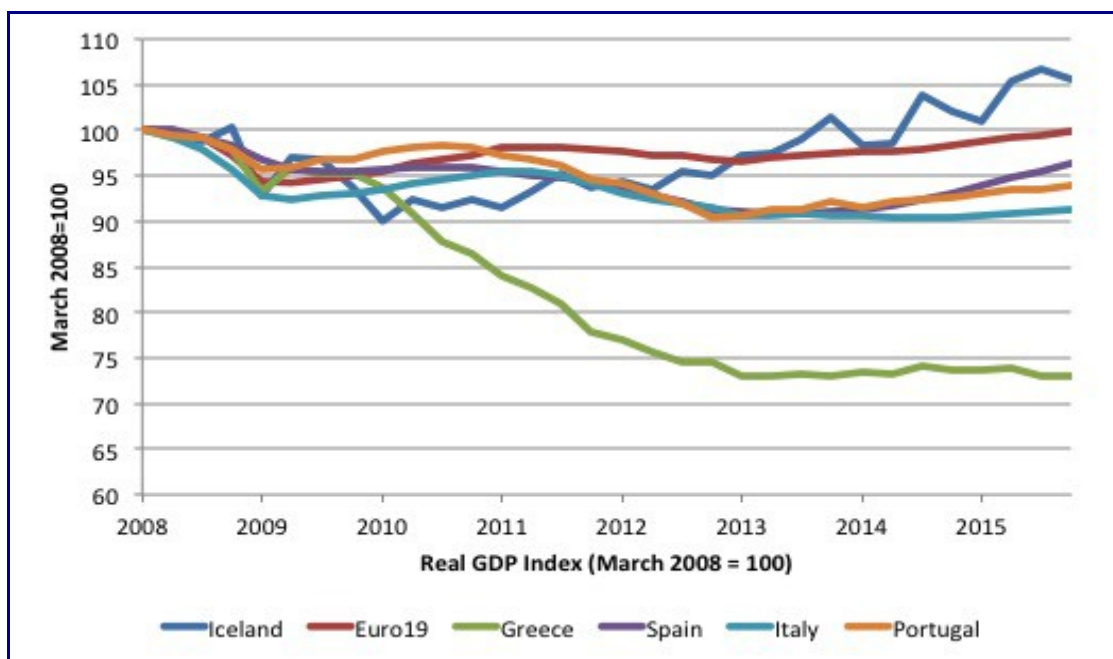
Since returning to growth in the March-quarter 2011, Iceland has sustained positive growth. The outlook is strong with domestic expenditure growth robust, helped along by the growth in real wages.

Tourism has been aided by the lower exchange rate which has boosted exports.

The following graph shows annual real GDP growth since the March-quarter 2008 to the December-quarter 2015. The data for 2016 (not shown) suggests that growth will be stronger this year (estimated at 4.3 per cent) than last year when it averaged 3.9 per cent."



(j) Konparaketa euroguneko herrialdeekin<sup>74</sup>



(k) Inflazio baxua da<sup>75</sup>

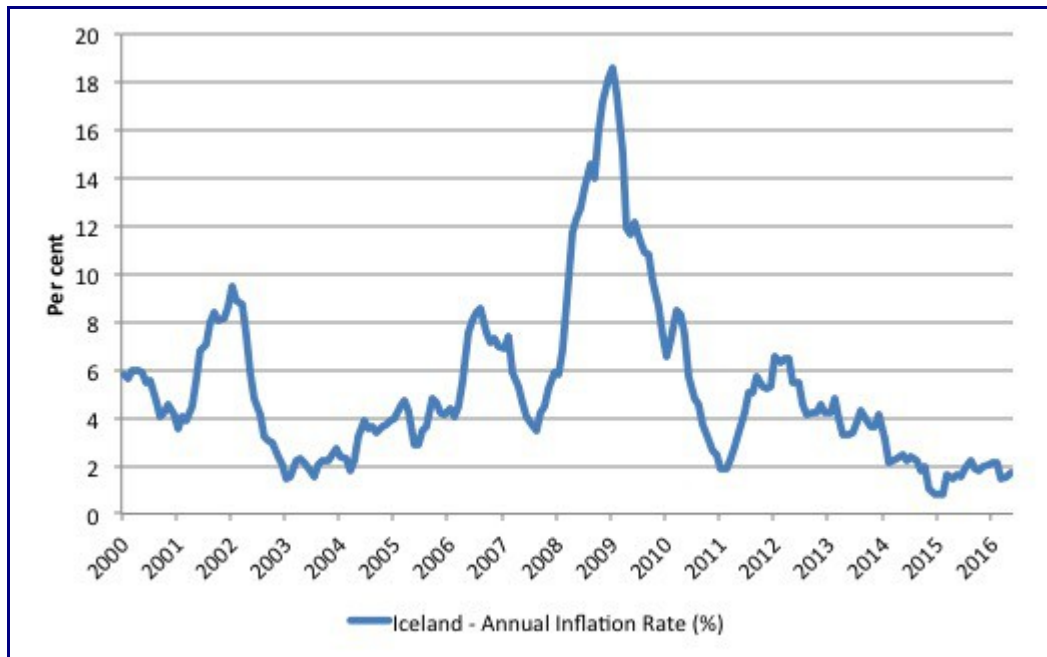
74 Ingelese: "The next graph shows the [comparison with the Eurozone nations](#). The real GDP indexes are set at 100 at the March-quarter 2008 and extended to the December-quarter 2015.

The Eurozone 19 Member States together had still not returned to the March-quarter 2008 peak by the end of last year. Greece was 27.4 per cent smaller, Spain 3 per cent smaller, Italy 8.4 per cent smaller and Portugal 6.2 per cent smaller.

By contrast, Iceland was 5.5 per cent larger than it was at the pre-crisis peak in 2008. It lost 10 per cent of its output by March 2010, and then started its recovery."

75 Ingelese: "Inflation is low

Inflation experienced a sharp rise in inflation in 2009 as a result of the depreciating currency. But this shock soon dissipated and inflation is now low again.



(l) Langabezia baxua da<sup>76</sup>

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The following graph shows the annual inflation rate from 2000 to May 2016.

*It demonstrates that fears that hyperinflation will follow a currency crisis are ill-founded, as Modern Monetary Theory (MMT) proponents continually aim to reinforce."*

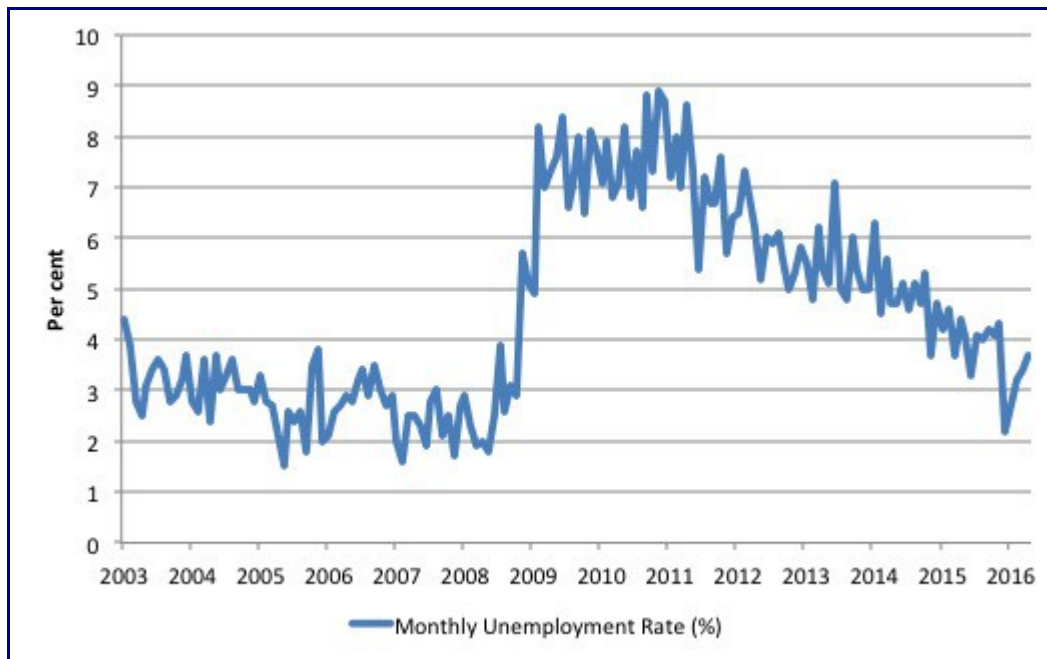
76 Ingelese: "*Unemployment is the envy of the world*

*The following graph shows the official Icelandic monthly unemployment rate from January 2003 to April 2016.*

*The official Icelandic unemployment rate was 3.7 per cent in April 2016 after peaking at 8.9 per cent in November 2010.*

*Most of the Eurozone nations would love to have an unemployment rate this low, especially only a few years after a massive collapse of its banking system.*

*Note also that unemployment has been falling while real wages have been rising strongly – putting paid to the orthodox claims that the latter causes the former to rise!"*



(m) Kontsumo pribatua suspertu da<sup>77</sup>

(n) Defizit publikoak hazkundera sostengatu zuen<sup>78</sup>

77 Ingelesez: “Private consumption has recovered in the last two years and is driving growth along with Business investment

The National Accounts demonstrate that Gross domestic final expenditure grew by 1.6 per cent in the December-quarter 2015 on the back of strong growth in private final consumption (1.8 per cent growth), private business investment (3.9 per cent growth) and residential construction (11 per cent growth).

Government capital investment in improved infrastructure and services also grew by 6.2 per cent in the December-quarter.

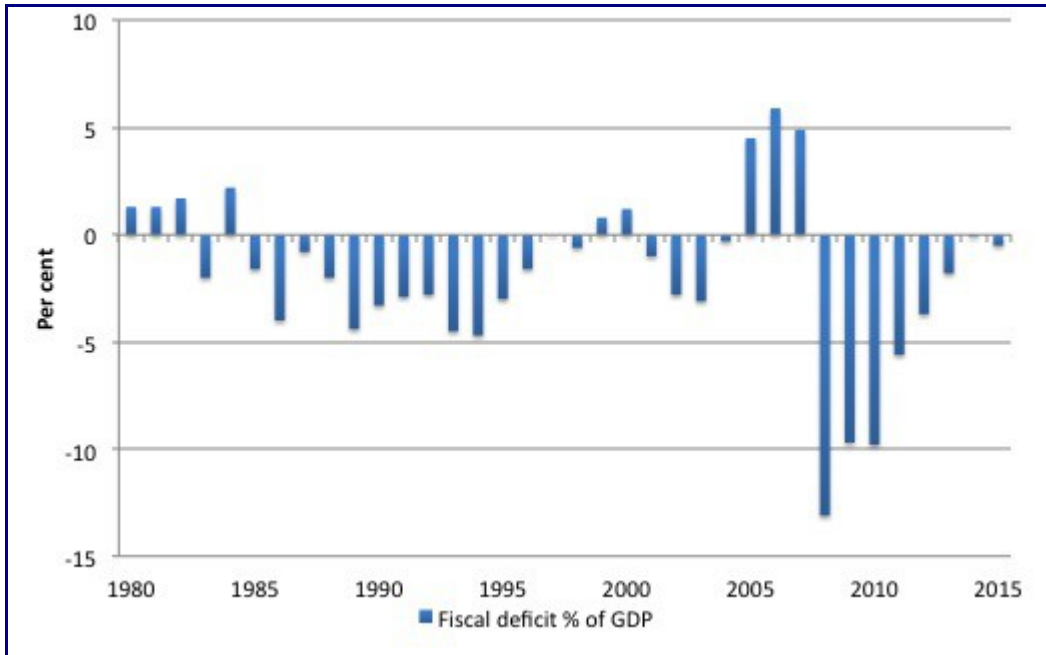
With household spending growth now recovered (and real wages growing strongly to avoid a reliance on credit growth), business firms have an incentive to reinvest in new plant, equipment and buildings.

The strong domestic growth is creating a virtuous cycle of development, something that the Eurozone is incapable of achieving.”

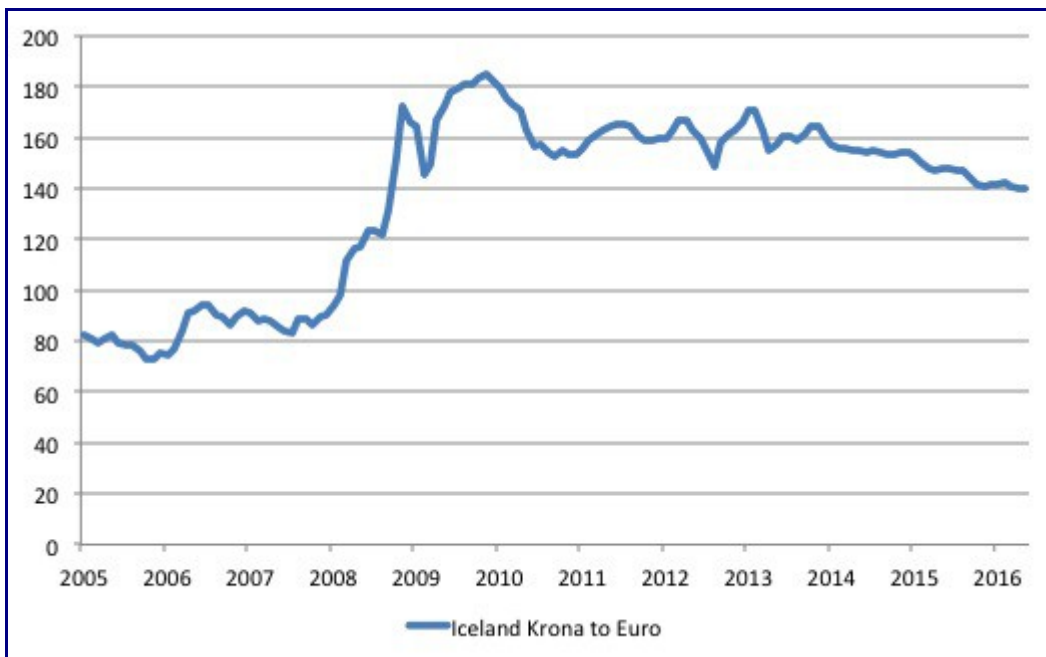
78 Ingelesez: “The public deficit supported growth until private domestic expenditure was strong enough The following graph shows the Fiscal deficit as a percent of GDP from 1980 to 2015. The large deficits in 2008 were in response to the collapse of the economy as the financial sector imploded.

The government didn't impose large-scale austerity in response but allowed the deficit to support growth as long as it was required to allow private domestic expenditure to recover and take over the growth role.

The deficit is now small relative to GDP.”



(o) Truke tasaren malgutasuna<sup>79</sup>



“The comparison of these fixed exchange rate euro nations with Iceland is striking.”

<sup>79</sup> Ingeleseiz: “Exchange rate flexibility

The National Accounts also show that exports growth is strong (2.5 per cent in the December-quarter 2015).

The exchange rate depreciation in 2009 was **large but finite** and the following graph, which shows the exchange rate against the Euro from January 2005 to May 2016 has started a slow appreciation since its low of 134.64 in November 2009.

It has since regained strength on the back of the strengthening domestic economy as stands at 139 or so.”

(p) Euroguneko herrialdeen eta Islandiaren ateko desberdintasunak<sup>80</sup>

Eta Grezia?<sup>81</sup>

(q) Arriskuak nonahi, omen<sup>82</sup>

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80 Ingeleseiz: "*The fundamental differences between the Eurozone nations and Iceland are threefold:*

*(a) Iceland issues its own currency while the other nations use a foreign currency;*

*(b) Iceland enjoys a floating exchange rate; and*

*(c) Iceland sets its own interest rate.*

*These are the characteristics that differentiate sovereign from non-sovereign nations in terms of the currency in use.*

*Iceland has experienced a massive gain in its international competitiveness in recent years with less austerity.*

*The exchange rate depreciation in Iceland made its exports cheaper and demand for them grew rapidly at the same time as import demand fell because of the rise in prices in the local currency.*

*The same sort of dynamic assisted Argentina in growing after it allowed its exchange rate to drop significantly in 2002.*

*Iceland's real effective exchange rate evened out after its initial plunge. That is a common pattern.*

*After an initial plunge, the nominal exchange rate stabilises as growth returns."*

81 Ingeleseiz: "*The scaremongers who claim that the weaker euro nations would experience massive and ongoing currency plunges are in denial of history.*

*Iceland's approach to the crisis was less painful and more effective. Greece and other weaker euro nations could have enjoyed similar improvements in their external competitiveness if they had exited the EMU and allowed their currencies to float.*

*Internal devaluation has clearly not been an effective route to increasing international competitiveness despite all the neo-liberal claims to the contrary.*

*The costs of such a strategy have been huge in terms of lost output, mass unemployment and social breakdown.*

*A recurring misconception is that Modern Monetary Theory (MMT), as part of the "Post Keynesian" family should eschew the notion that exchange rate depreciation provides a fillip for exports and discourages imports. Apparently that notion is "neo-classical" and should be abandoned."*

82 Ingeleseiz: "*All sorts of issues are raised to claim that the current account doesn't respond to large exchange rate changes. For example, there are apparently: (a) lags in adjustment; (b) dominance of income over substitution (relative price) effects; (c) dominance of capital flows over trade in goods and services etc.*

*I agree that all these things are part of the real world. Currency prices are largely driven by movements in financial capital in world foreign exchange markets, which reflect speculation (often irrational in its motivation) in the face of uncertainty.*

*I agree that income effects (the loss or gain of income when a price changes) are stronger, usually, than substitution effects. In this case, a depreciation undermines real income in a nation to the extent that import prices are higher. But there are also boosts to real income if exports improve.*

*Further, trade adjustments if they occur take time (so-called adjustment curves) and it is entirely possible that following an exchange rate depreciation the current account increases before it decreases due to valuation effects on outstanding contracts etc.*

*There was a view in the Cambridge model of Godley and Cripps that real wage resistance would eliminate any competitive gains arising from depreciation."*



(r) Baina<sup>83</sup>...,

Ondorioak

(1) Argi dago nork agintzen duen Islandian<sup>84</sup>

(2) Estatua (txikia izan arren) ez dago hilda<sup>85</sup>

(3) Ezkerra engainatua izan da: moneta jaulkitzaileko estatua oraindik nagusia da<sup>86</sup>

(4) Aurreko guztia aldatu behar da munduan zehar politika duin eta zintzo bat martxan jarri baino lehenago<sup>87</sup>

Lan eta eginkizun asko gure aurrean!

donejurgi (joseba felix tobar-arbulu)

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83 Ingelesezt: "All of the above a acceptable propositions. *But they don't lead to the conclusion that it is strictly a neo-classical view to consider that if something becomes much cheaper then other things equal the volume demand for it will rise over time, and vice-versa. Post Keynesians would accept that proposition just as much as a mainstream economist would accept it.*

*The other proposition that often gets raised against MMT ideas is that the depreciation will be so severe that it destroys the currency.*

*Iceland proves the folly of that notion."*

84 Ingelesezt: "*The new Law brought in this month by the Icelandic government demonstrates categorically who is in charge!*"

85 Ingelesezt: "*For those who think the state is dead, particularly those on the Left who promote grand (delusional) schemes of a Pan Europe Democracy as the only way of taking on the powers of corporations, Iceland should proves that neo-liberalism has to work through the legislative capacities of sovereign states."*

86 Ingelesezt: "*Corporations do not have armies (usually).*

*They have to manipulate the legislative process in their favour. The currency-issuing state is still supreme – globalisation or not – and the Right know that. The Left have been duped into believing otherwise."*

87 Ingelesezt: "*That is what has to change before progress is made in restoring some decency to the policy making process around the world."*