THE JOURNAL OF THE COMMITTEE ON MONETARY AND ECONOMIC REFORM

comer

$3.95 Vol. 18, No. 2 • FEBRUARY 2006

CONTENTS

Hopeless Statistical Confusions Behind our Hollow Election

Matters have come to a pretty pass when an official of the largest commercial bank in the land publicly mocks the central bank's undying concern about inflation.

The tale is told in *The Globe and Mail* (01/26, "Missing in action at a mall near you: Inflation" by Heather Scoffield): "The DVD player selling for $39.95 is putting the Bank of Canada in a quandary.

"Prices for electronics and imported goods have been falling, and the effect is to put a damper on inflation across the country. (The behaviour of inflation is defying traditional expectations.) It seems steady prices are here to stay.

"But the central bank dogmatically bases its monetary policy on fighting higher prices. While no one is saying inflation has gone for good, its new and unpredictable ways are challenging how the Bank of Canada makes decisions.

"'There's some debate about whether we're at the point where inflation starts to kick in,' said Derek Holt, assistant chief economist at Royal Bank of Canada.

"In theory, inflationary pressure rises when the economy is running at capacity. And the central bank believes the Canadian economy is at capacity right now. But signs of inflation are spotty. The bank's target core rate of inflation, which factors out the most volatile items, has been running below a 2% pace for two years now. Wages are rising, but not at an alarming rate.

"And while the central bank targets inflation 12 to 18 months in the future, as opposed to the inflation rate now, there is thin evidence that there is any pressure building up."

The trouble is with our economists' view of inflation is not only that it is dogmatic,

Continued on page 2

Puppeteer makes issues disappear.

COMER

FOUNDING EDITOR
John Hotson 1930–1996

PUBLISHER–EDITOR
William Krehm
(comerpub@rogers.com)

CONTRIBUTORS Vol. 18, No. 2
William Krehm
Dix Sandbeck
Keith Wilde
Herb Wiseman

CARTOONIST
Allen Good

INFORMATION SECRETARY
Herb Wiseman (herbwise@cogeco.ca)

WEBMASTER
John Riddell

Economic Reform (ER)
(ISSN 1187–080X) is published monthly by COMER Publications
245 Carlaw Avenue, Suite 107
Toronto, Ontario M4M 2S6 Canada
Tel: 416-466-2642, Fax: 416-466-5827
Email: comerpub@rogers.com
Website: www.comer.org

COMER Membership: Annual dues (includes *ER* on request), in Canada CDN$50, Foreign US$45
***Economic Reform* Subscription only:** One year, 12 monthly issues, in Canada CDN$30, Foreign US$35

Send request and payment to:
COMER Publications
245 Carlaw Avenue, Suite 107
Toronto, ON M4M 2S6

***ER* Back Issues:** CDN/US$4, includes postage; additional copies same issue, $2; additional issue same order, $3. *Send requests for back issues to Herb Wiseman, 56 Robinson Street, Peterborough ON K9H 1E8.*

Publications Mail Agreement 40018485.
Postmaster please send address corrections to:
COMER Publications,
245 Carlaw Avenue, Suite 107
Toronto, Ontario M4M 2S6

LAYOUT
Tony Koch (comer@pagecraft.org)
Pagecraft Computer Services

PRINTING AND DISTRIBUTION
Watt Solutions Inc., London

Printed in Canada on recycled paper.

Election *continued from page 1*

but that it piles up incompatible dogmas. Each of these serves a group having considerable clout or seriously aspires to acquiring power and develops its own dogma to that end. For any dogma must be seen as less philosophical speculation than a ladder to power. Thus financial corporations either live on interest rates, gamble with them, or use them as battering rams to drive borrowers into bankruptcy. Higher interest rates may thus provide them with dazzling windfalls. That is why in 1991 Progressive Conservatives under Brian Mulroney, to bail out our banks from their gambles in speculations incompatible with banking, vested supreme power in the banks by doing away with the statutory reserves. These reserves – a modest portion of the deposits the banks took in from depositors, offered an alternative to high interest rates as a weapon against inflation. Under the system introduced in the *Bank Act* in the US in 1935 that served as model throughout much of the world, the reserves provided an effective alternative to interest rates for steadying the economy. Raising interest rates hits everything in the economy, but especially the unemployed who can't be contributing to an excess of purchasing power. The reserves, on the other hand, relied for stabilizing the economy on altering the *volume* rather than the *cost* of credit. The banks had to redeposit with the central bank a modest proportion of the short-term deposits that they took in from the public. Such reserves earned them no interest. That decreased the volume of loans they could make, and hence reined in excess lending without driving up interest rates. And interest rates, be it noted, are a cost of production to the borrower and thus in the long run will contribute to raise the price level. Of course, high interest rates bring on distress sales that loan sharks batten on. That certainly contributes to the addiction of certain financial institutions to constantly promoting higher interest rates as the one weapon for fighting inflation that they ever see on the horizon.

For a dogma to grow legs it takes more than an academic to invent it. It must be useful to a group with aggressive power. Then you will find university faculties purged of those who resist the most nonsensical theoretical models, and academics awarded honorary degrees for promoting whatever dogma serves the group in power. That is why our central bank's current position is being ridiculed by a conscientious economist in the employ of Canada's leading bank. Obviously saner heads amongst Royal Bank executives are alarmed at what higher interest rates will do to the highest-ever load of consumer and other debt that has accumulated; this would become bad debt if the Bank of Canada continues pushing up interest rates in a deflated real economy.

But there are still further important things to be said on the subject of inflation. One of these is touched upon in the *G&M* article. "Conventional thinking about what makes prices start to rise significantly are being challenged by globalization, explained Stephen Poloz, chief economist for Export Development Canada. Over the past few years, he said, consumers have found that electronic goods, computers, clothing and other imported products have been getting cheaper – to the point where today, buying a DVD player is almost cheaper than a night out at the movies."

The Rotten "Core" of the Inflation Concept

That bit of evidence is crucial – it not only informs us of cheaper imports catering to the same consumer habits, but altering these habits by replacement of an entire service industry – movie theatres – with a cheaper commodity that can be used directly by the consumer at home. How are you going to fit that into our price statistics without redoing them from the bottom up?

Let us examine the *G&M* article to track this pattern of a particular dogma advancing the power aspirations of a particular group. Thus the phrase "the bank's target core rate of inflation, which factors out the most volatile items." But if the central bank is concerned with the constant lurking of "inflation," that it identifies with any higher prices, should it not on the contrary be concentrating on precisely "the most volatile items"? Physicists studying heat effects concentrate on the most mobile particles, rather than on the more lethargic ones. But official economists ignore food and energy, to arrive at "core inflation" prospects. But is it not precisely oil prices and that are currently pushing up prices mostly because of the exhaustion of our oil resources? And are not certain food staples reflecting in higher prices the systematic destruction of our environment? Why then exclude these to arrive at the concept of "core inflation." Except, of course, as a crutch for the very belief that "the market" is self-balancing. There are in fact a multitude of conflicting markets, and few if any of them are self-balancing or "pure and perfect" as the official model requires. That concept assumes markets of such minuscule actors so negligible that nothing they do or don't do individually could possibly affect prices. Such outlandish specifications were dragged in to make possible the use of infinitesimal calculus that badly educated economists mistook for a guarantee of scientific method rather than a wonderful tool for phenomena moving in closed circuits like the movement of the planets in the heavens.

And if these economists, so stuck on "licking inflation," a theory that assumes "self-balancing pure and perfect markets, why don't they propagandize for the breaking up of international trusts into the tiny organizations that their theories require? Without that the prestigious mathematics used by their academic guides are ridiculously irrelevant. They have been regarded with scorn by physicists who must use mathematics seriously or be rated as charlatans.

With globalization a two-tiered economy has evolved – the producing economy below is more and more deflated with the outsourced production seeking countries of ever more miserable living standards and tax concessions that exclude the most elementary public services in the industrial slums they engender. There you have deep deflation not only for the out-sourcing land, but for the labour force at home confronted with its competition. But all that goes to stoke hyperinflation of the financial superstructure that lives on Mergers and Acquisitions, and all sorts of derivative plays that calculate present worth by extrapolating rates of growth of profit into the remote future. The financial hyper-economy thus develops a forward lean with promises of retirement pensions rather than higher wages to its workers, and stellar options to its high executives. These become worthless unless the profit forecasts of the corporation's stock are actually attained.

And is six and a fraction percent unemployment really a state of affairs where we have no further resources to increase production? That includes the armies of telemarketers that annoy us at dinner hour, and all the junk mail that crams our mail box and our Internet. Surely all that should be gathered into a negative statistic on living standards rather than puffing up the GDP.

Moreover, a rising price level does not necessarily indicate an excess of demand over supply, which is what might be called "market inflation." Higher prices, however, could be due to quite other causes, *structural* ones related to the ever greater need of a modern society for public services, that are not marketed and hence unpriced. These are provided by the state and covered by taxation that turns up as a growing layer of taxes in price. Ours is increasingly a high-tech economy that requires a work force educated far beyond what was even dreamt of before World War II. That creates the need for more institutes of secondary and higher education. To equip them even as consumers today, people need more education than was available before WWII. This and the population explosion has led to the rapid urbanization of our society. No economist who moves from a town of say 10,000 to New York City expects his living costs to remain the same. How can he in good faith subscribe to the dogma "zero inflation" when society as a whole makes such a move? And, of course, our central bank's attempt to enforce that through higher interest rates is compounding the impossible. For interest rates increase both the cost of essential public services, as well as those of marketed goods.

A Mixed Price Theory for a Mixed Economy

Ours economy over the past half century and more has become a *mixed* economy, rather than just a *market* one, and as a result, our prices are no longer entirely market-determined. We have therefore need of a *mixed* price theory to grasp this. In 1970 I published a paper on that theme in the leading French economic publication of the day.[1] Later on I refined the study and proved that the increased tax input to pay turns up not only once but twice in the Gross Domestic Price statistic – once as a cost included in the price of the output of the private sector and a second time as the output of the public sector, which raises its funds by taxing the private sector. And if the effort is made to suppress this fact with hgher interest rates, the phenomenon is compounded. Harvey Wilmeth, one of the founding members of COMER and a professor of economics at the University of Wisconsin, popularized this with the parallel phenomenon of combined promotional sales.[2]

The interests of groups occupying power positions complicate matters still further.

The distinction between investment and current expenditure is an aspect of double-entry bookkeeping that the Crusaders brought back to Europe in the 13th century. Our government however had not caught up with that bold innovation until a few years ago; and only then because the Auditor-General of the day put his foot down and refused to approve two successive balance sheets of the government unconditionally unless this was done. The difference for the government's bottom line is a vast one. Under accrual accountancy (also known as capital budgeting) the money spent for structures or equipment that will last for many years is depreciated over its useful life, and its undepreciated cost appears on the ledger as an asset. That is the way investment has always been handled in the private sector. If an industrialist tried to write off the cost of his machinery or building in a single year, he would probably end up in jail because it would be an illegal tax shelter. But our governments until a couple of years ago did that with the cost of a bridge a road, a building. It didn't matter that two Royal commissions and a long line of Auditors-General had recommended accrual accountancy. The governments turned a deaf ear until the mid-1990s. Why? Because it was the promoted wisdom that governments are incapable of making "investments." It was an article of faith that our new Prime Minister Stephen Harper was particularly diligent in promoting. Meanwhile the fictitious deficit on the government books that resulted led to a whole list of unpleasant results. The false deficit that resulted helped drive up interest rates. *Even the attempt to balance a budget of that sort required more taxation than was really necessary.* And that pushed up interest rates – and hence costs of production and prices – to unnecessary heights.

The apparent deficit brought on by such means, led to the cutting of social programs. It also produced tempting opportunities for skullduggery. If a building appeared on the government books at a token dollar, it could be sold for an imaginary profit, far below its real value. That ficticious profit that resulted could then be applied to reduce to the imaginary deficit resulting from such non-accountancy, and the finance minister could take a deep bow for reducing the deficit. Mr. Paul Martin as Finance Minister and then as PM was a past artist at that sort of thing. The public hadn't a clue of how the scam operated, but they could not miss the resulting moral stench. At the same time as high corporation executives in the US were being sent to penitentiary for ten and thirty years for colluding with their auditors to rob the public, we were electing them to high office. In 1999 over a period of weeks Finance Min-

Continued on page 6

On Deregulating Reguly Instead of our Banks

Columnists on economic themes in our major media do not come much better than Eric Reguly in *The Globe and Mail*. Thus a couple of days before the elections, when the "national" newspapers across the land were praising Stephen Harper and the Conservatives, as though on cue, Reguly injected a jarring note with his column "Water exports? Harper should keep taps closed." And what followed was a bold synopsis of the US historical lust for Canada's water resources that could hardly be improved on.

"The Prime Minister's Office gets thousands of letters and e-mails every day. Guess what topics dominate the correspondence? Top of the list was same-sex marriage – no surprise there. And second? Try water exports. In 2005, the PMO received 120,000 items on bulk water exports and water privatization. Of course, mass write-in campaigns can skew the numbers overnight and water was evidently the subject of such a campaign. But it was an impressive rally nonetheless."

The Drought of Information on Water

"As a national campaign issue, water exports barely rippled the surface, though it was a big deal among western farmers and ranchers. That could change. It looks like a Tory government will have to deal with the issue. The fear among anyone who thinks bulk water exports would be disastrous for the economy and the environment is that Stephen Harper & Co. would treat water like oil or any other commodity – pump and dump it south of the border as fast as possible with no regard to the long-term consequences.

"The working assumption is that the US – where two-thirds of the states are expected to face water shortages in the next decade, where aquifers that supply irrigation water are drying up at an alarming rate, and where water flow in the Colorado River dropped by almost half between 2000 and 2005 – will come after Canadian water in the next few years.

"A softening-up campaign appears to have started just before Xmas. Paul Celucci, the former US ambassador to Canada, hinted in a CBC Radio interview that opening up the transborder would be a dandy idea, 'Canada has probably one of the largest resources of fresh water in the world,' he said. 'Water is going to be, already is, a very valuable commodity and I've always found it odd where Canada is so willing to sell off oil and natural gas and uranium and coal, which by the very nature are finite. But talking about water is off the table, and water is renewable.'

"His comments came a couple of weeks after James Lunney, the Conservative candidate for Nanaimo-Alberni in BC said 'there are big opportunities selling water.' At an all-candidates meeting last week, he repeated his support for bulk water exports.

Mr. Harper's own views on water exports aren't known. But we can guess that he and Mr. Lunney are not on different planets. A couple of years ago, the prime-minister-in-waiting called for 'economic security integration' with the US as well as a 'continental energy strategy' that should include a range of other natural resources.

"His stance is eerily similar to that of Lyndon Baines Johnson when he was US President in the 1960s. He proposed the Continental Energy and Resources Policy in an attempt to get unfettered access to the vast Canadian natural resources powerhouse. LBJ's attempt failed. The policy more or less came to life 20 years later in the form of Canada-US free-trade agreement, later NAFTA.

"Were bulk water exports (as opposed to bottled water exports) excluded from NAFTA's investment and services provision? The answer is not clear. NAFTA's Canadian negotiators say they were. But there is no shortage of trade lawyers who say the opposite, so that once you start shipping water across the border the government would be powerless to stop you. Or, if it did, it would have to compensate you for the lost income. The California company argues that British Columbia's cancellation of a water export permit in the 1990s violated NAFTA's investment provisions.

"What's wrong with exporting water? A lot. Take Mr. Cellucci's remark that water is a 'renewable' resource. Trees are renewable; cut them down and they grow back. Fish stocks are renewable (though as the depleted cod fishery proved, you can harvest them to the point of no return).

"Ecologists have a lot of trouble with the renewable concept when it comes to water. The amount of water has remained static since the planet was formed. Furthermore, they say an eco-system contains exactly the amount of water required to maintain the integrity and health of that eco-system. By definition, there is no surplus.

"Bulk water exports may be a dubious business idea, too. Sure, Canada could negotiate royalties on the exports. But would the payments mitigate the potential environmental damage? What if the exports were so great it meant Prairie farmers or Alberta's oils sands operations faced shortages? Both industries consume enormous quantities of water.

"Water can be used to lure industry. You don't, for instance, see a lot of car factories in the US Southwest, which is essentially one big desert. You do in Southern Ontario, where water is available at relatively low cost. Exporting water may mean exporting jobs.

"Mr. Harper wouldn't want to do that, would he?"

Good Reporters Are a National Asset to be Encouraged

The appearance of such a column at this particular time raises an important question: with reportorial talent of such caliber around – Reguly, though outstanding, is not unique – how does it happen that in my memory the many issues having to do with the nature and survival of our country have been removed and disposed of. Libraries and university staff have been scoured clean of any pollution with information concerning key portions of our history. Rob a people of its history and you leave it unable to learn from past mistakes. Specifically our current governments and aspirants to succeed them must answer the following questions.

1. Why has the use of the Bank of Canada for government project financing practically disappeared since the 1991 discontinuance of the statutory reserves? These banks had to redeposit with the Bank of Canada as a percentage of especially short-term deposits taken in from the public.

2. Why has there been no comment in the major media, Parliament, or in our university texts published after 1991 about the extent to which the Bank of Canada, had been used in major government projects including our part in WWII, the catch-up of the neglect of our infrastructures during ten years of deep depression in the 1930s and six years of war. This included the building of the St. Lawrence waterway, the absorption of an immense, mostly penni-

less immigration, a baby boom that made up for the decline in the national birth rate during the years of depression and war, the education of the baby-boomers to standards previously unknown in Canada, the setting up of a national health care system, new technologies, and despite that the reduction of the ratio of federal debt to the GNP from 150% where it stood in 1946 to about 22% in the mid 1970s.

3. The role of the Risk-Based Capital Requirements issued by the Bank of International Settlements (BIS) in 1988 when the stock markets and hence the economy were teetering on the edge of bankruptcy and our banks needed to be bailed out once again. At this very time these BIS guidelines declared the debt of advanced (OPEC) countries risk-free! That made it possible for banks to take on another $60 billion of federal debt without putting up a cent of their own money. That debt could have been carried virtually interest-free if held by the Bank of Canada, the sole shareholder of the BoC since 1938. For almost the entire interest paid on that debt would return to the government as dividends. Has this no bearing on the explosion of government debt from $71 billion in mid 1975 to the $590 billion level it reached in the 1990s?

4. How compatible have the efforts to flatten out prices by raising interest rates been with the huge 100%-leveraged holdings by our banks of federal debt? So urgent was the scramble of BIS to organize the bailout in the late 1980s, that they overlooked that the "zero inflation" campaign launched by its director Lanfalussy would bankrupt the banks once again. For existing bonds with lower coupons shed market value like a mangy dog does hair when interest rates hit the sky.

5. What was the connection between the world-wide effects of the two worldwide banking reforms mentioned in items 3 and 4 in bringing on the collapse of the Mexican monetary system in December 1994, which led to the US introducing accrual accountancy as of January 1996 in Department of Commerce statistics. The one-year write-off of long-term investments – such as buildings, bridges, roads, etc. – was replaced by their depreciation over their period of usefulness as has always been done in the private sector. This was introduced by Clinton's Secretary of the Treasury, Robert Rubin, because the Mexican meltdown made it clear that the bank bailout by making it possible for them to load up with bonds and clip their coupons without putting up a penny of their own funds, was incompatible with higher interest rates as the sole "blunt tool" for "licking inflation." It is a moot point which was the more blunt – the high interest rate tool, or the central bankers of the world who overlooked that crucial detail that loading the banks up with 100% – leveraged government bonds to replace their lost capital was incompatible with using high interest rates to attain "zero inflation."

6. All this was the essential background that was avoided by all four major parties in the recent election campaign. Democracy without information cannot survive.

We could go on adding to this list indefinitely, but the point is made. It is enough to go into any second-hand book store and find university economy text-books published before 1991. Every one of them in dealing with central banking will explain how the Allied World War II was essentially financed by the central banks. And during the next 30 years – the most progressive and prosperous in our history – even more so. But those published from 1991 on entirely omit that important slice of our history.

The latest election campaign is an unacceptable insult to the intelligence of this country. It is a final argument for some system of proportional representation that must be brought in to prevent the sale of Canada, its liberties and its resources to the highest bidders. And our reportorial talent must be freed to complete their job. The above forbidden issues are but the beginning of the list awaiting their attention.

William Krehm

Utility Deregulated

Revealed Preferences

In recent years the old debate about the relation between economic value and utility has again heated up. A growing sentiment is that the neoclassical interpretation has gone too far in rejecting the possibility of interpersonal comparisons.

The neoclassical interpretation assumes rational choice and revealed preferences during voluntary exchanges in open markets. Accordingly, only monetary valuations can serve as proxy measurements of utility in such exchanges. On the individual level, this means that the only possible orderings are those of the market. And they are also taken to be rational in a transitive sense: If A is preferred to B, and B to C, then – in the case where the agent is only presented with a choice between a and C – A will always be preferred to C.

Combining the theory of revealed preferences with marginality, the modern market-oriented theory rejects all attempts to establish that individuals can rationally seek utility outside this narrow assigned path, for example, by governments seeking to address social and other perceived imbalances. Nevertheless,, their outcomes will always be suspect, as they are not weighted by mechanism of interference-free markets.

But is this approach really realistic? Rationality in isolation is not enough to assure transitivity since (A) preferences can change over time and (B) simultaneity is not possible on the individual level of economic decision-making. Therefore, transitivity is not really possible. Anything else would require preference choice to occur in an instantaneous space.

Decision and Experienced Utility

The denial of interpersonal comparisons within a strict market framework has been criticized for leaving us helpless against undesirable socio-economic needs such as the free rider syndrome. This has led to a search for a broader redefinition of utility to include ways of dealing with failure with a within a logically consistent market paradigm.

One such recent attempt has been to distinguish between *decision utility* and *experienced utility*.[1] Decision utility is akin to the concept of revealed preferences, while experienced utility is spread over time and therefore is related to another well-known neoclassical concept – the rational expectation hypothesis. Though these concepts are still in an emerging state, they have some interesting angles, in particular, if combined with the notion of decisions centered on individual interests.

When such self-centred interests determine an agent's decisions, two important factors emerge. Firstly, the degree of temporal distribution of the utility rewards must be perceptible in a way that makes it possible to plot them into a probability-related grid showing convergence between decision and experienced utility. If somebody buys a loaf of bread, the utility experience is concentrated within a very short time. A decision and experienced utility have a high probability of convergence. They form one limit of a probability-weighted grid showing the degree of convergence.

If, on the other hand, the decision involves non-repeated high-value utility rewards distributed over a period of considerable time, uncertainty will exist about the degree to which decision and experienced utility converge, and we are thus approaching the other limit of the grid. For instance, the problem whether to take out a five-year mortgage with a fixed or floating interest rate is a complex choice between two utility rewards that even professionals cannot decide with accuracy.

Experienced utility follows the standard assumption of diminishing curves. This means that the probability ranking assigned to a utility's expectation drops exponentially over its time distribution. Eventually it will approach a zero weight, as a subjective decision.

The Significance of Economic Roles

When individuals assign probability weights as to how decision utility and experienced utility converge, a key factor is whether or not they are acting in their own private interest or as agents for organizations. Of these, corporations are only one example.

When an individual makes decisions in a private capacity, he alone is affected by both the decision utility and the experienced utility. In other words, revealed preferences and expected utility are directed by a singular motivation. This naturally enhances the probability of convergence.

Conversely, when decisions are undertaken by an individual as an agent for an organization, two levels of utility arise. One of these refers to the organization; the other only to the agent, for example, the remuneration for serving as executor of the decision. Self-interest as the primary economic motivation thus has a double-pronged character in such situations.

The shape of an expected utility function in such a framework may be very different when those most affected by the decision arrive at it and carry it out themselves. It will approach zero values much faster. In other words, the utility rewards accruing to the organization will typically be considered by the agent only to the point where the organizations control over the decision prevails.

The Problem of Market Failures

All outcomes of economic acts constitute sets of utility rewards and opportunity costs netted out over the appropriate horizon. An opportunity cost can be either in the form of money, considered a non-determined utility experience, or, or if the case is one of barter exchange, the potential utility experience is the item given up in the barter. If there is no positive result, rationality calls for the rejection of the choice.

Market failures emerge when decisions based on self-interest open up gaps between decisions based on self-interest and experienced utility. These can be caused by an imperfect availability of information or, by inadequate structural relations between decision and experienced utility. These include the free rider situation, which exists when the benefits of a utility cannot be restricted to its contributors; or in other words, if decision utility is only weakly connected to experienced utility.

The best-known example is probably the lighthouse case, where it is impossible to charge all ships benefiting from its operation. Captains of ships sailing by are therefore tempted to assign decision utility of zero. For they are not liable to give up any opportunity cost to enjoy the benefit.

Since market valuations are based on self-interest, another source of failure occurs when utility benefits of firms are concentrated in a short term. For example, companies that sell cars, while they create substantial negative experienced utilities in the long term – e.g., the pollution that the use of the cars they sell give rise to.

Therefore, seen from a structural perspective, failures can be explained by the gaps between decision and experienced utility. Whether this will lead to a better understanding of such market failures remains to be seen.

Dix Sandbeck

1. See, for example, Daniel Read's *Utility Theory from Jeremy Bentham to Daniel Kahneman,* Department of Operational Research, London School of Economics and Political Science, 2004.

Election *continued from page 3*

ister Martin argued with Auditor-General Denis Desautels resisting his demand that accrual accountancy be brought in before he would give unconditional approval to the governments balance sheet of two successive years. M. Denis Desautels, before he finally caved into a shameful compromise, even accused Mr. Martin of "cooking the books." Against this background, the "sponsorship scandal" was innocent sport. However, to gauge the state of democracy in our land, we must note that it did not rate a mention in the recent election campaign except by the minuscule Canadian Action Party. When such key information is strangled, there can be no serious democracy.

William Krehm

1. The 60-page essay appeared in *Revue Économique* of Paris in May 19 and expanded into book form as *Price in a Mixed Economy: Our Record of Disaster*, in 1975. Significantly, *Revue Économique* no longer exists.

2. The popularization of my mixed price theory by Harvey Wilmeth and my discussion of his work can be found in *Meltdown, Money, Debt and the Wealth of Nations,* edited by William Krehm, 1999, pages 20-23.

FROM THE PRESS IN PAUL MARTIN'S HOME TOWN

Letter to the Editor

Mr. Martin Doesn't Deserve Credit for Surpluses

The Windsor Star, January 21, 2006.

Our federal government's accountancy still makes no distinction between its investments for the acquisition of a building, the building of a bridge, the purchase of soap for its lavatories or its contribution to the education and health of the population. These purchases and investments have been written off in a single year.

There has been no distinction between current investments which will be used for decades. Were that done in the private sector there would be few solvent corporations in the country.

On the insistence of the previous Auditor-General, Denis Desautels, Mr. Martin, after weeks of bargaining agreed to phase in capital budgeting that would enter the value of the asset acquired to balance the cost of acquiring it. The compromise was reached between Mr. Martin and the Auditor-General and adopted in 1999. There was no parliamentary debate and no press release.. This was accomplished behind closed doors, and the result was a surplus. It is Mr. Desautels who should be given credit for the government surpluses, not Mr. Martin. The voters at this time should be informed of the truth. This is a matter of record.

André Marentette,
Belle River

The letter was originally carried in the Lakeshore News*, on January 18, 2006. The two papers scooped the media across the land. Our congratulations!*

Can Canada Afford Jack Layton's Statesmanly Long Trousers?

The federal election is now behind us, but we are hardly further advanced. It was by every criterion an empty event. The basic issues, involving our history, our democracy, our economy, our survival as a distinct land and a culture were carefully kept out of the debates. Even the strictly business-oriented *Globe and Mail* the morning after (24/01, "NDP en route to key role in Parliament" by Bill Curry) makes this clear: "Mr. Layton [the NDP leader] ran a highly scripted campaign, refusing comment on anything other than his main talking–points of the day.

"While the tactic meant that he never became the main story during the 8-week campaign, he managed to avoid the negative front-page headlines that hurt him in 2004. The goal was to keep Mr. Layton calm and on message with a platform that could be affordably implemented in a minority parliament. In contrast to 2004, this campaign had few defining moments for the NDP."

A Party Undefined

That sums it up. The historic party of reform avoided any basic criticism of the undoing of our social programs. In such ways the means had been found not only for a one-shot bailout of our banks in 1991. Worse still, the banks have been further deregulated to gamble bigger and better with the liquidity pools of the other "financial pillars" – the stock market, insurance and mortgage companies. That had been a principal cause of the Great Depression of the 1930s that led us into the Second World War. Deregulation guarantees that bailout of the banks will not remain a one-time affair, but a recurrent priority of our government. What was left out in the campaign thus defines the "affordability" of the NDP program mentioned by the *G&M.*

Paul Martin made a career of cultivating bad accountancy – making no distinction between Government investment and current expenditure, resisting the advice of a series of Auditors-General on the matter. The bogus deficit was the magic wand that enabled the banks to elbow out the most vulnerable sectors of our society from priority positions in the relief lines. And, rather than challenging the bookkeeping swindle of Mr. Martin, Mr. Layton chose to be gentlemanly towards a possible cabinet colleague.

An increasing number of people are comparing Mr. Layton with Tony Blair, but this weakness at the knees that afflicts Mr. Layton has earlier antecedents. I remember almost 20 years ago when the NDP Bob Rae was Premier of Ontario and the Mulroney government had slashed grants to the provinces to fill the hole in federal finances arising from the end of the statutory reserves that banks had to deposit interest-free with the Bank of Canada. We proposed that the provinces join in a public stand against this scandalous shift in income stream from social programs to get the banks out of their gambling losses. Premier Rae's comment was brief: "I would prefer their restoring the grants." The essence of the situation escaped Mr. Rae. His chance of getting the grants restored was nil. The very bailing out of the banks by Ottawa followed by their further deregulation indicated a basic power shift from the electorate to the financial sector. And Mr. Layton has learned nothing during the intervening years.

So we are left with the following situation. The financial sector internationally through their organizations, public and private, have buried almost a half century of crucial history during which economists had learned to at least soften the impact of economic cycles, and how to run a mixed economy to provide the highly educated work force that technological revolutions require. All this was thrown into reverse gear as the banks were deregulated and allowed to take over stock market brokerages, insurance companies, and real estate mortgages, and lay hands on the rich cash reserves these held for their own businesses. With these they gambled themselves to the brink of insolvency or beyond. But to cover up their tracks all this was done without debate in parliament, or press release. The university textbooks on the period were purged of any reference to the earlier period when the Bank of Canada did an impressive amount of financing of government projects.

The CCF, the parent organization of the NDP, had been a major factor in the nationalization of the Bank of Canada, and made a point of cultivating an identity that could be mistaken for no other. The NDP's failure to continue that tradition at the present critical time, when minority governments open doors that were bolted by those in power with the key thrown away, is quite the opposite of what the country needs. Both CAP and COMER spent much time and effort explaining to Mr. Layton and the NDP the use that the Bank of Canada had been put to in funding government capital projects at a near zero interest rates. He cannot claim unfamiliarity with that crucial bit of Canadian history.

The Liberal Party under Mackenzie King in 1938, with a push from the CCF and certain of its own members like the former Mayor of Vancouver Jerry McGeer, had learned the lessons of the Depression and helped convert the Liberals to the nationalization of the Bank of Canada and its use for much of the Government's capital financing. Under that arrangement, the loans of the BoC was able to provide near zero rates of financing, since the interest paid on the government debt held by the Bank returned to it in the form of its dividends. This was not "funny money." In the midst of a depression the government had found the money to buy out some 12,000 shareholders of the BoC at a good profit after less than four years of ownership.

The Source of our Debt

But by 1991 the Mulroney government was shifting most of the federal financing to private banks at the same time as the Bank of Canada was pushing interest rates well into double-digit range, supposedly to "lick inflation." That was the source of most of the federal debt that approached $600 billion. The banks, under the 1988 Risk-Based Capital Requirement guidelines of the Bank for International Settlements that declared all debt of developed countries "risk free," had loaded up with federal bonds without putting up a penny of their own money. That the deed, done in stealth, with neither debate nor explanation in parliament or the media, made the Conservative party of the day accomplices of the banks, and consequently put the government at their mercy.

The Liberal Party of Mackenzie King bowed to Bay Street once it obtained power, incredible as it might seem. The Liberal Party had the choice of being less-funded but remaining true to their great tradition, but they pursued the less valiant course. Now the NDP of Layton, after having listed the use of the Bank of Canada for which it was intended as an "option" in the previous election campaign, never mentioned it again.

The hole that the repeated bank bailouts left in the federal treasury changed radically what the concept of "affordable" might mean in the present crisis. That is why we have potholes in our cities and wretched maintenance of infrastructure that an impoverished postwar Canada managed to build after 10 years of depression and six of war. At the same time the federal debt was reduced from some 150% of the Gross National Product in 1946 to some 22% by the mid-1970s. This was possible because since 1938 when the Bank Canada was nationalized, our banks had been kept strictly to banking and were not allowed to engage stock market brokerage, insurance companies or real estate mortgage activities. The reason: such activities are incompatible with banking, which creates credit out of the void. If banks obtain access to the cash reserves held by such "other pillars" for the needs of their own businesses, they will use them for the creation of many storeyed structures of credit, backed in the last analysis by the federal government in its role through the Bank of Canada "as lender of the last resort." To bail the banks out from the loss of most of their capital in the 1980s, two major changes were made without discussion in Parliament or the media. Because the facts of the bailout could not stand the light of day, it was carried out in virtual stealth.

Why University Texts were Rewritten in 1991

The manner in which the nationalized Bank of Canada could do such near zero-financing of the federal government projects had been clearly explained in university economic textbooks up to the year when the Conservative government of Brian Mulroney revised the *Bank Act* in 1991. This had required that the banks redeposit with the Bank of Canada a modest portion of the deposits they received from the public. Not only did that provide the Bank of Canada with more elbow room – within the existing constraints – for financing the government's projects, but an alternative of combatting perceived inflation *without* raising interest rates.

Raising the benchmark interest rate set by the central bank echoes in higher rates on all loans throughout the economy, and thus hits even the unemployed who hardly could have been contributing to "inflation." Raising the statutory reserves that banks had to redeposit with the BoC from the deposits received from the public, lowered the leverage allowed them for their credit creation. Abolishing those statutory reserves left the revenue of money-lenders as the sole device for directing the economy.

That is the guilty secret that has poisoned the political atmosphere of Canada.

A knowledge of our history would help society from repeating the same fatal errors on an ever larger scale. Layton's decision has been to go the way of Tony Blair rather than of Tommy Douglas. The mere fact that the parties that serve Bay Street have suppressed these portions of our history should have been cause for Mr. Layton to raise the issue. Mr. Layton chose to go the other way.

It underlines the need for electoral reform so that a few solitary voices can be heard in Parliament to keep alive key aspects of our past. The electoral results pointed the discrepancies of the number of seats won by parties by the rules of the present system.

William Krehm

India Protects Its Cultural Heritage Against Privatization Theft

Associated Press (*The Globe and Mail*, 26/12) has taken a much-needed initiative to stop a major institutionalized robbery that the Western states have too often encouraged:

"For thousands of years, Indian villagers have used an extract from seeds of the neem tree as an insecticide. So when a US company patented a process for producing a process for producing the substance in 1994, India reacted with outrage.

"After spending millions of dollars in legal fees to overturn the patent, India's government is now creating a 30-million-page database of traditional knowledge to fend off entrepreneurs trying to patent the country's ancient lore. India is not alone in worrying about 'the bio-prospectors' profiting from the genetic resources of its plant life with no benefit to its people. It joined China, Brazil, and nine other countries a few years ago to begin pushing for international protections. The database project has already caught the interest of others. A South African team recently visited and a Mongolian mission is coming in January, said V.K. Gupta, chairman of India's National Institute for Science Communication and Information Resources.

"The database, called The Traditional Knowledge Data Library (TKDL) will make information available to patent offices around the world to ensure that traditional remedies are not presented as new discoveries.

"'If societies have been using it for centuries why should it be patented?' asked Shiv Basant, of the Health Ministry's Department of Ayurveda, Yoga, Unani, Saddha and Homeopathy, India's traditional health and medical disciplines.

"The government has also successfully challenged patents on the use of the spice turmeric to heal wounds and rashes and a patent on a rice strain derived from India's famous Basmati rice.

"But that is a tiny fraction of the problem. A 2003 study of Mr. Gupta's institute estimated that about 7,000 patents worldwide are based on indigenous Indian knowledge, far too many for India to challenge in expensive legal fights. Officials hope the database will head off future battles.

"Currently it is difficult for overseas patent office researchers to prove purported innovations are really based on old lore because whereas the information is widely published in Indian, it is often in ancient languages such as Sanskrit or modern regional languages like Tamil.

"Instead of laboriously translating the manuscripts, the scholars structure the texts into classifications widely used by patent examiners. The texts are then entered into the database, where specially developed software translates them into Hindi, English, German, French, Japanese and Spanish.

"More than 1,500 yoga poses have been entered. That's because yoga poses also have been patented, often by Indians living abroad."

And of course, the current theft increases both "inflation" and the current "GDP."❧

Is Our Financial Sector Converting from Capitalism to Cannibalism?

The trend toward executive cannibalism first became apparent when the health of corporations came to be measured not by their rate of profit, but by the *growth* of their rate of profit, real or fictitious. This was based on the assumption that the rate of growth of a corporation and its profit could be extrapolated into the most remote future, and then incorporated into current price of the company's stock by calculating the present worth of this growth. Naturally the temptation was not always resisted to use a lower discount rate for calculating the present worth of assumed future earnings than what had been used in projecting the growth rate of the income into the future. And the logic was that the profits arising from such a calculation were somehow due to the merit of the corporation executives. That converted the economy into an immense wrestling ring, with few holds barred, and huge prizes reserved for the ultimate survivor.

This notion of a growth rate verging on the exponential led to the assignment of ever greater shares of these assumed profits to high corporation executives. And the obligation to achieve this was built into the structure of the system. Increasingly, rewards to the top corporation brass assumed the form of options with a strike price far above the current market. Notable instances of this during the high-tech boom that caved in during the year 2000, were the corporations that had yet to earn their first dollar in profits assessed with a total value in excess of General Motors at the time on the basis of their market share growth. If this were not attained, this entire structure of make-believe would collapse, and the options would become worthless.

This structured greed of the executive of many of our large corporations contrasted with the strict austerity attributed to professional managers by a significant left-of-centre literature that arose in the depth of the Depression of the 1930s. This glaring contrast between the efficient parsimony of the professional management as contrasted with the voracious financier, unconsciously reflected a key provision in the *Bank Act* of 1935 passed under Roosevelt. That provision enjoined the banks from acquiring an interest in the three other "financial pillars": stock brokers, insurance companies and mortgage companies. For once the banks had access to such pools of liquid capital held by these other financial sectors for the needs of their own business, they would use them as a basis for the money creation under the fractional reserve system. This had occurred with disastrous results in the 1920s. That would compound the banking multiplier to many-storeyed proportions.

The rigorous confinement of the banks to banking during the war and for the first couple of decades of the peace brought the banks back to solvency. And with that came a lust for their old fleshpots. In a carefully organized counter-revolution directed largely from the Bank for International Settlements, a purely technical body based in Basel, Switzerland, the banks were freed from the restrictions imposed on them by the US *Bank Act* of 1935. This occasioned two important analyses of the process involved – one by the French economist, François Perroux, assessing and generalizing this process from its very early stages. The other, by the US economic historian Douglass North, generalizing the resulting shifts in political power arising from the major redistribution of the national income.

Perroux develops his notion of "the dominant revenue" as follows: "The European Occident has passed through successive periods of development, each characterized by a typical morphology of distribution and by a dominant revenue.

"In turn the dominant revenue has been that of the landowners, then industrial profit, then financial and industrial profits in a mixed economy, in which the rate and mass of profits...are functions of a complex combination of public and private, of market and extra-market actions. During a specific period of development, the dominant revenue is that one to which the others adapt themselves. In an apologetic doctrine, it is presented as the revenue that, by the rate and mass which it achieves, determines whether the given economy functions properly. In the institutional framework corresponding to the given dominant revenue, that in fact is the case; but in another context it would be otherwise" (*L'entreprise et l'économie due Xme siecle,* Paris, Presses Universitaires de France, 1966, p. 958).

Clearly, the revision of the Canadian *Bank Act* (1991) brought about such a shift in the dominant revenue: it phased out the statutory reserves that banks had to redeposit with the central bank as a percentage of the deposits they took in from the public. For the statutory reserves had offered the central bank a policy alternative to readjusting the central bank's benchmark bank rate, and doing away with them left interest rates the sole "blunt tool" for fighting any price rise.

A Seismic Effect on Politics

The work of Douglass North came a quarter of a century later. He was awarded a Nobel Prize for Economics in 1993. He noted that when an important shift in the distribution of the national income occurs, the old distribution of political power amongst stakeholders becomes outdated. Such a break-up of the old political alliances in power occurred in a series of countries from the key position assigned to interest rates in the economy. The power of speculative finance was further enthroned by Globalization and Deregulation promoted by Washington. The resulting political earthquakes that resulted in Mexico, Canada, the Argentine, Brazil, fit tidily into the Douglass North analysis. In Canada it led to the break-up of the historic Progressive-Conservative Party that brought in both the end of bank statutory reserves and the North American Free Trade Agreement. Today, it is threatening the Liberal Party that has continued the basic policies of the Conservatives.

There were early premonitions of the effects of the Rooseveltian *Bank Act* of 1935. In 1941 James Burnham, a leader of one of the Trotskyist factions in the United States caused a considerable stir with his book *Managerial Revolution.* In it he identified the managerial group in countries as varied as the United States (the "New Deal"), Italy (fascism) Germany (Nazism), and the Soviet Union (Stalinism) as a source of efficiencies he felt would provide a way out for a capitalism that had lost its way. Few if any commentators at the time connected Burnham's writings on this theme with the provisions of the 1935 bank act that restricted the banks to banking and thus prevented their winnings becoming the "dominant revenue" as it did a generation later. With no lack of cynicism, Burnham down-played the contrasting social

Book*Store*

Available from COMER Publications
245 Carlaw Avenue, Suite 107
Toronto, Ontario M4M 2S6
Price plus $2.50 P&H or as indicated:

Hazel Henderson

- *Building a Win–Win World – Life Beyond Global Warfare*, $15 + $6
- *The United Nations: Policy and Financing Alternatives: Innovative Proposals by Visionary Leaders,* Editors Harlan Cleveland, Hazel Henderson, Inge Kaul, $10 + $3

W.F. Hixson

- *It's Your Money,* $10

William Krehm

- *Towards a Non-Autistic Economy – A Place at the Table for Society,* $20 + $6
- *Babel's Tower: The Dynamics of Economic Breakdown,* $10
- *The Bank of Canada: A Power Unto Itself,* $5
- *Democracies and Tyrannies of the Caribbean,* second English and third Spanish editions available, $15 + $3
- *Meltdown: Money, Debt and the Wealth of Nations* (ed. by W. Krehm) $25 + $5
- *Price in a Mixed Economy – Our Record of Disaster,* $15 + $3

Kurt Loeb

- *White Man's Burden,* $15 including P&H

James Gibb Stuart

- *Fantopia.* "With much grace it sets out as a parable the case for monetary reform. A dry-as-dust but terribly vital subject is transformed into a highly readable tale" (W. Krehm), $8 + $2
- *Economics of the Green Renaissance*, $3 + $2

COMBO OFFERS:

- Special Gibb Stuart Package: *Fantopia* and *Economics of the Green Renaissance,* $10 + $2.50
- *Meltdown* plus either *The Bank of Canada* or *It's Your Money, $35 + $3*
- *Meltdown, Democracies* (English or Spanish), *Price in a Mixed Economy, Babel's Tower, The Bank of Canada* and *Towards a Non-Autistic Economy – A Place at the Table for Society,* $90, postage included.

goals of the various examples that he identified as simply variants of the basic managerial revolution. The banks' eventual achievement of the "dominant revenue" snuffed out the power position of the "independent" managerial group to the point where Burnham today is next to forgotten. We are left with Perroux and North to guide us.

Supping with the Dessert Spoon as Big as a Front-end Loader

There is also of course, the unfailing outpouring of ever more astounding details of the degree of corruption that corporate management has attained that suggests adherence to the speculative financial ties rather than an austerely efficient management group.

Thus *The Wall Street Journal* (22/12, "Latest Twist in Corporate Pay: Tax-Free Income for Executives" by Mark Maremont) recounts: "Like most Americans, rank-and-file employees of Home Depot Inc. must reach into their own pockets to pay taxes.

"But not Robert Nardelli, the home-improvement retailer's CEO. Under his employment contract, Home Depot picks up a big chunk of his federal and state income taxes. Specifically, the company is obliged to reimburse its CEO for taxes due on a slew of perks, including a high-end luxury car, his family's travel on Home Depot jets and forgiveness of a $10 million loan. Last year, these payments amounted to at least $3.3 million, topping Mr. Nardelli's $2 million base salary.

"Amid soaring CEO compensation, a number of companies are paying extra sums to cover executives' personal tax bills. Many companies are paying taxes on core elements of executive pay, such as stock grants, signing bonuses, and severance packages. Others are reimbursing taxes on corporate perquisites, which are treated as income by Internal Revenue Service. They run the gamut from personal travel abroad in corporate jets to country club memberships and shopping excursions.

"'This smacks of Leona Helmsley-like treatment, that only little people pay taxes,' says Patrick McGurn, an executive vice-president of Institutional Shareholder Services Inc., and influential adviser to big investors that often critiques companies' corporate-governance practices for executives. For these top executives, he says companies 'are removing taxes from the list of inevitable life experiences, leaving only death.'

"Details of the little-known payments known as 'tax gross-ups,' are often buried in impenetrable footnotes or obscure filings. In its 2005 proxy statement, Home Depot didn't disclose many of the perks it must give Mr. Nardelli, or that the company is required to reimburse him for related taxes. The company provided gross-ups in his employment agreement, which was attached to a 2001 regulatory filing.

"According to a study done by compensation-research firm Esquilar Inc., 52% of companies disclosed they paid gross-ups to one or more top executives last year, up from 38% in 2000. The Securities and Exchange Commission is conducting a broad crackdown on hidden compensation of all types, although it hasn't focussed yet on gross-ups. The agency worries that investors may not realize just how much senior managers are paid beyond their base salaries.

"Coca-Cola Bottling Co. CEO J. Frank Harrison III has received more than $4 million since 2000 to cover taxes on a long restricted-stock grant. That's more than his total salary over the same period.

"Federated Department Stores Inc., which owns Macy's and Bloomingdale's, compensates executives on big merchandise discounts they receive in company stores. In an effort to shield executives from any tax bite on their pay, gross-ups can quickly spiral into huge sums. When a company reimburses executives for their tax, that creates a new taxable compensation. The company then has to cover taxes on that amount, which creates yet more taxes to pay, and so on. In some circumstances, gross-up reimbursements can be more than double the covered pay.

"Gross-ups first started gaining widespread acceptance in the 1980s after Congress slapped a 20% special tax on multi-million dollar 'golden parachute' payments for executives who lost their jobs in mergers. At the time Congress was reacting to public outrage about corporate pay packages. It design this new 'excise' tax to kick in if an executive's payout equaled or exceeded three times his average compensation over the prior five years. The excise tax is levied on top of regular income tax.

"Instead of curbing pay, the law had the opposite effect. Some companies adopted gross-up plans to cover the new tax and eventually that became common practice."

Rather than a new efficient, dedicated elite intent on removing the tires of fat on the body of the system, this sounds like the old operators who can't keep their hands out of the corporate till.

William Krehm

Marshall McLuhan Makes It Big on Wall Street

Remember Marshall McLuhan and his seemingly bizarre forecast based on the communication revolution: "The Medium is the Message"? Now read the following article on the new reality in the world of high finance, and ask yourself whether there might be patent rights due Marshall's heirs. As reported elsewhere in this issue, India is disputing patent rights on traditional Indian plant remedies, and even Yoga postures (1200 of these), by patenting them themselves. In that case, when our oil sands are finally developed and then run dry, we would still have the heritage of our own Marshall McLuhan to keep our dollar discouragingly high.

"Big Bond Rally Isn't in Bonds but in the Raters" (*The Wall Street Journal,* 19/01, Mark Whitehouse and Liam Pleven) – "As Wall Street investment banks devise ever more complicated ways to slice, dice and package the humble bond, analysts and academics can only guess what the impact will be on investors, markets and the banks themselves.

"But no matter what happens, one group has benefited immensely: the companies whose job it is to rate all those new investments.

"Analysts expect the two biggest credit-rating services, Standard and Poor's and Moody's Investors Service, to log the latest in a string of impressive annual earnings gains when their parent companies, McGraw-Hill Co. and Moody's Corp, report 2005 results in coming weeks. One key driver of their success: record activity in the market for complex securities backed by mortgage loans, credit-card debt, corporate bonds and other assets – an area known as 'structured finance.'"

The dollar is the new medium into which McLuhan's message is being translated.

In their commitment to exponential growth, our banks have been deregulated to take over the other "financial pillars" – something the US *Bank Act* of 1935, that became the model for much international bank legislation, explicitly prohibited. This increased the mountains of debt throughout the world. Today the banks are syndicating and sloughing off their debt to unsuspecting pension and other funds of the innocent. Unofficially this is known "on the street" as "Bankers' Exit." Meanwhile the "graders," "raters," and classifiers are having a field day for services whose effectiveness is still to be tested. But let the *WSJ* continue its tale:

"'They enjoy a free ride on the innovation of Wall Street,' says William Bird, a stock analyst at Citigroup Inc. In New York investors nave taken notice, piling into Moody's stock, which has been the purest play in the ratings business since Dun & Bradstreet spun it off in 2000. Yesterday, Moody's stock fetched $62.43, up 49% from a year ago.

"Ratings firms long have profited by issuing opinions on the packages pools of credit-card and mortgage debt known as asset-backed securities – a staple of 'structured finance.' But more recently Wall Street has added a twist, repackaging existing securities into collateralized-debt obligations or CDOs."

The Skyscraper Extension of "Structured Finance"

This *WSJ* report stops there; skyscraper-like extensions of "structured finance" into the blue sky. But in a previous story we commented on versions of structured finance that are completely disconnected with anything in the real economy. For those who simply wish to gamble in something called risk – quantified but not further defined – there are plenty of croupiers called raters who will set up that logical extension of the derivative game. You simply drop all other attributes of securities and concentrate on abstract risk. Billions can be gained or lost, with shattering results in the real economy, without further effect on the real trading markets of these real items other than the disappearance of purchasers of their stocks or product.

But once more back to the *WSJ:*

"The advent of the CDO has expanded the ratings business, because CDO investors – largely European and Asian banks and insurance companies – tend to have specific requirements for the ratings of whatever securities they buy. The rating firms often get paid twice, first to rate the securities that get packaged into the CDOs, and then to rate the variety of securities that go into a syndicated batch.

"What's more, rating CDOs is a relatively complex business, so the ratings firms can charge extra, as much as 0.11% of a CDO's value, compared with about 0.04% for plain-vanilla bonds.

"CDO sponsors are all but obliged to get a rating from either Moody's or S&P, partly because they are the most widely recognized ratings firms and partly because the Securities and Exchange Commission has boosted their competitive advantage by officially recognizing their ratings.

"The SEC has also recognized the third-largest ratings firm, Fitch Ratings, a subsidiary of French business-services group Fimalac SA, as well as Dominion Bond Rating Service and A.M. Best Co.

"Moody's alone rated about $140 billion in CDO deals in 2005, up from less than $100 billion in 2004 and next to nothing a decade ago."

Higher interest rates are likely to reduce the amount of real estate mortgages available for packaging in structured finance.

"The ratings firms also have attracted the attention of politicians and regulators. The House Committee on Financial Services, for example, has held hearings on a piece of legislation called 'The *Credit Rating Agency Dupoly Relief Act* of 2005,' aimed at increasing competition in the ratings business and giving the SEC more regulating power. The ratings firms have responded with proposals for self-regulation.

"In a separate action, the New York state attorney general's office last year asked Moody's for information on how it rates mortgage-backed securities, It isn't clear whether the request was part of a larger investigation."

The important point, however, is the assumption of economic theory as taught in our universities, that there is one grand pure and perfect market where all participants are of such negligible size, that infinitesimal calculus can be applied, and that will automatically make it "scientific." If that were so, it would not be necessary for the banks to syndicate and sell off their debt of increasingly dubious quality. It is not enough to examine the internal workings of "structured debt," but to examine the underlying assumption of the model: hugely excessive borrowing that makes it necessary to unload the most vital concerns of the nation so that deregulated finance can continue bleeding society.

W.K.

RENEW TODAY!
(SEE PAGE 2)

Financial Power and the Purchase of Consent to Suffer

November 3, 2004: The London *Daily Mirror* reported US election results under the headline, "How can 59,054,087 people be so dumb?" Lewis Lapham was moved rather to marvel that his countrymen were also deaf and blind. "Surely the facts spoke for themselves." Apparently not. Although information and analysis were abundantly distributed, "it had been received by the national television audience as nothing more than entertainment."

So writes Lapham in *Gag Rule: On the Suppression of Dissent and the Stifling of Democracy* (Penguin Books, 2005. xiii + 178 pp., footnotes, index.). The reception of news and campaign speeches as entertainment evokes the warning issued four decades ago by Marshall McLuhan in evaluating the focus of H.A. Innis on "the bias of communications" (itself an outgrowth of Innis' apprenticeship with Thorstein Veblen). McLuhan does get two pages in *Gag Rule*, but Lapham has not dwelt here on the disturbing anthropological implications of communications technology. He has chosen rather to express his contempt for the press barons who control information as they suck up to political power and encourage the prostitution of the reporters and commentators in their employ. And, to bemoan the failure of America to educate its youth in the importance of critical thinking about public policies for their own and the collective welfare. (A surprise: Woodrow Wilson, as President of Princeton University, opposed liberal education for all but a minority, preferring to discourage the habits of skepticism or dissent.)

If Tom Paine Were Alive Today

Lapham's prime exemplar of what can happen when people are free to think out loud is Thomas Paine, whose 1776 pamphlet *Common Sense* galvanized Americans to revolution. (Currently available, with *Agrarian Justice* of 1796, from Penguin Books in a Great Ideas series, 2004) Paine urged his countrymen to not merely grumble about unfair treatment in the hope of getting a tax break from the king, but to revolt against government from afar. The British system of government, including a king and hereditary peers, is nonsense, he insisted. "As in absolute governments the King is law, so in free countries, the law ought to be King." Published in January (150,000 copies), it evoked sufficient response that Thomas Jefferson borrowed Paine's reasoning six months later in writing the Declaration of Independence.

But Paine's trenchant approach to fundamental political order disturbed the propertied class and his next book, *The Rights of Man*, "prompted the British government to charge the author with treason and to declare him an outlaw." It became the best-selling book of the entire 18th century, says Lapham, and Paine was welcomed as a hero by revolutionaries in France. While there he continued his pursuit of the democratic ideal with *The Age of Reason* in which he ridiculed the role of established churches. That gave the Karl Roves of his time the opportunity to denounce him as a blasphemer. The Federalist Party had come to power in America during the decade of the 1790s, and on his return from France in 1802, "a Federalist crowd met Paine at the dock in Baltimore with jeers and catcalls, damning him as a "drunkard" and a "brutal infidel." When he died in 1809, his body was denied burial in hallowed ground, and throughout the whole of the nineteenth century, American preachers brandished the name of "Old Tom" as a synonym for the "devil." The appeal to religious prejudices seems to be a ready tool for cynical political manipulation of the unthinking and undemanding underclasses in every era.

The key element in Lapham's analysis for the subject matter of particular interest to us is a 1979 book by Walter Karp, *The Politics of War*. Karp, he says, took his cue from Paine in making a clear distinction between the American Republic and the American nation, which Karp described as "deadly rivals for the love and loyalty of the American people." The *nation*, said Karp, is "a poor, dim thing, assembled as a corporate entity, sustained by an 'artificial patriotism,' and given the semblance of meaning only when puffed up with the excitements of a foreign war." Hermann Goering explained the principle to his judges at Nuremberg: "All you have to do is tell them they are being attacked, denounce the pacifists for lack of patriotism and exposing the country to danger. It works the same in any country." The parallels in the United States over the past four years are unmistakable, but Lapham's compilation brings them freshly to the fore.

It is the interlinkage of money power to warfare and appeals to patriotic nationalism that get in the way of democracy, social justice and public institutions. The seeds of this pattern were already apparent in the Federalist government of 1798 which passed a *Sedition Act* prohibiting "any false, scandalous and malicious writing... against the government [or President] of the United States...with intent to defame...or bring them into contempt or disrepute...." Furthermore, President John Adams proclaimed the need for an American monarchy and the need for a large militia to guard against the threat of Jeffersonian principles. Nevertheless, it was only "the expanding sense of national purpose associated with the waging of...the Mexican and Civil Wars [that] muffled...expressions of dissent in the more popular assumption that America was destined to become 'the ark of safety [and] the anointed civilizer.'"

Gag Rules Before Bush

"Not surprisingly, the Civil War fostered the suppression of disagreeable opinion in every arena of American politics...but it was the applications of the gag rule by the McKinley and Wilson administrations around the turn of the twentieth century that established the precedents for those currently being put to use by the Bush administration." By 1890 the Industrial Revolution had made America rich, but people had also begun to notice that the railroad and banking monopolies held loaded dice and that the tax burden was shifting from capital to labor. The populist reform movement in the Mid-West threatened political control by "the nervous oligarchies of the monied East." The solution provided by McKinley's administration included war in Cuba, the conquest of the Philippines, the annexation of Puerto Rico, and a foreign policy worthy of the strength and dignity of a great nation. "How better to muzzle the republican spirit and replace the love of liberty with the love of the flag than with the trappings of imperial grandeur...." McKinley had posed as an enemy of the eastern monied interests (a compassionate conservative, no doubt) and never once mentioned the word Cuba during the election campaign of 1896. By 1901, populist unrest had subsided in the surge of nationalist pride, "and for the next five years the agents and apostles of the American nation gloried in a triumph of wealth and cynicism presumed sufficient to silence any loose-mouthed talk about ordinary citizens deserving a say in a government nominally democratic.... Not unlike the bandmasters of the Bush administration, the tribunes of the people at the zenith of the country's Gilded Age embraced the view of Senator Nelson Aldrich of Rhode Island, who regarded any kind of politics save the politics of corrupt privilege as 'sentimental rot.'"

Populist discontent continued to rumble, and ripened into the Progressive Movement with the assistance of muckraking journalists and awakened intellectuals. This time angry farmers were joined by the urban middle classes in the clamor for a change of system. Against this more sophisticated enemy, the monied upper class found its salvation in "the hypocrisy of Woodrow Wilson, who engineered America's entry into World War I in order to damp down the fevers of domestic discontent. Just as Operation Iraqi Freedom was not about the rescue of the Iraqi people, so also the Spanish-American War was not about 'the sacred cause of Cuban independence,' and our entry into World War I not about keeping the world 'safe for democracy.' Presidents McKinley and Wilson sought to punish foreign crimes against humanity...in order to make America safe for the domestic crimes against humanity committed by the top-hatted gentlemen in Cleveland, Chicago, and New York."

Although Wilson, like McKinley, had campaigned for the White House on the promise of social reform, he betrayed his presumed principles at the earliest opportunity (an invasion of Mexico). A year later, drumming up enthusiasm for America's engagement in World War I, Wilson called upon the nation to rebuke the voices of disagreement, drown out dissent with the "deep unison of the common, unhesitatingly national feeling...." Not one American in ten thousand wished to intervene in a quarrel between the British and German monarchies; even the most feeble of presidents could have kept America out of the war, but only "a president of uncommon ability, boldness and flaunting ambition [these phrases are Karp's] could possibly have gotten us into it." "The emergence of the United States as a world power between the years 1890 and 1920 followed from the domestic political crisis threatening to remove control of the country's wealth and well-being from the custody of its newly ascendant ruling class--the passions of war meant to overrule the motion for economic justice...."

To continue this trajectory, one could consult Michael Hudson's 1972 *Super Imperialism*: *The Strategy of American Empire* to see how the levers of government were pulled during and after WW I to emasculate Britain's trading empire and make the world "safe" for American capitalism. Before the completion of that process, however (essentially the establishment of World Bank and IMF as tools of American capitalism), the Great Deflation intervened. This event has been widely interpreted as a consequence of "'the money power' and its hired politicians [having] consigned the arrangement of the country's financial affairs to a consortium of swindling bankers and bribed legislatures" because it was "incapable of managing an economy that it could only prey upon." (Said of the McKinley-Roosevelt era, by Karp) Their abject failure then forced the money powers to retreat before a democratically energized government, but our generation has witnessed the reassertion of control by a narrow class of oligarchs who brazenly flaunt their ownership of government and wield its power against the interests of the great majority.

Keith Wilde

A Deeper Look at the Bank for International Settlements

Twenty years ago I came across a booklet in a dusty box in the Robarts Library by Henry Hans Schloss*, The Bank for International Settlements: An experiment in central bank cooperation*, published by North-Holland Pub. Co. in 1958. In it I found two sensational facts, not widely known: Resolution Five adopted at Bretton Woods in 1944 calling for the dissolution of The Bank for International Settlements (BIS) at the earliest opportunity. The reason: BIS had surrendered the Czechoslovak central bank gold treasure entrusted to it by the Prague Government to the Nazis on their marching into Prague almost before they had even had the time to ask for it. That, in Schloss's judgment was what had led BIS to cultivate a low profile. I took it up from there: that low profile in turn commended it to the international banking community as an ideal bunker from which to conduct its carefully planned strategy for bringing the world back to their control – state of affairs that that had ushered in the depression of the 1930s. But Schloss, without going into further detail, had concluded that the other plentiful accusations against BIS for having served the Nazis before and during the war lacked supporting evidence.

Deluge of Internet Source Material on BIS

The deluge of source material on BIS that has appeared on the Internet in recent months proves that the Schloss book, though it did reveal an isolated shameful episode in BIS's past, was essentially a whitewash job.

Since the campaign of BIS has in the interim been amazingly successful in combining the repeated bailouts of our banks with their further deregulation to take over the other "financial pillars."

Today, they are well on the way to controlling the industrial sector and society itself. Much of this material was published years ago but was simply ignored. BIS itself and the central banks of some of the leading countries have been diligent in such suppression, by a variety of methods ranging from fellowships to soften up too diligently enquiring journalists and unorthodox economists. And, of course, the virtual censorship of the media. It is a great merit of the Internet that it is providing access to this suppressed information. We are happy to offer our readers a sampling of it.

Bilderberg and Trilateral Commission

From Alfred Mendez: "Terms such as 'free market,' 'new world order' and 'globalization' have dominated political/economic terminology over the past two decades-or-so, and the fact that it focusses on banks and bankers is quite simply because, without money, these terms are meaningless. And after all, what is a banker if he's not a trader in money? Similarly, 'globalization' would be meaningless if such politically omnipotent groups as the Bilderberg Group and the Trilateral Commission were not taken into account when assessing the significance of 'globalization.'

"The Bilderberg (BB) was formed in 1954 out of the need of corporate America for cohesion of purpose on the part of its European partners in the recently formed North Atlantic Alliance (NATO). The twin aim was to facilitate the flow of American capital into the region, and to bring Germany into the Alliance. That it is a group endowed with enormous political clout can be attested by: (1) the examination of the list of committee members and conference attendees over the years, and (2) these conferences take place under very strict security supplied by the respective host countries.

"The Trilateral Commission (TRI) was formed in 1973, its agenda determined by the corporate-funded Brookings Institute and the Kettering Foundation – with help from David Rockefeller of the Chase-Manhattan Bank. That its projected formation should have been so enthusiastically acclaimed by the BB Conference in Knokke (Belgium) in 1972, is not surprising. Both corporate-controlled organizations, with linked membership, shared the same aim: increasing globalization of their wealth and power. Certainly, the BB with its total lack of 'democratic accountability,' must be in agreement with the TRI's declaration (in its 'The Crisis of Democracy') that what the West needs most 'is a greater degree of moderation in democracy.'

"The list of bankers' names reveals that the Bank for International Settlements (BIS) is of prime importance because of its links with other groups. This article will focus on that because so little knowledge of it is in the public domain.

"BIS is the world's oldest international financial institution, having been set up in 1930 with the twin aim of (1) coping with reparations/loans from/to a very unstable post-World-War-I Germany; and (2) more importantly, to act as a forum for central bankers in the future. It was thus the very epitome of supranationality. It circumvented all those orthodox ideals that had over the years become synonymous with the 'nation state' – e.g., 'love of country,' 'patriotism.' etc. In a state of war, however, such circumvention of patriotism by any of its board members could lead to their accusation of treasonable offences.

"It consisted, initially, of a group of six central banks and a 'financial institution of the USA.' Granted a constitutional charter by Switzerland, it was based in that country. America's primacy on the international scene is clear from the fact that the first BIS President was Gates W. McGarrah (ex-Chase Nation National Bank & Federal Reserve Bank).

"By the late 1930s, BIS had assumed an openly pro-Nazi bias – much of it disclosed by Charles Higham in his book 'Trading with the Enemy,' and years later corroborated by a BBC Timewatch film 'Banking with Hitler 'broadcast in late '98. Moreover BIS had arranged transfers into the German Reichsbank of $378 million of what, was, in effect, gold looted from the bank coffers during the invasion of Austria, Czechoslovakia, Holland and Belgium. And in the summer of 1942, plans for the projected American invasion of Algeria were leaked to the governor of the French National Bank, who immediately contacted his German colleague in BIS, SS Gruppenfuehrer Baron Kurt von Schroeder (of the Stein Bank of Cologne). As a result by transferring 9 billion gold francs to Algiers – via BIS – the Germans and their French subsidiaries made a killing of some $175 million in this dollar-exchange scam. On the BIS board at the time were the following high-profile representatives of the Axis powers: Walter Funk (president of the Reichsbank) Kurt von Schroeder; Dr. Hermann Schmitz (Jt. Chairman of I G Farben); Emil Puhl (V President of the Reichsbank; Yoneji Yamamoto, and Dr. V. Azzolini (Governor of the Bank of Italy). It should be added that, of the non-Axis members of the board, many – such as Montagu Norman (Governor of the Bank of England) – were Nazi sympathizers, and that the President of BIS from 1939 to 1946 was Thomas McKittrick, an American corporate lawyer who had been both Director of Lee, Higginson & Co. (that had made substantial loans to the Third Reich). His continued presidency of BIS after America's entry into the war in December 1941) was approved by Germany and Italy with this significant addendum to their note of authorization: 'McKittricks' opinions are safely known to us.'

"Not surprisingly, in view of the close relationship between American and German corporations, a substantial portion of supplies went to Germany – often via fascist Spain by ship and tanker under flags of neutrality. Many of the financial arrangements covering such trade were handled by BIS in neutral Basle. In mid-'44 America was supplying Germany with 48 thousand tons of oil, and 11 hundred tons of much-needed tungsten per month! The fact that this trade was illegal in the USA for much of this period did little to stop it. The large corporations, such as Standard Oil and ITT, saw to that. After all, then – as now – the US Administration was effectively under corporate control. Even the Secretary of Treasury, Henry Morgenthau, and his Assistant, Harry Dexter White, aware as they well were of the part played by BIS in this, could do little about it.

"In July 1944, 730 delegates from 44 countries met at Bretton Woods to plan a framework for post-war international trade, payments and investments – a conference that subsequently resulted in the setting up in '47 of both the International Bank for Reconstruction & Development (IBRD, or World Bank) and the International Monetary Fund (IMF). The apparent inviolability of BIS was perhaps best illustrated by the fact that Resolution 5, calling for the dissolution of BIS, was subsequently ignored. The corporate establishment had seen to that – as indeed, it had to all such previous attempts."

The Irresolute Resolution Five of Bretton Woods

"The puzzling fact is was that there were in the post-war period three international financial/banking organizations with the similar aim of resolving the world's serious economic problems. But whereas the IMF and the World Bank have been conspicuously in the public eye, BIS adopted a low profile. There were two reasons for this: (1) it eluded investigation into its previous dealings with the Third Reich; and (2) by so dissociating from the IMF and the World Bank, the latter would be widely regarded as the sole guardians of the world economy, thus allowing the BIS more latitude to follow the agenda of the corporate establishment. In the 1970s, Anthony Sampson in his book *The Money Lenders* summed it up: 'In 1966, the quotas that made up the capital of the IMF/World Bank amounted to 10% of the total world imports, but by 1976 the made up only 4%....' By '76 world annual deficits had reached $75 billion: of this, 7% was financed by the IMF; 18% by other official international bodies (governments and the World Bank, the remaining three-quarters financed by commercial banks." (Today, some two-and-a-half decades later, the board members of BIS, control 95% of the money in circulation.)

"The reason for this apparent taking over of such responsibility by the BIS from the IMF/World Bank is twofold: (1) the collapse of the Bretton Woods system of exchange convertibility in the early seventies; and (2) the IMF and the World bank, as statutorily-appointed agents of the UN, were accountable to a much wider constituency than the BIS, and therefore politically less manageable by the corporate establishment.

W.K.

Capitulating to Capitalism: The Market Place as a Bully

Imagine. The *Star* is ahead of the Canadian Centre for Policy Alternatives. Don't get me wrong, I greatly admire the work of the Canadian Centre for Policy Alternatives but, in the past, there seemed to be closer congruence between their writers and COMER than there is now.

On the last Sunday of January – the week following the election – the *Toronto Star* ran an article by Jeffery Ewener on the Bank of Canada. It was an excellent article entirely congruent with some of the points raised by COMER over the years. The article led with "Your job, their inflation tool" and "Does the Bank of Canada's fixation on prices serve all Canadians, or just the rich?"

It goes on to describe how "With the stroke of a pen, the Bank of Canada can force hundreds of businesses into bankruptcy, drive thousands of homeowners out of their homes, throw tens of thousands of workers into the unemployment lines. More than once, in the not-too-distant past, it has chosen to do all of this."

The article then describes the modern role of the Bank of Canada.

"Clearly, the Bank of Canada has a lot of power over Canadians. But shouldn't Canadians have some power over the Bank of Canada? The Bank was created by an Act of Parliament defining its goals and powers, and is wholly owned by the Government of Canada. So, in the final analysis.… Canadians are the ones in charge, at least indirectly through their elected representatives, and the Bank should act in their interests and carry out their will."

Long time readers of COMER will know that role of the Bank of Canada is "…to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment…and generally to promote the economic and financial welfare of Canada." By a simple directive the Minister of Finance can change the practices of the BoC.

The Bank of Canada is part of the Civil Commons but along with the political levers of power has been appropriated by the financial elite which Ewener's article elaborates on when he calls for it to carry out the will of Canadians. Ewener also inadvertently points out ideas raised by Karl Polanyi in *The Great Transformation:*

"That's clear in theory. In practice, it gets muddy. In practice, the Bank sees the bulk of Canadians not as its owners but as problems to be dealt with – as people whose interests must be crushed, whose aspirations have to be disciplined and, sometimes, brutally punished."

Once Embedded, Society is Kicked Out of Bed

From the Karl Polanyi web site it is noted that Polanyi saw capitalism as a historical anomaly because while previous economic arrangements were "embedded" in social relations, in capitalism, the situation was reversed – social relations were defined by economic relations. In Polanyi's view, in the sweep of human history, rules of reciprocity, redistribution and communal obligations were far more frequent than market relations. However, capitalism destroys these.

The "great transformation" of the industrial revolution was to replace all modes of social interaction with market relations driven by self-interest.

This week, one of my favorite writers, Barbara Colorosa, was publicizing her new book *Just Because It's Not Wrong Doesn't Make It Right* and I was struck by how her three basic principles of ethical behaviour are absent from modern economic practices. Care deeply. Share generously. Help willingly. She noted also that when people are objectified, bullies rule.

The behaviour in the so-called market place by the leaders of corporations and vigorously upheld by the Bank of Canada is: Don't care unless we get paid. Don't share unless forced to, Help if the price is right. Blame the victim.

As Ewener points out "Simply put, Canadians exist to be laid off when inflation is deemed to be too high by the investment industry. The formula is simple: When inflation rises, the Bank of Canada raises interest rates. The higher rates slow the economy by increasing the cost of doing business. Companies lay off employees, which increases the unemployment rate. When unemployment is high, Canadians start taking lower-paying jobs and their unions make salary concessions during contract negotiations. Wages start to drop, taking inflation with it.

"A country is not a body, or rather it's 33 million different bodies. And the distribution of pain and gain can be wildly uneven. If Peter loses his job and has his house foreclosed and is forced into personal bankruptcy, the fact that Paul's investments are doing well against inflation isn't likely to be much consolation.

"But economists don't deal in Peters and Pauls. They deal in large conceptual aggregations – such as Consumption (the total amount spent in Canada on consumer goods) or Investment (the amount spent on income-earning instruments like factories, bonds, baseball cards, etc.)." They are no longer persons but resources and objects to be bullied.

The Ewener article is missing at least two other key ideas important to COMER.

It does not point out clearly that the BoC is the real source of our debt not program spending. You have to infer that. It also does not challenge the current definition of inflation. Please visit the COMER web site at www.comer.org for a better understanding of the problem with the definition of inflation that is now used by the Bank of Canada. William Krehm's book *Price in a Mixed Economy* is seminal on this topic. Linda McQuaig's books *Shooting the Hippo* and *All You Can Eat* are also excellent on the above topics.

The Bank of Canada issue was covered during the election by only one political party – CAP. The NDP dropped Bank of Canada policies from its platform although it is contained in its resolution package passed at conventions.

Even more sad, however, is that the unions' leaders don't seem to get it! They are actually pawns in the game now as evidenced by Buzz Hargrove's support for the Liberals during the last election. Others never talk about it in their conventions. Originally an attempt to restore community values as primary over the market, unions and many of its members have bought into capitalism as primary over communities. I have a hunch that the people at some level know it is wrong and that is why there is so much opposition to unions amongst the very people who should be supporting them.

Labour and social justice economists at the CCPA do not talk about the Bank of Canada any more in their alternative budgets or indeed their other documents.

It is as if they are capitulating to capitalism.

Herb Wiseman

On the Fed's Best Chairman Ever, Ideas and Risk Management

Alan Greenspan has left the chairmanship of the Federal Reserve in a haze of doubt and glory. The headlines of *The Wall Street Journal* (31/01, "Greenspan's Legacy Rests on Results, Not Theories – Fed Chief's Biggest Idea was to Avoid Having One" by Greg Ip) sum it up. If you have enough power, or are cozy enough with those who do, you pass the ultimate test with top marks, essentially because you are allowed to mark your own paper.

"As Alan Greenspan retires today his economic legacy seems secure: inflation and unemployment are lower than when he took office, and during his tenure, the US experienced just two mild recessions and its longest expansion on record.

"The intellectual foundation of that legacy is harder to pinpoint. If there is a single idea informing the success of his nearly two decades at the helm of the Fed, it is that single ideas are to be avoided. There isn't an identifiable Greenspanism or a Greenspan rule because the essence of Mr. Greenspan is his distrust of any "ism" or rule. Mr. Greenspan's fans say his refusal to become invested in any particular model of the economy enabled him to shift gears whenever the prevailing model stopped working. His realization in 1996 that productivity growth had accelerated, damping inflation, when many economists thought inflation would rise led the Fed to delay raising interest rates. That probably helped extend the 1990s expansion."

1996 — The Great Divide in US Government Accountancy

One of the privileges of the Greenspan method is that he is able to rewrite history. 1996, mentioned above, for example, was the great divide in the accountancy employed by the US government which affected both the budgetary balance, and the grade assigned to government debt by the rating agencies, and thus of the interest rates in the land. Prior to that, the government had treated the investment of government in capital projects exactly as they did the purchases of floor wax in the lavatories of its buildings. It wrote them off in the year of their acquisition, though their usefulness continued for decades thereafter. On the other hand the debt incurred to make the investment was duly noted on the liability side of the ledger. Obviously, that seriously distorted the real state of the budget and pushed interest rates to unnecessary heights. If any private firm adopted that sort of bookkeeping, its officials would risk ending up in jail.

Why then was it discontinued as of the beginning of 1996, when the Department of Commerce figures suddenly began depreciating government's physical investments? The *WSJ* article says that it was because Mr. Greenspan "realized in 1996 that productivity had accelerated, dampened inflation, when many economists thought inflation would raise interest rates." That is, however, not the chain of events that brought us "the Fed's delay in raising interest rates, that probably helped extend the expansion."

Here is the actual chain of events that produced that happy result. The banks deregulated during the 1970s and 1980s were allowed to gamble in ways incompatible with banking that the Bank Act of 1935 had prevented them from doing. For, example, they had not been allowed to acquire interests in the other of the "financial pillars" – stock brokerage, insurance and real estate mortgages – because once banks were allowed to control the cash pools of these other pillars, they would apply the banking multiplier – the proportion of credit created by banks to the cash in their coffers and build an inverted pyramid of credit with inflationary results. That sort of thing in fact had brought on the Crash of 1929. But ever since the mid-1970s banking had been deregulated in the US and throughout the world. By the 1980s the banks as a group had lost much of their capital. To bail them out the central bankers' club The Bank for International Settlements (BIS) brought in the Risk-Based Capital Guidelines in 1988 that declared the debt of developed countries "risk-free," and therefore requiring no additional capital for banks to acquire. That was the gimmick of the bank bailout – in Canada the banks quadrupled their holdings of federal debt, and to replenish their empty coffers all they had to do was clip the coupons.

When the Bank of Canada had held those bonds the interest paid on them came back to the government almost wholly as dividends. For every since 1938 the federal government had been the sole shareholder of the Bank of Canada.

However, at the same time as it declared the debt of developed countries "risk-free", the same BIS started a campaign to wipe out inflation by raising interest rates to the skies. However, it overlooked a detail – as apparently did Mr. Greenspan: when interest rates go up the value of pre-existent bonds with a lower coupon drops like stones. And that is what brought on the Mexican banking crisis that threatened to bring down the entire world banking system. Hastily, President Clinton – even without the backing of Congress, with the help of the IMF and Canada, organized a standby fund of $51 billion that prevented that catastrophe, and convinced the US government that the period of sky-high interest rates to lick perceived "inflation" had come to a close. That was certainly not a "dogma," but it was an "idea" delivered like a blow to the head, and a very basic one, that had eluded Mr. Greenspan.

The Privilege of Rewriting History

But the advantage of Mr. Greenspan's system is that he can rewrite history, and declare as he has that it was "his realization that productivity had accelerated, damping inflation." It was the lower interest rates that increased productivity, since interest is a cost of production, and when businesses go broke it does not help productivity. However, Mr. Greenspan reached the conclusion that the rate of sky-high interest rates was over, by a very circuitous route.

And some very definite ideas were simply dictated to Mr. Greenspan by the financial interests in power. Thus, in December of this same year 1996 Mr. Greenspan uttered a timely enough warning about the "irrational exuberance" that had taken over the stock markets, and was told in no uncertain terms to butt out and confine his warnings to inflation on the commodity markets, but not the financial markets. And he complied. That was an "idea" that he accepted, for never again did he return to the subject again. And as a return for that obedience, Wall Street helped promote the vision of Mr. Greenspan as the best Chairman the Fed has ever had. That is of course is also an idea, and an instance of a "free trade" as well.

"[Mr. Greenspan] portrays himself as a 'Bayesian.' Thomas Bayes was an 18th-century British Presbyterian minister with early insights into making decisions when key determinants of the outcome are unknown.

A Bayesian makes a decision based not on the most probably outcome but on a range of possible outcomes.

"Mr. Greenspan calls his flavor of Bayesian decision making 'risk management.' It amounts to deliberately risking small mistakes to avoid much bigger mistakes."

But who is to decide what is a small or a big mistake? When the Rev. Bayes lived the world was simpler. To day in our mixed economy, even consumers require considerable education – to use computers and the innumerable progeny they have produced. That requires vastly more universities and large cities, with subways, health and environmental hazards. These are not optional ideas: unless they are addressed, who will decide on what is efficiency and what is not. You can cut budgets by saving on the levees of New Orleans, but the result is disaster even in budgetary terms. Obviously, whether Mr. Greenspan would call for cutting the national budget to achieve a misleading balance, he is not cultivating "risk management" but guaranteeing major trouble.

The same can be extended to the idea of "inflation" itself. When there is an excess of demand our available supply, other things being equal, prices will certainly go up. But you cannot turn propositions around – exchanging cause for effect – and have them remain valid. Because of the urbanized, high-tech nature of our society, a far greater part of the economy is paid for by taxes, not marketed and hence not priced, but it does affect the price level. Unless the essential public services paid for in this manner are provided, we are kidding ourselves if we consider that we can eliminate their cost merely by raising interest rates. That is an "idea" that economists have resisted because it is easier to proclaim every human need that is not supplied by trade for a profit as an "externality." The Tsunami of New Orleans may not have been market-determined, but it was no "externality" for those trapped in its path. Obviously there is a great need to introduce economists to more "ideas" for them to get even a passing grade in "risk management."

W.K.

Our Banks Hunger Once Again

There are two contrasted sorts of hunger. One results from the patient never having enough to eat. Another from not having been educated to the perils of overfeeding just because they are strategically placed to do so. Having been assigned much of society's credit creation, , it could in the long for them to mistake that position of trust for a license to devour the rest of the financial sector and to sink teeth into more and more of the economy itself.

At the moment there are three public dramas moving to centre stage on this continent. One is appearance of three of our largest banks before a California court as main defendants in a suit by Enron itself. A high Enron official has already been sentenced to ten years of imprisonment for his role in this Enron sideshow – the "partnerships" that kept billions of dollars off the corporations books with the use of derivatives designed for the purpose by one of our major banks – the CBIC – with two other major Canadian banks – the TD and the RBC involved in the financing. The CIBC has settled *out of court* for some 2.4 billion dollars – fully a quarter of its entire capital; and the Canadian taxpayers are helping them do so, since its cost of the settlement charged up to almost a billion as a business loss against its domestic earnings.

But neither the Canadian authorities nor the media have shown the slightest interest in relating this disgraceful episode with the further push for expansion that is underway by the banks of Canada. Surely it would be in place after the moral shiner that Canada has received by the record of banks so recently bailed out from previous gambling losses and further deregulated. Without that coddling by our government those three banks would not have been in a position to engage in further dubious foreign adventures.

Still more remarkable is the detail that at the same time that the main Enron trials are about to begin, both in the US and Canada the banks are on a new offensive to roll back further the constraints that hem in their progressive conquest not only of the financial sector but the entire economy. We have repeatedly explained the role of the US *Bank Act* of 1935 brought in under Roosevelt to prevent a recurrence of the 1929 crash and the deep decade of depression that followed be compelling the banks to stick strictly to banking. The other "financial pillars" – the stock market, insurance and mortgages, were identified as being closed to them. The reason was clear. Each of these other "pillars" has its own pool of liquid capital to meet the needs of its own highly risky businesses. Allow the banks to splosh about in these pools and they will use them as the cash base for applying the banking multiplier – the amount of speculative activity that it can finance merely by assuming that the hopefully "temporary" non-availability of their cash reserves will not be missed while the banks make brilliant conquests with the credit generated on that base elsewhere. In this way, a skyscraper of credit creation can result, which can of course, become a skyscraper of speculative losses.

And now the bank lobby push on in the US to allow bank holding companies not only to engage in real estate mortgaging companies, but in entrepreneurial activities as property developers. At present such real estate activities are limited to the financing of real estate, unless the staff will be occupying a major portion of the resulting premisses.

And our government shows little interest assessing what use our banks have made of the ir previous bailouts and subsequent deregulations. For surely the connection between that and the decision whether further deregulation is advisable should be evident. If it seems to have escaped our political parties – of just about all colours – then that must be attributed to another key phenomenon: when the bailout of a bank or a corporation becomes too vast and shameless, the government responsible ends up at the mercy of the interest bailed out. If not from the bailed-out corporation itself, then from potential whistle-blowers.

Knowing where the corpses are buried becomes in itself a capital asset. Thus we were only somewhat surprised at the degree of cheek needed for the tale that *The Globe and Mail* Report on Business had to tell (3/02, "Banks seek end to ban on insurance marketing" by Steven Chase and Sinclair Stewart):

"Canada's big banks are pressing the federal Conservatives to reverse an election pledge that would maintain a blanket ban on marketing insurance through their branches.

"The 56-day election campaign and Liberal government defeat, disrupted a major effort by banks last fall to win the right to conduct at least rudimentary insurance marketing through their combined 5,100 branches.

"The Conservatives campaigned on a pledge to leave things as they are, saying a Tory government would 'maintain the current regulations governing insurance marketing by the chartered banks.'

"Banks are lobbying Tory MPs who will be part of the new Stephen Harper government to be sworn in Monday, and are preparing to target whoever takes over as federal finance minister next week.

"Jim Westlake, who heads Royal Bank of Canada's domestic retail operations, said the company will continue to lobby for the right to refer clients from its bank branches to its insurance unit. 'There's no question that the consumer-friendly thing to do is to make some changes. This is not just a big-bank issue any more. The credit unions have come out in favour of it,' Mr. Westlake said." When the banks start purring, it is a sign of danger ahead. Remember how entering brokerage and mortgages, passed under "one stop financial services." All for the convenience of the customer. But today if he is not inclined to line up outside before a banking machine, he will pay for every encounter with a living teller.

All for the Greater Convenience of the Public!

"Mr. Westlake, for one, hopes there could be some wiggle room that would enable the banks to promote their insurance capabilities at the branch level.

"The incoming Conservative government may be forced to decide quickly whether it wants to placate the banks or the insurance brokers. Ottawa was in the middle of a legally mandated review of legislation covering Canada's financial sector when the Liberal government was defeated in November. The Tories must enact new legislation by October 24 to replace acts governing the entire financial sector because these are all set to expire after that day. These time-limited financial laws say Ottawa must bring into force new legislation late October or 'banks shall not carry on business' after that point. (The federal cabinet may extend the expired legislation for six months, one time only, if necessary to keep the banks operating.)"

That makes it all the more serious that the NDP should have avoided the slightest word about the previous bailouts and the record of the banks in using the deregulation that has already been lavished upon them at high cost to the public. The buried history of the positive use of the Bank of Canada for

continues on page 20

Google Searches for Information Freedom in China

Ours has been called the Information Age, That, however, must refer to the technology of information that makes it equally possible to provide information as to suppress it. What results is virtuoso achievements in both these fields to serve the group in power nationally and a world scale. As the achievements of science can be put to benign or harmful use so can digital electronics be used to inform or disinform, to invade domains essential to democratic freedoms and to erase vital historical records essential for society learning from its past errors.

In this critical situation the Internet plays a critical role. Where financial power exercised directly and the considerable costs of attaining and retaining political power have placed the conventional mass media under the control of the financial sector, the Internet has provided a high degree of freedom in democratic lands. Though beset with spam, a volume of discussion and debate takes place on it that has never been experienced on radio, television, or the print media, dependent as they are on advertising revenue.

Much of our history – especially the crucial record of the entire post-World War I period – has been expunged from our economic university texts. It can be found at great effort only through the search sources on the Internet. The mere detail that the reach of the Internet is world-wide adds to the stakes involved. Much of the decrease in popularity of the Bush regime in the US and its wilting fortunes in the Near East must be attributed to the Internet. While the prospect of the continued freedom of the Internet has been a subject of much concern, the most recent news out of China transfers this from the realm of speculation to a grimmer reality.

The Wall Street Journal (16/12, "As Google Pushes Into China, It Faces Clashes With Censors" by Jason Dean and Kevin J. Delaney) brings us news from the very front-line of this issue. It is hardly reassuring that the future of Internet Freedom, worldwide, may be decided in non-democratic lands like China.

"Google Inc. became a business superstar by relentlessly following one goal-making the world's information 'universally accessible.' Now its ambitions overseas are bringing it up against a government whose philosophy is very different: China.

"Yahoo Inc. and other rivals have been operating in China for years. Google has offered a Chinese version of its familiar search services, but it had no offices or employees in China until this year, That hindered its ability to compete for traffic and advertising among China's rapidly growing base of more than 100 million Internet users, already the world's second-largest, after that of the US.

"Today, Google is rushing to catch up in a bid to remain competitive globally. But the move into China is giving the country's censors and security officials greater potential leverage over Google – whose corporate mantra is 'don't be evil.' Beijing believes that the Internet must be firmly controlled to maintain social stability and, ultimately, the Communist Party's hold on power. It requires Internet companies operating in China to comply with the country's stringent censorship and security laws. Already, Google has been tailoring part of its service to omit sources blocked by Chinese censors. For example, when a user in China searches Google's news service, sites related to Falun Gong and other groups banned by the government don't show up.

"Interviews with company executives, public statements and company documents filed as part of a continuing lawsuit shows how Google finally decided to move into China after wrestling with reservations over how to reconcile Beijing's restrictions with its own principles. In the end, the opportunity in China proved too important to resist."

Here again the population mass of China and its ever closer promise of a mass market that may dwarf even that of the US seems to be carrying the day. This development is scary. For it can only reinforce the allures of dominating the Internet for those in power in our imperfect democracies of the West and educating the international search corporations to conform.

"Google has paid a price for coming late to China. While the company's leaders debated its strategy there, Baidu.com Inc., a local rival in which Google last year bought a small stake, surged; it now ranks as China's most popular search site. That has left Google facing a rare uphill battle in the

Internet search business it helped define. At a board meeting in July, CEO Eric Schmidt cited 'serious local competition' as a reason China topped his list of concerns, according to a court document.

"'Probably we should have come earlier, but certainly better late than never,' says Kai-Fu Lee, a longtime Microsoft Corp. official whose high profile in China was one of the reasons Google hired him in July to help run its new Chinese operation. Microsoft has filed a lawsuit against Google and Mr. Lee in Washington state court alleging Mr. Lee violated a non-compete agreement.

"Since Mr. Lee joined Google, the company has signed up a string of local partners to sell its online ads. Mr. Lee has been setting up a research and development center in Beijing and toured 25 Chinese universities to drum up interest in working there. Google is also preparing a marketing blitz."

Blocking Online Search Giants

"While other countries set some limits on what people can put on the Internet, China's constraints are perhaps the world's most extensive. It can be difficult to figure out who enforces the rules and how. Numerous agencies – from the National Administration for the Protection of State Secrets to the General Administration of Press and Publications – have jurisdiction over the Internet. Foreign companies operating in China are obliged to comply with rules that block access to online content deemed politically unacceptable. Failure to heed the rules can cost a company its business license or trigger other penalties. Companies can also be required to turn over information on users suspected of having broken China's wide-ranging, but often vague, laws.

"'We are all very aware that entering China requires us to balance two specific needs: the needs of our users and the need of operating within a political climate and a set of government regulations, as we do elsewhere in the world,' says Sukhinder Singh Cassidy, Google's vice president for Asia-Pacific and Latin America operations. She says Google believes its approach will 'really provide as much information and transparency as we can to users.'"

The trouble is that Google, caught with the fatal urge to go on expanding, is experiencing pressures to restrict freedom of information in both China and the US – the renewal of the *Patriot Act* in the US and in China the new outbreak of murderous mass oppression of the increasingly frequent popular demonstrations against curtailing popular rights and living standards. This is a difficult time for the defence of Internet freedom. Any repressive restrictions on Internet freedom in either of Google's two main markets is more likely to be taken as a model to be matched in the other. Just as the US intervention in Iraq did little to bolster American civil liberties. Something that might be called the "Broken Mirror Effect." The more broken mirror, the less clear its reflections become.

"The balance has already proved tricky. Until recently, Google's map and satellite-photo service offered Chinese Internet users something they rarely could see a bird's-eye view of the secret compound of Zhongnanhai, where the country's top leaders live and work. But in recent weeks, close-up views from Google's satellite images of the leadership compound in Beijing have been blocked in at least parts of China. It's not clear whether the government is behind this. Google says it didn't alter that part of its service for Chinese users. In any case, the feat betrays a high level of technical expertise.

"Other big technology companies have drawn fire for accommodating the Chinese government. Cisco Systems Inc. has been criticized by free-speech advocates for selling China equipment that helps censors block Web sites. Cisco spokeswoman Penny Bruce says the company does not participate in government censorship but acknowledges standard Cisco equipment can be used to filter access to Web sites.

"Human-rights activists in recent months have condemned Yahoo – which has been in China since 1999 – for helping Chinese police identify a Chinese journalist who allegedly used his Yahoo email account to relay to an overseas Web site the contents of a secret government order. The order related to coverage of a coming anniversary that was politically sensitive. The journalist, 37-year-old Shi Tao, is now serving a 10-year prison sentence.

"Yahoo defends its actions. 'We balance legal requirements against our strong belief that our active involvement in China contributes to the continued modernization of the country,' it said in a statement."

Exit the Day Dream of Free Trade Bringing Democracy

By that cheerful belief all that anyone need do is maximize the billions corporations rake in and that in itself will lead to a democracy, specially redefined for this money-grubbing age.

However, the news coming out of this same China tells a very different tale. *The Globe and Mail* (17/12, "A burst of gunfire exploding in darkness" by Geoffery York): "Darkness had fallen on the fishing town of Dongzhou when the riot police marched into town. There were hundreds of them, carrying shields and wearing helmets and body armour. It was the night of Dec. 6, a little more than a week ago. Just a few hours earlier, police had clashed with hundreds of villagers fighting the seizure of their land for a power plant.

"About 7 p.m. the police stood aside to make room for a large vehicle with two bright spotlights on the top. The darkness was so thick that the villagers couldn't make out the purpose of the vehicle. The villagers assumed it was a water cannon. A few minutes later, he heard a noise that astonished him. It was a burst of gunfire from an automatic weapon. Fresh bursts of gunfire kept coming. Wherever the spotlights landed, the bullets followed. Officially, the authorities have acknowledged that three villagers were killed outright and eight injured in the shooting. The villagers insisted that as many as 20 were killed by police gunshots, and dozens more injured. Dozens more have disappeared, and nobody knows if they are in custody or dead.

The Dongzhou confrontation was a dramatic example of a trend that deeply worries China's Communist rulers. In 1993 there were about 8,700 protests and other 'mass incidents' in China. By last year the number had skyrocketed to 74,000. And the number of protests is soaring despite China's rapid economic growth, which was supposed to diffuse the discontent and maintain the regime's stability.

"Eight years ago, the typical incident in China had 10 or fewer protesters; by 2003 the average had topped 50 and an increasing number of protests involved hundreds or thousands of people, Wrote Murray Scot Tanner, senior political economist at the RAND corporation in the US China's rapid economic growth, rising access to education and information, and increasing. exposure to notions of 'contracts' and 'rights' are apparently producing an increasingly assertive society. In a sign of the government's growing alarm, Beijing announced in August that it was creating special police units in 36 cities to suppress 'riots.'"

Hardly a sign that any economic growth, especially that widening the gap between the wealthy and the impoverished, brings the world closer to democracy.❧

Exponential Growth and Morality Don't Mix

One of the harsh facts that must be faced is that ever-expanding growth leaves ever less room for morality. That marks out electoral reform as an emergency item. That appears clearly in the US from the Merger and Acquisition job that lobbyists are doing on election fund management.

On the front page of *The Wall Street Journal* (27/01, "Growing Role for Lobbyists: Raising Funds for Lawmakers" by Brody Mullins), we read:

"Washington – Nearly three years ago, Gregg Hartley left his job as a top aide to Republican Rep. Roy Blunt of Missouri to become a lobbyist. Mr. Hartley began by helping companies like Bell-South Corp., Wal-Mart Stores Inc., and Viacom Inc. get audiences with Mr. Blunt and other top Republican House Republicans and win some important legislative battles.

"At the same time, Mr. Hartley was helping his old Capitol Hill boss raise campaign money and offering him political advice. Mr. Hartley is now assisting Mr. Blunt in his bid to succeed Rep. Tom DeLay as House majority leader. Mr. Hartley's dual roles highlight a practice becoming more common in Washington: Lobbyists are serving as principal fund-raisers for lawmakers they're trying to sway. Bruce Gates, the top political strategist for Mr. Blunt's main rival to become Majority Leader, Rep. John Boehner of Ohio, is also a lobbyist with numerous health-care clients, and oversees raising for two dozen Democratic lawmakers, including Senate Minority Leader Harry Reid of Nevada and Sen. Ted Kennedy of Massachusetts.

"The Justice Department public-corruption and bribery case against Jack Abramoff and a half-dozen members of Congress has focused attention on the financial ties between lawmakers and lobbyists. While Mr. Abramoff's lobbying activities crossed the line into illegality, the practice of lobbyists raising large amounts of money for lawmakers is both legal and commonplace in Washington today.

"Federal Election Commission records show that 71 lawmakers now list lobbyists as treasurers of their re-election or political action committees. In 1998 the number was just 15, according to a review of FEC by the Center for Public Integrity. Lawmakers attribute the change to the sharply rising costs of running campaigns."

Surely this is a not unimportant case of "inflation" that the Fed has overlooked.

"Advocates of change argue that lawmakers who rely on lobbyists become unduly beholden to them, and thus more willing to help their clients. 'By putting a lobbyist in charge of your political operations, you are conflicted from the start,' argues Alex Knott of the non-partisan Center for Public Integrity, which favors reducing the role of money in politics.

"In the wake of the current lobbying scandals, lawmakers from both parties have been scrambling to introduce bills to reform the lobbying industry. But none of the leading proposals would ban the lobbying industry from continuing their fund-raising activities for members of Congress. House Speaker Dennis Hastert wants to ban lawmakers from accepting privately financed trips. Senate Majority Leader Bill Frist would prohibit lawmakers spouses and children from lobbying."

Carping on Trifles

"'We are carping on trifles here,' said Sen. Richard J. Durbin, a Democrat from Illinois, during a Senate hearing on lobbying reform. 'Why is it that we warm up to all these lobbyists? It isn't for a meal. We know when it comes to finance our campaigns, we're going to be knocking on these same doors.'

"Lobbyists say they aren't violating any rules by moonlighting as fund-raisers. 'I'm not a rule-maker. I'm a game-player,' says David Girard-diCarlo, a managing partner at Philadelphia-based law firm Blank Rome who serves as national finance director for Republican Sen. Rick Santorum of Philadelphia. Mr. Girard-diCarlo oversees a group of more than 40 Washington lobbyists who hope to raise $4 million for Mr. Santorum's re-election bid.

"In addition to providing help with direct fund-raising, Mr. Hartley is one of many lobbyists also helping members of Congress to raise money for specialized funding organizations called leadership PACs. Mr. Blunt and hundreds of other lawmakers in both parties have formed such PACs to help fellow party members facing re-election races. Under federal election rules, lawmakers cannot donate more than $4,200 per election cycle from their own re-election coffers to the campaign of any colleague. But they can fund as much as $10,000 per election cycle from leadership PACs to another campaign.

"In practice, such financial support from politically secure lawmakers for the re-election of vulnerable colleagues often translates to reciprocal support down the road. Lawmakers draw on such support when angling for leadership positions within Congress. Mr. Blunt wrote to the FEC in 2003: 'Leadership PACs have enabled the Republican party to maintain its majority in the House of Representatives.'

"Lobbyists are so crucial to the political process as it presently exists that they tend to develop dynasties, with much intermarrying with holders of high political office. Several years after arriving in Washington, Mr. Blunt married Abigail Pearlman, a lobbyist for the tobacco and food giant Altria Group Inc. Mr. Blunt's son, Andrew, is a lobbyist in Missouri. Another son, Matt, is governor of Missouri.

"When Mr. DeLay became majority leader in 2003, Mr. Blunt rose to Republican whip. A few months later, Mr. Hartley left Capitol Hill to become lobbyist with Cassidy & Associates, one of Washington's most successful lobbying firms.

"At Cassidy, Mr. Hartley hired two former aides of Mr. Blunt and the husband of a third. After Mr. Blunt launched his campaign to replace Mr. DeLay as majority leader three weeks ago, Mr. Hartley began advising Mr. Blunt and his staff on the race, according to Republican aides involved in he matter."

Through the funding they provide, large corporations have kidnapped the political process from ordinary citizens.

W.K.

Hunger *continued from page 18*

major projects should have been disinterred and discussed.

Without information, democracy is a pipe-dream. Between now and next October, reformers have a vast job to perform. Rank and file members of all parties, particularly of the NDP and the Greens must be contacted, and enlisted for the task of forcing a review of what our banks have made of the vastly broadened scope of activities assigned to them after their last costly bailout. For we are clearly moving rapidly towards the next.

W.K.