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CONTENTS

The Pressure Mounts

Our Unasked and Unanswerable Questions

This is an unusual issue of *ER*. It is an attempt to understand why so many unanswered, and indeed, unasked questions are leading the world where it does not choose to go. The most astounding answers are coming out of the woodwork.

We were all shocked by the last US presidential vote recount that placed a candidate with the minority popular vote in the presidency. But didn't Clinton-Gore do something not dissimilar when the world financial system was saved in stealth by a limited unacknowledged introduction of capital accountancy that responsible accountants and economists had been advocating for generations? Instead, the universities were cleansed of tenured help who advocated the proper keeping of the government's books at the very time that the groundwork for bigger and better Wall St. scams was being laid. The result: the mega scam of Globalization and Deregulation that has made its contribution to the Iraq adventure. In the present and recent election campaigns on either sides of our border, the two major parties haven't dared question the mandatory goal of balancing budgets that cannot and should not be balanced.

When are we going to learn the lesson that we cannot come clean only on matters that we *choose* to come clean on; that it is the issues that we choose not to face on which governments take the fatal turns? And these are kept under wraps because they may lose the political centre for our professional politicians. And the political centre – defined as what will enable parties to pay for prime-time advertising on the boob-tube – is the surest pass to hell.

From the most sophisticated business press, we have chosen a mere handful of suppressed issues that are coming out of the closet with an ominous force that simply will not be denied. Rationed openness, at a time like this, becomes tantamount to betrayal.

Documentation

July 28, 2004
City of Kingston
Mayor Harvey Rosen and Council

There is another choice for financing municipal infrastructure other than borrowing at commercial rates or entering into public private partnerships as suggested in the *Whig* newspaper report, May 26, but it would require the co-operation of the federal government. For several years municipalities across Canada (including Kingston

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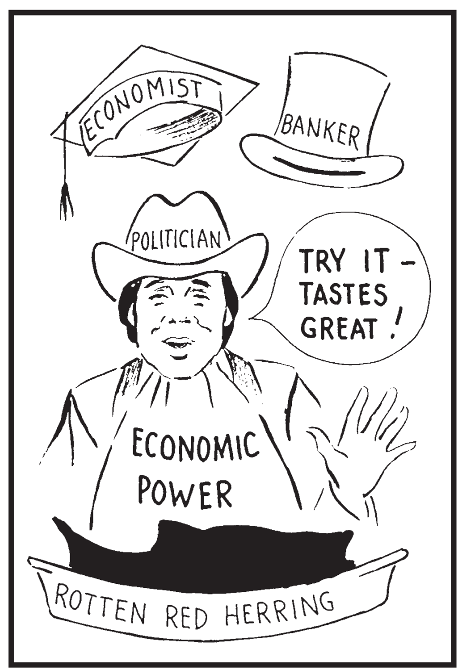

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Pressure *continued from page 1*

and Toronto in 2001) adopted resolutions asking the federal government to allow them to get financing from the Bank of Canada.[1] Financing public debt through the Bank is not a new idea. The government did this for 35 years – 1939 to 1974 – during which time we fought a war and afterwards built houses, water lines, hospitals universities, sewer systems, roads and other infrastructure. Except for the war period, debt never grew very large because the government financed part of it through the Bank at very low cost (as low as 0.37%).

Interest Rates that Gobble Up Infrastucture Maintenance

Because the federal government owns the Bank of Canada, any interest paid to it comes back to the government as a dividend minus the cost of administration. If municipalities were allowed to borrow from the Bank of Canada they would benefit not only from low rates, but also from a long amortization period which could and should be set at the expected life of a given project.

For example, a sewer costing $50 million with a life expectancy of 50 years would be amortized over 50 years at an average cost of $1.6 million a year including a 1% cost of financing. If funded through a public-private-partnership the cost would depend on the terms of the contract, but would likely be higher than either of the other methods of financing because on top of the cost of money there would be the added cost of profit.

Municipalities have sent their resolutions either directly to the government, as Toronto did, or to the Federation of Canadian Municipalities (FCM), as Kingston did, FCM in turn forwarded them to the federal government. However, the government refuses to return to the way the Bank was used prior to 1974, taking the position that using the Bank of Canada to finance government debt would be inflationary, in spite of 35 years of evidence to the contrary. In fact, inflation only became a serious problem *after* the government reduced its use of the Bank to finance long term debt. During the '50's inflation averaged 2.4%; during the '60's it averaged 2.5%; during the last half of the '70's the average climbed to 8.9% and peeked in 1981 at 12.4%. Today it is low again. The simplistic view that using the Bank of Canada to finance government debt will cause inflation does not hold water. There are other factors at work.[2]

The decision to reduce the Bank's holdings of government securities had other devastating effects. To begin with, because the government was financing long-term debt after 1974 almost entirely through the private sector, its debt ballooned when interest rates went through the roof in 1980 and '81 and again in 1989-90, reaching $588 billion in 1997. Interest on this debt amounted to between $40 and $50 billions all during the '90's and is still around $35 billion per year. On top of this is the interest paid by provinces and municipalities amounting to as much as $32 billion a year.

It is because of this interest that there is not enough money for infrastructure – or anything else. It is a deep hole out of which our governments will never climb unless they make use of our national bank by gradually transferring to it at least some of the public debt.

Municipalities have had heavy responsibilities dumped on them as a result of the decision to reduce the use of the Bank for long-term financing, and would be justified in demanding that the government allow them to get financing from the Bank of Canada for capital expenditures. No one is saying that it will be simple, but we have the competence to do it and we should.

There has been enough shilly-shallying, procrastination and disinformation. Municipalities should act *now!* The financial system is sucking us dry. Kingston could provide leadership through the new group of small city mayors, Municipalities United for a New Deal, headed up by Mayor Rosen. If municipalities do not act in their own interests to get financing through the Bank of Canada, it is quite clear that no one else will do it for them.

We would be pleased to provide more information or come before Council to answer questions if that is your wish.

Richard Priestman, President, Kingston Chapter, Committee on Monetary and Economic Reform

(Inflation averages were provided by Garth Rutherford.)

Priestman to the Honourable Ralph Goodale

August 16, 2004
The Honourable Ralph Goodale
Minister of Finance
Government of Canada

Re: The suggestion that governments borrow funds directly from the Bank of Canada to finance public capital expenditures in Canada.

Dear Mr. Minister:

Thank you for your letter of June 14 replying to my earlier correspondence with the Honourable John Gerretsen, Minister of Municipal Affairs and Housing for the Province of Ontario.

I regret to say that I am deeply disappointed, even shocked by your statement that using the Bank of Canada to finance capital expenditures of Canadian governments would be inflationary, a position which is contradicted by our history. I expected that our Minster of Finance would be better informed. This misinformation is hurting Canadians by supporting a system which is draining $65-billion a year from their pockets in unnecessary interest – money which could be used for much better purposes.

For 35 years, 1939 to 1974, Canada used the Bank to finance a significant portion of its debt, and during that time inflation never got out of control. For example, in 1952 the inflation rate was 2.4%, and while it rose and fell over the years it was never very high, being only 3.2% in 1971. Mortgages of 25 and even 35 years were obtained, indicating a stable dollar. After 1974, Canada's use of the Bank to finance long-term debt for public capital expenditures was reduced, yet inflation was severe, increasing from 6.8% in 1978 to 11.4% in 1980. Today it is low again: the simplistic view that using the Bank of Canada to finance government debt will cause inflation does not hold water. There are other factors at work.

The Committee on Monetary and Economic Reform would like to see the Government support use of the Bank as it previously did for 35 years, and encourage provincial and local governments to use it as well. The savings which would ensue could then be used for health, education, infrastructure and other essential needs.

I have attached a letter recently sent to Mayor Harvey Rosen of Kingston, and information prepared by William Krehm of Toronto, Committee on Monetary and Economic Reform.

Respectfully,

Richard Priestman, Committee on Monetary and Economic Reform, Kingston

cc: The Honourable Paul Martin, Prime Minister; The Honourable John Gerretsen, Minister of Municipal Affairs and Housing, Province of Ontario; Mayor Harvey Rosen and Council

Note from Richard Priestman: Congratulations to Gordon Coggins and George Crowell for their presentation to the Town Council of

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China Once More to the Fore

It is an illusion that after all its murderous writhing, the world will fall back into its old familiar patterns. While everybody is wondering how Washington is ever going to wriggle out of the Afghan-Iraqi mess, the next great reshaping of the planet's pecking order seems under way. And here, too, Washington is doing much to bring its coming problems upon itself. The culture that gave us the "End of History," is about to be engulfed in another chapter of that imperious companion. Just as Fukuyama was penning the US's great dream, Cleo was turning several sharp corners.

Ted D. Fishman in the cover story of *The New York Times Magazine* sounds an autumnal note (4/06, "The China Bind – The global economy is not likely to be led by the US forever. Is this the beginning of the End?").

Suddenly it is becoming recognized that with the Americanization of the world, the US may in special cases actually be breeding its competition. Nations fall into a variety of categories. There are those who are primarily a source of cheap labour, initially to support their own hierarchies, and later to allow Americans to outsource their less skilled operations. But China cannot be locked in that niche. They are a people with an immensely rich cultural background, inventors of paper and gunpowder, and responsible for much of the world's pioneering in ocean navigation. With a background like that the cheap labour that so bemuses American corporations is readily internalized as low cost for their own exports. Labor in China today is so cheap and so efficient that Central America and Mexico are losing much of their *maquiladora* industries to it. From their long history of staving off unwanted intrusions on all points of the compass, they have developed a genius for turning relationships with the West around and inside out. Listen, for example, to this passage from the Fishman piece on the Wanfeng automotive factory outside Shanghai.

"Ten years ago, Wanfeng was hammering out motorcycle wheels by hand in a Chinese garage; a few years later it was No. 1 seller of aluminum-alloy motorcycle wheels, first in China and now in Asia. It soon became a top national and global seller in alloy automobile wheels as well. It now turns out about 60,000 vehicles a year that, if you squint just a little, appear remarkably like Jeep Grand Cherokees. They come with every luxury, including leather seats and DVD video systems, and purr when driven.

"Yet Wanfeng's factory itself is a bare-bones machine. Tellingly, there is not a single robot in sight. Instead, there are hundreds of young men, newly arrived from China's expanding technical schools, manning the assembly lines with little more than large electric drills, wrenches and rubber mallets. Engines and body panels that would in a Western, Japanese or Korean factory move from station to station on automatic conveyors are hauled by hand and hand truck here. That is why Wanfeng can sell its hand-made luxury versions of the Jeep (to buyers in the Middle East mostly) for $8,000 to $10,000. The company isn't spending money on multimillion-dollar machines to build cars; it's using highly skilled workers who cost at most a few hundred dollars a month. Factory wages in the country's booming east coast cities can be $120 to $160 a month and half that inland, according to Merril Weingrod of China Strategies, an affiliate of Kurt Salmon Associates, a consulting firm."

Labour Cheaper than Robots

"Wanfeng is hardly the first to mobilize Chinese labor as a stand-in for machinery. Mao Zedong believed that China could leapfrog other developing countries in the late 30's. He exhorted the Chinese to build backyard furnaces to melt down their iron implements, all in service of his goal to have China outproduce Great Britain in steel and surpass the British economy in size in 15 years. Instead, the people were left without the few tools, pots and pans they had started with. And they starved. The Great Leap Forward, the direct cause of the famine that killed 30 million people, [ranks] among the deadliest man-made disasters in history."

Mao failed to recognize another great asset of China – its rich cultural tradition that has made it possible for Chinese émigrés and even some of those who stayed at home to sop up Western science and technology.

But all the while, even if they did not know it, the Communists "were priming China for capitalist successes to come. They exercised complete control over the deployment of labour – determining, for example, who moved out of the countryside and into the cities. Prasenjit Duara, professor of history at the University of Chicago, acknowledges the paradox: The Marxists made the work force docile and organized labor a work force that could be continually mobilized. An obedient labor force keeps management costs down too. [Today] the ranks of managers who supervise enormous numbers of workers in Chinese factories are remarkably thin by Western standards. Despite the enormous numbers, you might see 15 managers for 5,000 workers, an indication of how well-managed they are. And culturally, the Chinese put a very high premium on not losing face. In manufacturing that translates into not making mistakes on the production line. 'If you look just at low wages, you overlook the talents of Chinese manufacturers to drive their costs down,' Weingrod says.

"By now most of us know that China is the factory floor of choice for the world's low-road manufacturing: it assembles more toys, stitches more shoes and sews more garments than any other nation in the world. But moving up the technological ladder, China has also become the world's largest maker of consumer electronics, like TV's, DVD players and cell-phones. And climbing higher still, China is moving into biotech and high-tech computer manufacturing. Behind China's rapid economic ascendancy over the past 25 (and especially last 10) years is her huge population. China is home to close to 1.5 billion people, probably. That would make the official census figure of 1.3 billion too low by an amount equal to roughly the population of Germany, France and the UK combined.

"China is not home to the cheapest work force in the world. Even at 25 cents an hour, Chinese workers cost more than laborers in the poorer countries of Southeast Asia or Africa. In the world's miserable corners, children carry rifles and walk mine fields for less than a dollar a day. China is the world's workshop because it sits in a relatively stable region and offers manufacturers a reliable, pliant and capable industrial work force.

"The other great contributing factor is the migration of hundreds of millions of peasants from the countryside now that the government insists that the farmers fend for themselves and is all but evicting peasants from the land. The plots allotted to farm families are on average 1.2 acres, but can be as small as one eighth of an acre. Average city incomes, according to the government, are $1,000 a year, three times what they are in the countryside. The disparity has set in motion the largest human migration in history. By 2010, nearly half of all China's people will live in urban areas."

The result: "The productive might of China's vast low-cost manufacturing machine, along with the swelling appetites of its billion-plus consumers, have turned China's people into probably the greatest natural resource on the planet. That will shape our economy (and every other economy in the world) as powerfully as American industrialization and expansion did over the last hundred years."

"We have Created a Monster."

"[Our] framing of the debate over where the world's companies choose to exploit low-cost manufacturing implies that American consumers and businesses have strong choices. However, increasingly, what Chinese businesses and consumers choose for themselves determines how the American economy operates.

"The experience of Motorola, the US telecommunications giant, offers a lesson in how China's size changes most rules. Every month five million new subscribers sign up for mobile-phone service in China. The country's 300 million mobile-phone users make China by far the largest such market in the world. It gives them a chance to grow at a time when the big European and US markets are saturated. China is also the most competitive and protean market in the world. New manufacturers appear out of nowhere; new phones materialize daily at big-city stores. There are 800 current handset models to choose from. Young urban consumers change phones on the average after only eight months – they sell them to someone else or pass them to family members.

"And this mobile phone market in China is one that Motorola invented.

"For Robert Galvin, the company's former CEO, China in the early to mid-1980s promised to more than make up for Motorola having been foiled in Japan for years. But first the company had to develop a top-drawer telecommunications infrastructure. At a dreary state ceremony, during a tour of the country, Galvin turned to the minister of railroads and asked whether he wanted to do a good job as minister and be done with it, or to create a world-class society. In doing so, he tapped a thick vein of economic patriotism.

"Motorola's deep and open company archives show that Galvin knew that eventually the transfer of technology would sow formidable Chinese competition. Nevertheless, Motorola decided that the best strategy was to get into China early."

Let us pause here to note that those archives at this point disclose the Achilles' heels of the Globalization and Deregulation model: that deal with the devil imposes the need of growth rates that have already been incorporated into stock prices. The slightest hiatus in observing that commitment will bring its share price crashing. And that can bring down the whole structure of further financing for which those shares have served as collateral. And as support for executive option values. It is this deep vulnerability of the model that imposes the need to conquer the world that the Chinese are riding so well. And you cannot suppress the thought that their background in Marx, no matter how ossified, has left them with a keen sense of the West's vulnerabilities. Thus they lassoed, and brought into their corral the most tip-top infrastructure of communications technology – in some senses out front of the US itself.

In this way the curtain arose over the most incredible theater of the absurd – the one-sided duel between David and Goliath, with "little" David the heavier and by far the brighter of the two.

As a result China's "mobile communications network calls get through to phones on high rises, subway cars and distant hamlets – connections that would stymie mobile phones in the US.

"What no one at Motorola foresaw was that the Chinese market would become the most competitive of all. Nokia and Motorola now battle for market share in the Chinese handset business. German, Korean and Taiwanese makers figure strongly enough. And all these foreign brands are now facing intense competition from indigenous Chinese phone makers.

"'Competition goes through a cycle in China,' says Ziru Tian, at Insead, the French business school. 'At first foreigners can make things at much lower cost than the Chinese. But as local companies come along to supply the multinational companies, the supply network expands very fast. Then local manufacturers can start to source their parts in China and drive the prices of their products far lower than the multinationals.'

"One of the biggest challenges facing Motorola and other global manufacturers is that Chinese suppliers are getting too good. Their quality, low-priced parts have helped create new, homegrown and extremely aggressive competitors. More than 40% of the domestic handset market now belongs to local companies. One of the many, Ningbo Bird, will produce 20 million handsets in 2004 and is likely soon to nudge its way into the ranks of the 10 top mobile phone-makers in the world. Yet Motorola can't exactly exit the Chinese market. If it did, says Jim Gradoville, Motorola's vice-president of Asia Pacific government relations, the Chinese companies that emerged from the crucible of their market would be the leanest and most aggressive in the world, and a company like his would not know what hit it. So Motorola stays. Already the largest investor in China's electronic industry, Motorola plans to triple its stake there to more than $10 billion by 2006."

Trap or Opportunity?

But what is not clear whether that is a trap or an opportunity. The same may be said of the long-term effects of Globalization and Deregulation.

"China's crazy quilt of state-owned, village-owned, private and hybrid businesses was stitched together over 25 years of rocky reforms. Peasant entrepreneurs, opportunistic officials, government planners, new urban sophisticates and foreign investors all created operations that best fit for the moment they stepped into the evolving market economy. But one overwhelming fact stands out. 90% of everything made in China is in oversupply; nearly every manufacturing industry has excess capacity. And instead of using cheap labor to push their profit margins higher, Chinese companies use cheap labor to drive down prices.

"A Chinese family can live a life comfortably close to that of the American middle class for a fraction of the cost. Though China claims urban per-capita income is $1,000, 'the government numbers on incomes don't tell the whole story on the consumer class, especially not in the eastern cities,' says Merrill Weingrod. 'People in industrial centers tend to have two and three jobs with many taking in short-term assignments here and there. Annual real income in Shanghai, for instance, is close to $2,500 per capita, $5,000 per household. The Chinese can, on average, buy nearly five times in goods and services per dollar what an American can with the same dollar in the US. Chinese urban incomes approach the buying power of Americans making $12,500 a year – for working couples $25,000. You can understand why Shanghai looks as prosperous as it does and everybody seems outside shopping all the time. China has now 100 million people who are comfortably middle class. The allure of China's market is that huge volumes of potential sales mean that even products with the most modest margins can earn lots of money.'

"'Look, China is the most exciting place in the world right now to be a manufacturer,' says Mark Wall, president of the greater China region for F.E. Plastics. His operation sells the plastic pellets used to make everything from DVDs to building materials. Wall, who came to China from G.E. Plastics, Brazil, describes a country in love with manufacturing like no other, where engineers come in excited and readily work long days. Where university students clamor to get into engineering and applied sciences. Wall talks about working in China with the delight that young computer whizzes felt when they found cool in Silicon Valley. There is no going to a cocktail party and then trying to talk around the fact that you make things in factories. G.E. has every plan to capitalize on the local zeal for manufacturing. It recently opened a giant industrial research center in Shanghai that by next year will employ 1,300 people in its Chinese labs.

"The government is pouring resources into creating the world's largest army of industrialists. China has 17 million university and advanced vocational students (up more than threefold in five years). China will produce 323,000 engineers this year. That's five times as many as in the US, where the number of engineering graduates has been declining."

That should not be surprising. Precisely since those early 1980s in North America, the financial sector took over the economy, and industrial firms were reduced to mere gaming chips for its greater profits. That was reflected in the huge disparity between the rewards of stock market and high financial executives and mere industrial CEOs. And in the number of trained engineers who ended up financial CEOs and even featured in some of our greatest financial scandals.

There remains the rickety state of China's banks loaded with debt to state and private firms dubious quality. Obviously with both the politics and the economy in a state of rapid transition, with private fortunes being made, that is a factor that could well lead to a major setback for China and her economy. But there too she is no longer frozen in dogma as the West happens to be. In respect to banking policy it would be more enlightening making comparison with the North American policy of the latter 1980s than with that enthroned there today. At that time the banks of the United States and Canada were dangerously loaded with the dubious financing of the late oil and real estate booms, the mess of the US Savings and Loans and in Canada the financing of an Ottawa developer's shopping spree in the US for retail store chains. To bail our banks out from the losses from those follies, our government did away with the statutory reserves that the commercial banks had to leave with the central banks as security for a modest portion of the deposits they had received from the public in their chequing accounts. Those deposits earned the banks no interest, and moreover, provided an alternative tool that could be used by the central bank to combat perceived inflation. Shortly before the Bank for International Settlements in Switzerland – a technical body that allowed no elected representative of a government to attend its sessions – had introduced its Risk-Based Bank Capital Requirement Guidelines. This declared the debt of developed countries to be risk-free and thence requiring no additional capital for banks to acquire. That was a bad blunder, because at the same time BIS was advocating eliminating any increase in the price level with the sole remaining blunt tool of higher interest rates. The incompatibility of the two policies contributed to the Mexican monetary crisis of 1994 that spread both to Eastern Asia and Russia with devastating results. That had by then been made still worse by the deregulation of the banks that followed their bailout and that allowed them to acquire brokerage houses, underwriting and merchant banks, derivative boutiques, and overturned the pillars that had been established by the Roosevelt regime to prevent the recurrence of the Wall St. crash that ushered in the Depression of the 1930s.

Is China Avoiding Surrendering Money Creation Wholly to their Banks?

All this is frightfully relevant today when interest rates are being turned around to climb once more in a world economy that has been loaded to the rafters with debt to keep the economy from collapsing.

Those higher interest rates will disadvantage Western industries in their competition with China. That is particularly so since China has declined to depend on higher interest rates for restoring its banks to liquidity. Instead, as of September 21st last, it raised the statutory reserve that commercial banks must hold against the deposits received from 6% to 7%. This decreases the multiple of the credit they are free to create in loans for their clients rather than raising interest rates. Higher interest rates reduce the competitive price advantage of its exports by strengthening its currency. If in fact, on top of the multiple advantage that the Fishman article outlines, there is a further competitive advantage arising from China and Washington pursuing their diverse ways with respect to interest rates. The result can be utterly catastrophic for the West and humanity as a whole. It would formally mark the refusal to relegate Chinese industry to the happy hunting ground of finance, as happened in the US in the 1990s.

William Krehm

ER Mail Bag

Dear Mr. Krehm,

It was absolute pleasure in having a private conversation with you on the world economy at the Third Global conference in Business and Economics July 9-11 Amsterdam. I was particularly intrigued by your comments regarding the possibility of impending correction of the global economy.

While I am not a economist by discipline I see the globe through strategic eyes and formulate my analysis of the environment on strategic tools. My humble view is that the economic state of the globe is largely based on false media driven perception often used to drive the speculation in a particularly desired geo-political direction. My humble analysis seems to suggest that we have a fragile global financial system with hairline cracks which would eventually crumble leading to severe economic crisis. I do not profess to be an expert and have a lot to learn from scholars of your stature. I would therefore like to exchange ideas with you if you have time. I fully realize that a scholar of your stature specially a scholar who bring a great deal of honesty in their views would be highly in demand. I would be honoured if we can keep in touch from time to time.

Warmest regards and best wishes,

Dr. Shahid Yamin
Senior Lecturer in Strategy
Australian Graduate School of Entrepreneurship Swinburne University of Technology

Dear Dr. Yamin:

I will be delighted to remain contact with you, and hopefully we will meet again at Atul Gupta's conference at Oxford next year. I should point out that I am not an academic and that accordingly the title "professor" with which you adorn me is inappropriate.

All best,

Bill Krehm

BOOK REVIEW

"The Corporation: The Pathological Pursuit of Profit and Power"

By Joel Bakan. Viking Canada (Penguin Group), Toronto, 2004.

The perspective of a law professor adds just enough new material to give a fresh and compelling interpretation to issues and events familiar to anyone who has paid modest attention to economic policy fashions over the past half century. This book is a serendipitous complement to *The Economics of Innocent Fraud.*[1] A review of the latter work appeared in the Financial Times on August 12, 2004 under the title of "deceptions for which no one can be held responsible." After reading this exposition on the corporation a reader may be less than willing to agree that no responsibility can be assigned for the deceptions. Bakan brings a degree of precision without identifying individual malefactors. He manifests no disagreement with Galbraith's observation that "the corporation…is an essential feature of modern economic life. We must have it." His book is rather an expansion on the next sentence: "It must conform, however, to accepted standards and requisite public constraints."

Not So Innocent Fraud

The critical, core concept here is the *person* status with which the corporation came to be endowed, especially in U.S. law, as the 19th turned into the 20th century. Bakan provides a tour through the legislative and judicial history of the corporation to show that much of the popular economic dogma impaled as *innocent fraud* by Galbraith is traceable to the success of corporate promoters in persuading politicians and judges to give them privileges that are effectually denied to real persons.

The corporation is not a person, of course. It is instead a socially created institution, quite recent in origin, utterly insensitive to the moral codes and principles out of which laws affecting interpersonal behaviour have evolved. The *person* parallel emerged from judicial decisions after agitation by corporate promoters had expanded the scope of its legislated privileges. A few decades of experience with the consequences prompted a more apt metaphor in a 1933 decision by Supreme Court Justice Louis Brandeis, who characterized the corporation as a Frankenstein monster. "Corporations, like the monster, threaten to overpower their creators." Monsters need to be kept on a chain to keep them from causing harm. Since corporations are created by acts of sovereign governments, those governments must regulate them to protect the interests of the people (who are the supposed sovereign in democratic nations). The corollary of the corporation's birth in a legislative act is that it can also be killed through the same process. That is not a notion that appears often in newspapers, but Bakan's references demonstrate that legal scholars are thinking and writing about it as an important policy option.

Graphic accounts of corporate misbehaviour are abundant these days, even as we enjoy the apparent fruits of corporate "efficiency" in the production of a rising flood of abundantly affordable "stuff." Although we wouldn't want to give up the corporation in principle, the good work it does for us comes at a high social cost, for the corporation does all it can to reduce expenses by forcing others to pay them. The "others" include employees, customers, suppliers, innocent bystanders, even shareholders and corporate managers in their roles as citizens and inhabitants of the common biosphere. Abuses of these kinds have long been addressed in economics literature as "externalities." The difficulty of evaluating their magnitudes to facilitate parallel comparison with internal money savings has made it too easy to dismiss them as "mere" – even if the word is not voiced. In this book, and especially in the film *The Corporation,*[2] Bakan has provided impressive documentation of the high costs we all pay (and that future generations will pay) for the internal efficiencies of the corporation. As Milton Friedman is fond of saying, "there's no free lunch."

Bakan demonstrates by extensive presentation of judgments against corporate abuses that they seem virtually immune to condign punishment, even though the penalties imposed might be expected to deter *real* persons from repeat offenses. Fines and damage awards are accepted as a cost of doing business. The managers of corporations are required by law to make money for shareholders. The list of judgments illustrates the cold-blooded risk analyses that corporations make in determining how many customers and employees they can kill and maim and still come out ahead on a comparison of likely penalties to the known savings afforded by cheap design and lax administration of safety procedures. Executive spokesmen manifest no personal shame in these instances, for it is in fact a requirement of their job. Peter Drucker is quoted as saying that a manager with a social conscience must be fired immediately. It is only when managers defraud *shareholders*, as in Enron, that they get sent to jail.

Traits of Psychopaths

In support of his sub-title, Bakan calls on a specialist in psychopathy to witness that the corporation's institutional character manifests most of the traits of human psychopaths. Fundamentally, that means a focus on the self to the exclusion of all others. Identifying symptoms include *irresponsibility* – they put others at risk in order to reach their own goal. They are *asocial* in *refusing to accept responsibility for their own actions* and are *unable to feel remorse.* Like human psychopaths they are *manipulative* and *grandiose* (we're the best), relating to others *superficially*, for "their whole goal is to present themselves to the public in a way that is appealing…. Human psychopaths are notorious for their ability to use charm as a mask to hide their dangerously self-obsessed personalities." Corporations present a façade of social responsibility, but it goes only so far as the consequences are good for the bottom line. This behaviour is an inevitable consequence of the corporation's institutional structure, which impels managements to seek ever more powers by telling ever more lies about the corporation's aspirations and performance. Even when they undertake "good works" for public relations, a cost-benefit calculus is required. There must be a reasonably foreseeable pecuniary reward.

Government was not always so toothless against corporations as it appears today. The first corporations emerged in England in the late 16th century and by the early 18th had left a trail of scandals and corruption that climaxed in the South Sea Bubble. That event goaded Parliament into passing the *Bubble Act* of 1720, "which made it a criminal offense to create a company 'presuming to be a corporate body,' and to issue 'transferable stocks without legal authority.'" That prohibition lasted for more than a century. But the industrial revolution was coming on, and the new opportunities for application of non-animate power for transportation and urban infrastructure called for greater pools of financial capital than had hitherto been contemplated (outside of warfare). Railroad building was the activity that vaulted the corporation into the form and dominance it has manifested for the past 150 years. The critical step in that evolution was the granting of *limited liability*, which became entrenched in English corporate law in 1856 and in the various American states over the remainder of the nineteenth century. The process speeded up in the two decades at the turn of the 20th century as states began to compete for the corporate charter business by offering attractive privileges, such as no longer restricting the charter to a specific range of activities and permitting mergers. Those "reforms" sparked a mushrooming in the scope of corporate organizations and spawned a new industry in shares trading and acquisitions and the financing of these activities. Between 1898 and 1904, 1800 corporations were consolidated into 157, and "the US economy had been transformed from one in which individually owned enterprises competed freely among themselves into one dominated by a relatively few huge corporations, each owned by many shareholders. The era of corporate capitalism had begun." (And Karl Marx had already been dead for 20 years!)

An important consequence was that shareholders had lost control of the corporations they owned. "Unable to influence managerial decisions as individuals because their power was too diluted, they were also too broadly dispersed to act collectively." This created a problem for the law, for someone had to act and be held accountable if the corporation was to be able to buy, sell, own and engage in physical acts of creation and destruction. By various legal decisions over time, therefore, the corporation emerged as a legal "person." "By the end of the nineteenth century, through a bizarre legal alchemy…the corporate person had taken the place, at least in law, of the real people who owned corporations…. Gone was the centuries-old 'grant theory' which had conceived of corporations as instruments of government policy and as dependent upon government bodies to create them and enable them to function." Gone also the rationale for restrictions on corporate behaviour. "The logic was that, conceived as natural entities analogous to human beings, corporations should be created as free individuals…protected by…rights to 'due process of law' and 'equal protection of the laws.'"

With that kind of legislative and judicial backing, the corporation was off and running. It was nonetheless nagged by the "robber baron" image of ruthless monopoly capitalism, and for a long time manifested an attitude of being persecuted by unfriendly governments. Corporations undertook campaigns of public relations to develop an image of themselves as friendly and even benevolent. Excesses nevertheless came in for a considerable share of blame for the Great Depression, and the New Deal initiated an era of reforms that included not only more strenuous regulation but also macroeconomic management by government. The latter innovation was motivated by the conviction of Keynesians that laissez-faire had been given sufficient rope to prove that "equilibrium is blither" (*ER,* November 2003).

The Invisible Hawk has No Grip

In other words, "the market is a snare and a delusion," and the "invisible hand" has no grip. In the period of post-war prosperity that ensued, labour unions forced better wages and working conditions, and then there was the sixties wave of "new social legislation" – environmentalism, human rights, worker and consumer safety (Nader!), culminating in the LBJ campaign promise of a Great Society. That was the low point in the government-business relationship so far as the corporations were concerned, and they mounted a counter-offensive in 1972, setting up the Business Roundtable to co-ordinate a lobbying campaign.

Since then there has been a profound change in business-government relations. All major companies now have offices in DC. They won the right to finance elections under freedom of expression provisions of the US Constitution – an extension of the "person" metaphor. Corporations have subsequently effected a near-complete takeover of the electoral process (102-3). This is the end-point of a long struggle to gain freedom from democratic control. They have managed to cut funding to regulatory agencies, gutting enforcement mechanisms, and have succeeded in effecting repeal of several (especially environmental) regulations. "Corporate welfare bums" are frequently seen to threaten governments openly – "give us what we want or we'll take the relocation bonus you already gave us and leave, taking our jobs with us."

Consequently, it is no surprise to read that "the attitude that business is a victim is basically disappearing," and that "today corporations essentially feel that they're partners with government…not adversaries of government…(107). This is a dangerous notion," says Bakan, "for partnership implies equality. If corporations and governments are indeed partners we should be worried about the state of our democracy, for it means that government has effectively abdicated its sovereignty over the corporation" (108). Deregulation takes away the democratic right of "the people" to control corporate behaviour. The PR campaign against government seems to have persuaded citizens these days that they are unlikely to get effective help from that source, so prominent social activists (he cites Naomi Klein) aim their efforts directly at corporations (150). This is a flawed strategy because it concedes to corporations "all the coercive power and resources of the state, while citizens are left with non-governmental organizations and the market's invisible hand – socialism for the rich and capitalism for the poor…." (151). Quoting Noam Chomsky: "Whatever one thinks of governments, they're to some extent publicly accountable….Corporations are to a zero extent. …One of the reasons why propaganda tries to get you to hate government is because it's the one existing institution in which people can participate to some extent and constrain tyrannical unaccountable power" (152). The bottom line: "Without the state, the corporation is nothing. Literally nothing" (154).

Citizen action to reassert democratic sovereignty is inhibited by the success of a cultural campaign over many decades in the past century to demean and denigrate the utility of government action. The issue is summed up in a statement by Friedman to the author: "The big difference is whether you are really willing to accept the idea that civil servants are pursuing the interest of the community at large, rather than their own self-interest. That's the big divide. That's the divide between Galbraith and myself" (117).

Bakan's assertions are generally documented meticulously. The performance is flawed in one of the very few cases (I noticed no others) where he let his guard down and threw in, anachronistically, the apocryphal anecdote about Charles E. Wilson saying that what is good for General Motors is good for the country.

Keith Wilde

1. This statement from John Kenneth Galbraith's *Innocent Fraud* was quoted in my review of the book (*ER*, August, 2004).

2. Reviewed by Gordon Coggins in *ER* this past spring.

Two Unsucculent Sandwiches

Could a benign God be writing out the message in letters of petroleum crude, so that we can no longer miss it?

The Wall Street Journal (6/08, "Russia Revokes Access to Bank Funds" by Guy Chazan) gives the background: "Moscow – "Russian authorities invoked a decision allowing OAO Yukos to use its bank accounts to pay day-to-day operating expenses, raising fresh fears its oil exports might be disrupted and help push oil prices to new highs.

"The government's about-face, which reversed a decision made just the day before, ended a fragile reprieve that would have eased pressure on Yukos as it struggles to pay a potentially crippling 99 billion ruble ($3.9 billion) back-tax bill for 2000. Yukos, Russia's biggest oil producer, warned two weeks ago that it would run out of cash by mid-August if the accounts remained frozen, forcing it to stop production.

"A Yukos spokesman said the company hadn't received official notification from the Justice Ministry and assumed the accounts were still unfrozen.

"The government flip-flop created jitters in a market already worried that world demand for oil may be overtaking production capacity. September crude-oil futures rose $1.58 to $44.44 a barrel on the New York Mercantile Exchange."

Those impossible Russians!

However, let's shift to other articles in the same issue of the *WSJ* to see how Russia's erratic handling of its oil politics has some disturbing parallels with the Western central banks' management of their benchmark interest rates ("Fed is Unlikely to Reverse Plans for Increasing Interest Rates" by Greg Ip). "Fed officials say that their main concern is that today's extremely low level of interest carries a high risk of fueling inflation years down the road, and that outweighs concerns about damping the expansion [of the economy] by gradually raising rates to a so-called neutral level between 3% and 5%.

"That perspective suggests the Fed is almost certain to raise its target for the federal funds rate, charged on overnight loans between banks to 1.5% from 1.25% on Tuesday. That also means that, barring a significant reversal in the economy, it likely will raise rates in September and at one or both of its meetings in November and December."

Then comes a suggestion of doubt.

"The decision may not seem straightforward. After all, economic growth slowed sharply to a 3% annual rate in the second quarter from 4.3% in the first. Terrorism fears and tight global capacity also have pushed oil prices above $44 a barrel, a record, which could crimp consumer spending and confidence. Higher petroleum prices already are eroding stock values. Indeed, some Fed officials have trimmed their projections for economic growth in the second half of the year."

And that, we feel, is the message that Somebody above the clouds has been trying to get across to Mr. Greenspan for some time now. That Somebody might reason "If that fellow presumes to act for Me, he should least lend an ear to what I am trying to tell him."

For isn't the last quoted passage from the WSJ proving to us that using high oil prices exactly as the Fed for decades has used its benchmark interest rate, highlights the absurdity of raising interest rates for cranking up multiple disasters throughout the world?

Comparing the Benchmarks in Oil and Banking

Why, for example, be troubled about oil above $44 a barrel, "crimping consumer spending and confidence," or, "eroding stock values"? Wasn't that what Volcker's 14% rates for overnight loans achieved throughout the economy where it was translated into rates in the mid-20% range for most producers? Couldn't higher oil prices contribute to decreasing the number of SUVs on American, European, and now Chinese roads, and thus help the environment and keep our health bills down a bit?

"But softer growth and easing inflation aren't likely to convince the Fed that it can hold off tightening rates. Right now, Fed official believe that keeping interest rates below the level of inflation – meaning that there is a negative 'real cost' cost of borrowing – invites higher inflation down the road even if there is not yet a sign of it in the data." Couldn't the same be said of oil prices over $44 a barrel?. If that over-night rate of 1% doesn't cover the real cost of interest if you note the rate of inflation, what happens if you apply the same test to $44 a barrel oil? Allow for the movement of the Consumer Price Index since 1980, apply it to $44 crude and you come up with a far lower "real" price for a oil than obtained in 1980.

Nevertheless democratically elected regimes were overthrown in Iran and in Venezuela and in other oil producing countries to *prevent* oil prices from catching up with the cost of living.

Moreover – the most important point – the $44 per barrel is the actual market price of oil today, while the 1,5 % benchmark rate is just a benchmark, that tells us very little about the actual market price of credit. Very little money gets loaned between banks at that benchmark rate. More and more of the credit created in our society is created by credit cards on which delinquent accounts pay as much as 26%. And a front-page article in the same issue of the *WSJ* ("New Group Swells Bankruptcy Court: the Middle-Aged" by Surin Hwang) informs us: "Many of today's bankrupt baby boomers simply weren't as frugal as their Depression parents. But the increase in middle age people filing for bankruptcy is also attributed to soaring medical costs, an unstable job market, *and years of aggressive credit-card marketing."* [Emphasis ours.]

"Increased family obligations play a role too. The so-called sandwich generation often bears financial responsibility for both their children and their parents, because people are living longer, middle-aged Americans are now eight times as likely to have a living parent as previous generations. And since many parents waited to have children later in life, tuition bills come later as well.

"Ben B. Floyd, a personal bankruptcy trustee for the past 30 years, says he is now seeing people 'who obviously had a white-collar background. They come in looking lost.' 'They didn't take their credit cards to Atlantic City,' says Gabriel Del Virginia, a New York bankruptcy attorney. 'It's largely because people lost their jobs or had a catastrophic illness.'

"Until last year, Charlene Freeman, a 48-year old in the Boston area, worked at home doing technical writing on a contract basis. As the family's primary earner, she was earning $150,000 a year. She had a perfect credit record and a spacious home with a pool. Her husband is an independent computer technician.

"Then her long-controled kidney disease turned into kidney failure, halting her income while her medical costs mounted. Although she paid $725 a month to insure herself, her husband and child, Ms. Freedman wasn't insured for the numerous drugs prescribed to her. Although Ms. Freeman has disability insurance, it wouldn't insure anything related to kidney problems because it was a pre-existing condition. To pay the bills while she battled her illness, Ms. Freeman drained the couple's retirement savings, her home-equity line, and tapped her son's savings accounts. She used 10 credit cards. What she didn't realize was that her husband was using checks sent to them by credit-card companies. These checks, sent unsolicited, have no grace period: interest begins to accumulate on them as soon as they hit the cardholder's account. Before long the couple had accumulated $115,000 in debt. She plans to file for bankruptcy in the fall.

"In recent years the credit-card industry has grown increasingly aggressive in raising interest rates for certain consumers. Interest rates can go up when a person's payments are late, or when their debt passes a specific limit. Six months ago, Ms. Freeman realized that Bank of America had raised her interest rate on its card, citing the total debt her family owed. Other credit card issuers soon followed suit. Today 9 of her 10 cards are charging her 25.9% instead of the 11% she previously paid."

So much for Mr. Greenspan's 1.5% benchmark rate. The point is that the entire economy depends on this ultimate usury since the financial sector has taken over control. From China to South Korea to the US and Europe everything depends on credit card usury, to keep the compulsion of the exponentially-driven expansion of the economy seemingly on track.

In our economy there are benchmarks and benchmarks – on central bank over-night inter-bank rates set by the central bank and there is the real credit rate upon which the system depends. Oil prices are similarly judged by a benchmark price that officially is considered not only fair but inevitable. It is the distribution of power that determines the gap between Mr. Greenspan's 1.5% benchmark and the real interest rates that the empowered depend on for their survival. The contrast between the gap in oil prices between benchmark and reality in interest rates and the zero gap between benchmark and real oil prices has to do with the contrasted power distribution in these two fields. On two occasions that changed the course of history, Washington overthrew democratically elected governments – in Venezuela and Iran – for their part in organizing the original OPEC to bring oil prices in better line with oil costs. On the other hand economic policy and even the economic theory taught in our universities around the same time came to be twisted to attribute the high interest rates and the restrictions on public spending to the free and independent market that must not be interfered with.

The late French economist François Perroux formulated a theory of "the dominant revenue" that shows how in every particular social form the revenue of a particular group becomes identified with the welfare of society. Even the memory of Perroux and his theory have vanished since his death in the latter 1980s, but history has fleshed out his theory in the bloody chasm that has opened between much of Islam – whose faith condemns all interest-taking, not just usury. Clearly, it is the crucial gap between the respective benchmarks and the realities that they are supposed to govern that must be considered in appraising events in Iraq, Afghanistan and the world economy. Incredibly as it may seem to Washington, the retrieval of production costs of oil production – a wasting resources – is quite as important to oil producers as having enough oil to slake the thirst of the SUVs on our roads.

William Krehm

Pressure *continued from page 3*

the Municipality of Lakeshore. Also to be recognized is Andre Marantette who helped to get them on the agenda by connecting their presentation to his on the Municipal Property Assessment Act *(MPAC). If your municipality has not yet passed a resolution in support of using the BoC to finance municipal capital projects, maybe you can help them to do so. Let's keep the ball rolling.*

1. Resolutions passed by Kingston and Toronto:

Kingston, April 3, 2001

(A) The City of Kingston request the Government of Canada

(i) to instruct the Bank of Canada to buy securities issued by municipalities and guaranteed by the Government of Canada to pay for capital projects and/or pay off current debt;

(ii) to refund to municipalities any interest paid by municipalities to the Bank of Canada;

(B) That a copy of this motion be forwarded to the Federation of Canadian Municipalities, the Association of Municipalities of Ontario (AMO) for circulation to other Municipalities within the Province of Ontario with a population over 50,000, to the local M.P. and M.P.P., requesting their support and endorsement.

Toronto – April 23 – May 2, 2001

The Policy and Finance Committee recommends that:

(1) The Federal Minister of Finance, in conjunction with the Province of Ontario, be requested to provide low cost, below prime, long-term loans to municipalities, such as through the Bank of Canada; and

(2) A copy of this request be forwarded to the Federation of Canadian Municipalities and the Association of Municipalities of Ontario.

2. One of the other factors which helped to avoid inflation was the system of statutory reserves by which the government was able to require the commercial banks to put some of their cash in reserves with the Bank, thus reducing the amount of credit *they* could create and therefore the total amount of credit money in circulation. These reserves were abolished by Brian Mulroney in 1991 and would have to be reinstated.

An Open Letter from William Krehm, Editor of *Economic Reform*, to the Minister of Finance

August 16, 2004
The Honourable Ralph Goodale
Minister of Finance
Government of Canada

Dear Mr. Minister:

Regarding your letter of June 11th to Richard Priestman, who had written to the Honourable John Gerretsen, Minister of Municipal Affairs and Housing for the Province of Ontario, suggesting that the Government use the Bank of Canada to finance a substantial amount of public capital expenditures of all three levels of government, which is still provided for in the *Bank of Canada Act* (18c,h).

When this is done, as it was under the Federal governments right into the 1970s, the interest paid on the government debt ends up substantially with the federal government in the form of dividends. For though the Bank of Canada was founded in 1935 as a bank owned by private shareholders, in 1938 a Liberal government fulfilled its election promise to nationalize the Bank. That more than anything else made it possible not only to finance the Second World War at minimal interest charges, but to catch up with a decade of neglect and six years of war in renewing our infrastructures and assimilating a vast, mostly penniless immigration.

Canada's shame today is that our federal government claims that we cannot afford to maintain the infrastructure that the proper use of the Bank of Canada made possible to create under the most difficult conditions. On top of that, by making proper use of the central bank, Canada was able to reduce the ratio of our federal debt to our annual gross domestic product from the record 170% in 1946 to less than 20% in 1973. Those figures were obtained from the Bank of Canada Review. (Though they deal only with the funded debt, since the ratio of funded debt to GDP was being rapidly brought down, those figures probably understate the achievement if we included the unfunded federal debt).

You write, "The Bank holds a portion of the Government of Canada's debt on its balance sheet as assets to offset its liabilities of currency in circulation. If the Bank were to finance expenditures of Canadian governments, it would hold the governments' debt as assets on its balance sheet, resulting in a significant increase in its liabilities and hence in the money supply. The expansion of the money supply would be inflationary. The resulting inflation would ultimately hurt the economy, increase interest rates and reduce the standard of living of Canadians."

This is a tangle of distortion. First of all, Mr. Minister, since double-entry bookkeeping came in some seven centuries ago, every liability incurred by anyone including our government should have an asset to balance it. Only in the event of scandals of one sort or another is this not so. However, the assets acquired fall into categories – some are for current needs, others are for long-term investment. In proposing to use the Bank of Canada as it was used for almost four decades of its existence, we are talking entirely of capital investments, not of current expenditures – of bridges, roads, hospitals, schools, and health, not of paper clips and floor-wax.

Canada Year Book as Witness

A nationalized central bank could provide near interest-free loans to the federal government, which would hardly be inflationary since the unemployed labour forces and the physical means are abundantly idle. It is a matter of mobilizing such wasting resources for social benefit. But to bring that to pass requires that the credit of the central government – which today is the only legal tender, i.e., the only Canadian money in existence – be available at affordable rates for essential capital purposes. This would cover the services that have been systematically loaded down from the federal government to the provinces without the funds to pay for them. The provinces in turn have passed them to the municipalities on the same impossible terms, and the municipalities have been left holding the bag.

Let me refer you to a description of the facilities still in the *Bank of Canada Act* today, but are rarely if ever mentioned in public. Accordingly I will cite them from the Canada Year Book of 1973 (page773), along with the explanation of their purpose given in the same source.

"The provisions of the *Bank of Canada Act* enable the Central Bank to determine the total amount of cash reserves available to the chartered banks as a group and in that way to control the rate of expansion of the total assets and deposit liabilities of the banking system as a whole. The *Bank Act* which regulates the operation of the chartered banks, requires that each chartered bank maintain a stipulated minimum average amount of cash reserves, calculated as a percentage of its Canadian dollar deposit liabilities, in the form of deposits at the Bank of Canada and holdings of Bank of Canada notes. The minimum cash reserve requirement, which came into effect under the legislation beginning February 1 1968, is 12% of demand deposits and 4% of other deposits. The ability of the chartered banks as a group to expand their total assets and deposit liabilities is therefore limited by the total amount of cash reserves available. An increase in cash reserves will encourage the banks as a group to expand their total assets (which consists chiefly of loans and marketable securities) with a concomitant increase in their deposit liabilities; a decrease in cash reserves of the chartered banks will bring about a decline in their total assets and deposit liabilities as they seek to restore their cash reserve ratios.

"The chief method by which the Bank of Canada alters the level of cash reserves of the chartered banks over time, and through them the total of chartered bank deposits, is by purchase and sale of government securities. Payment by the central bank for the securities it purchases in the market adds to the cash reserves of the chartered banks as a group and puts them in a position to expand their assets and deposit liabilities. Conversely, payment to the central bank for securities it sells causes a reduction in the cash reserves of the central banks and requires them to reduce their holdings of assets and deposit liabilities.

"The influence the Bank of Canada exerts on credit conditions (i.e., on interest cost and other terms of borrowing in financial markets) stems from its ability to limit the growth of bank credit and of the community's holding of bank deposits and currency." In short, at the time this and similar passages in later Canada Year Books were published (right into the latter 1980s), it was not only the Bank's benchmark interest rate that was used as 'the one blunt tool' to enforce a supposedly self-balancing market, but the ability of the central bank to expand or curtail the power of chartered banks to create further credit. Indeed, official dogma is that banks do not create credit as a multiple of the base-legal tender, i.e., federal debt, they hold, but rather merely act as intermediaries of what they themselves borrow from the market.

What Happened to Zero Inflation?

You write: "That is why the Bank of Canada and the Government of Canada agreed in 1991 to adopt an inflation-targeting regime. The target range was reduced to between 1 and 3 percent and was extended several times..." That is being less than frank; the goal dictated by the Bank for International settlements was "Zero inflation," and the attempt was made by the Mulroney government to put that in the constitution. Only the refusal of the finance committee caucuses of all three major parties stopped that.

The Bank of Canada under Governor John Crow was preaching the nonsense that if the slightest amount of price rise were tolerated, it would end up as the sort of hyperinflation that hit Germany in 1923. But Germany had lost a war, and the French army occupied its industrial Ruhr heartland to exact reparations for that war in strong currency that Germany did not have. What ensued was a general strike and virtual civil war. To suggest any similarity between that hyperinflation and the slight amount of price rise in the 1990's was charlatanry. What was targeted in 1991 was not a goal based on any serious economic theory, but the interest of the speculative finance capital that had gambled and lost big in the 1980s in gas and oil, in real estate like London's Canary Wharf, and builder Robert Campeau's sudden passion for collecting merchandising *chains* in the US.

In 1991, with neither debate or even explanation in parliament or the media, the government began phasing out the statutory reserves that were described in the 1973 Canada Year Book and as the very essence of controlling inflation or deflation as the need may arise by encouraging or discouraging the chartered banks to create more or less credit without shooting down anything that moves in the economy. Toward the end of 1990 the Bank's benchmark interest rate rose to 14.5%, which means that businesses were paying rates in the mid-twenty percent rage.

In addition to helping to bail out overstretched banks throughout the Western world by the phasing out of the statutory reserves, the Bank for International Settlements' Risk-Based Capital Requirements had already declared the debt of the developed (OECD) countries to be risk-free, requiring no additional capital to acquire. Between these two measures, Canada's overstretched chartered banks were able to take on another 60 billion dollars worth of federal debt without putting up any money of their own. And that was not just capital that they were relieved of having to put up, but *cash*. Banks raise their capital as cash, but leave no more of it in that form than is strictly necessary because cash is lazy, sterile money that earns no return.

A return to the use of the Bank of Canada for municipal and provincial financing, with an arrangement for the provinces and municipalities to get some of the interest that would end up with the federal government, could serve to get agreement on the adoption of federal standards and head off the eternal bickering between Ottawa and the provinces.

William Krehm
Committee on Monetary and Economic Reform

BOOK REVIEW: PART TWO

"The Politics of Money Towards Sustainability and Economic Democracy"

By Frances Hutchinson, Mary Mellor and Wendy Olsen, Pluto Press, London and Sterling, Virginia, 2002.

"The importance of the enclosure of land as private property is that many of the resources communities held would have been in the form of common land. Common resources are those which have no deeds of ownership but are regularly used for farming or harnessing subsistence. Under these conditions most people would have gathered, hunted, gardened and herded, growing and preparing their own food. The emergence of capitalist market society together with industrial patterns of resource use including agricultural production has broken down the direct relationship between people and the source of their subsistence for at least two-third of the world's population. Self-provisioning has been replaced by waged labour contractually engaged 'through a network of society-embracing markets.' It was this compulsion into waged labour, ironically described as 'free,' which Marx argued made capitalism a unique form of exploitation.

According to John Locke (1632-1704), although God gave the land to be held in common, it was the duty of individuals to improve [it] with their own labour. Where the land is made more valuable and profitable, common possession must give way to private property. According to this theory, land has value in itself. Hence when an individual encloses waste or common land, and labours to improve it, they add to, rather than take away from communal welfare.

The Escalation of Unsustainable Practices

"Such improvements enabled the individual household or firm to produce commodities for sale for money in distant markets. In the process it created the illusion that unsustainable practices could be escalated indefinitely.

"The process of absorbing the commons into the market system continues apace today. Forest people in particular are struggling for the retention of the commons of tropical rain forests from Sarawak to the Amazon. Across the globe indigenous peoples are launching anti-globalization campaigns.

"Equally, the state can guarantee the rights of the international, global capitalist elite class to plunder the social and ecological commons, placing the short-term profit of powerful individuals and corporations before the common good. In the eyes of many people organizations like the World Bank, IMF and WTO are just that, agents of property regimes that seek to transfer all resources into capitalist corporate regimes.

"Capitalism is the enclosure not only of land but also of tools and knowledge for the purpose of private financial gain. As Veblen has argued, all invention is based on the common cultural inheritance built up over countless generations. Although the fencing of land is commonly portrayed as a means of introducing more 'efficient' farming methods, it entailed far more than mere fencing. Loss of subsistence access through enclosure, exclusion or patenting leads to a loss of social inheritance and knowledge.

"Intellectual property has now become an important aspect of world trade. The patenting of seed in particular is causing a loss of species as well as denying poorer people access to their traditional plants. Often this is because the seed has been hybridized and patented. What this might mean in the longer run is that hardy species developed over millennia to resist salination, drought or low temperatures, or forage animals that can live in difficult terrain, will be lost forever."

Enclosing Intellectual Property

"To live people must do paid work or find a source of money income. The entire edifice of economic theorizing has been built upon the false premise that *things* exchange for *things* and not for *money.* That was why Marx was so outraged at the argument put forward by Jean Baptiste Say that in every sale there is a purchase, and in every purchase a sale, exactly as in barter. Marx is quite clear that money, not commodities, is the focus of the market economy.

"Only if money is eliminated is it possible to regard 'capital' as the *commodities* or 'things' comprising a necessary element in the productive process: hence the common misapprehension that ownership of the *physical* rather than the *financial* means of production is the key issue in the control and production of wealth. It is also possible to be drawn into the debate on booms, slumps, inflation, stagflation, unemployment and the general tendency for a falling rate of profit without challenging the conceptualization of a formal economy which is assumed to be providing for universal welfare through the production of *things.* According to Freeman and his colleagues the study of economics which ignores the central role of money in the economy has also invaded Marxist economics. Economics must be situated in real time and the real world."

Striving Towards Exponential Growth

That is far truer than Alan Freeman seems to realize. Not only have money prices and money profits replaced the prime role of commodities in the economy, but the rate of growth of the profit already obtained by public corporations in a single year, is by grace of an alleged knowledge extrapolated into the remote future and then discounted for present value and incorporated into present price. The knowledge of such items is supposed available from equilibrium points located with "derivatives." The result: market prices of successfully promoted stocks strive towards the exponential curve which is the mathematics of the atom bomb.

Man shapes his theories under the influence of his technology. Marx's view of the society's future, was obviously inspired by the railway-building age in which it was conceived: its course was plotted via foreseeable stations to the socialist terminal. This is what Veblen identified as Marx's "teleological" aspect (Hutchinson et al., p.106). With our contemporary economists, the major influence is the split atom. It is the model not only for the stock market but for the entire economy.[1]

Veblen laid a finger on the vulnerable "romantic" side of Marxism ("a sequence of theory"). "Capitalism relies on two basic mechanisms of cultural conditioning. First, the conditioning of 'chronic dissatisfaction' associated with emulative consumption (consumerism) – the 'spiritual' poverty of labouring for a money wage, going into debt to acquire and consume more objects offering the illusion of leisure and status. He enriched the language and sociology with the term 'conspicuous consumption' that increasingly drives our world. Second, patriotism and military discipline to maintain its aggressive imperialist expansion."

This might well have been written not in 1899, but the day before yesterday.

"Veblen provides a neat example of the 'double-think' of neo-classical economics when the factors of production are described in purely material terms. [He cites] John Bates Clark, an early American marginalist, dismissing the notion of capital as financial (money) value. In his view, it would be more accurate to regard capital as 'a fund of productive goods.' However, Veblen refers to Clark's own contradictory example of the transfer of capital from a whaling ship to a cotton mill. Plainly, 'capital *goods* are not purchase and sale.' Finance capital intervenese to change the nature of exchange' (Hutchinson, p. 113). Capitalism upsets all concepts of 'natural' returns to the factors of production."

Veblen emphasized the rigidities into which the concept of "class" led Marxists. "The complexities of class within capitalized money/market systems has been somewhat obscured by Marxist thinking that narrows the emphasis to capital-labour relations. This not only ignores the problems of unpaid work but cannot make connection with the position of debt-based, small-scale property ownership such as the peasant landholder. Veblen questioned Marx's prediction that agribusiness would absorb the small proprietor, converting them to landless labour. As early as 1906 Veblen suggested that socialists and small peasant farmers should have common cause in resisting finance capitalism. However, Veblen was a voice in the wilderness. Henceforth, the small farmer, classed as 'bourgeois' by 'socialists' sought to oppose the hated financial capitalism by adopting an ideology on the far right."

Broadening the Marxian Class Concept

More recently, under the impact of other cultures, this has begun changing with leftist politicians lending a sympathetic ear to land claims of indigenous peoples. In India Marxists are recognizing the links between the rural bourgeoisie with urban industrialists, that is influenced by the caste system. The authors of the book under review bring to centre-stage the exploitation that occurs within families where the women's unpaid labour is not recognized. "Social class is now just part of the set of resource factors and interrelated subjectivities such as gender and ethnicity that go into shaping social relations."

Obviously, the Social Credit people, no less than other reformers, will have to invest further effort in grasping how society is to move to the solution of the seemingly impossible problems that beset the world today. In an earlier issue of *ER* (May 2004) we paid tribute to an earlier volume co-authored by Ms. Hutchinson in disclosing to us what had previously eluded us – what Douglas was saying with his A and B theorem. It was not capital budgeting, for capital budgeting which recognized the capital investment in equipment, buildings and much else that would come back to the producer only over a long period. During that time capital debt would have to be financed. That was the entry through which exploitative financial capital took over. It had therefore to be bridged with a social dividend that could be justified by the heritage of all in previous generations who contributed in various ways to make possible the institutions, science, technology and social cohesion that made production possible in our day – slaves, martyrs, inventors, civic leaders, jurists. That social dividend would help make it possible to carry on production without being at the mercy of finance capital. Producers' banks would make its contribution to this end. That, however, does not mean that in addition to Douglas's A and B accountancy, we have no need of standard accrual accountancy (i.e., capital budgeting) that would keep us informed of when the total investment is to return and with what profits.

These two distinct gauges of the efficiency of a firm – or the economy as a whole – correspond to twin complementary concepts. One is liquidity that the Douglas A & B theorem addresses; and solvency which has to do with the existence of enough assets, liquid or otherwise, to cover the institution's debt.

One of the goals of the A & B Theorem is to avoid the need for external financing of the productive process. To close this monetary gap while production is being completed and the income from the sale has come in, Douglas depended upon the Social Dividend. This would help the producers organize their own financing.

Rethinking the "Inflation" Concept

There is another important detail that our Social Credit friends should look into. In recent election campaigns on all continents we have witnessed a fixation on balancing the national budget. That of course, conflicts with what we learned in the 1930s at a shattering cost. But so long as our central banks insist on identifying any rise of price indexes with inflation, we risk repeating that experience. Since World War II, the market economy has become a pluralistic one, in which more and more human and physical infrastructures are needed to serve ever more complicated technologies and intense urbanization. And these only the state can provide. The resulting taxation, however, inevitably becomes a deepening layer of price. Thirty-five years ago I identified this as "the social lien." This must be distinguished from inflation that properly refers to price rise resulting from an excess of demand over supply. Economic Historians (notably the late Ferdinand Braudel) have grasped the point. Economists have remained blind to it. Recognizing it would undermine the vested interests served by the self-balancing market construct, that dispatches all social and environmental concerns as "externalities." Economic policy has become increasingly identified with balancing the national budget that is increasingly in deficit because of governments' insistence on treating public investment as current spending.

Unless serious accountancy is introduced into our price theory, there will be no possibility of bringing in anything resembling the "social dividend."

William Krehm

1. The exponential function will repay a little attention. It is constructed to the specification that the rate of growth equals the value already attained by the function itself. That implies, of course, that the same is the case with the higher derivatives to infinity.

The formula is: $1 + x + \frac{x^2}{2 \times 1} + \frac{x^3}{3 \times 2 \times 1} \dots$

Differentiating the function for the rate of growth: 1 being a constant doesn't grow and hence becomes zero and x grows as the variable itself becomes 1 to replace the vanished first term on the left. The denominator of the next term is chosen so that its first derivative becomes x to replace the previous second term, and so on to infinity. Being an infinite series it doesn't matter that the first term disappears and the expression shifts to the right. There are an infinite number of terms available on the right to absorb the losses on the left. As they occur you pass on to the next higher derivative. In graph form this is a curve that starts almost horizontal but in no time at all stands vertical.

Our Tottering Fiscal Prudence

Pick the most nonsensical of nursery rhymes that starts a youngster chortling, take it as a key for understanding our world and you will still come closer than what passes for economic analysis these days.

Take the columns "Until Debt s Do Us Part" by John Ibbitson, in *The Globe and Mail* (14/07): "Congratulations to Alberta on retiring its debt. The rest of us should be so lucky. Debt inhibits a government's ability to stimulate the economy through investments or lower taxes, and siphons dollars that would otherwise be available for capital investment. All provinces suffer from the effects of one province's debt.

"Generally speaking, federal, provincial and municipal governments have been acting responsibly over the past decade to reduce the national debt which has fallen from the equivalent of 100% of the nation's GDP to about 80%."

The reference is clearly to the total of the federal, provincial, and municipal debt.

On Opposite Sides of the Debt Teeter-totter

And the moon is a hunk of green cheese, and we must cut and package it and float an international cheese corporation to replace bankrupt Parmalat. For the only legal tender in the land *is* federal debt. Hence the only way our governments could meet Mr. Ibbitson's approval is for the federal government to issue more of its debt which is the only money of the nation. If our federal government repaid a major part of its debt, the provinces would be running up more debt, because there would be less money around, and greater need for provincial and municipal social programs. And the only way Ottawa could pay of a big chunk of debt would be by slashing the tax base of the provinces, the municipalities and its own, As a result there would be an increased need for social programs.

The provinces and the municipalities and the private sector in a sense are seated on opposite sides of the great debt teeter-totter. The more Ottawa cuts its spending, the more the provinces must borrow. The more Ottawa borrows – providing that it uses the Bank of Canada for its borrowing so that the interest paid on those loans will come back to it substantially as dividends of the central bank. For the federal government since 1938 has been the sole shareholder of the Bank of Canada and with a reviving economy, the less the provinces and the municipalities would have to borrow.... There would also have to be enough unemployed, qualified workmen for the projects it finances with such loans, and enough materials within the country so that it does not have to borrow abroad. But unemployed and unsold goods we have in excellent supply. And above all the federal government's loans would not be wasted on paying interest to private banks, for borrowing that is available to it virtually interest-free from its own central bank.

It is shocking that so elementary a fact about money today has been made inaccessible to the media, parliament, and to our university students.

Paying Off the Debt with Paper of a Different Colour

You can bring down this house of marked cards by asking your politicians a simple question: "Since gold and silver – even in theory – have been demonetized, i.e., stripped of their role as legal tender, what would you have the federal government pay down its debt with? Federal debt bills of a different colour than those being retired? Or computer entries in a different shade of ink?"

And you could inform them of this suppressed cut of our history:

In 1946, after 10 years of crippling depression and six of war, during which little was built or produced not for destruction, the ratio of federal debt to the GNP was 170%. Over the following 26 years, the country caught up with the neglect of the preceding 16 years, financing the introduction of new technologies, assimilated an unprecedented refugee influx to unheard of standards. Yet despite all this, by 1972 the above debt to GNP ration was reduced from 170% to under 20%. How was this done? By increasing the use of the Bank of Canada for holding federal debt equal to the mid-20 percentages. Today it hovers just over 5%.

In 1991 in the deepest stealth, to bail out our chartered banks from their gambles in the 1980s, they were bailed out, by an amendment of the *Bank Act* that did away with the statutory reserves of the need to redeposit with the Bank of Canada a portion of the deposits taken in by them from the public in their chequing accounts. These reserves earned them no interest, and thus made it possible for the government to borrow more credit from its own bank within the constraints established. The abolition of these reserves allowed the banks to increase their holdings of government debt by $60 billion without putting up a penny of their own money. (The Bank for International Settlements – a purely technical international agency that allowed no elected official of a government to attend its sessions – to help rescue banks in crisis throughout the world had already declared the debt of developed countries to be "risk-free" requiring no further capital for banks to acquire.) And that is where the nursery-rhyme nonsense comes in. The statutory reserves that were abolished by Ottawa had served as one of two tools for dealing with perceived inflation. In their haste to bail out the banks both Ottawa and the BIS overlooked that the end of the statutory reserves made the debt of any country anything but risk-free. Because whenever the central bank raises interest rates – its self-described "sole blunt tool to fight inflation" – those preexisting bond hoards of the banks would drop in market price. That oversight COMER picked up at once and warned the government about it. Reduplicated by every central bank in the Western world, it was the main cause of the international monetary crisis that began in Mexico and swept east Asia and passed on to Russia. It required Washington, the IMF and Canada to put up a standby fund of over $50 billion to prevent a complete collapse of the world monetary system.

Deregulating Our Bailed-out Banks

But the scandal did not stop there. Having bailed out our banks in 1991, Ottawa proceeded to deregulate them to allow them to acquire stock brokerages, stock market underwriting establishments, and enter the credit card business in a big way. As a result three of our largest six banks featured along with the US biggest in some of the biggest scams connected with Enron corporation. We learned of that involvement from the US government investigations, with settlements paid by our banks of as much as $80 million US.

All this is highly relevant, because the national elections both in the US and Canada were run largely on the basis of which of the major parties promised more loudly to balance the budget. Instead of useful economic theory that might help us understand society's needs, our government sets policy with nothing but a piggy-bank with a hole in its bottom.

These are details that we should have heard about in the recent election campaign. Hopefully we will in the next one. Without adequate information democracy risks becoming a nonsense rhyme.

William Krehm

Guantanamoing the Law Books

The United States did not join the Kyoto Treaty for the protection of the environment. That the world knows. What it doesn't know is that the Bush government has given similar treatment to legislation protective of the environment already on the books. That inconsistency perpetuates the pattern of the vote-counting in Florida that gave Bush the presidency despite the ballots cast. *The New York Times Magazine* (04/04/04, "Up in Smoke – The Bush Administration, the big power companies and the undoing of 30 years of clean-air policy" by Bruce Barcoli) tells a grisly tale.

Trusting the Pollution to Make the Proper Decisions

"President Bush doesn't talk about new-source review (NSR) very often. Only once has he mentioned it in public, on Sept. 15, 2003, to a cheering crowd of power-plant workers and executives in Monroe, Mich., one of the nation's top polluters. Its coal-fired generators emit more mercury, a toxic chemical, than any other power plant in the state. Until recently, power plants like the one in Monroe operated by Detroit Edison were governed by NSR regulation, which required the plant's owners to install new pollution-control devices if they made any significant improvements to the plant. These regulations now exist in name only; they were effectively eliminated by a series of rule changes that the Bush administration made out of the public eye in 2002 and 2003. What the President was celebrating in Monroe was the effective end of new-source review.

"'The old regulations,' he said speaking in front of a huge American flag, 'undermined our goals for protecting the environment and growing the economy,' New-source review just didn't work, he said, It dissuaded power companies from updating old equipment. 'Now we've issued new rules that will allow utility companies to make routine upgrades without enormous costs and endless disputes. We trust the people in this plant to make the right decisions.'

"Of the many environmental changes brought about by the Bush White House, none illustrates the administration's modus operandi better than the overhaul of new-source review. The president has had little success in the past three years at getting his environmental agenda through Congress. His energy bill remains unpassed. His Clear Skies package of clean-air laws is collecting dust on a committee shelf. The Arctic Wildlife Refuge remains closed to oil and gas exploration. Overturning new-source review represents the most sweeping change, and among the least noticed.

"The administration's real problem with NSR wasn't that it didn't work. The problem was that it was about to work too well – as it was designed to when it was passed by Congress more than 25 years ago."

A Costly Day of Reckoning

"Having long flouted the new-source review law, many of the nation's biggest power companies were facing in the last months of the 1990s, an expensive day of reckoning. The power companies were on the verge of signing agreements to clean up their plants. That would have delivered one of the greatest advances in clear air in the nation's history. Then George W. Bush took office, and everything changed.

"The *Clean Air Act*, adopted by Congress and signed by President Nixon in 1970 required polluters to clean up their operations. The law forced power plants and large factories to minimize their emissions of harmful pollutants, and it established national air-quality standards to be met by 1975. Seven years passed, and the national standards went unmet. Instead of building new, cleaner plants, many companies simply patched up and upgraded their old, dirty ones. So Congress updated the act in 1977, introducing a regulation called new-source review to bring older plants into compliance. A company could operate an old factory as long as it wasn't substantially modified. It was a way to let companies phase in cleaner factories over a number of years instead of all at once. During the 80s and 90s some power companies did replace coal plants with cleaner ones burning natural gas. But many other retooled plants to keep them running long past their expected life spans, and few were fitted with the scrubbers and other equipment required by NSR.

"The electric industry complained that NSR rules were so complicated that it was impossible for utilities to determine the difference between 'routine; maintenance, which wouldn't require an upgrade, and a significant 'physical change' that would. An examination of documents made public as a result of lawsuits, however, makes it difficult to credit these complaints. Beginning soon after NSR was implemented, the Environment Protection Agency (EPA) officials issued frequent letters and bulletins telling power companies exactly where the agency was drawing the line. Coal-fired power plants didn't move to the top of the agency's list until late 1996 when Bruce Buckheit, a former Justice Department lawyer who had recently joined the EPA as director of its air-enforcement division, noticed an article in *The Washington Post* about proposed changes to the ownership rules governing the power industry. 'The story predicted that deregulation would increase the use of coal-fired power generation in the Midwest. 'So we thought,' Buckheit recalled, 'If they're going to have all that expansion, they're going to have to pay attention to NSR rules.'

"Industry records indicated that many power plants had upgraded their facilities to burn more coal, which required new-source review permits, but [when] we started looking around for the permits, they weren't there." A lot of companies thought they could evade the law.

"At the same time a growing body of medical research indicated that industrial air pollution was making a lot of people sick. Power plants pump dozens of chemicals into the air; among the most harmful are nitrogen oxides, sulfur dioxide and mercury. Mercury, a highly toxic chemical emitted as a vapor when coal is burned, has been found to cause brain disorders in developing fetuses and young children, and unhealthy levels of it have been found recently in swordfish and tuna."

The Environmental Equivalent of Tobacco Litigation

"After two years of investigation, EPA had accumulated a daunting amount of evidence of wrongdoing by the coal-burning power industry. It was the environmental equivalent of the tobacco litigation. Former ERP officials noted that the agency might have enough legal leverage to force the industry to install up-to-date pollution controls.

"Attorney General Janet Reno announced the suits herself. 'When children can't breathe because of pollution from a utility plant hundreds of miles away,' she said, 'something has to be done.'

"The utility industry immediately turned to the Republican-controled Congress for relief from the lawsuits. But representative C.W. Bill Young, a Tampa-area Republican, unexpectedly turned a deaf ear to the overtures of his local utility, Tampa Electric.

"Faced with Congressional rejection and mounting fines – $27,500 per plant for each day a utility was in violation, some utilities struck bargains with the federal government. But others started writing checks to George W. Bush's presidential campaign fund."

The vote recount technique was broadly applied to the clean-up of pollution, and many other areas. It proved a pattern for holding at bay laws that were unwelcome to Bush's mega-campaign contributors. The decisions of such matters were simply moved beyond US legal jurisdiction.

"The coal-industry trade magazine Coal Age exulted in the industry's 'high-level access to policymakers in the new administration.'

"One key element of the strategy was putting the right people in under-the radar positions – officials who came directly from industry to these lower rungs of power – deputy secretaries and assistant administrators. These appointees knew exactly which rules and regulations to change because they had been trying to change them on behalf of their industries for years.

"In January, 2002, the White House suffered a setback. The Justice Department delivered its report on the legality of the EPA's lawsuit against the Southern Company and other NSR violators. The department found that all of the lawsuits were legal and warranted.

"Shortly thereafter, White House officials decided it was time to try the Congressional track. On Feb. 14, 2002, President Bush unveiled his Clear Skies Initiative. The president declared that his proposed legislation 'sets tough new standards to dramatically reduce the three most significant forms of pollution from power plants – sulfur dioxide, nitrogen oxides and mercury.'

"Many Republicans and some moderate Democrat embrace the general concept of cap-and-trade, in which Washington sets pollution standards for the entire country, and then allowed companies that manage to reduce their emissions below the standard to sell their extra pollution 'allowance' to companies that haven't met the standard."

The oddity is that experts who worship marginal utility value theory as a biblical revelation, fly in the teeth of it when it suits their clients. An industry the reduces pollution beyond the national requirement trades that "extra" item at par for the same physical amount of pollution in an area where the cleansing is in short supply. If we translate the operation into the number of victims arising from such a deal, they are bound to increase since the lethal effect of pollution will increase with its intensity. Obviously anything goes when the self-interest of the empowered is concerned.

William Krehm

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Reflections with a Sigh

Age has its disadvantages: notably dimming vision, and the embarrassing elusiveness of familiar names. However, I suppose the vices of a lifetime do offer occasional consolation.... A stubborn curiosity about mathematics certainly has made such a contribution. It provided insight into the trained disability of distinguished economists to examine problems from new, revealing angles. Conventional economists too often miss important relationships by leaving it all to a "self-balancing market" that never existed and hence cannot not be subjected to the Popper test of proving its *negative* version incorrect. Instead they simply declare the growing part of the economy outside that market – the environment, the family, the public sector – "externalities." The problems that this creates are then entrusted to "sufficient growth" that end up actually accentuating them. You will understand what I am saying if you consult the files under I for Iraq, and O for Oil. Because of the resulting dependence on growth, too often neither corporations nor the government don't even respect the elementary rules of accountancy. That leaves no standing room for the most elementary morality.

How Different the Record of Keynes

Note the contrary record of Keynes in this respect. Bred in the equilibrium school of economics – his father was an economics professor at Cambridge – a few years before the Depression he dismissed Marx as "unscientific." A decade later, however, he ate crow in an honest gesture that few of his colleagues have matched. He paid his tribute to Marx – whom he knew only through the intermediation of his brightest students like Joan Robinson and Sraffa – and acknowledged borrowing from him and from Major Douglas and Silvio Gesell, the elements for working out what came to be known as Keynesianism. That is what our government and orthodox economists are burying so deeply for the grave to qualify as upside-down skyscrapers in the ground. In doing so they are gambling away humanity's most precious talent: that it not only learns from its successes but from its defeats. Deprive it of that, and you debase human kind and make it a candidate for joining those species that geologists track down in primeval rock.

Nothing personal about being sent to Coventry by the right guys. It is not confined to COMER. Take the case of a distinguished economist at NorthWestern University much quoted in his day, Robert Eisner. Amongst much else, he did a careful study of the deficits of a celebrated alleged balancer of unbalanceable budgets, name of Ronald Reagan. In his attempt to "lick inflation," by slashing social services to fight inflation, and cutting taxes, Reagan actually stepped up the rate of inflation. Eisner did detailed statistical studies of how that inflation – when it got beyond a certain level – so reduced the real value of the national and private debt, that it actually revived the economy. That of course was related to the recent discovery of "good inflation," the first 2 to 3% that the Fed and the Bank for International Settlements fleetingly rediscovered, and apparently is in the process of being forgotten again.

Then the thought occurred to me: these scholars who believe in a self-balancing market that never existed are so locked in their faith that perhaps by sheer chance coincides with the interest of our financial institutions. Could they have simply and honestly just lost the ability of recognizing isolated self-balancing traits of the market price system even where they do exist?

And from the vantage point of ripe old age, certain perspectives are given us – for example, an increased interest in history, which is the memory of human kind seen through the warp of time. Orthodox economists who cannot even manage to remember what they swore by and were prepared to wreck the economy for, have no use for history. Nobody can mistake it for a self-balancing phenomenon. As though as a warning from heaven, all the great empires of the past – *with no exception* – have disappeared. The French *sou*, a negligible coin if it still existed when the euro came in, derived its name from the Latin *solidu*s. That was a gold coin used only by the upper class during the Roman Empire and in the Middle ages largely in transactions between states. Much of the less exalted transactions during the dark ages were transacted in kind, even taxes. Gold came largely from central Africa and ended up disproportionately in religious vessels and ornaments of the Church, i.e., the transactions between man and his Creator. Undoubtedly you know about Henry the Eighth and his wives. The reformation was supposed to have been a by-product of his divorce from Catherine of Aragon, so that he might marry Anne Boleyn, one of the wives he later beheaded. A more powerful motive, however, seems to have been to shake loose the gold hoards of the Church, so urgently needed by England, whose trading economy had come to depend upon an adequate supply of precious metals. The multiplier of banking that later made much money out of a little money base had not yet evolved. So the British monarch achieved that goal by hanging the odd abbot for hiding gold vessels – as in Glastonbury – and of course later by piracy on the seas.

Bumble-bees and Exposed Bottoms

That is the difference between number-crunching and economic analysis: recognizing the ever greater number of independent variables often identified by studying history. The methodology is otherwise known as systems theory, which the better economists are just starting to discover. May they persist and not be distracted by fellowships granted increasingly by central banks to distract them from their more honest investigations. Some of us have applied systems theory to economic matters for at least thirty years. That is part of the heritage that COMER is defending. The world has need of it. That is why it saddens us that the new leader of the NDP, Jack Layton, should apparently turn his back on the glorious traditions of the CCF in playing bumble bee to a Liberal minority government. There is no connection between the" bumble" in "bumble-bee" as in CCF headed for Mackenzie King's exposed bottom and "bumbling" as in Bob Rae. In his time as Premier of Ontario Mr. Rae was approached by COMER with a proposal to pressure the government to use the Bank of Canada to restore the funds that Ottawa had deprived the province of.

To that he replied – would you believe it? – he preferred having the federal government restore its grants to the province. That was considered "playing it safe and respectable" You just have to watch the performance of Paul Martin and his cloven-tongued promises to restore those grants to which Bob Rae was so attached. Were we all to become respectable by the standards of fiscal responsibility laid down by Brian Mulroney, society would be doomed. And for hedging against that, there is no derivative devised even by our banks.

William Krehm