THE JOURNAL OF THE COMMITTEE ON MONETARY AND ECONOMIC REFORM

comer

$3.95 Vol. 19, No. 1 • JANUARY 2007

CONTENTS

A Globalization that Opens Frontiers to Just About Everything Except People

That is not what the Good Book prescribed, though it is the True Believers who are manning the southern frontier with rifles to keep the downtrodden out of the country. We seem to remember that when a drought struck Asia Minor Abraham and his sons had no difficulty in moving down to Egypt, and Joseph even had a celebrated career in the local civil service. But now the Statue of Liberty that incites the downtrodden to seek refuge in the Land of the Free risks being taken down from her pedestal and sent off to Syria for a bit of roughing up to get her to confess her violation of the security laws.

And yet the US – like Canada but unlike most of the European countries historically – is an immigrant land. So badly did it need immigrants that southern plantation owners brought slaves in Africa to fill the labour gap. The historic pattern was – if there was not enough money for the boat fare for the entire families to come to America together, the eldest son would arrive and send remittances earned in his new country to bring over the rest of his family. Undoubtedly that helped compensate for the lack of social services. As Keynes put it – let the goods we consume be homespun, but our ideas and people should travel freely across frontiers.

The Wall Street Journal (1/11/06, "Migrants' Money Is Imperfect Cure for Poor Nations" by Bob Davis) paints the picture:

"Ciudad Barrios, El Salvador – This mountain town survives on money sent

Continued on page 2

comer

FOUNDING EDITOR
John Hotson 1930–1996

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

CONTRIBUTORS Vol. 19, No. 1
William Krehm
John Sewell

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.

People *continued from page 1*

by its sons and daughters living in the US. On days payments arrived, lines at the local credit union can reach 150 deep. The crowds then hail motorcycle taxis and head for the local market to stock up in the town's open-end market on food and clothing or browse tiny appliance stores stuffed with blaring TVs and stereos.

"It's the sort of scene that many development economists believe could transform some of the world's most impoverished regions, by putting cash directly into the pockets of the poor. With tens of millions of migrants around the globe sending remittances home, the flood of money has grown immense – $167 billion last year, according to the World Bank.

"But Ciudad Barrios also demonstrates why reliance on remittances may turn out to be the latest development fad that fails to live up to its hype. The downside: a cycle of continued poverty, as dependence on remittances turns the town into a kind of ward of the US. Those with entrepreneurial ambitions head north, emptying the town of talent. Only a tiny fraction of the money they send home is invested in industry or agriculture. And with the breadwinners away, organized thugs pounce on a place where money pours in from the outside. All of that leaves little opportunity for the next generation except to follow their predecessors north, if they can.

"'As soon as people go home and see what their salaries are [there], they come back to the US again,' says Israel Barrios, 38 years old, who left Ciudad Barrios in 1998 and has been cleaning houses in Washington, DC. He has sent enough cash home for her to buy a house. She misses him, but urges him to stay up north."

Remittances do not Spur Lasting Gains

"Though remittances fuel some spending, there isn't much evidence they have added to sustained growth. Instead they often distort the local economy and reduce the long-term prospect for gains.

"The flood of money from abroad can raise the value of the local currencies, making it harder for exporters to compete since the effective price of their goods goes up. About 85% of the remittances goes to pay the daily bills of the people left behind, with little left over for savings and investment. Migrants eventually return to retire in their home nations, not to help build their economies.

"'Labor export and remittances and remittances,' says Dean Yang, a public policy professor at the University of Michigan, 'won't turn El Salvador, the Philippines and other poor countries into the next development tigers.' Even the World Bank which has pushed the developmental potential of remittances is now having second thoughts. In a report it released yesterday, the bank says that remittances are neither 'manna from heaven, nor a substitute for sound development policies.'

"Remittances have received increasingly widespread attention in recent years as a way to boost aid without spending government money, as other policies for growth have failed to produce widespread gains. In the 1970s, and early 1980s, many nations tried closing their borders to protect their local industries from competition. That led to high prices and monopoly control. Then they tried the opposite approach, free trade and market liberalization, with limited effect except in Asia. Meanwhile foreign aid has been too small to make much of a difference.

"Remittances do directly help many poor families feed themselves and educate their children. Money sent home from abroad accounts for about 60% of the income of the poorest families in Guatemala, and has helped reduce the number of people living in poverty by 11 percentage points in Uganda and six percent in Bangladesh, according to World Bank studies.

"Nevertheless a look at El Salvador shows the ways in which the cash also can hinder impoverished nations. The nation of seven million has revamped its economy since the civil war ended in 1992 in a so-far elusive effort to spur rapid growth. El Salvador abolished price controls, privatized industries, slashed tariffs that were as high as 290% and adopted the dollar as its currency ion 2001 to limit inflation. Earlier this year it joined a free-trade bloc with the US. Salvadorans had started to flee the country in great numbers in the 1980s as the civil war intensified. Now one in six Salvadorans live abroad, many of them illegally in the US. They send home nearly $3 billion annually, nearly 16% of the country's GDP.

"Ciudad Barrios, a remote town 100 miles east of San Salvador, ping-ponged between Guerrilla and government control during the civil war. Jose Edgardo Diaz Cordero worked in the town's hospital pharmacy in 1990 when guerrillas demanded that he give them medicine to treat their wounded. Then, he says, he received an anonymous message from a right-wing death squad accusing him of being a guerrilla ally and warning him to leave the country.

"Mr. Diaz made his way to Washington, DC, an area in which others from his town had settled, attracted by a booming construction industry. He started sending home several hundred dollars a month to his wife to care for their five children. He has been home just once, for about a year in 1995. He returned to the US and was later joined by two sons, who became his partners in a flooring business. Another burst of Ciudad Barrios natives, who worked in the region's coffee fields, headed for the US starting in 2000 when coffee prices plummeted.

"The gains in consumption financed from abroad lead to a fall instead of a rise in domestic savings as a percentage of GDP. Result: the country makes little progress. Between 1999 and 2005, remittances doubled to $2.5 billion, but the country limped along at an annual growth rate of just 2.4% – far too low for a poor country to advance much.

"The tide of money from abroad boosted the value of its currency compared with that of its neighbors by nearly 50% between 1992 and 2001, which damaged exports. El Salvador has since adopted the US dollar as its currency, but competition from China has intensified and competition from other Central American countries has intensified since they kept their currencies undervalued. So Salvadoran exports have not recovered."

William Krehm

Local Government Bulletin No. 69, December 2006

The purpose of this bulletin since 1999 has been to focus debate on the need to increase local self-government in Canada and to help local communities achieve more autonomy. Our website is www.localgovernment.ca.

Municipal Government in Canada – Looking at the Last Decade

Two larger issues have occupied the municipal agenda over the last decade: the status and power of municipalities in respect to other levels of government; and municipal financing. These issues have received much public attention, often under monikers such as downloading, amalgamation and revenue sharing, and they have been addressed with regularly in the Bulletin. The website contains a search function of the Bulletins, which gives references to Bulletin numbers for the individual topics.

The following is a short summary of how these issues played out in the last decade.

Amalgamation

Provincial governments across the country have made it very clear that municipalities are organizations controlled by them and subject to their willful restructuring. Thus the Nova Scotia government created the megacity of Halifax in the mid-1990s almost out of the blue. In 1997 the Ontario government passed legislation to created the megacity in Toronto even though it was opposed by more than three quarters of the voters in a municipal referendum. That was followed in Ontario by the forced amalgamations of Ottawa, Sudbury, Hamilton, Victoria County and several other much smaller municipalities. The province of Quebec then amalgamated all of its major urban areas including Hull/Outaouais, Montreal and Quebec City.

In almost every case municipal leaders opposed these amalgamations with vigour, as did voters, but only in Montreal was there any turning back – a provincial election at a critical moment led to the promise that municipalities would be able to opt out of the merger in Montreal. Indeed voters in almost half the municipalities decided to remove themselves, although they regained only a small amount of the power they previously had.

The data on the impact of these forced amalgamations is clear. In virtually every study that has been done, the costs of amalgamation are more significant that costs would have been if amalgamation had not taken place. There is also deep unhappiness about amalgamations. No study has shown that people think they are better off with a megacity. Considerable anecdotal information shows that megacities limit access for communities, are much more prone to the activities of lobbyists (some claim it's that the only way to get things done), and municipal services are substantially reduced. Most seem to the inefficient and dysfunctional. Nevertheless no provincial government has been willing to step forward to unravel these forced amalgamations or to try to rethink how local democracy might be re-established – even if it is in everyone's interest to have stronger local government. One is left with the conclusion that provincial governments feel more secure if large municipalities are in a state of disarray.

The Courts and the Constitution

Some held out a hope that the courts might come to the rescue of local governments. The most interesting opportunity came with the Alberta School Board case brought by the school boards in that province who were forcibly amalgamated in the mid-1990s. Their case argued that local governments had a sense of independence recognized both when they came into being and through their decades of existence. They said the section of the *British North America Act* which assigned municipal issues and local government to the provinces did not give to the provinces complete control over municipal governments, but only gave them (rather than the federal government) the ability to make legislation about local government – and that power did not include the power of unilateral disestablishment. They proposed that within the constitutional framework, provinces had to treat municipalities reasonably and with restraint, recognizing them as a separate level of government.

It was a fascinating argument that seemed to have history to support it. And while it received some support at the Alberta Court of Appeal the argument was rejected by the Supreme Court of Canada. Municipalities were left with the unfortunate court decision made in the late nineteenth century that said they were mere creatures of the provincial government. This decision was basically confirmed by an Ontario decision in a case challenging the Toronto amalgamation. There, the court ruled that while the province may have been guilty of "megachutzpah," it was well within its right in restructuring Toronto against the will of the electorate.

The courts have been of no help for those who would ask that the municipal status be recognized as independent or that it be considered a level of government that has some rights to exist on its own.

New Municipal Legislation

A number of provinces introduced new municipal legislation that promised more powers to municipalities than the Act modeled on that introduced in Ontario in the early 1850s. Alberta led the way providing municipalities powers within defined "spheres of jurisdiction," apparently expected to provide municipalities with more maneuverability. Other provinces quickly followed: Ontario, British Columbia, New Brunswick, Saskatchewan. But the new municipal legislation has made little substantive change. Municipalities still face a welter of provincial rules and regulations, and limited powers. Even the community charter proposals in British Columbia have not ushered in serious new ways of thinking about local government. The new *Municipal Acts* may have provided a minor updating, but not much more.

Pressure Points for Change

The Federation of Canadian Municipalities tried to grapple with these issues but it was no more successful than any one else. Canadian municipalities seem bedeviled by the fact that they are divided by provinces, and that since smaller municipalities are much more numerous than large ones, they control the organizations which might be capable of and interested in advancing the agenda of big cities and their need for more power to meet their responsibilities.

One attempt to get around these limitations was the creation of the C5 Group by Alan Broadbent and Jane Jacobs in 1999. This body brought together three interests from each of five of Canada's largest cities: the Mayor; the local United Way; and the local Board of Trade. The cities were Vancouver, Calgary, Winnipeg, Toronto and Montreal. The organization offered much promise in its early years but it had to rely on the qualities of the mayors, who were the major actors. The impetus was generally subverted by several leading mayors and a lack of interest at the federal level. Within a year or two C5 lost its steam and disbanded.

Downloading

The gravest threat that municipalities across the country faced during the last decade was downloading. Federal treasurer Paul Martin decided in 1994 to download federal costs onto provinces, and the provinces followed several years later by downloading their costs onto municipalities. This move was intensified by the decisions of many provinces to attract voters by reducing taxes, which meant cutting back on programs.

The downloading severely affected the health of municipalities as they slashed costs on both the capital and operating sides. Very quickly municipalities across the country found they were unable to maintain infrastructure in a state of good repair, and soft services such as recreation were also cut. Reports began to emerge that municipalities in Canada were not balancing their budgets as required by provincial law. Other reports documented the unmet costs of bringing infrastructure up to a good state of repair. Even though the federal government has managed to restore some of its transfers to provinces, downloading to municipalities has yet to be reversed.

Cities as Generators of Wealth

At the same time as municipalities experienced the impacts of downloading, attention was drawn to the extraordinary tax surpluses generated by senior governments in big cities. Large surpluses were documented in Toronto, Calgary and Kitchener, and similar results would most likely be found in other large cities. While cities might be impoverished, provincial and federal coffers were rolling in the very, very substantial sums generated from those cities – indeed the federal government showed an annual surplus in the billions of dollars for almost ten years. Senior governments put their financial houses in order on the backs of municipalities where the fabric was becoming more frayed every day.

The natural reaction to this situation was for municipalities to ask for a share of the revenue available to senior governments. The province of Alberta was the first off the mark promising to municipalities a small share of gas tax revenue. Then, Paul Martin, as a leadership candidate for the Liberal Party, promised cities would receive new revenues, although very quickly his proposal was amended and extended to all communities throughout Canada. Cities would receive no special treatment even though they did generate most of the revenue: they would receive a small share of the gas tax revenue like every other municipality. Some provinces agreed to participate in comparable revenue-sharing arrangements.

But the sums transferred were small – in the order of $20-30 per capita per year. And as many people noted, the idea that one government should tax in order to turn that money over to another level of government was not sustainable. When the Stephen Harper government was elected in early 2006 it made clear it would not follow that strategy.

What municipalities needed was a new power to tax to generate the revenues they needed; but no mayor in Canada was interested in arguing for the power to levy new taxes. They preferred the tired idea of a share of tax revenue, even if it fell on deaf ears.

Conclusion. What has become clear in the last ten years is that economic activity in a handful of big cities in Canada has generated much of the wealth of the country, and that social and cultural policy has also been shaped in these cities. Maintaining the health of these places is critical to a healthy nation, and that requires public funds. However, this is not an argument which has had much sway at provincial or federal levels. Canada's big cities have not been able to achieve reasonable powers of self-government nor the power to levy the taxes needed to finance the kinds of programs they need to be healthy, sustainable, and innovative.

At the moment – the end of 2006 – it seems unclear how this situation might change given the political leadership in Canada's biggest cities, which could be charitably called weak. However, situations do change. New challenges and opportunities emerge as do political leaders and while the outlook for large cities in Canada does not seem promising today, things will almost certainly change, hopefully for the better rather than for the worse.

Thanks and Farewell

I have been writing and distributing the Local Government Bulletin for the past seven years. Bulletins have been issued almost monthly, although in the last 12 months I've found it harder to maintain interest as the opportunities for local government empowerment appear to have diminished. The Bulletin enjoys a wide readership – more than 1500 subscribers across the country – and every month, two or three dozen more people subscribe.

But for me it is time to move on. I don't feel the moment for change is in the air, and at this point there is little I can add to the debate. It's time for me to focus on other challenges. Thanks for your interest and support, and farewell.

The information in the Library and in the Bulletins on this site may be helpful to those who wish to continue to delve into or pursue these issues, so while new Bulletins and information will not be added, the site will continue as an archive for the foreseeable future. If needed, I can be reached in Toronto at j.sewell@on.aibn.com.

John Sewell

Editorial Comment

We are indebted to John Sewell not only for his years as an active municipal leader, but for his wise and sensitive resume of the appalling situation in which the municipalities have been left – with many vital social programs downloaded onto them, while the federal funds for funding such programs were diverted not to bailing out our deregulated banks from their speculative losses.

Elsewhere in this issue, for example, on page 19, is the story of how this was achieved – by the Bank for International Settlements' 1988 risk-based capital requirement that declared the debt of governments of advanced countries risk-free, requiring therefore no down-payment for banks to load up with. The result was a mass transfer of federal debt from the Bank of Canada on which they had paid only a nominal amount of interest since they had been receiving most of the interest of their debt carried by the central banks as dividends. For since its nationalization in 1938 the government has been its one shareholder.

Now, the federal debt held by the Bank of Canada was cut – from about 25% of the GDP to a mere 5%, and that held by the chartered banks was quadrupled – by an additional $80 billion. At the same time, this additional revenue accruing to the banks was legal tender serving as a money base to produce as much as 400 times as much interest-bearing credit.

To rein in the inflationary effects of this credit, the benchmark bank rate set by the central bank was more than tripled, which multiplied the burden of financing social programs with which the municipalities had been freshly saddled. And in 1991, to complete the bailout and the subsequent further deregulation of our banks, the statutory reserves which had provided the central bank with an alternative to interest rates for fighting perceived inflation were phased out over a two-year period.

This further burdened the municipalities to the point of beggaring them at a time when the social burdens that they had been made responsible for grew ever more burdensome since high unemployment – via high interest rates – had been enthroned as the one means of flattening out the price level.

It would strengthen Mr. Sewell's excellent case if he tracked the plight of the municipalities back to its main cause – the deregulation and globalization of our banking system. Everything that was ever in the *Bank of Canada Act* that made possible the financing at very low interest rates of World War II and the catching up with sixteen years of depression and war, is still in the act: the introduction of new technologies, the settlement of a vast, mostly penniless post-war immigration, and the education of our population to standards undreamed of before World War II. All this was achieved by the mid-1970s, while the federal debt was reduced from some 150% of the GNP between 1946 and the mid-1970s.

The circumstance that nothing in the *Bank of Canada Act* that made this possible has been changed has a revealing cause. In 1982 Prime Minister Brian Mulroney wanted to put the independence of the Bank of Canada from the Government of Canada, and "zero inflation" into the Canadian Constitution, but his own caucus in the House of Commons Finance Committee voted against that. Since then no party has dared mess with the *Bank of Canada Act*. Canada therefore is left with a situation that is anomalous in a democracy – a central portion of our basic legislation still on the books that is completely violated and denied to exist. It would be a crowning achievement of Mr. Sewell's career in defence of municipal interests to join us and others to fight for the amendment of this basic cause of our municipalities' plight.

William Krehm

Whistling in the Dark

The very depth of the sigh of relief in *The Wall Street Journal* (20/12, "Thailand Actions Unlikely to Spur Global Shake-up" by James Hookway) leaves some doubt about how well-grounded the occasion for it might be.

"The record decline in Thailand's stock market on Tuesday makes it the latest casualty of global investors' aggressive pursuit of returns world wide." In fewer words: Deregulation and Globalization.

"However, few people expect the trouble to spread, highlighting fundamental changes in Asian economies since the financial crisis that swept the region a decade ago. The Thai market's 15% drop on Tuesday, its worst showing ever, was prompted by a drastic government move to clamp down on booming foreign investment. Before the drop, Thai markets had been up 2% for the year. The scale of the plunge sent a shudder through other emerging markets, with prices falling 2-3% in India, Indonesia, Hungary and elsewhere.

The cross-border nervousness was triggered partly by memories of the Asian financial crisis a decade ago, sparked by trouble in Thailand. Back then the circumstances were markedly different. Asian nations faced weakening currencies, not strengthening ones, and were burdened by mountains of debt. Today, in most cases, that debt has either been paid down or converted into longer maturities, and thus isn't a threat. What's more, Asian economies are now robust, fueled by years of expansion and strong global consumption of commodities and manufactured goods, particularly by ever larger China, one of Asia's biggest customers."

Taking some of these logical stretches, one by one:

1. "Asian nations faced weakening currencies. Now strengthening ones." It is precisely the strengthening currencies that nations living by their exports are trying to avoid. That is what China has resisted by buying American securities to keep its export boom from pushing up the yuan and pricing its exports – by which it lives or dies – out of the world market. It finally pushed its currency by a token 6%. That and Washington's wasting world clout because of the deepening mess in Iraq and Afghanistan helped keep the Americans in a compromising mood vis-à-vis China, whose vote it needs on the UN Security Council against Iran's nuclear ambitions. But even that near-token increase in the yuan puts added doubts on Thailand's prospects as subcontractor for China and its exports.

2. "That debt has either been paid down or converted into longer maturities." As interest rates are rising once more due in part to the deteriorating average quality of US housing and other debt, and in part to the fact that there are so many wars being fought or in the offing, "long maturities" at yesteryear's interest rates drop in value, and create major solvency problems that tend to push interest rates up further because of the growing risk. No serious cause for consolation there then.

3. The offending version of what used to be called the "Tobin Tax" could be likened to the statutory reserves that were repealed in countries like Canada and New Zealand and emasculated beyond recognition in the US, the European Union and most other places. It was repealed in Thailand only in the case of money being brought into the country for investing in stock. That headed

for bond markets remains intact with 30% deposited without accruing interest, and forfeiting 10% as tax if withdrawn with having been invested. That could not have been improved if the goal were to overheat an already feverish market.

4. The *WSJ* had observed: "In Thailand increased foreign demand for local stocks and bonds has lifted its currency, the baht, higher against the dollar. The Thai central bank feared the ever-stronger baht would hurt exports and chose a dramatic response. Then the government quickly reversed the restrictions on stocks." That would provide open untaxed access to speculative money that ideally would move in and out of Thailand for a quick profit. That implied investment in stocks, and such money which has ever greater power internationally has been exempted. What remains taxed is money headed for bonds which along with the currency will suffer from the free access and departure that foreign money has in stocks.

Obviously, the Thai government under pressure from the financial powers that have supreme power internationally, was not able to think matters out calmly. As clearly must have been the case with the *WSJ* writer. He, however, after having allayed doubts and fears about the stability of the system that may or may not have come from above, did go on to explore the new topography more carefully.

"Thailand's ill-starred regulatory effort on Tuesday may be a sign of growing stresses in a global economy marked by large imbalances. The US runs large trade deficits with the rest of the world, in particular, Asia. At the same time, low interest rates worldwide have prompted investors – in particular fast-moving hedge funds – to seek out incrementally higher returns in risky markets, such as Thai stocks.

"Thailand sought to contain some of the pressures on its economy by letting the currency strengthen. But a rising currency can hurt exports, and Thailand is losing ground competitively in China, where currency is much less flexible.

"The baht did weaken slightly after the moves. The currency was trading at 35.92 baht to the dollar at the close of Asian trading, down 1.6%. Thailand's policy reversal is an embarrassing miscue for the new military-installed government, which could shake confidence in its management of the economy. The zig-zag and subsequent sell-off wiped more than $20 billion of value from the stock market."

William Krehm

The Destruction of Meaningful Language

It is getting ever more difficult making sense of the antics of President George W. Bush. He and his military are sinking into an inability to grasp what is happening around them. It all started as a seemingly innocent exercise of absolutist power, but what began as a self-assured exercise in routine professional omnipotence is well on the way towards becoming a disconnect with what is going on in a world that he had to rebuild in his own image.

A whole generation of American generals are not content to criticize their President for the dreamt-up role he assigned to the Al Quaeda in Iraq. They have come to question whether the he has not lost his ability to assess and put into a coherent picture what he and his predecessors have been engaged in for as long as the joint duration of the two wars, with still no end in sight.

The *New York Times* Op-Ed section (3/12/06, "Has He Started Talking to the Walls" by Frank Rich) wastes no time in coming to a disturbing conclusion: "It turns out we've been reading the wrong Bob Woodward book to understand what's going on with President Bush. The text we should be consulting instead of *The Final Days*, the Woodward-Bernstein account of Richard Nixon talking to the portraits on the White House walls while Watergate demolished his presidency. As Mr. Bush has ricocheted from to Latvia to Jordan in recent weeks, we've witnessed the troubling behaviour of a president who isn't merely in a state of denial, but is completely untethered from reality. It's not that he can't handle the truth about Iraq. He doesn't know what truth is.

"The most startling example was his insistence that Al Quaeda is primarily responsible for the country's spiraling violence. Only a week before Mr. Bush said this, the American military spokesman on the scene, Maj. Gen. William Caldwell, called Al Quaeda 'extremely disorganized' in Iraq, adding that 'I would question at this point how effective they are at all at the state level.' Military intelligence estimates that Al Quaeda makes up only 2% to 3% of the enemy forces in Iraq, according to Jim Miklaszewski of NBC News. The bottom line: America has a commander-in-chief who can't even identify some 97% to 98% of the combatants in a war that has gone on longer than our involvement in World War II.

"But that is not the half of it. Mr. Bush relentlessly refers to Iraq's 'unity government' though it is not unified and can only nominally govern. After that pseudo-government's prime minister, Nuri Maliki, brushed him off in Amman, the president nonetheless declared him 'the right guy for Iraq' the morning after. This came only a day after the *Time's* revelation of a secret memo by Mr. Bush's national security adviser, Stephen Hadley, judging Mr. Maliki as 'ignorant of what is going on' in his own country or disingenuous or insufficiently capable of running a government."

Not Meeting with the Right Guy

"In fact the President was so out of it, that he wasn't even meeting with the right guy. No one doubts that the most powerful leader in Iraq is that anti-American, pro-Hezbollah cleric Moktada al-Sadr, without whom Mr. Maliki would be on the scrapheap next to his short-lived predecessors, Alyan Allawi and Ibrahim al-Jaafari. Mr. Sadr's militia is far more powerful than the official Iraqi Army, that we've been helping to 'stand up' to at hideous cost all these years. If we're not going to 'Take him out' as John McCain proposed this month, we might as well deal with him directly rather than with Mr. Maliki, his puppet. But our president shows few signs of recognizing Mr. Sadr's existence.

"In his classic study *The Great War and Modern Memory*, Paul Fussell wrote of how World War I shattered and remade literature, for only a new language of irony could convey the trauma and waste of that conflict. Under the auspices of Mr. Bush, the Iraqi War is having a comparable if different, linguistic impact: the more he loses his hold on reality, the more language is severed from meaning altogether.

"When the president persists in talking about staying until 'the mission is complete,' even though there is no definable military mission, let alone one that can be completed, he is indulging in pure absurdity. The same goes for his talk of 'victory,' another concept robbed of any definition when the prime minister we are trying to prop up is allied with Mr. Sadr, a man who wants Americans dead and has many scalps to prove it. The newest hollowed-out Bush word is 'phase.' As if the increasing violence were as transitional as the growing pains of a surly teen-ager 'phase' is meant to drown out all the unsettling debate about two words the President doesn't want to hear, 'civil war.'

"When news organizations, politicians and bloggers had their own civil war about the proper usage of that designation last week, it was highly instructive – but about America, not Iraq. The intensity of the squabble showed the corrosive effect the president's subversion of language has had on our larger culture. Iraq arguably passed beyond civil war months ago into what might more accurately be termed ethnic cleansing or chaos.

"We have all taken to following Mr. Bush's lead in retreating from English as we once knew it. It took us far too long to acknowledge that the 'abuses' at Abu Ghraib and elsewhere might be more accurately called torture. And that the 'manipulation of prewar intelligence might be more accurately called lying. Next up is 'pullback,' the Iraq Study Group's reported 'euphemism' to stave off the word 'retreat' (if not retreat itself)."

It is true that once games begin with language of the mighty and the most learned who are supposed to be the models for our consciences and our minds, there is no stopping. And to appreciate the ghastly implications of that, we must go back long before the sorry shortcomings of Abraham Lincoln's latest successor.

Two closely braided causes – political and military idiocy and economic interest – brought the Americans into Iraq. It was one of the inevitable consequences of the deep faith in an ever expanding and ever more deregulated market, that has not only been taken over by its financial sector, but is under the compulsion to go on growing. This constraint comes through options and derivatives and their countless variants projected into the remotest future. And then, discounted for present value, it is incorporated into today's and to-morrow's stock prices. For, failing that, the options that high executives are rewarded with become worthless. But this forward lean of the economy causes it sooner or later to fall on its face. That and the thirst hallowed by the religious belief in a self-balancing market. That article of the official faith is supposedly proved with a misapplication of differential calculus that assumes that all economic agents are of such infinitesimally small size that nothing they do individually or leave undone can possible affect prices and the market. This in the world of our mega financial mergers! And if you can swallow that anything that Mr. Bush can come up with is small-time stuff. What drives the show is the need for world expansion of the American financial system and its imitators abroad.

The Bush phenomenon has to be taken back to its initial roots – that in fact were dealt with by Keynes and the Roosevelt government to lift the world out of the world depression. All that has been buried far deeper than the regulatory six feet. The American Economic historian Douglass North has reached the conclusion in examining violent regime changes that when there is a drastic change in the distribution of the national income, the old political alliance that presided over the previous revenue apportionment breaks up and a new one reflecting the new distribution of economic power takes over. Then the language, economic theory, and much else are reshaped. Our media are overflowing with the trickle-down myth, and the brazen growth of the financial sector over the rest of the economy. Coming from an indifferently educated Southern politician, that should be less astounding than the readiness of highly educated economists to swallow the illiteracies of the creed of the self-balancing market that led many American politicians and military leaders to lie their way into the Iraqi adventure. Undoubtedly the cost of it all will be further thousands of innocent lives of many races throughout much of the world. It was all foretold in the shameful abandonment of their Vietnamese allies in the unforgettable shots of the last departing US helicopters leaving their Vietnamese supporters as they took off never to return.

William Krehm

An Odd Timing for the Restraining of US Prosecutors

Since much of the corruption that has invaded Germany was inspired by the "Washington Consensus" model, this is a bizarre time for the US to be restraining its prosecutors in moving against dirty white collar crime. *The New York Times* (13/12, "US Moves to Restrain Prosecutors" by Lynneley Browning) informs us: "The Justice Department placed new restraints on federal prosecutors conducting corporate investigations yesterday, easing tactics easing tactics adopted in the wake of the Enron collapse.

"The changes were outlined in a memorandum written by Paul J. McNulty, the deputy attorney general. Under the revisions, federal prosecutors will no longer have blanket authority to ask routinely that a company under investigation waive the confidentiality of its legal communications or risk being indicted. Instead, they will need written approval for waivers from the deputy attorney general, and can make such requests only rarely.

"Another substantial change introduced yesterday prohibits prosecutors from considering, when weighing the indictment of a company whether it is paying the legal fees of an employee caught up in the enquiry.

"The revised guidelines follow criticism from legal and business associations and from federal judges, senators and former Justice Department officials that the tactics used in recent years against companies like the drug maker Bristol-Myers Squibb and the accounting firm KPMG were coercive and unconstitutional.

"Mr. McNulty's document substantially revises and places curbs on guidelines written in January 2003 amid a wave of corporative scandals at companies including WorldCom and Adelphia Communications. The Justice Department had argued that the guidelines adopted then, in a document known as the Thompson memorandum, were essential in helping to grapple with the surge in corporate wrongdoing.

"In recent years, federal prosecutors have won more than 1,100 convictions in cases of corporative fraud."

The spread of American corporative ethics over much of the world should carry with it the responsibility of Washington to provide some legal assurance of acceptable behaviour of American corporations, and of foreign corporations who adopt what is done in the US as their model. Clearly the bizarre timing of Washington's restraint on its prosecutors suggest that here, too, something is badly out of sync.■

The Grimly Compounded Failures of Two Successive Social Systems

The New York Times (22/12, "A Price Run-Up for Run-Down Communes" by Andrew E. Kramer) recounts a bizarrely grim tale: "St. Petersburg, Russia – In a kitchen lit by a bare bulb, where cockroaches roam and the floor is a mosaic of cracked linoleum, Tatyana N. Mailyan dreams of real estate riches.

"The glum conditions are no guide to the true value of her property. Once a wasteland of Soviet living that packed multiple families into single apartments, communal flats like the one Ms. Mailyan shares with her daughters and an elderly man are suddenly in vogue as elegant fixer-uppers, both as offices and luxury residences.

"As prices slump in the US and elsewhere, Russia is wrapping up a year of an extraordinary oil-driven real estate boom. Moscow now ranks as the fourth-most-expensive city in the world for office rents, trailing only London, Tokyo, and Hong Kong, according to some surveys.

"But within the overcrowded warrens of Communist tenement housing are the most exciting opportunities – Baroque and neo-Classical buildings, with high ceilings, balconies, hardwood floors and a rich history, often dating from before the Revolution. And now the arrangement that Mrs. Mailyan cursed during her 37 years living there may become a Wall St. investment.

"Russia's latest dream is being financed in part by foreign real estate funds. Large banks and American university endowments and pension funds are also flocking into Russian real estate. And they are coming across many of the idiosyncrasies of the industry, where ballet dancers are jumping into the business and rules are written to accommodate the intoxicated.

"A dozen real estate funds are active in St. Petersburg alone, where prices doubled this year in residential property, the fastest-growing segment. Rreef, the real estate arm of Deutsche Bank, for instance, plans to invest $500 million in new residential property.

"Russian real estate companies raised $2.75 billion in initial and secondary stock offerings this year and are aiming for the same amount in 2007; investors are trying to scoop up everything from cow pastures to sites for new malls that are popping up in Russia's larger cities.

"This, of course, is guaranteed to lead, eventually, to major difficulties in a land with a shrinking population, historically unfriendly to immigration, and subject to grave social problems, of which alcoholism is not the least.

"In Moscow prices are higher than in St. Petersburg but rose less quickly. The average per-square-foot price of residential property rose 89%, to $386 from $204 last December, according to IRN, an index of real estate prices used by Russian brokers. By comparison, the average price per square foot for residential properties in Manhattan rose 6.6% to $1,050 in the third quarter of this year compared with the same period last year.

"Commercial real estate prices are not increasing as swiftly, but are still high. Returns on real estate beat even the sizzling Trading System index, which is up 62% this year."

From Near-slum Housing Back to Palaces

"'The macroeconomics are so strong now that investors are viewing Russia as a long-term market,' said Darrell Stanaford, director of CB Richard Ellis, a Los Angeles firm that tracks global office rent. 'Restraints on development are another plus for prices."

"St. Petersburg has 120,123 units or 113.3 million square feet of residential property tied up in communal apartments that house about 700,000 people, like Mrs. Mailyan, according to the city. It is the city's stated policy to resettle all residents of communal apartments.

"As for investors looking for office buildings, 'they quickly learn that there's almost nothing.' Kurt E. Stahl, marketing director of a St. Petersburg developer, said. 'We are getting a lot calls from hedge funds that are interested. We did not have that before.'

"A syndicate of five Chinese state-owned companies is developing a 553-acre plot outside St. Petersburg for $1.3 billion. Outside Moscow, the real estate arm of DP World announced plans for a 44,000-acre, $11 billion mixed development." After the 1917 Bolshevik Revolution, Communist authorities resettled working-class families into aristocratic buildings in cities throughout Russia and the Ukraine. The practice was most widespread in St. Petersburg.

"The original owners were exiled, shot or elbowed into rooms in their former homes. Unlike in Eastern Europe, Russia offers no recourse for pre-revolutionary owners to regain title – a good thing for the new buyers.

"Communal apartments, often home to at least one alcoholic along with children of all ages, slowly drive those who live there crazy from lack of privacy, residents say.

"Ms. Mailyan raised three daughters in their master bedroom she moved into with her parents when she was 12 years old.

"'When I was young it was fun,' she said. Seven families lived in the 2,270-square-foot apartment. 'There were lots of kids around all the time.' There were hard times, too.

"'Sasha was a drunk, but he was a quiet drunk,' she said of a man who lived in a room off the kitchen. Drawing on a cigarette, she confided her view of life in a communal flat: 'I don't like my neighbours.'

"Recently, the value of such properties has reached dizzying heights, particularly compared with low Russian salaries. Apartment in the area on Blokhina Street have sold for $600,000 or more, and foreign investors are driving the prices up.

"Russian developers have listed shares on the London Stock Exchange. Systems-Hals raised $306 million in a London offering earlier this month.

"The nickel and mining tycoon Vladimir O. Potanin raised $851 million in a secondary stock offering in September for a developer. Gazprom, the natural gas monopoly, is active in St. Petersburg real estate speculation through affiliated companies.

"But for an investor, leveraging value out of communal flats is complex and risky.

"The investor must first buy three or four small apartments on the outskirts. Then the communal flat dwellers swap their rooms for these apartments, and the deal is closed. Thus the price the buyer pays depends on the going rate for second-rate property in outlying districts.

"Simmering resentments among residents often complicates the deals. Ms. Mailyan and her neighbor, Dmitri S. Savin, have lived down the hall from each other since 1974, yet decided to sell separately rather than reconcile their arguments.

"Asked what prevented a combined sale – which theoretically would leave both with a greater share of the value of the apartment – Mr. Savin made a looping gesture around his ear and pointed toward Ms. Mailyan's room.

"Lisa Kreuz, a real estate agent for Pulford in St. Petersburg, is a practised hand at the delicate deal-making that untangles communal apartments, eventually putting them up for sale to foreign buyers.

"A former ballerina with the Fort Worth Ballet who moved to Russia after marrying a dancer with the Kirov Ballet, she coaxes residents into swapping their room for a home of their own, then refurbishes the space."

A Different Take on "Buyer Beware"

"The business has also straightened out a bit since the chaotic 1990s, she says. Then, midway through a deal some communal residents found that there was no private apartment waiting for them. Instead, people got killed or bopped on the head,' she said.

"This being Russia, however, the risks have not entirely gone away.

"Residential deals are often accompanied by a peculiarly Russian type of diligence, where buyers ask doctors to certify at the time of signing that the seller is sober. It is not an empty precaution: former owners returned years later and persuaded judges to void deals on the grounds that they were on a bender at the time of the closing. This protection to the inebriated is written into Russian law.

"In these cases, Yulla Matygina, a Moscow real estate lawyer, said: 'The buyer loses the apartment.'" ■

Canadian Truckers' Lunches Crossing Our Border with the US to be Sent to Syria like Arar for Closer Examination?

The world news carried by our press these days is getting so bizarre, that it is becoming routine for items to raise at least as many questions as they answer.

For example, the front page of *The Globe and Mail* (07/12) has the screaming headline "Zaccardelli takes the fall" announcing the resignation of RCMP Commissioner, first "in the storied history of the Royal Canadian Mounted Police" – literally shot down from his performing horse – for having sent a Muslim Canadian citizen of impeccable standing, it turned out, to Syria of all places, for a bit of torture that was apparently not possible on the democratic soil of the US.

Why precisely to Syria? If it was possible to send Mr. Arar to Syria for a touch of torture, then why not today when the new US line is for opening closer talks with Syria and Iran?

And we had hardly wrapped our minds around these new breezes blowing on the banks of the Potomac, when – in the second decade of the North American Free Trade Treaty (NAFTA) on the front page of the Report on Business of the same issue of the same paper – we read the following report: "Brown-bag crackdown: Protecting the US from lunch meat, soup."

"It's the kind of hearty fare you might find in any bag lunch: a bologna sandwich, maybe a burger, a can of soup and a piece of fruit. But for a growing number of the truckers plying routes across the Canada-US border, packing a lunch has become a risky business. Drivers say they've been fined, detained for hours and threatened with the confiscation of their US-issued identity cards for trying to enter the US with seemingly innocuous, but undeclared food items.

"The brown-bag crackdown is the latest in a growing list of complaints from truckers and travellers about a border that has become thick with intense screening, hefty fees, body searches, long waits and unexpected hassles…. In the past couple of weeks, Mark Seymour, president of trucking company Kriska Transportation of Prescott, Ontario said two of his drivers have been searched and fined $300 (US). They were also detained for hours. One of the truckers, he said, was carrying a soy burger and a can of Campbell' Chunky soup in a lunch packed by his wife. Both items were confiscated.

"'We're now into check everything, everyone, all the time,' said David Bradley, chief executive officer of the Canadian Trucking Alliance, which represents 4,500 trucking companies. 'It seems that everything month there's something new.'

"Mr. Bradley said that the lunch-bag crackdown comes on top of at least 10 new US security measures and regulations aimed thwarting terrorism, biohazards, illegal immigration and threats to the food supply."

An Odd Sense of Humour

"But treating truckers, who already go through extensive background checks to get their border-crossing US FAST cards, as potential terrorists 'is like taking a cannon to a fruit fly,' said Mr. Bradley, who was in Washington yesterday for meeting with US customs officials and staff at the Canadian embassy.

"Patrick Jones, a spokesman for US Customs and Border Protection, said he was unaware of a directive banning certain foods. He said it's 'humorous' that Canadian truckers are having their lunches seized.

"Effective in March, the US Department of Agriculture will begin imposing fees on trucks, trains and planes from Canada. The estimated $22.5 million a year to be collected will be used to hire and deploy as many as 176 new agricultural inspectors.

"Mr. Bradley said he worried that more inspectors will inevitably mean more scrutiny and more delays for legitimate trade.

"'The border has thickened,' he said. 'Our relations with the US have supposedly improved. But we don't see that happening.'

"He estimated that all border delays are adding as much as $600 million (Canadian) a year to the cost of transborder shipping. Many truckers, he lamented, are getting out of the business because they've decided making trips to the US 'just isn't worth the hassle.' Anecdotal evidence also suggests that Canadian exporters are increasingly shifting operations to the US to avoid problems at the border."

In short NAFTA is being interpreted entirely to the disadvantage of the Canada, and to the advantage of US protectionists.

All that is still missing and is probably in the works in the new recommended Washington line of opening contact with Syria, is to send the suspect lunches to Syria for closer inspection and work-over. That will at least keep the procedure on this continent looking a bit more democratic.

William Krehm

Economic Terrorism or Adam Smith Revisited

The author, the late Bob Good, one of the founders of COMER and younger brother of our cartoonist, came from a family farming on the outskirts of Brantford. The communities of that portion of Southern Ontario were deeply community-minded, and book-learning was sufficiently esteemed though not necessarily confined to university halls. The Goods, like the family of J.K. Galbraith, were at least as productive as the cities in identifying what would make the world a better place to live in than it was in the 1930s. It would not be stretching the point to describe the area as John Kenneth Galbraith country. That setting gave rise to not dissimilar curiosities about the way in which the world might be structured. Bob's father sat as a federal member in Ottawa as a leader the United Farmers' Party. And though Bob fitted into no particular groove, he did his own heavy thinking feeding on a whole series of citizen activities that he engaged in over the years. The conclusions he reached were as logical and clear as a church bell.

Bob himself repeatedly refers to his having been spared the disadvantage of a college education in economics. For that left his mind open to a rich variety of mostly forgotten writers – a great continuum that argued and fought for a more just society. When Bob in his book wishes to ponder the class divisions in the class structure in Ontario life of sixty years ago, he reaches for examples from distinct branches of his own immigrant family, and considers how many servants the more pretentious farm owners could afford and what probable multiples of income the more pretentious branches of his forebears enjoyed over what they paid their servants. That provides him with a better underview of the democracy of that day than is available in many historical studies. And from it he deduces how free the boasted free market really was. Most official views on the subject he regards as theology rather than science.

One of the surprisingly positive effects of reading the Bob Good book is that there in the relative isolation of his farm, with less of the recent literature to demand his attention, he remained on intimate terms with Edward Bellamy's *Looking Backwards* (that he notes had been widely read by agrarian progressives), but has since been largely untouched amidst the mass of contemporary books that must be read. But Bellamy and the views of H.G. Wells, remembered primarily as a writer of science fiction. "Utopian," indeed, is the patronizing label that Marxists label that literature. It turns out from a reading of the Good book that the utopia label (Greek for "nowhere," of course) suits far better Russian and Chinese ideologues, and all the other over-bureaucratized lands, while the alleged utopians of a century and more ago nurtured very human aspirations that cannot, and must not be forgotten.

It is more than a charming feature of Bob Good's book that he can lead up to the problems not only of the Canadian farming community but of our total economy, and reach into his own family to support his main story line.

His family was as complete as a good library. "Example: My grandfather Good came to Canada in 1837 as manager of a new bank. He aroused the anger of powerful members of the banking elite and was bounced from his position. He then bought a lot of land and became a gentleman farmer, a much more hazardous occupation in Canada in 1837 than in Ireland. There, if you owned land, your financial future was guaranteed. [Right there you have reference to the connection between the privileged position of the land-owner vis-à-vis the miserable condition the landless hired hands.] For various reasons, he went bankrupt in 1864. My great aunt had enough money to save 50 acres with the buildings, and a few years later my grandfather was able to buy another adjoining parcel of land. They farmed as partners for 35 years. During this period my grandfather left the high church Anglicism of the Ontario elite and became active in community organizations. It would seem that poverty promoted a social conscience, which my father inherited, strengthened and passed on. Sixty-five years later the Great Depression did very much the same thing across most of society This reinforced the social conscience of my generation and nourished a useful skepticism about economic matters.

"My social outlook was, early in life, influenced by three people. The first was my father, who was an ardent disciple of Henry George. The second was his good friend, E.C. Drury (head of the United Farmers Party) who thought highly of Adam Smith. And the third was father's cousin, George M. Ballachey, who was so fiercely independent that no person or doctrine could possibly claim him as a follower.

"When I has 65 I joined the Committee for Monetary and Economic Reform (COMER), an international think-tank, and for several years served as secretary-treasurer. This gave me an opportunity to meet and correspond with brilliant, unorthodox people from all over the world. The COMER people are united in their belief that our debt money system is unsustainable, but they have widely different views on other matters."

The Feedlot Paradigm

"This book is about widespread, undeserved poverty, and concentrated, undeserved wealth and economic power. As I have had some experience with poverty, by Canadian standards, and a later experience with modest affluence, I believe I can write with a balanced view.

"Let us examine a beef feedlot, managed as we humans are managing ourselves. A group of range calves of quite uniform conditions are put in the feedlot. Almost immediately after feeding, a group is chased away from the food, and kept away. A little later another group is separated from the food. The procedure is repeated until a small group is left. The food (resources) that would have satisfied the wants of those forced away are then force-fed the remaining animals. The feeding practice is continued day after day.

"Not only is the feeding done in this way, but the feed is procured from far away rather than from adjacent farms. This a waste of resources, but it is considered useful as it increases the GNP.

"When sickness strikes the feedlot, the first group that is denied sufficient food is denied medicine. The result will be a high mortality rate along with a great deal of variance in the finish of those left alive. The operator will go bankrupt and be branded a fool.

"My critics will argue that our system is one of freedom and efficient production with the rewards going to the best producers. Adam Smith noted that the system in his day had to carry the burden of a parasite class which reduced the efficiency. Fifty years later William Thompson argued that the highest rewards did not go for production, but for manipulation. Today the parasite class has grown wonderfully while the meager rewards left for production have gone primarily to the producers of destructive products in our permanent war economy. These products are then used to spread terror around the world."

Terrorism, Wholesale and Retail

"Edward Herman and David Peterson have written an article entitled 'The Threat of Global State Terrorism: Retail vs. Wholesale Terror' where they divide terrorism into two kinds – wholesale state terrorism and retail terrorism – with state terrorism by far the worse. For example: the US government claimed back in the early 1950s that it was overthrowing the elected government of Guatemala for fear of Soviet control and the spread of communism. The media never doubted this; they never suggested that this was a fraudulent cover for the desire to protect the United Fruit Company.[1]

"William D. Perdue wrote in 1989 that an ideology of terrorism is used by transnational corporations to legitimate an ideology of modernization, where what is modernized 'is a system of global inequality, and what is developed are dependency relations of peripheral underdevelopment. This, simply put, is real terrorism.'

"Franz Hinkelammert has written 'the repressive forces of the state have grown to the extent that the state has ceased to carry out its social and economic functions. In the name of antistatist ideology, the police state replaced the social state.[2]

"In 1883 Henry George wrote an essay 'Slavery and Slavery' in which he noted that 'people can be as effectively enslaved by making property of their lands as making property of their bodies – a truth that the conquerors of all ages have recognized.'[3]

"William Irvine, a member of the Canadian Parliament, wrote in 1920 that 'It requires millions to misrepresent a question to the extent that people will vote against their own interest.'"[4]

Free and Forced Trade

This vein of thought, Bob Good then applies to the immense and still incompletely charted subject of "Free Trade and Forced Trade."

"Trade can lose its freedom by being restricted (import quotas, tariffs, etc.), or by being unnaturally stimulated or directed (war or threat of war, colonizing of territory or resources, structural adjustment programs, corporate welfare, bounties, subsidies, advertising, etc.). The foundation for the conventional view of free trade is based on the teachings of Adam Smith. He argued that we should let those people who have natural or acquired skills in producing certain items produce those items and trade them for items produced by people with other skills. Further, let those areas which have suitable conditions of climate, soil, natural resources and technical skills for the efficient production of certain items, produce such goods.

"It should be noted that Smith made an exception to free trade in the case of national security. Trade should be carried in British ships to help keep the British navy strong. Trade should never be allowed to interfere with national well-being.

"When I was a young man there were certain farm jobs that a farmer could never do alone. Threshing or silo-filling required from 8 to 12 men and some of them had to be very strong. To get the job done there had to be an exchange of labour. This exchange was given freely on all sides. In our neighbourhood we were all adequately fed but none of us could get three pieces of pie at noon and again in the early evening, except on the threshing circuit. Thus when I was young a pie per day per person for 5 or 6 days a week was heaven – free trade with benefits. The Mennonites still freely trade their labour."

What Free Trade Bigots Swallow

"There is enough in the definition of free trade or in the teachings of Adam Smith to contradict these examples.

"Opium smoking was introduced into China from Java toward the end of the 18th century, and despite official opposition spread widely during the 19th century. The opium trade grew rapidly and was immensely profitable.

"Another example of coercion in trade is the conflict between England and Ireland in the 17th, 18th, and 19th centuries. Protestant England overwhelmed the Catholic Irish in war, seized the best land and settled it with English aristocrats and tenant farmers. Later they passed laws that hindered industrial development and thus directed trade. As the industrial revolution catapulted England into world leadership in trade, Ireland remained a source of raw materials. The poor were forced into the barren hills and marginal bog lands, where they barely survived in part-time work and potato patches.

"Those who extol the virtues of forced trade under the pretence that it is free trade will argue that if trade is free from tariffs, import duties and quotas, it is then completely free. They consistently ignore a whole range of stimulative forces, some of which are strongly coercive. Probably, the most important comment ever made about our trading system was made in a short article in the *Yale Review* in 1933 by John Maynard Keynes: 'I sympathize, therefore, with those who would minimize, rather than maximize, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel – these are things that should be international. But let goods be homespun whenever it is reasonably and conveniently possible, and, above, all let finance be primarily national.'

"In the November 1993 issue of *Scientific American* Herman E. Daly published an article, 'The Perils of Free Trade.' He points out how the hidden costs to the environment and the community are ignored, destroying the comparative freedom argument. Contrary to the implications of comparative advantage, more than half of all international trade involves simultaneous import and export of essentially the same goods. As there is a cost to moving goods, the simultaneous pushing from behind (coercion) is not free trade. It is forced trade!

"Most of the religious terrorism discussed in Chapter One also falls under the heading of advertising, but it does condone and even suggest violence. Economic terrorism uses both methods. We can therefore conclude that forced trade equals economic terrorism, no matter what elaborate, camouflaged delivery system is used to do the persuading."

Good's reflections on "Economic terrorism" deserve not only reading but pondering.

"For 175 years economists noted the steadiness of the rate of interest as they searched for factors that caused this steadiness. Then about 40 years ago they changed direction. The *Encyclopedia Britannica* sums it up: 'The middle of the 20th century saw a considerable shift in the focus of concern relating to the theory of interest. Economists seemed to lose interest in the equilibrium theory and their main concern with interest rates became as part of monetary policy in control of inflation.'

"The new monetary policy of using interest rates as the sole control of inflation greatly increased the power of the banks to administer inflation or deflation. As Irving Fisher noted 80 years ago, the banks had the power to manipulate the economy. That power is greatly strengthened today. Apparently the modern flat inflation theology has as great a control over their minds as the flat earth theology had over the minds of the Church fathers in the 15th century.

"In the 1970s and 1980s a new phenomenon called stagflation developed. This was a condition of high unemployment combined with inflation, a phenomenon that conventional economics could not explain. How much of this can be explained by the change from an economy with a fairly well-defined inflation-deflation cycle to a permanent or semi-permanent sectoral inflation-deflation economy? To guarantee a sectoral inflation-deflation economy it is necessary to constantly reduce wages and the price of raw materials: Is such an economy really stable, or does it have a stable facade on an extremely unstable structure?

"William Krehm makes a comprehensive summary of the myth of market equilibrium in his article 'Market Monotheism' (*Economic Reform,* September, 1997, p. 4):

"By the mid-sixties there was more serious thinking being done. In the English-speaking world John Kenneth Galbraith concluded that there was need to countervail the powers of oligopoly with intervention by government, trade unions, and citizens' groups. But Galbraith's preference for social insight over the preening of mathematical feathers, doomed him to be forever an outsider among economists.

"In France critics of the self-balancing market found a more receptive hearing. The outstanding figure amongst French economists, François Perroux, showed that far from being self-balancing, the markets of the real world were rather theaters of power.

"Both Galbraith and Perroux stopped short of emphasizing the impossibility of understanding a mixed economy by the code of a single of its components. You might as well try reading the time of day on a barometer. But as power structures within the market grew in girth and muscle, little

On the Sudden Possibility of Polonium 210 in our Tea and the New Division of Power between Market and State

It was Douglass C. North who breathed new life into institutional economics by noting that with every drastic redistribution of the national income, the old distribution of political power that was based on the previous arrangement of income and power disintegrates, and a new power alliance reflecting the rerouting of the nation's income replaces it. That is what Pancho Villa and the inevitable guerrilla warfare that made the presidency of Mexico one of the riskiest careers in the land was about. It was only with the assassination of President Obregon in 1928, when a new alliance of industrialists, small peasants, and even trade unionists took over, that elections came to be decided less with pistols than by votes, rigged or unrigged. However, that broke down in the early 1990s when Washington imposed globalization and deregulation, as though someone had leaned on a button, presidential candidacy once again became a choice dangerous to life and limb.

From that and plentiful parallels across the globe, Douglass North drew the connection expressed in our previous paragraph.

But all that falls far short of the most recent tidings out of Russia, where a former secret service bureaucrat warms the supreme seat of power, while our newspapers are full of reports and speculations concerning a whole chain of ailing and dead former Russian secret service men who are either mysteriously ill, or even have already succumbed apparently to little known radioactive isotopes of radium. These are so powerful that they have infected other ex-Soviet secret servicemen who merely met them at a fashionable hotel, or quite innocent folk that merely flew on a plane that also carried an infected Soviet ex-secret serviceman.

Thus *The New York Times* (11/12, "Intrigue Over a Spy's Death Spreads to Germany" by Steven Lee Myers and Mark Landler) informs us: "Moscow – The German authorities announced Sunday that they had begun a criminal investigation of a Russian businessman after finding traces of polonium 210 around Hamburg on October 28 – four days before he had met in London the former Russian spy who died, reportedly after ingesting the radioactive substance.

"It has also added to suspicions that the case is somehow connected with the shadowy world of agents and businessmen, defectors, spies and exiles let loose by the dissolution of the KGB, and still entwined with successor agencies.

"The former Russian spy, Alexander V. Litvinenko, long a critic of Russia's president, Vladimir V. Putin, made deathbed accusations that Mr. Putin was complicit in the poisoning – an accusation that the Kremlin has derisively dismissed. The case has strained relations between Russia and Britain, and now has entangled Germany."

That is a dense story line that leaves both Pancho Villa's rampages in the category of innocent child's play, but then the changes of regime that Russia has undergone to, was also incomparably more complex than those taken from earlier history that Douglass C. North was concerned with. Those had to do with redistributing the national income to favour social groups that had been left in the cold. Those that Russia has undergone when the Soviet regime crumbled and was replaced largely according to the blueprints of Washington, were from a different world. In the struggle between Soviet Russia and globalizing Washington, new technologies undreamt of were brought into the race – initially atomic energy, and when the Russians caught up with that, the deadly potential of space for warfare. But these were just the opening laps of the race embarked upon between the US and the Soviets. When Moscow had been bankrupted, the Americans lost no time in sending them economic experts to finish them off with the worst possible advice – the introduction of a free market economy such as the US itself had never aspired to. This included instantaneous privatization of the large government concerns across the vast land. But the average citizen had no inkling of what to do with shares of stock, except to sell it for a song to buy tomorrow's breakfast. Hence the regimes of instantaneous billionaires, mysterious murderers with a variety of technologies, low and high.■

encouragement was given to questioning the self-balancing market.

Increasingly, economic theory became a cover-up for massive aggression on two fronts: (1) against the non-market sector; (2) against less powerful actors within the market – labour, smaller and medium-sized businesses."

Bob Good concludes this crucial part of his book with a pointed summation: "The "Market as God" people sealed themselves into a mental fantasy capsule in the 19th century and for most of the time since then have not let any reality of the outside world seep in. The fantasy capsule is a marvelous machine, nourished by feeding tubes from the corporate sector, and equipped with one-way doors. Inside the capsule the guests gorge themselves on the world's finest provisions, congratulate one another endlessly, and frequently provide prizes to one another.

"For others, this God is a ruthless vengeful and spiteful God, a terrorist on a rampage, using interest and other economic weapons to rule the world. Hopefully, this new God is not yet firmly seated on his throne. Thus, there may be hope for mankind, yet the erosion of the freedom of the market over the last couple of centuries must make us pessimistic." Amen.

William Krehm

1. *Z Magazine*, January 2002, pp 30-34.
2. Hinkelammert, Franz J. (Winter 1992) "Our Project for the New Society in Latin America." *Social Justice*, p. 10. "The outlawing of chattel slavery did not eliminate slavery, as the cotton mills and the fields of 19th century Britain and thousands of workers in the Third World [today] prove. George argue that costly and thus inefficient chattel slavery had been taken over by less costly slavery.
3. George, Henry (1966). *Social Problems.* Robert Schalkenbach Foundation, p. 150.
4. Irvine, William (1920). *The Farmers in Politics.* McClelland and Stewart, p. 82.

A New Topography of Fuel Power is Shaping

In her *Globe and Mail* column out of Calgary, Deborah Yedlin tracks the new power relationships that are forming out of the race for making the most of gas and oil resources plus the pipelines and other transport to deliver them to the oil-thirsty consumer nations (22/12). There would seem to be more concern with losing any of the power potential of being a fuel producer even surpassing than about polluting the lands passed through with maintenance defects of the pipelines themselves. Thus, we recognize such damage when it happens on our own beaches and vulnerable environments. But the large oil consumers are too ready to question the efforts of lesser oil-producing countries when they raise the environmental irresponsibilities of the oil corporations in damaging their environment.

But let us follow Ms. Yedlin as she rolls out the new power map a-shaping.

"Talk about an eventful year in the energy world. Natural gas spent months plummeting from the all-time high it hit near the end of the last year and oil topped out at a record in July.

"In Canada, the stampede to the oil sands was unabated and the energy trusts were hammered by Finance Minister Jim Flaherty's surprise Halloween performance that they will be taxed like corporations.

"But something else was happening on the global energy scene this year that will have its greatest in 2007 and beyond: Countries blessed with abundant resources showed more willingness to exercise the political power that goes with economic control of dwindling and expensive commodities.

"How this trend will play out remains unclear, but it is certain that Canada will have some role in the new power game, whether it wants one or not. Prime Minister Stephen Harper acknowledged as much when he boasted that the billions of barrels trapped in the oil sands will make the country an energy superpower.

"One of the first signs of the changing energy landscape came early 2006 when Russia decided to shut off the natural gas taps to Ukraine in the dead of winter in a dispute about whether the former Soviet-bloc Ukraine should pay market prices for its fuel.

"A side-effect of the dispute was to drive home Europe's vulnerability in natural gas supply terms, because the pipeline that supplies the continent is the same one that runs through the Ukraine. Europe depends on Russia for 25% of its natural gas, and that won't change unless supplies are piped in liquefied form, from places like Qatar, Nigeria and Algeria."

This sudden dependence upon former colonies that in more recent years have been unconscionably exploited by the attempt of the US and Europe to run the world and in particular the former colonies of the great powers by manipulating debt by high interest rates. Clearly the politicians of former colonies, to say nothing of the masses, will see in whatever oil resources they have and the US and Europe need for survival, and seek some rectification of the overall balance sheets of their relationship with the former master nations. Obviously this requires a rethinking of how the leading countries treat both their environment and the environment, and much else including the dogmas that attempted to blow up a passing brutal exercise of power into eternal truths.

But back to Ms. Yedlin. Russia, the world's largest exporter of natural gas, is making no secret of its desire to cement political influence among customers in Europe and Asia by flexing its energy muscles. It is doing this by constructing gas pipelines to key markets and pushing out Western companies that have been active in the countries' energy sector. Unlike oil, which can be shipped by tanker, the best way to transport gas is by pipelines. A country that controls both the pipelines and the fuel they move, has that much more power.

President Vladimir Putin's goal is to ensure Russia holds sway over its vast natural resources, and thereby commands respect from the world that needs them. Call it Cold War Redux, only this time it is not nuclear weapons that are being used as the stick.

"In the Western hemisphere, Venezuelan President Hugo Chavez is doing something similar, using petro-dollars to win friends and influence people throughout South and Central America and to finance social programs at home.

"Others have begun to follow his example. There were 12 elections in Latin America over the past year, and many of them were followed by moves, including talk of expropriation to increase national resources that are typically in the hands of corporations from richer countries. Bolivia, Ecuador, Peru and Mexico also realize that they have something that the rest of the world wants.

"Iran is becoming something of a linchpin in this new world. It has links with Russian connection with its nuclear power program. It has made common cause and signed trade deals with Venezuela, a fellow

Continued on page 17

The Zany Semantics of our Prosperity

Our Wobbling Prosperity Hangs on an Adjective

In *The Globe and Mail* (13/12, "Even the Fed fears potential housing slump" by John Heinzl) hung the revival of a boomlet on Wall Street to a simple adjective "substantial." This in addition to its cryptic utterances that are studied like the entrails of fowl and beast in ancient times to foretell what might be in store the world. "In what may have been the most significant change in language, the central bank said the economic slowdown in the past year partly reflects a 'substantial' cooling of the housing market." The word "substantial" was new, and to some it marked the clearest sign yet that the Fed has begun to shift toward not resuming pushing interest rates up further. But surely we have had further evidence that the world economy, least of all, has need of paying still greater tribute to the financial interests that have taken over the world. The financial press has been full of reports on the growing dependence of the financial sector on sub-prime debt, on second-mortgage financing of house-buyers that have loaded up with obligations that many are most unlikely to be able to carry. given the uncertain prospects of continued employment in broad areas of the US.

There was a time when the price level and the activity of the economy were seen as more than the mirror image of the benchmark rate of interest that since has become the one blunt tool of the central bank. There was as an alternative which could soften or replace the level of interest rate and thus deny it the role of sole "stabilizing" tool. But interest rates, which do happen to be the basic revenue of money lenders and the arm-breaking enforcement instrument for creating bankruptcies and basement bargains that speculative finance capital battens on, obtained a monopoly position in directing the economy. This happened when the statutory reserves were done away with altogether in Canada in 1991-93 and reduced to near meaninglessness in the US of the statutory reserves that the commercial banks had to redeposit as a portion they took in from the public. In the US interest-bearing chequing accounts have taken over – thus muddying the distinction between chequing and saving accounts. Under this arrangement deposits are automatically shifted to accounts requiring no reserves and instead earning interest whenever the banks shut their doors to business. That – only to a lesser degree than the Canadian abolition of statutory reserves altogether – has decreased the ability of the Federal Reserve to influence the economy *without* raising interest rates. For higher interest rates hit everything that moves or stands still in the economy, particularly the unemployed who cannot be contributing to inflation due to an excess of demand over available supply.

Why Inflation Cannot be Flipped like Pancakes

A half century ago, I reached the conclusion that we could not begin to understand the behaviour of price in the mixed economy that had grown up since WWII if we continued to diagnose all upward movement of our price indexes as the symptom of a single disorder of the economy – "inflation" identified as an excess of demand beyond the available supply. Properly defined the higher price levels might at times be due to such "market inflation." But propositions cannot be flipped over like pancakes and remain necessarily true. In the mixed economy that had developed since World War II, the increase in price levels could be traced wholly or in part to the new technologies brought in after a decade of depression and six years of war that resulted in rapid urbanization, with the costly public infrastructures that required, far greater investment in human as well as physical investment by the government. In this age of the internet, even consumers, let alone producers, have need of post-secondary education and this inevitably results in a deepening layer of taxation in price. To distinguish this new factor in upward price movement I proposed calling it 'structural price rise' and higher prices due to an excess of market demand over supply, I term "market inflation."

Having developed the point I mailed it to economic journals around the world, and it was purchased by *Revue Économqiue*, the leading French economic journal at the time who published my piece as a 60-page article. It was only then that I realized that several prominent French economists had been on the trail of this unidentified factor that was pushing up the price level quite independently of the abundance or scarcity of supply to meet demand. Indeed, one of these plotted the relationship between insufficient supply to meet demand in several European countries and found that prices frequently moved higher when supply and demand were in better accord. As soon as my article appeared the French book publish Kalmann-Levy suggested I write a book on the them. But the time I had done that the great cleansing of such unorthodox themes had already begun. Such articles and books were discouraged, and *Revue Économique* that published my piece has long since vanished.

COMER published the English version of the book itself and it received respectful reviews in academic publications in several countries including that of Cambridge University. From there on the very idea that prices may move because of the deepening layer of taxation that is needed to pay for vital public services has had the door slammed on it. Quite literally with the expression "externalities" referring to such concerns as the environment and education, and health.

Around the failure to make this essential distinction confusion since then has multiplied.

To begin with there was the lack of serious accountancy to deal with the new mixed economy that had arisen. Anything that could not be attributed to a self-balancing market, that in fact at no time existed, was simply deemed an externality – spending for health, environmental conservation, education, were simply proclaimed beyond the pale of the economy.

Though – in Canada – a series of auditors-general and at least two royal commissions recommended that accrual accountancy (the accountants' term for depreciating government investments' in buildings, roads, bridges). These continued being written off entirely in the year of their completion, and then carried on the books at a token dollar to show that the item rather than simply forgotten had been dealt with. This had negative effects not only on society, but on keeping the increase of price indexes as low as was compatible with serious accountancy. To even attempt to write off the entire cost of a building that could last forty years – and the site beneath it in all probability actually increasing in value over the years – more taxation had to be levied than was strictly necessary.

The result appeared as a government deficit that was not necessarily there. And carrying the investment on the government books at a token one dollar from the year two after its completion, made it possible to sell it for a fraction of its real value to well-connected private interests who could then organize it as a public company and start charging the public user fees for what they had already paid for in taxation. Were a private corporation to adopt such book-keeping it would be charged with taxation fraud. This non-accountancy violating the basic principle of double-entry bookkeeping was retained until the last possible moment because it served the basic dogma that governments were incapable of making investments. By the official creed they could only waste public money.

But still more, in the interest of privileged profits, the slate of history has been wiped clean. For while the slightest utterance, and every adjective – such as "substantive" in the most recent Bernanke remark – is assessed for its possible overtones of meaning, it is completely overlooked that the United States has been involved in two serious Iraq wars in roughly a decade. This has entailed immense expenditures in anti-terrorist vigilance. Real inflation was controlled during WWII by price and exchange controls, and every sort of restriction. Our governments have gone about their Near Eastern military affairs at the same time that they have decontrolled and deregulated almost anything that could interfere with growing profitability of the financial sector.

How then could they expect a flat price level? The Federal Reserve is overlooking the inevitable price effects of a near decade of wars in Asia Minor with elaborate anti-terrorism activities on all continents,. That must be eventually covered by taxation and/or by a mounting price level.

Increasingly Cynical Appraisals

All of which leads to increasingly cynical appraisals, of which Paul Krugman's column in *The New York Times* Op-Ed page is a fair example. Never in the military history of the US has such frank skepticism taken about the conduct of both the US economy and a war.

"According to *US News & World Report*, President Bush has told aides that he won't respond in detail to the Iraq Study Group's report because he doesn't want to 'outsource' the role of commander in chief.

"That's pretty ironic. You see, outsourcing of the government's responsibilities – not to panels of supposed wise men, but to private companies with the right connections – has been one of the hallmarks of his administration. And privatization through outsourcing is one reason the administration has failed on so many fronts.

Resolution on Getting Rid of the Tax and Spend Label

Whereas there is a perception that the NDP just wants to tax and spend, and cannot be trusted to keep spending under control; and

Whereas the national debt increased by more than 3000% from $18 billion in 1974 to $588 billion in 1997 while Liberal and Conservative governments were in office; and

Whereas Canadians fear that NDP programs will cause taxes to go up; and

Whereas many Canadians will be reluctant to give the NDP their vote if the perceptions and myths are not shown to be wrong;

Therefore, be it resolved:

1. That the Ontario NDP explain clearly and simply that:

(a) The Liberals and Conservatives are the incompetent money managers, not the NDP;

(b) The NDP would not have to increase taxes to pay for its programs because it would use the Bank of Canada to carry a significant portion of the public debt and apply the interest charge savings to programs, infrastructure and assistance to small- and medium-size businesses;

2. That the Ontario NDP press NDP Canada to do likewise.

BACKGROUND. Jack Layton, in his new book, *Speaking Out Louder*, talks about the "question that is frustrating," " the *perception* that people have that…they see [the NDP] as wanting to just tax and spend. They say they can't trust [the NDP] to keep spending under control."

There is a *myth* that Paul Martin was a great finance minister because he got rid of the deficit, but he did this by firing thousands of civil servants and downloading responsibilities to provinces without adequate financing, whereas he could have reduced the deficit and avoided the downloading, harsh treatment of civil servants and destruction of social programs *by transferring debt to the Bank of Canada*.

It is in the interests of the provincial association as well as the national to debunk the perceptions and myths.

Transferring debt to the Bank of Canada is not a new idea! A resolution on monetary policy was proposed to the 1995 federal NDP convention which said, among other thinks, that deregulation and privatization of money creation is at the very root of Canada's national debt crisis. To reduce the interest burden on public debt there must be a readjustment of the proportions of the money supply created by the Bank of Canada and the chartered banks.

But, the NDP did not talk about this, and Paul Martin reduced the deficit by slashing programs, downloading responsibilities to provinces without adequate funding and firing thousands of civil servants.

From 1995 to 1999, Canadian taxpayers paid $378 billion in interest on the debt of all levels of government – most of it unnecessary.

In 1999, Lorne Nystrom, NDP Finance Critic, produced a book of essays by several authors called *Just Making Change* in which it was stated, among other things, *"We simply must have access to government-created, zero-cost money. There is no other way to find the resources necessary for health care, education, environmental protection and housing."*

But, the NDP did not talk about this, and the government continued to use the cost of interest and the debt to justify the downloading and underfunding of social and health programs, infrastructure, education and housing.

From 2000 to 2005, interest payments added another $409 billion to our collective tax bills – again, most of it unnecessary – and *still* the NDP does not talk about using the Bank of Canada to carry the public debt, and *the government continues to use the cost of interest and the debt to justify the downloading and the underfunding of social and health programs, infrastructure, education, housing and assistance to small- and medium-size businesses.*

We believe it's time the NDP started talking about this.

Kingston and the Islands NDP

"For example, an article in Saturday's *New York Times* describes how the Coast Guard hired Lockheed Martin and Northrop Grumman, two of the nation's largest military contractors, to plan, and supervise and deliver the new vessels and helicopters.

"The result? Expensive ships that aren't seaworthy. The Coast Guard ignored 'repeated warnings from its own engineers that the boats and ships were poorly designed and perhaps unsafe,' while the contractors failed to fulfill their obligation to make sure the government got the best price, frequently steering work to their subsidiaries or business partners instead of competitors. Krugman goes on to cite the outsourcing to Dyncorp International, a private contractor under very loose supervision; when conducting a recent review auditors could not find a contract of DynCorp's contract to see what it called for. And so it runs on. And with such loose outsourcing of military contract over two wars in approximately a decade, where deregulation and privatization were the guiding formula, how could our central banks hope to flatten out the price level, even as the nature of our society and its effects upon the environment has changed beyond recognition."

Surely what we are confronted with here is the complete breakdown not only between the economists of officialdom and what they choose to be concerned about. There is no authority in charge of the economy and, above all, monetary matters that is remotely tuned in on what it is supposed to be concerned with. That is the price of shutting our minds to our history. We no longer learn from our past achievement and past errors.

The extent of the skepticism about the war objectives in the Middle East has achieved such staggering dimensions. Yet our central banks in their pronouncements still persist in assuming that the deregulated, globalized market will take care of everything, if we just raise interests rates high enough to raise the cost of financing the so-called "externalities" out off mind.

The time has come when we must stop talking about "inflation" when we are talking about a higher price level. If we started by concerning ourselves with planet-warming and the deterioration of our environ-

On Exercising our Muscle of History

To come to our aid when we have need of it, history, like other muscles, must be constantly exercised. Failing that, our memories of the past are likely to wizen to what we are familiar with from force of habit. However, it is the geopolitical discontinuities in the historical process that provide the switching force to redirect our society from quagmires of hopelessness to suppressed prospects. I probably know as much history as the next fellow casually met, yet in my mind the collapse of the Stalinist Empire was due primarily to the armament race that Washington inflicted on the USSR, with just this end in view. That was certainly the background. But it required a lot of seemingly hopeless persistence by socialist and other democrats in both Russia proper and its dependencies to translate this into the possibility of a democratic restatement of ideals that had been so brutally belied by the Soviet regime.

All this remerged in my memory from reading an excellent biography by Michael Kaufman, *Soros: The Life and Times of a Messianic Billionaire* (NY: Alfred Knopf, 2002, p. 207):

"As the seventies drew to a close, the notion that Communist power and the Cold War might soon disappear lay beyond serious contemplation, somewhere between wishful thinking and outright delirium. There were, however, a handful of people who had glimpsed the faint prospect of significant geopolitical change. For them the triggering mechanism had been the passage on August 1, 1975, of a long-negotiated agreement on security and cooperation in Europe, which came to be known as the Helsinki Final Act.

"For the first time, an understanding between states had recognized that the treatment of human rights was one of the major principles determining international relations. The Soviets and their East European allies were eager to sign the Helsinki agreement because it froze and recognized postwar borders, including those of East Germany. To secure this, they were willing to trade away their earlier insistence that questions from abroad about the denial of human rights constituted an unacceptable interference in the internal affairs of a sovereign state.

"It was a departure. But at the time no one saw how deep and wide a wedge human rights would drive into the Iron Curtain. In the West, there were critics, mostly right wing, who objected to trading something as hard-edged as border guarantees for something as soft and mushy as human rights. The critics assumed that the language covering the freedom of the press and free expression and movement were merely window dressing and would have minimal impact on political realities. Yet very soon after the signatures dried on the final act, those human right causes galvanized people in many countries to act. Ordinary citizens, ranging from innocent amateurs to cunning Machiavellians, risked ostracism, isolation, and persecution to confront the totalitarians. Brave but highly marginal figures formed a Helsinki Watch group in Moscow, in an effort to become a precursor of the Solidarity free labor movement. And a year later, in 1977, the playwright Vaclav Havel and a handful of dissident colleagues established Czechoslovakia's Charta 77."

History that has a way of leaving even her most devout disciples snoozing in roadside ditches must remind us today of what could become a parallel between the seemingly endless slaughter of WWI, and the crumbling of the Czarist Empire due to the alert initiative of a handful of left socialists stranded in Switzerland. Today Globalization and Deregulation have opened a bleeding wound by surrendering a dominant position to the speculative financial economy that must has no choice but to go on expanding even to stand still. The endless mess of the Near East tells us that it has literally nowhere to go other than into ever more hopeless military adventures. If we roll back the scrolls of history to seek where a more primitive version of the same drama of unrestrained greed had led humanity after World War I, we will detect a flicker of hope and precedent for regaining a livable future for humanity. Both the birth and the eventual demise of the unlamented Soviet Union should warn us that we are approaching another of history's great geopolitical switching points.

Even a tiny minority of people who have learned from the past how crucial in such moments a clear-sighted minority of determined devotees can be can tip the balance in the proper direction.

William Krehm

ment, this would certainly lead us to the necessity for a deeper layer of taxation in our price structures. However, we would get something very positive in return for that – a healthier setting for society. If we fail to look after such "externalities" we must by the same logic enter a debit for having failed to look after our future. For unless we do it will prove a debt that cannot miss catching up with us.

The present games that economists play with "core" inflation that excludes energy and food costs because of the "volatility" of such items is an evasion rather than a serious way of dealing with it. Most of the volatility of fuel prices was due to the financial gambles in gas and oil futures. Eliminate the gambles and rather than volatility you will be faced with a growing scarcity and hence a consistent rise in fuel prices – certainly in the price of relatively clean fuel. But even if you strike gas and oil from the index along with food prices that in part reflect planet warming, then you must keep track of the indirect contribution of these items in the end costs of most other items that go into the index.

We must cease ignoring the abiding fact that a rising price gradient exists that has nothing to with the inadequacy of available supply to meet demand, and everything to do with the deepening layer of taxation that results from investment of public funds to deal with what economists choose to call "externalities" – concerns vital for the survival of our society and its environment that economists ignore because they are not a concern of profit-making enterprise.

William Krehm

On the Name and Origin of Hedge Funds

Kaufman, Michael T. (2002). Soros: The Life and Times of as Messianic Billionaire. *New York: Alfred A. Knopf.*

"Hedge funds had existed since 1949 when A.W. Jones, an economic journalist turned financier, founded one. The approach he pioneered was to assume offering long and short positions on shares of companies within a given industry.

"The basic rationale was that by going short as well as long, the A.W. Jones Group would be able to hedge against industry-wide macroeconomic factors while benefitting from the specific performances of individual companies that were thought to be bucking the tide. Jones determined that having both short and long positions in a portfolio could increase returns while at the same time reducing market exposure. Because of this risk-reducing aspect the nickname hedge fund' was adopted and stuck.

"But, beyond the feature that gave the funds their name, Jones's brain-child pointed the way for a vastly expanded autonomy on the part of fund managers, and it was this aspect that would account for the growing popularity of hedge funds, particularly in the soaring markets of the eighties and nineties when greed provided a more powerful stimulus than prudence. More important, since hedge funds were constituted as private partnerships, they were exempt from government restrictions and oversights.

"While the managers of mutual funds were constrained by government regulations to merely seek out shares they believed would rise in value, the operators of hedge funds could engage in more complex trades, going short as well as long, and moving beyond stocks to speculate in commodities, currencies, bonds, and other assets. Without government oversight or limitations, hedge funds were able to borrow large amounts of capital, enabling them to make huge deals on the basis of relatively small commitments. This in turn enabled them to make more deals.

"Basically, hedge funds as they developed were obliged to operate under no other rules than those established by their founders. In exempting them from federal regulations that applied to other funds, the government was assuming that hedge fund investors were rich and sophisticated enough to obtain the kind of expert financial advice that rendered federal protection unnecessary.

"In the mid-sixties these funds were fairly esoteric. There were relatively few of them, and the assets they commanded were estimated at less than $2 billion. Indeed, at first the term 'hedge fund' was not understood by all Wall Street professionals. Twenty-five years later they numbered in the thousands, and their aggregate investments were said to be between $200 billion and $300 billion. As Leon Ley, the chairman of the board of Oppenheimer Funds and himself a founder of a successful hedge fund, would note in a 1998 interview in the *New York Review of Books,* perhaps the most important thing about hedge funds is that they take the responsibility away from the investor for choosing what market to put money in and place it entirely in the hands of a money manager. He or she can be in any market at any time."

To manage a fund where one was free to ignore both the views of the investors and the regulations of government and simply do whatever seemed best.■

Fuel Power *continued from page 13*

member of the Organization of Petroleum Exporting Countries.

"India and China – short of their own supplies – have sent their oil companies on as global quest for fuel to satisfy their booming economies. In their search they will inevitably bump up against Western economies whose goals and conduct are governed by very different demands of capital markets. And it will take them to parts of the world where the political risks and opportunities are as great as the energy rewards.

"But the game is on, and Canada has to figure out how it will play."

One thing should be apparent. Our game plan must be to make the most of our resources to protect both ourselves and our extremely fragile environment. It must embody friendship with the people of the US, but not blind acceptance of what Washington wants. That lesson has already been delivered to us by the mess of the US involvement in Iraq and Afghanistan.

The roots of that endless conflict began as a typical policy outcropping of US position as lone superpower. The vulnerability created by that illusion has led Washington into a series of disasters in dealing with other cultures. This is no time for our government to play along with such a disastrous Washington policy as in the past. Servility and automatic applause for Washington's military adventures, or being talked into surrendering our natural resources in the name of NAFTA and free trade and globalization won't do. It is a new world in which we and the US will have to learn how to get along by respecting our common human inheritance.

W.K.

Gambling on Tennis Played with a Net in Tatters

The media have not run out of corporate scandal tales. But yet as the market boom plays itself out, and there is a deepening sense that if the boom is on alternate weeks or otherwise is visibly dragging a leg, it must be because the god of globalized free markets has been insulted, and competition is sending the biggest and juiciest deals overseas. From there the creed of the free market takes over, and we should by its logic be headed to the safest ports. If it is not working out in that way, it can only be because biggest deals have been attracted to continents where the all-wise and infallible market has been left freer than ours at home. Globalism, deregulation, and corporative freedom accordingly converge to lift the process to an ever more destructive level. Whatever has failed must always be applied in ever greater dosages.

"Winds Blow for Rollback of Regulation" by Floyd Norris (1/12), brings us up to date on US developments on this theme: "Sometimes it is the times that control what politicians do, whether or not they really want to do it. It is in fact the ways of the cards in the big games have been printed, quite apart from how some of them have been shoved under the table by the dealer.

"President Bush came to office with a clear bias against heavy regulation, and Harvey L. Pitt, his first chairman of the Securities and Exchange Commission, made it a priority to improve relations with auditing firms when he took office.

"Then came Enron and World. A near-unanimous Congress passed, and President Bush signed, the Sarbanes-Oxley in 2002, dramatically increasing regulation.

"Mr. Bush's Justice Department set up a task force to deal with corporate crime and it brought criminal charges against Arthur Andersen, a major accounting firm that had been Enron's accountant. The firm promptly went out of business.

"Auditors, accustomed to very light self-regulation, got a regulator, the Public Company Accounting Oversight Board, that was quite willing to tell them how to conduct audits and to force them to redo audits it found inadequate.

"At first glance, now would not seem the most logical time to push an anti-regulatory agenda. By no means are all Democrats automatically pro-regulation, but they are less likely than Republicans to be against it, and they will control Congress in the next two years. Mr. Bush seems to have weakened.

"But many business leaders are hopeful that at last some of what they see as post-Enron excesses can be rolled back, with the battle cry of making America more competitive. Companies complain that auditors spend too much money and time auditing internal controls. Wall Street argues that it is such rules – and not higher investment banking or listing fees – that keep foreign stocks from listing in New York. Auditors, companies and corporate directors say it is too easy to sue them."

And since buying out and merging stock markets *per se* seems to have become one of the shiniest games in the world of Big Finance, tighter regulation rules can result in the loss of hundreds of millions of capital value from the cutest take-over or merger plans between different world-class stock markets. That then means interfering the legendary free market where it actually approaches heaven.

"An agenda for change was presented in New York yesterday by an unofficial Committee on Capital Markets Regulations that was formed with the blessing of Henry M. Paulson Jr. That group says American capital markets must have less regulations with newly vigorous foreign markets, but it asserts that it has no desire to let bad executives get away with anything. That claim is not enhanced by the fact that the group received financing from the Starr Foundation, which was started by Maurice R. Greenberg.

"Many bosses got into trouble with regulators for playing games with their own companies' numbers. But Mr. Greenberg is unique in that he also found a way for the American International Group, which he headed, to profit from helping other companies produce misleading financial statements. He lost his job after the SEC and the New York attorney general's office found his actions reprehensible. The committee wants to clamp down on both those regulators.

"A harsh way of looking at one of the committee's recommendations is that it proposes to give the SEC a taste of its own medicine by tying it up in bureaucratic knots. The SEC says it already looks at the cost-benefit ratio when it adopts rules, but the committee proposes setting up a new regulatory apparatus to make that more formal. And it raises the possibility that the president could direct his Working Group on Capital Markets to do its own cost-benefit analyses of commission rules. That group includes the Treasury secretary and the chairmen of the Federal Reserve, the SEC and the Commodity Futures Trading Commission.

"W. Glenn Hubbard, dean of the Columbia University Business School and a former economic adviser to President Bush, is a co-chairman of the committee and a leading advocate of such rules.

"When I asked him if some would see politics in the idea of the Working Group looking over the SEC's shoulder, he seemed surprised.

"'We propose that the President's working group take a look at the analysis,' he said. 'Arguably there is a tremendous amount of expertise in the Treasury and the Fed, and I don't think that anyone, or at least anyone responsible, would describe the Treasury and the Fed staff as political.' It is as simple as that!

"If the Working Group criticized a SEC rule, there would be heavy pressure to change it, even if the group lacked formal authority. The chances are that there would be fewer rules coming out of the SEC.

"The SEC is already set to introduce efforts to make audits of corporate financial controls – required by Sarbanes-Oxley – less expensive for smaller companies. What this report does is place on the table a variety of other ideas that companies will love. It will be up to Congress, the Treasury and SEC to determine whether the prevailing winds Blow away protection for investors in the name of a free market."

The underlying fact is that the established distribution of the national and world income favours the financial sector, and every resource, political and economic, fair and foul, will be rolled into line to defend that ongoing advantage. That bodes ill for peace and well-being on this planet.

William Krehm

Reflections on the State of our Banks

This article first appeared in Economic Reform *of December 2000.*

A note in *The Globe and Mail* (7/9) leaves us puzzled: "Canadian banks have their hands tied by a lack of legislation that allows major mergers, said a report by the Office of the Superintendent of Financial Institutions (OSFI), adding that that banks are buying high-yield securities and lowering their capital levels, both of which carry added risk. MPs said that legislation that could help the banks will die with an expected election call."

The same OSFI has on several recent occasions warned about the danger of an imminent 'meltdown.' We fail to see that the banks' loading up with junk bonds justifies their being trusted with greater freedom to merge. For bank mergers have long served as an escape hatch from precisely the sort of ailment that OSFI cites. Even the announcement of a prospective merger a couple of years ago lifted the market capitalization of one bank involved by 50%. And such valuations by a giddy stock market leads to even greater gambles in distant places. We need only cite examples of such bank-financed disasters as Dome Petroleum, Reichmann and Robert Campeau. We have in fact reached a juncture when the public must cast off the thought control that our banks have imposed on the government and the media, and start rethinking the social role of our banks.

There is no basis in serious economic literature to indicate that efficiency in banking increases with size. "Empirical evidence suggests that larger banking organizations do not have a cost advantage over smaller banks, indicating that mergers between financial firms will not yield cost savings. It should be noted, however, that these findings were obtained under a regulatory framework within which the existence and profitability of small banks were protected by regulation. The result is a low level of bank failures in countries with heavy regulatory intervention. This may be seen as evidence that the main aim of bank regulation is prevention of bank failures and bank runs.

"[In the US] *Depository Institutions and Deregulation and Monetary Control Act* of 1980 [DIDMCAO] and the *Depository Institution Act* of 1982 (DIA) are widely considered the most significant pieces of legislation passed since the *Banking Act* of 1933. A key component of these acts was the removal of interest barriers with respect to thrift institutions providing financial services previously reserved for commercial banks. The resulting jump in bank failures was almost immediate. In three years running (1979, '80 and '81) the number of bank failures had been 10 each year. By 1982 these leapt to 42, and continued climbing to 206 in 1989."

For Canada, where banks are few and are dominated by giant corporations, this has immense implications. For an unwritten but binding footnote enters the play: "When a bank is too big to be allowed to fail, it is not allowed to fail." This provision even dribbles over to take in bankrupt banks that are really not that big. In the early eighties when the Edmonton-based Canadian Commercial Bank (CCB) went under, not only did the government deposit insurance agency make the guaranteed deposits whole, but extended the courtesy to uninsured creditors. The then Governor of the Bank of Canada, Gerald Bouey, had set the stage for that, by assuring the public before the messy bankruptcy that the CCB was sound.

A Key Unasked Question

All this brings us to a key unasked question: If a grocery store or a hot-dog stand goes belly-up, it is not bailed out by the government. Instead we are told that the disappearance of inefficient firms is part of the weeding-out process that assures the health of the economy. When the question of the loss of jobs comes up, we are reminded that the purpose of business isn't to create employment, but wealth. When then should our banks be so glaring an exception?

There are few other businesses that get bailed out so regularly and at such expense especially since they have turned their backs on many traditional banking services in pursuit of riskier rainbows "Functionally, bank products are becoming increasingly indistinguishable from the products of other financial and even non-financial firms, including transaction accounts (money market mutual funds, credit and debit cards), and short-term credit (bridge loans, finance company loans, commercial loans). Institutionally, market segmentation has been reduced[until] until now banks face competition in previously protected markets from other financial and non-financial firms, including depository institutions, investment banks, securities houses, insurance firms, and large retail and industrial insurance firms, and large retail and industrial corporations."[1]

Why should governments step in to rescue an industry that has for decades campaigned for the deregulation that has led to the extinction of services vital to the economy?

Most disturbing in all this has been the lack of openness about the cost to the public of this periodic rescue of our banks from their heavy losses.[2]

In the seventies the folly of the day for the North American banks was recycling the profits of oil-exporting countries by making massive loans to the Third World, most of which went into default with scant delay.

Then came further deregulation of the banks that allowed them to borrow money at handsome rates in the hope of reinvesting it for ever more dazzling profits. Rescue from the losses that resulted came from two different directions. The non-interest bearing reserves deposited by the banks with the central bank as a proportion of the deposits they took in from the public, were whittled down. In the case of Canada and minor countries like New Zealand, or any country that had received loans from the International Monetary Fund, the statutory reserves were abolished altogether. The leverage of these reserves that served as benchmarks for most interest rates in the economy could be raised or lowered to restrain an inflated economy, or stimulate a depressed one.

With the phasing out of the statutory reserves through an amendment of the *Bank Act* in 1991, the benchmark interest rate which set the rate at which one bank could lend another overnight financial accommodation to meet its obligations at the central bank, became the only means of stabilizing a an inflated economy or stimulating a declining one. In essence this declaration of interest rates concentrated power in the hands of the banking institutions. The proponents of free trade brought in monopoly powers of banks and money lenders.

The gimmick underlying the scheme is both simple and incredible. When the central bank holds federal debt, practically all interest paid on it reverts to the sole shareholder of the BoC, the federal government, as dividends. When the chartered banks hold the same debt, the interest on it becomes a gratuity from the government. But would it not have been inflationary for the central bank to have held the same debt? By no means. After 1993 fractional reserves no longer existed, and even if they had, there were plenty of ways in which such moneys could have been "sterilized," i.e., segregated from the fractional reserve reckoning. To pay for this heroic rescue of our distressed banks, social programs were slashed left and right. Given the nature of the exercise, its very existence had to be kept secret. The corresponding bill was slipped through parliament with neither debate nor explanation in the press.

That made the government an accomplice of the banks for their future rompings. Power in fact had passed from the government to the banks, That became evident a couple of years ago in the arrogance with which two of the five largest banks made their merger plan public without even serving the Minister of Finance advance notice. When COMER brought the details of their bailout to light, Gordon Thiessen, Governor of the Bank of Canada declared that the "multiplier" no longer exists. However, the real "multiplier" under fractional reserve banking is the amount of credit that the chartered banks are able to create with only the statutory reserves to back it.[3] With the abolition of the statutory reserves this proportion would move in the direction of infinity. *ER* in recent years has tracked the ratio of bank assets to the actual cash in their coffers. This ratio, which we call "the Indicator," moved from 10 to 1 in 1946, to 102 to 1 in 1990 to a peak of 405 to one in 405, and then drooped to 380 in September 1999.

The Truth in Previous Textbooks

But have we perchance dreamt all this up? Are we not talking of "funny money"? Not at all. The following are quotations from a textbook *International Monetary and Financial Economics* by Joseph Daniels and David VanHoose, South-Western College Publishing, a division of International Publishing Company, p. 241: "Most governments have at least partial ownership of their nation's central banking institutions. Furthermore, all governments receive at least a portion of the profits generated by central banks. Even though several banks in South Africa and the US are privately owned, the governments of these nations are entitled to nearly all central bank earnings. A large part of these profits is *seigniorage* which is the value of a flow increase in a nation's money stock in excess of the cost of producing the new money.

"Central banks earn considerable seigniorage, and governments regard seigniorage as a supplement to explicit taxes for funding public expenditures" (p. 242).

"For instance in a typical year the German Bundesbank earns more than $8 billion. The reserve requirement that is the source of seigniorage is actually an average 2% of deposits in Germany, whereas the Canadian statutory reserves, when its phase-out began, averaged some 4%, and of course, interest rates were far higher then than they are today." (With the statutory reserves done away with in Canada, the banks continue to hold legal tender in their own vaults or voluntarily with the BoC to meet their daily net cheque clearance balances and the needs of the public. But such cash needed for their other banking business is not available to back their deposits for the payment of seigniorage rights to the central bank on the credit the banks create. A list of the reserve requirements in 1989 and 1998 published Federal Reserve Bank of Kansas City, *Economic Review*, fourth quarter, 1996, shows clearly the decrease of the reserve requirements. See Tables 1 and 2.)

However, the lowering of reserve requirements on banking accounts doesn't begin to tell the entire story about the shrinkage of the *effective* reserve held by central banks.

US banks evade the bulk of reserve requirements, via *sweep accounts.* These accounts that appeared in the US in early 1993, shift funds automatically from transaction accounts subject to reserve requirements to interest or non-interest savings deposits exempt from reserve requirements. Total funds in US sweep accounts increased dramatically after June 1995,[4] reaching the $250 billion range by early 1998.

The ingenuity lavished to minimize the reserve function inevitably increased the leverage that the banks operate within the ever more adventurous areas that deregulation has thrown open to them.

And though a bailout along the lines of that of 1991 to minimize the reserve function will be out of the question, some sort of partial rescue of our banks will have to be undertaken. But banking will have to be rethought, the firewalls reestablished between it and all aspects of the stock market, and financial imping divorced from banking in all its forms. It banks will not abide such a program, they will simply have to yield to institutions like credit unions that will.

William Krehm

1. Swary, Itzhak and Topf, Barry (1932). *Global Financial Deregulation – Commercial Banking at the Crossroads.* Cambridge, Mass.: Blackwell Publishers, pp. 459, 468, 482.

2. Bank Bailouts Worldwide: "Countries do not always share the same cultures, languages or political systems. One thing, however, that countries all over the world do have in common is their recent propensity to experience major banking catastrophes. The Argentine government's effort to recover from a banking catastrophe in the early 1980s probably cost the government more than half the country's GDP. In the US the final bill for the for the government-arranged bailout of the Savings and Loan industry during the early 1990s totalled at least $200 billion. Between 1992 and 1993, Norway's government effectively purchased more than half the nation's banking system to keep it afloat, and in 1992, the Swedish government took control of the country's four largest banks.

Since 1994 Venezuela has spent more than 20% of its GDP repairing its banking system, and the cost of Mexico's banking collapse has been estimated at nearly 15% of the country's output. In Japan more than $250 billion soured in 1995 when home mortgage companies went bankrupt. Daniels and Van Hoose, international Monetary and Financial Monetary and Financial Economics.

Discussing the current state of Canada's banks columnist Brian Milner ("Banks Dig Themselves a Hole as Bad Habits Return," *The Globe and Mail*, 1/11/00) writes: "About every seven years or so, banks walk collectively into some new quagmire. After learning next to nothing from their disastrous lending to impoverished governments, overextended gas and oil explorers and real estate developers with grandiose expansion schemes, they started tossing big money at communications and telecom operators and at consumers eager to spend, plans and at consumers eager to spend, and spend. Only now, under pressure from worried US legislators, are they again tightening their standards as corporate bankruptcies climb and losses mount."

3. See *Meltdown*, COMER Publications, 1999, p. 220.

4. Daniels and VanHoose, ibid., p. 254.

Table 1: Required Reserve Ratios in Selected Industrialized Nations for Transactions Deposits (% points)

	1989	1999
Canada	10.00	0.00
France	5.50	1.00
Germany	12.10	2.00
Japan	1.75	1.20
New Zealand	0.00	0.00
UK	0.45	0.35
US	12.00	10.00

Table 2: Required Reserve Ratio for Non-transactions Deposits (% points)

	1989	1999
Canada	3.00	0.00
France	3.00	0.00
Germany	4.95	2.00
Japan	2.50	1.30
New Zealand	0.00	0.00
UK	0.45	0.35
US	3.00	0.00