

# COMER

\$3.95

Vol. 21, No. 1 • JANUARY 2009

## CONTENTS

- 3 Rust and Rot in Russian Army?
- 4 "Mark to Market" is Becoming the Compulsion of the Day
- 5 Reply to Query from Barcelona Scholar on Participation of Foreigners in Spanish Civil War
- 8 Do We Need Detailed History Studies to Overcome Purged Economic Theories?
- 9 A Subprime American Way of Fighting the Depression
- 10 Turning to the Sociologists for Help
- 12 How India Avoided the Big Bubble
- 13 With Economics Come Bumbling Fingers
- 14 Mirror-image or Parallelism in the Relations of State and Production
- 15 Reductio Ad Absurdum
- 16 The Casting Could Not Have Been Better!
- 17 Why We Are Starting This Lead Article With An Advertisement
- 18 Another Revival
- 20 When Nature's Subsystems Clash with Those of Humans, the Verdict is Shattering

## Canada's Subprime Mortgage Headache Is Part of the Harper Legacy

There was no particular reason for Canada getting involved in the subprime mortgage racket. *The Globe and Mail* (12/13, "How high-risk mortgages crept north" by Jacquie McNish and Greg McArthur) tells the tale: "Essentially the appearance of the subprime mortgage phenomenon was part of the Stephen Harper legacy. Canada since the founding of the government's own Central Mortgage and Housing Corporation agency in 1954 has not privatized it as the US government had done its mortgage agencies – Fanny Mae and Freddy Mac.

"If a home buyer couldn't pony up a 25% down payment on a house purchase, CMHC shouldered the risk of default by insuring the mortgage and charging the buyer an insurance premium. Backing CMHC's insurance policies was a 100% federal guarantee. In bad years, Ottawa piped money into CMHC. During good years CMHC added to the federal treasury by paying taxes.

"The smooth working system hit a pothole in late 1988 when Canada's only other mortgage insurer at the time, Toronto-based MICC was nearly wiped out by new international bank capital rules. The rules threatened to shutter MICC because they made it cheaper for banks to use CMHC's government-guaranteed mortgage insurance.

"Faced with the imminent collapse of Canada's only private-sector mortgage insurer, the then Conservative government went to a place that few other industrialized countries have gone by guaranteeing the policies of a non-government mortgage insurance's enormous liability, guaranteeing

90% of MICC's insurance policies.

"The government's worst fears about a massive liability materialized in 1995, when MICC's risky insurance bets in the construction sector threatened to torpedo the company.

"In the first half of this year, as the subprime mortgage crisis was exploding in the US, a contagion of US-style lending practices quietly crossed the border and infected Canada's previously prudent mortgage regime. The mushrooming of a Canadian version of subprime mortgages has gone largely unnoticed. Just yesterday, Finance Minister Jim Flaherty repeated the mantra that the government acted early to get rid of risky mortgages. What he and Prime Minister Stephen Harper do not explain, however, is that the expansion of zero-down, 40-year mortgages began with measures contained in the first Conservative budget in May, 2006.

"The new rules encouraged the entry of US players such as American International Group – the world's largest insurance company – and Triad Guarantee Inc. of Winston-Salem, NC. Former Triad chief executive officer Mark Tonnesen, who spearheaded his company's aborted push into Canada, said the proliferation of high-risk mortgages could have been mitigated if Ottawa had been more watchful.

"Virtually unavailable in Canada two years ago, high-risk mortgages proliferated in 2007 and early 2008 and must now be shouldered by thousands of consumers at a time when the economy is sinking quickly and real estate prices are swooning. Long-

*Continued on page 2*



FOUNDING EDITOR  
**John Hotson** 1930–1996

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

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 plus 1 book  
or video of your choice), 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.

**Copyright © 2009**  
**COMER Publications**  
**All rights reserved**

Permission to reproduce is granted  
if accompanied by:  
“Copyright © 2008 COMER Publications.  
Reproduced by permission of  
COMER Publications”

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.



Harper from page 1

term mortgages – designed to help newcomers get into the housing market sooner – are the most expensive in terms of interest costs, and least flexible when mortgage-holders cannot meet their payments and need extensions.”

### Bank of Canada Warns About Doubling of “Vulnerable Households”

“The Bank of Canada warned this week that the perilous economy could lead to a doubling of so-called ‘vulnerable households’ – those unable to meet their debts – and perhaps cost thousands of Canadians their homes.

“The federal government waited until June of this year to slam the regulatory door on 40-year mortgages. In October, as the global financial crisis erupted, Mr. Harper lauded his ‘early’ response to the mortgage dangers.

“He didn’t say that, not only did his own government open the sheltered Canadian mortgage market to US insurers, but it also doubled to \$200 billion the pool of federal money it would commit to guarantee their business. The foreigners unleashed what one US insurance executive described as a fierce ‘dogfight’ for ‘market share’ that prompted rivals, including the giant federal agency Canada Mortgage and Housing Corporation, to aggressively push such risky American-style lending.

“An investigation by *The Globe and Mail* found AIG’s Greensboro, NC, mortgage subsidiary launched a quiet lobbying campaign in 2004 with senior US executives and a former CMHC official to push open the doors of Canada’s mortgage insurance markets, where some of the world’s highest insurance rates are charged. Two years later, on May 1, 2006, AIG’s mortgage insurance division registered with the lobbying commissioner’s office. It was the day before the federal budget revealed new players would be allowed into Canada.

“Banking and insurance officials were so concerned about the alarming rush to 40-year mortgages at the beginning of 2008 that one bank executive warned the Bank of Canada’s chief financial stability officer, Mark Zelmer, in a meeting that ‘the government has got to put an end to this.’

“The story of how the US housing crisis spread to Canada is a tale of carefully orchestrated US corporate lobbying, failed public-policy promises and government inaction to numerous private and public warnings about reckless mortgage practices.

“Few of these consequences appear to have been anticipated by either the government or the financial institutions pushing high-risk mortgages on the public.”

“How did the staid world of mortgage insurance become the cradle of so much financial risk in the Canadian housing sector? It started almost by accident.

“For nearly 40 years after CMHC was founded in 1954, the business of mortgage insurance was about as exciting as an actuarial table. The agency was set up by the federal government as a kind of financial cushion to encourage the country’s conservative financial institutions to open their vaults and lend more money to homeowners.

“The [government] rules threatened to shutter MICC because they effectively made it cheaper for banks to use CMHC’s government-guaranteed mortgage insurance.

“Faced with the imminent collapse of Canada’s only private-sector mortgage insurer, the then Conservative government [of Brian Mulroney] went to a place that few other industrialized countries have gone by agreeing to guarantee the policies of a non-government mortgage insurer. According to people involved in the crisis, Ottawa ‘hesitantly’ agreed to ‘taking on an enormous liability’ of guaranteeing 90 per cent of MICC’s insurance policies.

“The government’s worst fears about a massive liability in 1995, when MICC’s risky insurance bets in the construction sector threatened to torpedo the company. As Ottawa wrestled with the grim prospect of losing the insurer for millions of dollars in mortgages, the world’s largest non-bank financial company came knocking with a rescue proposal.

“The company was General Electric. The US conglomerate was offering to take over MICC’s mortgage portfolio provided Ottawa met one condition: it would bless GE’s planned new Canadian mortgage insurance subsidiary with a federal guarantee.

“‘It was a bit of a slam dunk,’ recalls one former Ottawa official. ‘GE was one of the strongest companies in the world.’

“GE’s mortgage subsidiary, later spun off and renamed Genworth Mortgage Insurance Company rapidly carved out a major presence in Canada, capturing about 30% of the market and reporting \$205 million of profits in 2005.

“Executives and advisers to a number of US insurers and Canadian players said this was widely interpreted that Ottawa was opening the country’s mortgage insurance sector to outside competitors.

“Intended or not, the shift followed years of mobilizing by US insurance companies, all hungry for a piece of what was regarded as one of the most lucrative and the second-largest mortgage insurance market in the world.”

### Insurers Basically “Printing Money”

“At the forefront of this movement was mammoth AIG, now in near ruins as a result of its role in the US subprime crisis. US competitors had envied premium rates on Canadian mortgage insurance policies for years. With only two players competing in the space, Triad’s Mr. Tonnesen said CMHC and Genworth were so profitable that they ‘were basically printing money.’

“The days of a CMHC-Genworth duopoly were numbered. In the fall of 2005, a tiny paragraph buried in a 280-page federal government estimate of expenditures signalled a new era of competition in the industry.

“Eying the rich, northern market, representatives of at least three US insurers made regular trips to Ottawa for meetings with the Finance Department and the Office of the Superintendent of Financial Institutions, the insurance regulator. But AIG created a strategic advantage by hiring Bill Mulvihill, a Canadian mortgage expert who had spent years as chief financial officer at CMHC.

“Following in AIG’s footsteps, were US insurers such as PMI Group Inc., Triad and the Milwaukee-based Mortgage Guarantee Insurance Company.

“Ultimately, Parliament did not vote on the Finance Department’s proposal, thanks to the 2006 federal election and the Conservatives rise to office. But the US insurers’ efforts weren’t for naught; the new Harper government quickly embraced the idea of them coming north.”

“On May 2, 2006, in his first budget, Mr. Flaherty announced that not only would Ottawa guarantee the business of US insurers, it was doubling the guarantee to \$200 billion.

“Twenty-four hours before Mr. Flaherty’s announcement [to the latter effect], AIG’s mortgage subsidiary first registered with Canada’s lobbyist commissioner, according to a federal registry. At the time, companies that spent more than 20% of their time lobbying the government for changes in policy, were required, by law, to register. It is not known how much time AIG spent promoting its cause to the government.

*Continued on page 7*

## Rust and Rot in Russian Army?

*The New York Times News Service (The Globe and Mail, 15/11)* informs us: “Moscow – When Konstantin Valerievich, a recent university graduate from Moscow, watched 20 corpses being carried off the Nerpa submarine this week, he decided he would do anything possible not to join the ranks of the Russian military.

“It turned out that the submarine, which was reported to have been newly built, had been sitting in a shipyard since Communist times, and like much Russian weaponry, it was more than 20 years out of date when it entered service, its crew not fully aware how to use its equipment.

“The Russian military, as it is attempting to threaten the West, is falling victim to rust, rot and skilled labor shortages on a vast scale.

“‘Everything I hear is that the equipment is old and dangerous and that the conditions are not humane,’ said the 27-year-old man, who preferred not to use his family name. He is joining countless other Russian young men in scraping together the \$800 to \$1,000 it costs to bribe his way out of the mandatory 12-month military service.

“Little does he know that his views echo those of Russian President Dmitri Medvedev, who has launched a desperate bid to rescue the once-proud Russian military from obsolescence, corruption and grand-scale waste after a series of embarrassments have shown it unable to use more than a tiny fraction of its weapons.

“In recent weeks he has ordered Defence Minister Anatoly Serdyukov to slash the army dramatically, but tens of thousands of officers from its hierarchy, move away from mass conscription and find ways to modernize its creaking equipment.

“Many Russians consider it a revolution taking place years too late. Just as Russia is acknowledging that it lacks a modern military, Mr. Medvedev and his Prime Minister Vladimir Putin, are using that military to threaten the West in the sort of Cold War standoffs, involving skirmishes in border states and rhetoric about nuclear-capable missiles, that have not been seen since Soviet times.

“But Russian leaders are realizing that the military itself hasn’t been updated since the days of the USSR, and is quickly falling apart at the seams. It’s an army that takes in 130,000 soldiers a year, but which serves largely as a form of rural welfare: Only a tiny

minority of them, according to analysts, are able to be deployed as active soldiers.

“That became apparent during this summer’s invasion of Georgia, when Russian generals were forced to use cell-phones to communicate in the field and lost four fighter jets to Georgia’s far smaller army.

“‘It was clearly a shock, and a bad performance,’ said Pavel Felgenhauer, a military analyst. ‘We deployed overwhelming force, so military victory was basically assured, but there were many problems, and now Russian generals are openly talking about those problems, hoping that it will bring reforms.’

“‘Unfortunately, we didn’t modernize the army in the 1990s, so the amount of outdated equipment is large, and government efforts are needed here,’ said Gennady Gudkov, head of the State Duma’s security committee.

“The embarrassment continued this week when Russians learned that the supposedly learned that the supposedly ultra-modern nuclear submarines, to be leased to India, had in fact had been sitting in a shipyard since the USSR collapsed in 1990, and no one knew how to complete it; indeed, the failure of a fire-extinguishing system that killed 17 civilian contractors and three sailors has been attributed to a lack of basic knowledge of the equipment.

“There are several elite units that Western intelligence analysts consider world-class, a total of 50,000 to 75,000 troops who may be deployable outside of Russia, and a huge battery of missiles considered deadly and precise. But most of Russia’s army serves as a make-work program for otherwise idle men in their late teens and 20s. This is resented by many young men such as Konstantin Valerievich, but in Russia’s vast rural areas the bases and their conscription jobs are a vital part of the economy.

“‘In Georgia, we realized that this expensive, immobile, mass-conscription army no longer works,’ said Alexander Golts, a former Red Army commander who is now a defence analyst in Moscow. ‘The Georgian war showed that even when we pour huge amounts of money into that black hole, we still have armed forces of the mid-20th century – not just because of equipment, but because of organization.’ But the urgent call for reform is coming along at the wrong moment – just as Russia’s economy is collapsing. As a country almost entirely dependent

on its petroleum export the decline in gas and oil prices hit the value of the ruble and the Moscow stock markets worse than most countries. Millions of people are expected to lose their jobs soon.

“It will accordingly be exceedingly difficult to carry out the sort of reforms that are badly needed. Almost all the military

equipment is 20 to 40 years out of date. And second, because tens of thousands of officers and potentially hundreds of thousands of conscripts will have to lose their jobs in the midst of a recession.

“At least, Mr. Gudkov points out, Russian equipment, however out of date, is more popular than ever. This month has

seen major sales to Iran, Libya and Venezuela. For those who are willing to put up with the embarrassment and sometimes deadly consequences of outdated equipment and ill-trained soldiers, there is the reassurance that they can still appear menacing when they march across the border. (With a report from Dmitry Saltykovsky.)”■

## For Reason “Mark to Market” is Becoming the Compulsion of the Day

It is no accident that in the confusion between debt and assets the value of shares and options and collateral not only has to be reckoned on one’s fingers and toes, but the fingers and toes of the Wall Street operators must be counted carefully beforehand because there would seem to be centipede and millipede genes in Wall Street’s patrician blood streams.

Thus *The Wall Street Journal* (16/12, “Madoff Ran Vast Options Game” by Tom Lauricella, Aaron Lucchetti and Amir Efrati) reports: “A federal judge ordered the US operations of Bernard L. Madoff Securities LLC to be liquidated, as fresh details emerged of trading discrepancies that offer clues as to how the New York broker may have run the epic scam scan past the authorities.

“The ripple effects of Bernard Madoff’s fall continued spreading, as the toll from alleged fraud caused several more charities to close their doors. More big-name investors surfaced as potential victims including Jeffrey Katzenberg, the chief executive of Dream Works Animation.

“Mr. Madoff allegedly told his two sons, who are senior employees at the firm, that most of the money was gone and investor losses totaled at least about \$50 billion.

“People who analyzed client statements said Mr. Madoff’s firm couldn’t have bought and sold as much as he claimed because those totals would have outstripped total trading those days.”

To us that would seem that some supervising authorities were snoozing at the switch.

“In Europe, banks from Spain to Switzerland said their clients lost money with Mr. Madoff – Wall Street’s contribution to helping straighten out the banking headaches of the world!”

This sort of thing helps explain two other strong trends that the same issue of the *WSJ* “Crisis Pushed Foreign Investors

Towards Treasuries” by Maya Jackson Randall and Min Zeng: “A global flight to safety sent foreign investors scrambling for short-term dollar-denominated assets in October, with buyers from the world snapping up some \$147 billion in Treasury bills as the credit crisis reached a peak. With global markets roiled by the fallout from the Lehman Brothers bankruptcy and the bailout of insurance giant American International Group Net, foreign buyers shunned longer-dated securities including stocks and corporate debt, purchasing just \$1.5 billion in September according to monthly data published by the Treasury Department. That trend likely continued in November and December, as T-bills drove annual yields on the three-month bills into negative territory last week.”

What is even more significant in the subterranean rumbles that are shaking up the money markets where it really hurts has to do with the accountancy by which these financial woes are supposed to be summed up. In yet another article in the identical issue of the *WSJ* (“FASB Studies Expanding ‘Mark’ Rules” by Mark Reilly). “Accounting-rule makers moved to launch an effort that could lead to an expansion of mark-to-market accounting, a practice that has worsened the financial crises.”

Surely the writer means has “revealed the extent of our banking accountancy scams.” For “mark to market” simply means appraising the assets and liabilities according to their current market worth. We point out that banks enter the original cost of securities as still valid, and until 1966 in the US and 2002 in Canada writing off the asset value of an investment, while carefully amortizing the debt incurred to “amortizing” the debt incurred. However, the same still remains to be done with the investments of the government in human capital, which Theodore Schultz was celebrated with fife and drum, and rewarded with the Bank of

Sweden Nobel Prize for economics, on the basis of his reassessing the faulty predictions of how long it would take Japan and Germany to recover from the destruction of the Second War. Twenty years later Schultz assessed why the prediction of hundreds of US economists on how it would take for these defeated powers to become formidable traders once again. “We were wrong concluded Schultz, because we concentrated on the physical destruction, while the highly educated, skilled, and disciplined work force had come out of the war essentially intact. From that he concluded that investment in human skills and hence in human well-being and the environment is the most productive investment that a government can make.

That is particularly so when the world is rapidly moving into a major depression. Don’t for a moment believe that our governments are balancing their budgets and being prudent when they fail to spend – invest what is needed to educate and re-educate, the schools, hospitals, cultural institutions, and repair damage to the environment. That is balancing distorted bookkeeping.

Until the government brings in accrual accountancy (a.k.a. double-entry bookkeeping), we will be heading for a major depression which usually leads to further wars.

The job was already done once with physical investments of government – in the US in 1996, in Canada in 2002. Moving over and doing the same job – with greater frankness and calling a spade a spade rather than a toothpick – is the only improvement that the government need make. And for the doubters need we mention that the money the British authorities spend to educate William Shakespeare is still paying dividends to Britain. And if none of us are going to end up as Shakespeare, hundreds of millions can obtain the enlightenment to profit by the dividends that Britain is still drawing from the investment in Bill’s education.

*William Krehm*

---

# Reply to Query from Barcelona Scholar on Participation of Foreigners in Spanish Civil War

Sergi Roses Cordovilla  
Regomir, 4 Bis, 3er 2a, 08002  
Barcelona, Espana

Dear Senor Roses Cordovilla:

Please feel free to communicate with me in either Spanish or Catalan, in whichever you are more comfortable. I spent many years as a newspaperman throughout Latin America, and learned to read Catalan well enough during my months of residence there during the Civil War. But with so much material that I would be retrieving and blowing the dust from, saving time is a consideration. Let me begin with a vignette of a dear and very close friend, the unusually gifted Irish poet Charles Donnelly (1914-37) killed on the Jarama front, Spain.

But for that I must step back still further and explain how I got to Spain in the first place.

I wrote my junior senior matriculation examination without attending high school in those final two years, and also found the energy and possibly misplaced dedication to go through the three volumes of Marx's Capital. Unfortunately, as a teen-ager with my head on fire – these were the opening years of the Depression, I could not avoid polemicizing against Winston Churchill on my exam paper on history. Obviously this and the diverted time did not help my chances for a scholarship, which in fact I didn't get. So I spent two years in a mathematics and physics courses without money to buy books. It did nothing for my chances of becoming a physicist or a mathematician. But it worked wonders for my learning enough about mathematics and their powerful legitimate uses to keep me in trouble ever since. En route, too, the constant searching, I believe, allowed me to detect some key neglected angles in economics. It chanced that I was living in New York City when the Great Crash took place in October 1929. I had by then become a member of the official Trotsky group and helped mail out their official paper alongside the editor, Max Schachtman, and other leaders of the small group. And, of course, there seems to be a law of in-fighting by which the number of factional groups increases inversely with the membership.

So it was I believe on Trotsky's endorse-

ment of the *French Turn* that led to his approval of the French official Trotskyites dissolving into the Socialist Party. Oddly enough that gave us a foretaste of an issue that bedeviled all major Spanish and particularly Catalan parties from PSUC to the POUM, the Anarchists. Antony Beevor's *The Battle for Spain*, assesses the role of the issue on both the Loyalist and the Franco sides.

Often it resulted in a cheerful simplification of where the world was headed. So many from Leon Trotsky down describing the world being "on fire at both ends." The Russian Revolution took place, however, when Europe – particularly Russia – had already been bled white. In the Czarist army by 1917, after three years of war misorganized as only Russians can, rifles were so few, that soldiers on occasion were sent into battle armed only with the instruction to pick up the gun of the man shot down ahead. But in Spain after the air bombardment of Guernica, I and a friend – Russell Blackwell whom you mention in your queries were able from high up on Tibi Dabo mountain to watch German planes bombarding the industrial center of Loyalist Spain, Barcelona. There was no doubt about the fact that the world was revving up for a higher degree of self-immolation.

Yet the optimism arising from so much suffering and incompetence alongside equal stores of dedication did not fail to beguile.

And not the least expression of that was a Conference held in Brussels in October 1936. I was one of two delegates that attended. The Other was Max Gould, nom de plume – Max Field, who had been in correspondence with both French and German refugees living in Paris. After meeting close international associates given to like-minded diagnoses of whither and why the world was headed. Field and I went on the Barcelona. There we met with the leaders of POUM – brought together by both Anarchist and Marxist (Socialist and Communist). One of the founders of the original Communist Party, Andreu Nin, who had spent years in exile in Russia, where he became a close friend of Trotsky, translated many Russian classic novels into Catalan. During the Civil War Trotsky, however, had harsh words for him for drawing close to

the anarchists. From Kronstadt on, Trotsky had a thing about anarchists. It was easy enough for Trotsky to deduce from Marx's disagreements with Bakunin in the First International what POUM should be doing to liberate itself from anarchist influences. But Catalonia, the economic heart of Spain was anarchist, even thought a disproportionate number of Catalan anarchists were actually from Murcia. It was the protection of the anarchists that made possible POUM's survival as long as it did. The May street fighting arose when the Communist-dominated central government took over the Barcelona telephone central – a logical first step for taking over the Catalan government.

## The Beginning of the End

It was at the Brussels Conference that I learned from a member of the POUM military force on the Huesca front that Russian arms had began appearing in Aragon. It struck me like a hammer-blow. That, I grasped at once, will be the beginning of the end, foreseeing that the Communists would be taking over the show, at which it would be curtains for the independence of other parties. It was not too many months later in the editorial offices of La Batalla, that my good friend Molins (?) (the editor of that POUM publication in Spanish) brought a cable to my attention of the first of the series of politicians – not engineers – were brought for trial on trumped up charges of being foreign agents. That first group of government leaders tried on trumped-up charges and immediately executed included Marshall Mikhail Tukhachevsky. That determined why the Russians learned very little about modern war from Spain although the Germans on the other side did. On the Loyalist side there was constant concern that military innovations might be seen as a sign of Stalin's competitors for military prestige, whereas the Germans were not similarly constrained.

In Barcelona on my initial visit Field and I had visited Andreu Nin, the head of POUM, who lay ill in bed, and POUM personnel were named to show us around. From there we flew to Paris and the Brussels, and I returned Spain, to take part in a follow-up conference that was being planned. to handle the unfinished business of the

Brussels Conference. Since I had never been in Europe before I moved around, hitch-hiking through the French countryside, and looking up kindred activists. In Holland, for example, I visited Sneevliet – first name forgotten – a legendary aging militant whom the Nazis shot when they invaded Holland. I spent several months in London.

My hosts – whom I had met at the Brussels Conference put me up in their fine Georgian apartment in central London, leaving me in charge of their apartment while they went off to the summer cottage in the south of France. Across the road was a notable colored athlete and Trotskyite from Trinidad – name escapes me. It was there that I put up the poet Charles Donnelly over the Xmas holidays with whom I felt a particular intimacy. He was determined to go to Spain to join the International Brigade. “No matter where the Blacks and Tans may be lurking on the other side, I’ll find them.” So close had we become and to find a practical way of pitching in I decided I would

join him. The next morning a telegram came from Canada from our organization wisely ordering me to stay put. And stay put I did. Donnelly left alone, and – not with a without a certain risk I gave him POUM addresses in Barcelona. The last I heard from him was that he had visited the Australian girl, married to a Cuban, Maria Low Brea, who looked after foreign visitors for POUM. Years later when her Cuban husband had died of lock-jaw, she remarried to another Cuban who became a prominent diplomat under Grau San Martin, and tracked me down from my name on the staff of *Time* magazine and contacted me. My private visit to Britain had resulted in the publication of Mary’s book on the early months of the Spanish Civil War.

Only months later did the news of Donnelly’s death leak through. It is only in preparing this note that my son was able to track down the publication of an easier posthumous poem and information about his life by Joseph O’Connor, *Even the Olives*

*are Bleeding – The Life and Times of Charles Donnelly*, New Island Books, Dublin, 1992, ISBN 1-87497 15-4.

I dedicated a book of mine to him, quoting the fine poem he had written at the front that I picked up from an earlier Irish publication. I quote it here as proof of a great poetic talent that was lost.

I stayed on in Barcelona. I broadcast regularly on the POUM radio beamed on England. I guided visiting foreigners to the POUM lines on the Aragon front. There was a good contingent of American Trotskyites in the ranks there to argue with. One of the relatively distinguished visitors whom I showed around in this manner was Albert Weisbord, the leader of a great textile strike in Pasaic, NJ, some years earlier and now a particularly querulous Trotskyite. And we waited, waited and waited. The conference that I had stayed behind for became ever more unlikely.

Since I had not been in Europe before, I decided I would like to get to take time out. I spent a month or more hitch-hiking from country to country and remaining for the Xmas holidays in Britain. Of course I was in contact with Fenner Brockway of the Independent Labour Party, who had had a key part in organizing the Brussels Conference and the one that was still to come, but never actually did. It was simply preempted by the Communists taking over the anti-Franco action in Spain by virtue of the arms boycott that gave the Russians a near-monopoly in arm sales to the Spanish Republic.

On the police data that you – my “ficha” – were good enough to send me. Because of the deal sealed mostly by Britain pushing France into the agreement of both an arms embargo and the volunteers allegedly for either side of the Spanish conflict, all volunteers or suspected volunteers by-passed official passport channels if they were headed to Republican Spain. I arrived for my initial entry through official channels, but when I left to visit other countries and then returned I was directed through the POUM channels – contact being made through a barkeeper assigned for just that duty in Perpignan, France. I was accompanied by another such returning POUM sympathizer – I suspect it was Blackwell who having spent some years in Mexico had a fluent command of Spanish which I at the time did not have. We traveled at night and moved from one to another haven until we reached a major coastal city well within Loyalist territory. And by then we had our documents in place – exactly with the validity as far as the Generalitat

#### Poem

“Between rebellion as a private study and the public  
Defiance is simple action which will flicker  
Catlike, for spring. Whether at nerve-roots is secret  
Iron, there’s no diviner can tell, only the moment can show.  
Simple and unclear moment, on a morning utterly different  
And under the circumstances different from what you’d expected.  
Your flag is public over granite. Gulls fly above it.  
Whatever the issue of the battle is, your memory  
Is public, for them to pull awry with crooked hands,  
Moist eyes. And villages’ reputations will be built on  
Inaccurate accounts of your campaigns. Your name for orators,  
Figure stone-struck beneath damp Dublin sky.  
In a delaying action, perhaps, on hillside in remote parish,  
Outposts correctly placed, retreat secured to wood, bridge mined  
Or death may follow years in close confinement, where diet  
Is uniform as ceremony, lacking only fruit.  
Or on the barracks square before the sun casts shadow.  
Name, subject of all considered words, praise and blame  
Irrelevant, the public talk which sounds the same on hollow  
Tongue as true, you’ll be with Parnell and with Pearse.  
Name alderman will raise a cheer with, teacher make reference  
Oblique in class, and boys and women spin gum of sentiment  
On qualities attributed in error.  
Man, dweller in mountain huts, possessor colored mice,  
Skilful in minor manual turns, patron of obscure subjects, of  
Gaelic swordsmanship and medieval armory,  
The technique of the public man, the masked servilities are  
Not for you, Master of military trade, you give  
Like Raleigh, Lawrence, Childers, your services, but not  
Yourself.

*Reprinted in Towards a Non-Autistic Economy –  
A Place at the Table for Society by William Krehm, 2002.*

was concerned. Field and I on my initial visit had after all interviewed Companys, the head of the Generalitat, later executed by the Franquistas.

That brings us to the police record of my having entered without a visa. I was one of perhaps of a dozen foreigners that had been lodged in what had been the apartment of the German Consulate before the Catalan Generalitat took it over. There may have been about a couple of dozen of us who shared the space including a tubercular Greek an Albanian several Americans. We spent a fair amount of time together. Amongst us, too, unidentified was a very attractive young American who turned out to have been a member of the Communist secret-service. The increasing dependence on Russian armament was producing a shift of power to the Communists. And one fine moment the city arose to find that the central government, by then under open Communist control, had taken over the Telefonica, which commanded communications with the rest of the country and the world. That did it. In resistance street-fighting ensued, and of course the anarchists were outgunned. That changed the very color of the heavens.

Came a day when central government agents headed by Communists scooped up all the residents of our large apartment and lodged us in specially carpentered cells at basement levels obviously freshly carpentered to receive us – one street to the south of Plaza Catalunya. As we were brought in I remember Gorkin – already brought in from another source, greeting us in his characteristically jocular manner. “Ola Aquí tendremos nuestra conferencia!” However, this was no joking manner. What the Russians were engaged in were seeking out anyone who had had personal contact with Trotsky, since they had already envisaged a continued series of trials proving Trotsky an agent of Hitler. That is why Andreu Nin was never seen again. His years in Russia had established a close personal tie between the two families. Several years later in the modest furniture shop that Molins ran, I met the two widows – Trotsky’s and Nin’s together out shopping. (Molins – my exact memory of the name defies my 95-year-old memory – had been editor of *La Batalla* in Spain.) Trotsky’s harsh criticism of Nin’s too friendly attitude towards the anarchists had apparently not weakened the personal friendship of their widows.

Now the disturbing aspect of our freshly carpentered cells was immediately picked

up by the British Independent Labour Party People – who took the matter of our fates very much to heart, and it was due to the vigorous initiative of the British government – a British anarchist girl, highly critical of the Catalan Anarchist government members was among the imprisoned. Fenner Brockway and James Maxton visited Barcelona and Madrid on our behalf, and it was to their intervention that within a week or two we were transferred from the private prison of the Russian secret policy in Barcelona to a basement dungeon which had the merit of being Spanish government property rather than of the GPU. When that happened we knew that we were safe. There were perhaps anywhere between 60 and 100 of us – Germans, French, British, and our tubercular Greek and his Albanian companion. Since we were not charged with anything but held incommunicado, I declared a one-man hunger strike that I remember lasted some thirteen days. At the end of which I was transferred to a hospital to recover. I

---

Harper from page 3

“In a statement, AIG’s mortgage subsidiary first registered chief executive officer, Andy Charles, said the company began a ‘preliminary investigation’ of Canadian opportunities years ago. He said the company ‘did not engage in discussions with elected officials until we became aware that our market entry was being debated.’ Until that point, he said, the company’s interactions were with the Department of Finance and Office of the Superintendent of Financial Institutions.

“The lobbyist AIG hired was John Capobianco, a former aide to various MPPs in the Ontario government of Mike Harris. Mr. Capobianco said in an interview he wasn’t familiar with any of AIG’s negotiations with the federal government before he was retained in May. He was brought aboard to promote AIG’s argument that more competition was good for consumers and massage the proposed policy through the finance committee of the House of Commons and Senate. By the time he was hired, Mr. Capobianco said, ‘the rubber was on the road.’

“In February, 2006, as AIG was still trying to establish itself in Canada, CMHC moved to protect its coveted spot and announced a pilot project to insure 30-year mortgages.

“For the industry it was a declaration of war. Two weeks later, Genworth announced it would do the Crown Corporation one better, saying it would insure 35-year mort-

remember lying on the cement floor reading a French text on material structures. Apart from having my face slapped once, I suffered no violence.

That cannot be said for the POUM leaders, but particularly those associated personally with Trotsky. In *The Battle for Spain – The Spanish Civil War 1936-1939* by Antony Beevor, Phoenix has this to say on that subject (page 305): “The POUM leaders were handed over to NKVD operatives and taken to a secret prison in Madrid, a church in the Calle Antocha. Nin was separated from his comrades and driven to Alcala de Henares, where he was interrogated from 18 to 21 June.

Despite the tortures he was subjected to by Orlov and his men, Nin refused to confess to the falsified confessions of passing artillery targets to the enemy. He was then moved to a summer house outside the city which belonged to Constanca de la Mora, the wife of Hidalgo de Cisneros, and tortured to death. A grotesque example

---

gages. CMHC matched that with its own 35-year product and raised the stakes by announcing it would insure interest-only loans that effectively required no down payment.

“The aggressive new mortgage products alarmed Mr. Dodge, the Bank of Canada governor, who scolded the president of CMHC, Karen Kinsley, in a letter for ‘very unhelpful’ mortgages that he said would inflate prices and ultimately make homes less affordable.

“Two and a half years after Ottawa launched its mortgage insurance initiative, the promise of increased competition has all but died. Three of the entrants, PMI, Triad and Mortgage Guaranty Insurance Co. have retreated. Genworth and AIG are still operating, but, as financial woes mount for their parents, their future in Canada remains uncertain. Industry sources said that most banks have become so cautious in the wake of global financial crisis that they have sharply reduced their use of private insurance in Canada.

“The retreat by international insurers means that CMHC’s dominant grip on the mortgage insurance market is expanding again, possibly beyond the 70% share it enjoyed prior to the arrival of the bigger US competitors.”

And in this swirling mess our Prime Minister claims the kudos for having steered our way out of the subprime mortgage storm blowing in from the US!

W.K.

of Stalinist play-acting then took place. A group of German volunteers from the International Brigades in uniforms without insignia, pretending to be members of the Gestapo, charged into the house to make it look as though they had come to Nin's rescue. 'Evidence' of their presence was then planted, including German documents, Falangist badges and Nationalist banknotes. Nin, after being killed by Orlov's men, was buried in the vicinity. When graffiti appeared on walls demanding 'Where is Nin?', communists would scribble beneath 'In Salamanca or in Berlin.' The official Party

line, published in *Mundo Obrero*, claimed that Nin had been liberated by Falangists and was in Burgos."

Resuming my own recollections. Within the government cellar-prison, the hand of the Russians was still not absent. Our prison – with no beds, otherwise why would I have spent my days of hunger strike on the cement floor? – had been used to hold deserters from the Loyalist forces. But the POUM young lady in charge of the list of inmates, had been courted and succumbed to a particular attractive member of the Communist organization. When the con-

nection was revealed she suicided.

I suppose that will have to do for my first take. One of the most amazing features to my mind is the hierarchy of espionage services and prisoner sorting that the Russian employed for their sifting and fictitious constructs.

Our spare clothes at our apartment was stolen by our captors. We were pitched into France without a penny, and it was the French authorities who provided us with enough money to begin an independent existence once again.

*William Krehm*

## Do We Need Detailed History Studies to Overcome the Overly Purged Economic Theories Recognized by Our Universities?

Devilish complications have overcome our credit systems, starting with subprime mortgages and moving up to our very legal tender supply. That should be a warning that we are in for growing troubles from the collapse of our credit system designed to expand at an exponential rate in an attempt not to collapse. On the other hand literature on the critical episodes of our history has attained sheer virtuosity in establishing and analyzing what actually happened in crucial episodes badly reported at the time. I refer specifically to a university research group in Barcelona having traced the few months I spent in Spain as a representative of a Canadian left-wing anti-Stalinist socialist group, who was picked up with the sweep of Russian cleansing of the anarchist and groups vaguely or closely associated with Leon Trotsky. The amount of research this required to have come back to my doorstep with a list of highly relevant questions that failed to be asked of whither Spain and its multiple parties – above all because of its high relevance to the groupings and resources of the belligerents in imminent World War II – is astounding. To refresh my memory of relevant dates, I took to consulting the recent literature on the very complex Spanish struggle.

To give you an example of the surprises I came upon that helped convince me of the importance of historic research as an essential accompaniment for economic theory. This hits you in the eye from a single quotation from this brief sampling out of the superb work of Antony Beevor's *The Battle for Spain The Spanish Civil War 1936-*

*1939* (Phoenix, 2006, page 305): "On the suppression of the POUM newspaper *La Batalla*, and the civil war let loose on the Loyalist side by the government taking over the telephone exchange in Barcelona, that the anarchists had occupied when they put down the fascist uprising in Barcelona, there is this brief remark that tells *all that we need to know about the policies of President Juan Negrin*. Yet this government which was welcomed by Churchill for its 'law-and-order' stance, was to leave the NKVD (Russian secret police) unhindered in its persecution of persons who opposed the Moscow-line and to sacrifice the POUM to Stalin to maintain supplies in his determination to win the war to Russia's advantage.

"On its first day, Negrin's government agreed to the closing of the POUM's *La Batalla* newspaper. Soviet and Comintern advisers were under great pressure to achieve results quickly. Lieutenant-Colonel Antonio Ortega, the new communist director-general of security, took his orders from Orlov, not Zugazagoitia, the minister of the interior. On June 16 when POUM was declared illegal, the Communists turned its headquarters in Barcelona into a prison for 'Trotskyists.' (The commander of the 29th, Colonel Rovira, was summoned to army headquarters and arrested.) POUM leaders who could be located, including Andreu Nin, were also arrested. The wives of those who could not be found were taken in their place. These actions were given a veneer of legality by the retroactive decree a week later which created the Tribunals of Espionage and High Treason.

"The POUM leaders were handed over to Russian NVKD operatives and taken to a secret prison in Madrid, a church in the Calle Antorcha. Nin was separated from his companions and driven to Alcala de Henares, where he was interrogated from the 18th to 22nd June. Despite the tortures he was objected by Orlov and his men, Nin refused to confess to the falsified accusations of passing artillery targets to the enemy. He was then moved to a summer house outside the city which belonged to Constancia de la Mora, wife of Hidalgo de Cisneros, and tortured to death. A group of German volunteers of the International Brigades in uniforms without insignia charged into the house to look as though they had come to Nin's rescue; 'evidence' of their presence was then planted, including German documents, Falangist badges and nationalist banknotes. When graffiti appeared on walls demanding 'Where is Nin?', Communists would scribble 'In Salamanca or Berlin.' The official Party line, published in *Mundo Obrero*, claimed that Nin had been liberated by Falangists and was in Burgos."

That was quite a heap that Winston Churchill – no conscious friend of Moscow – swallowed.

Elsewhere in this issue we publish information sought of me by a university research group on the role of foreigners in the civil war.

Imagine, what such research, properly encouraged and financed, at our universities would achieve if directed to our own economic history!

*W.K.*



---

# A Subprime American Way of Fighting the Depression

*The New York Times* (2/7/12, “Dependent on Jail, Immigrants Fill Cells with Their Own” by Nina Bernstein) reports out of Central Falls, NJ: “Few in this threadbare little mill town gave much thought to the Donald W. Wyatt Detention Facility, the maximum security jail beside the public ball fields at the edge of town. Even when it expanded and added barbed wire, Wyatt was just the backdrop for Little League games.

“Then people began to disappear: the leader of a prayer group at St. Matthew’s Roman Catholic Church; the father of a second grader at the public charter school; a woman who mopped floors in a Providence courthouse.

“After days of searching, their families found them locked up inside Wyatt – only blocks from home, but in a separate world.

“In this mostly Latino city, hardly anyone had realized that in addition to detaining the accused drug dealers and mobsters everybody heard about, the jail held hundreds of people charged with no crime – people caught in the nation’s crackdown on illegal immigration. Fewer still knew that Wyatt was a portal into an expanding network of other jails, bigger and more remote, all propelling detainees towards deportation with little chance to protest.

“If anything, the people of Central Falls saw Wyatt as the economic engine that city fathers had promised, a steady source of jobs and federal money to pay for services like police and fire protection. Even that, it turns out, was an illusion.

“Wyatt offers a rare look into the fastest-growing, least-examined type of incarceration in America, an industry that detains half a million people a year, up from a few thousand just 15 years ago. ‘The system operates without the rules that protect criminal suspects, and has grown up with little oversight, often in the backyards of communities desperate for any source of money or work.’

“Last spring *The New York Times* set out to examine this small town of 10,000 and its big detention center as a microcosm of the nation’s new relationship with immigration detention, which is now sweeping up not just border-jumpers and convicted felons but foreign-born residents with strong ties to places like Central Falls. Wyatt, nation-

ally accredited, clean and modern, seemed one of the better jails the system, a patchwork of county backups, private prisons and federal detention centers where government investigations and the new media have recently documented substandard, sometimes lethal conditions.”

## A Rare Growth Industry

“Last summer, a detainee died in Wyatt’s custody. Immigration authorities investigating the death removed all immigration this month – along with the \$101.76 a day the federal; government paid for each one. In Central Falls where many families have members without papers, a state campaign against illegal immigrants also spread fear that also took a toll; people went into hiding and businesses lost Latino customers in droves. Slowly the city awoke to its role in the detention system; and to the pitfalls of the bargain it had struck.

“In a sinking economy, immigration detention is a rare growth industry. Congress has doubled annual spending on it in the last four years, to \$2.4 billion approved in October as part of \$5.9 billion allotted for immigration enforcement through next September – even more than the Bush administration had requested.

“Seeking a slice of that bounty, communities like Farmville, VA, and Pahrump, NV, are signing up with developers of new detention centers. Jails from New England to Mexico have already made the crackdown pay off – for the private companies that dominate the industry, for some investors and, at least in theory, a city so strapped that the state pays for its schools.

“As the City Council President William Benson Jr. put it, ‘The more inmates they have, the more money we get. Nobody knows exactly who’s down there,’ he said. ‘I hear some are Arab terrorists.’

“The mystery is in some ways understandable. Though immigration detainees made up one-third of the daily population and a majority of the 4,200 men and women who moved through Wyatt’s 722 beds in a year, most were from other states, and those from Rhode Island did not remain long.

“Some were legal immigrants who had served time for serious crimes. But increasingly they were the kind of people who in

the past would not have been arrested – people without papers, similar to some of the people who play, cheer and live within Wyatt’s shadow.

“Anthony Ventetuolo Jr., one of Wyatt’s developers and now the jail’s chief executive, said that who the inmates were made no difference to the jail, which was run like a business, under strict standards. ‘I’m not interested in getting involved in the politics of immigration,’ he said. ‘All we do is detain people that our clients tell us to detain.’

“Over 10 years, Maynor Cante, 26, hardly glanced at the jail he passed as he hurried between home, two jobs and St. Matthews Church, where he led a prayer group.

“He was 13 when he left Guatemala in 1997, snaking across the Mexican border to join seven older siblings, legal residents who had spent years scraping new lives out of the industrial ruins of Rhode Island’s Blackstone Valley. Caught in Texas, the teen-ager was let go pending a hearing, like so many under the ‘catch and release’ policy that prevailed while the nation’s boom times demanded cheap immigrant labor. When he failed to turn up in court, a deportation order was issued.

“A decade later, Mr. Cante spoke near-fluent English, and had spent thousands of dollars to legalize his status. Mornings, he cleaned a factory for \$8 an hour. Evenings he worked at his nephew’s new clothing shop on Dexter Street, several Latino businesses that had revived a bleak stretch of vacant storefronts.

“Then, early one morning he headed out the door for his cleaning job, five immigration agents hustled him into a van. That night as frightened relatives tried to find him, he was delivered to Wyatt in chains.

“Perhaps the greatest frustration, inmates said, was their inability to make sense of what was happening to them. ‘Why am I here in jail?’ asked one Central Falls mechanic who had been seized at immigration headquarters when he went to check why his green card application was taking so long. Wyatt guards had no answers. ‘They tell me, “Sorry guys, but we’re not immigration.”’

But what are they? The answer seems to be the deep shadow of the depression that is casting a hysterical shadow over the US.

W.K.

**RENEW TODAY!  
(SEE PAGE 2)**

---

# Turning to the Sociologists for Help

Clearly, strictly economic statistics have gotten out of hand – whether of debt sub-prime credits or any conceivable mongrel mixture of that and the money supply which today is the debt of the central government.

So we are turning to Emile Durkheim, one of the founder of sociology to lend us a helping hand. Our source is *Marx, Durkheim, Weber, Formations of Modern Social Thought* by Ken Morrison, Sage Publications, London, 1995: “Emile Durkheim was born on April 15, 1858, in Epinal, a small town in rural France. He grew up in a traditional Jewish family. His father was an orthodox rabbi, while his mother added to the family income by working outside the home. He obtained entrance to the École Normale in Paris and in 1885 received as fellowship for study at the University of Berlin. and then received a university appointment in Bordeaux. There he completed several major sociological works, including *The Division of Labor in Society, The Rules of Sociological Method and Suicide*. In 1902 after obtaining a position at the Sorbonne, Durkheim moved to Paris. By the time of his death in 1917 at the age of 59, Durkheim had founded one of the most coherent sociological perspectives of the 19th century. He is best known for founding sociology as a scientific discipline.

“Historically, the circumstances shaping Durkheim’s sociological interests are rooted in the political climate existing in France between 1870 and 1895. By 1871, France was in deep political crisis which had led to a decline in national unity. By 1880 France had begun to pursue a policy of political consolidation to rebuild its national identity and this led to stressing two broad social themes. First was the national emphasis on science and social progress. Discoveries in the natural sciences had increased the prestige of scientific method, giving rise to what one historian called the ‘cult of the sciences’ in France. This led many thinkers to take the view that the moral direction of the nation could be best served by promoting scientific development and by studying the problems of society scientifically. As French nationalism began to grow, new intellectual currents such as positivism developed leading to the use of science to solve social problems.

“The second theme to emerge in France was anti-individualism. While this had its

roots in the social upheaval of the French Revolution, a political crisis known as the Dreyfus Affair in 1894 threatened to divide France by drawing attention to the individual and by calling national unity into question. The controversy over individualism centered primarily on the autonomy of the individual from society. Durkheim believed this threatened the cohesion of social institutions and threatened the cohesion of social institutions. The lack of national direction arising from the Dreyfus Affair led Durkheim to criticize the growing autonomy of the individual.

## Individual vs. the Collective Social Forces

Durkheim’s central investigative focus was based on the view that individual autonomy grows only at the expense of the collective forces for society.

“A number of key theoretical influences helped shape Durkheim’s views on society. First was Comte’s perspective on scientific methodology which helped Durkheim find an investigative method to examine society scientifically. Second were the debates related to the problem of individualism, which were common in France after the Revolution. Third were the influences derived from the writings of Thomas Hobbes and Jean-Jacques Rousseau.

“Comte is best known for a philosophical perspective called positivism which had an enormous influence on Durkheim and on the development of the social sciences throughout Europe. Mostly developed in response to what he perceived as the anarchy of philosophic speculation that had prevailed since Hegel, Comte defined positivism as a movement seeking to extend the scope of scientific investigation to the study of society. First, it proclaimed the end of speculative philosophy and the mystical view of nature and history; and second, it established the authority of observation in developing a theory of knowledge.

“Generally, there are two interlocking assertions that made Comte’s positive philosophy so influential. First, Comte put forward the ‘law of three stages’ which tended to equate science with historical development. Second, he developed a classification of the sciences by arranging them in terms of a definite order and by hierarchically organizing them in relation to their complexity.

Both these steps had an enormous impact on the social sciences which, up to that time, had been governed by speculative thought. Comte’s law had asserted that the human mind develops in three distinct and unalterable stages: the theological stage, in which humans explain causes in nature in terms of the will of anthropomorphic gods; the metaphysical stage, in which causes are explained in terms of gods; the metaphysical stage, in which causes are explained in terms of abstract concepts and speculative truths; and the positive stage, in which causes are explained in terms of scientific laws relying on observation and fact. While Comte’s understanding of scientific development was clear enough, what proved to be so controversial was his straightforward claim that the replacement of the speculative stage by the positive was inevitable, and, therefore, a fact of historical progress. Suddenly it became a matter of historic urgency that all disciplines develop from the speculative to the positive stage, thereby marking their scientific state.

“In addition, Comte developed a system for classifying the sciences and for drawing comparisons between the sciences in terms of rank. He had shown that the most developed sciences were positivistic and that sciences such as mathematics, physics and biology were successful precisely because they were positivistic. This had the effect of drawing positivistic disciplines into comparison with non-positivistic ones such as history, political economy and philosophy. By 1880, there was widespread diffusion of positivistic methods in France and England, and Durkheim, who was the direct heir to Comte’s positivism, instituted the study of sociology as a scientific discipline at Bordeaux.

“First and foremost, positivism may be defined as a scientific outlook on the world, the aim of which was to place all the speculative sciences such as history, philosophy, and political economy, on the same footing as the natural sciences. First, it advocated that the search for ultimate or abstract truths be abandoned in favor of law-like regularities. Second, positivism asserted the search for facts should be based on observation and that observation alone would lead to the discovery of general laws. From this perspective, positivism was nothing less than the ‘extension of scientific method to the study of society.’

“Comte’s ultimate stress on the scientific study of society influenced Durkheim in several respects. First, he accepted the positivistic thesis that the study of society must be founded on the examination of facts, and that facts must be subject to observation. Second, Durkheim upheld the view that the only valid guide to objective knowledge is the scientific method. Third, he agreed with Comte that sociology as a science of society could be validly constituted only when it was stripped of its metaphysical abstraction and philosophical speculation.

“Many of Durkheim’s views on society cannot be completely understood without providing some historical background to his thinking about the individual and society. In France, the concept of individualism had become a full-blown problem about the time of the French Revolution. Following the ‘Declaration of the Rights of Man,’ the individual had become the centre of society and for many this not only placed the individual at the centre of society, it also jeopardized the collective authority of the state the collective authority of the state. This led to key debates among thinkers who began to take up positions that jeopardized the collective authority of the state. By 1870, many began to concern themselves with the excesses of individualism and it came under attack as thinkers of the period began to take up positions an ‘anti-individualist’ stance in their political and social views. Durkheim, for one, set out to pursue these questions on the relationship between society by showing that social life would not be possible unless there were interests superior to the interests of individuals.”

“To make this stance as explicit as possible, Durkheim had to stake out wage theoretical battles regarding the relation between the individual and society. Chief among these was his opposition to utilitarian social theory which had become an influential doctrine by the second half of the 19th century. Primarily advocated by John Stuart Mill and Jeremy Bentham, utilitarianism put forth two principal views which placed the individual at the center of social life. First, they asserted that individuals act on their free will and are completely autonomous and self-determined. Second, utilitarians put forward a theory that individuals have common motives impelling them to realize their self-interest by private economic gain. In this view, individual act on their free will and are completely autonomous and self-determined. In this view, individual social action was based on economic interchanges

with society, but beyond this the individual owed nothing to society in its own right.... The larger context of social rules outside the individual were irrelevant.”

“In opposition to this, Durkheim asserted that the tendency exhibited by utilitarians to reduce society to individuals led them to ignore the larger system of social rules which acted as restraints on individual action. He reasoned that since society is always prior to the individual historically, then society and the individual constitute a total organic whole.

“In *Leviathan*, Thomas Hobbes began by tracing the origins of society to what he called ‘the original state of nature.’ This state, Hobbes thought, was characterized by individuals living in a condition in which law and government were absent. The formation of society is complete, Hobbes argued, when individuals renounce violent means to pursue their own when they contract out of nature. Taken one step further, if society is only an association serving ends dictated by individuals, then individuals must create society.

“Durkheim disagreed with Hobbes’ individualist doctrine. He believed that restraint was imposed externally by society, independently of the individual, and this made constraint the center of Durkheim’s view of society.”

### **The Mechanical and Organic Ways of Binding Society**

“Social solidarity, according to Durkheim, can be expressed in two very broad and distinct ways, that he termed ‘mechanical’ or ‘organic.’

“In the ‘mechanically binded’ societies, the individual is directly linked to society through various points of attachment, and the force of these social links act to bind all members of the group together equally. The force of these social links is such as to discourage individual autonomy, and the whole envelops the individual so completely that there is no distinction between the individual and the collective conscience. Collective rules and social practices are predominantly religious in nature and pervade all aspects of social life. The kinship group is the dominant social institution, and domestic (familial and political) activity forms the basis of social cohesion. Individuality is at its lowest point of development and there is no individual autonomy. Social bonds are ones of obligation rather than contract.

“Because the degree of proliferation of common values and beliefs extends through-

out the entire society, the social cohesion of the group is intense and the links binding individuals to society are strong and unified.

“Societies of this type are characterized by (i) a homogeneous population, small and isolated; (ii) a division of labor based on social cooperation, with little or no specialization; (iii) as system of social institutions in which religion is dominant; (iv) a system of beliefs uniformly diffused throughout society; (v) a low degree of individual autonomy; (vi) a social a social organization in which an individual’s place in society is determined by kinship; (vii) a system of penal law based on repressive sanctions which punish individual transgression swiftly and violently; etc., etc.

“In direct contrast to mechanical solidarity, is the form of solidarity Durkheim refers to as ‘organic.’ Labor is specialized and individuals, and individuals are linked more to each other than they are to society as a whole. The nature of these links, Durkheim reasons, is organic, labor is specialized and individuals are linked more to each other than they are to society as a whole.”

We will stop here because all red lights are flashing and alarm bells are ringing. These are conditions that bound society together in a new type of common consciousness and interest. But as today by *deregulation* and *globalization* they are all changed from positive to negative influences. The “mechanically binding” of the interacting cultures and divisions of labour lead not to common interests and cooperation, but to competitive rivalries, as do the vertical divisions of labor between the financing and marketing of production and the producers on the factory floor. There instead of common interest and collaboration we get unworkable disparities of rewards, and of the division of the spoils between financiers and top corporation executives are grotesquely unsustainable.

By following the sociological method of Durkheim we have not only hit pay dirt, but are practically buried beneath it. We leave it to our readers to give economics a rest and apply the sociological tools of Durkheim. Another powerful tool in our kit.

In our next issue we will examine Durkheim’s sensational work on suicide statistics that seem to reflect less the problems of individuals than the different structures of the societies studied. They not only seem to follow social structures rather than personal problems, but tend to remain constant though very different in different societies.

*William Krehm*

# How India Avoided the Big Bubble

*The New York Times* (20/12, “How India Avoided a Crisis” by Joe Nocera): “Mumbai – ‘What has taken a number of us by surprise is the lack of adequate supervision and regulation,’ Rana Kapoor was saying the other day. ‘This was despite the fact that Enron had happened and you passed Sarbanes-Oxley. We don’t understand it. May be it’s because we sit in a more controlled economy, but....’ He smiled sweetly as his voice trailed off as if to take the sting out of his comments. But they stung nevertheless.

“Mr. Kapoor is an Indian banker, a former longtime Bank of America executive with a Rutgers MBA who, along with his business partner and brother-in-law, Ashok Kapur, was granted government permission four years ago to start a private bank, which they called Yes Bank. In the US, Yes Bank is the kind of name a go-go banker might give to, say, as high-flying mortgage lender in the middle of a bubble. But Yes Bank is not exactly the Washington Mutual of India. One new release it hands out to reporters who come calling is an excerpt from a 2007 survey by *The Financial Express*: ‘#1 in Credit Quality Amongst 56 Banks in India’ reads the headline.

“I arrived in Mumbai three weeks after the terrorist attacks that killed 200 people – including, tragically, Yes Bank’s co-founder Mr. Kapur, who had served as the company’s non-executive chairman and was gunned down while having dinner at the Oberoi Hotel. (His wife and two dinner companions miraculously escaped.)”

And yet in the ensuing discussion India’s recent losses from crazed killers emerges in the telling a mere regrettable incident alongside the systematic financial crisis that seems to have cut banking America at the knees, but has left Indian banking relatively intact.

“My hope in traveling to Mumbai was to learn about the current state of Indian business in the wake of both the credit crisis and the attacks. But in my first few days in this grand, sprawling, chaotic city, what I mainly heard was about America, not India. How could we have brought so much trouble on ourselves, and the rest of the world, by acting in such a foolhardy manner? Didn’t we understand that you can’t lend money to people who lack the means to pay it back? The questions were asked with a sense of bewilderment – and an occasional hint of

scorn. I didn’t have any good answers. It was a bubble, I would respond with a sheepish shrug, as if that were an adequate explanation.

“‘In India, we never had anything close to the subprime loan,’ said Chandra Kochhar, the chief financial officer of India’s largest private bank, Icici. (A few days after I spoke to her, Ms. Kochhar, was named the bank’s chief executive, in a move long anticipated.) ‘All lending to individuals is based on their income. That is a big difference between your banking system and ours.’ She continued: ‘Indian banks are not levered like American banks. Capital ratios are 12 and 13%, instead of 7 or 8%. All those exotic structures like CDO and securitizations are a very tiny part of our banking system. So a lot of the temptations didn’t exist.’”

## Non-performing Loans Under 1%

“And when I went to see Deepak Parekh, the chief executive of HDFC, which was founded in 1977 as the country’s first specialized mortgage bank, practically the first words out of his mouth were: ‘We don’t do interest-only or subprime loans. When the bubble was going on, we did not change our policies. We did not change any of our systems. We did not change our thought process. We never gave more money to a borrower because the value of the house had gone up. Citibank has a few home equity loans, but most banks in India don’t make those kinds of loans. Our non-performing loans are less than 1%.’”

“Yet two years ago, the Indian real estate market – commercial and residential alike – was every bit as frothy as the American market. High-rises were being slapped up on spec. Housing developments were sprouting up almost everywhere. And there was plenty of money flowing into India, mainly from private equity and hedge funds, to fuel the commercial real estate bubble in particular. Goldman Sachs, Carlyle, Blackstone, Citibank – they were all here, throwing money at developers. So why did the Indian banks stay on the sidelines and avoid most of the pain that has been suffered by the big American banks?”

“‘Part of the reason is cultural. Indians are simply not as comfortable with credit as Americans. A lot of Indians, when you push them, will say that if you spend more than you earn, you will get into trouble,’ an

Indian consultant told me. ‘Americans spent more than they earned.’”

“Mr. Parekh said, ‘Savings are important. Joint families exist. When one son moves out, the family helps them. So you don’t borrow so much from the bank.’ Even mortgage loans tend to have down payments in India that are a third of the purchase price, a far cry from the US, where 20% is the new norm. (Let’s not even think about what they used to be.)”

“But there was another factor, perhaps the most important of all. India had a bank regulator who was the anti-Greenspan. His name was Dr. V.Y. Reddy, and he was governor of the Reserve Bank of India. 70% of the banking system in India is nationalized, so a strong regulator is critical, since any banking scandal amounts to a national political scandal as well. And in the irascible Mr. Reddy, who took office in 2003 and stepped down this past September, it had exactly the right man in the right job at the right time.

“He basically believed that if bankers were given the opportunity to sin, they would sin. For all the bankers’ talk about their higher lending standards, the truth is that Mr. Reddy made them even more stringent during the bubble.

“Unlike Alan Greenspan, who didn’t believe it his job even to point out bubbles, much less try to deflate them, Mr. Reddy saw his job as making sure Indian banks didn’t get too caught up in the bubble mentality.”

## Purchase of Raw Land Left to US Banks to Finance

“About two years ago he started sensing that real estate, in particular, had entered bubble territory. One of the first moves he made was to ban the use of bank loans for the purchase of raw land, which was skyrocketing. Only when the developer was about to commence building could the bank get involved – and only then to make construction loans. (Guess who wound up financing the land purchases? United States private equity and hedge funds, of course!)”

“Then, as securitizations and derivatives gained increasing prominence in the world’s financial system, the Reserve Bank of India sharply curtailed their use in the country. When Mr. Reddy saw American banks setting up off-balance-sheet vehicles to hide debt, he essentially banned them in India.

As a result, banks in India wound up holding the loans they made to customers. On the one hand, this meant they made fewer loans than their American counterparts because they couldn't sell off the loans to Wall Street in securitizations. On the other hand, it meant they still had the incentive – as American banks did not – to see those loans paid back.

“Did India's bankers stand up to applaud Mr. Reddy as he was making these moves? Of course not. They were naturally furious just as American bankers would be if Mr. Greenspan had been more active. Mr. Parekh told me that while he had been saying for some time that Indian real estate was in bubble territory, he was still unhappy with the rules imposed by Mr. Reddy.

“For a while we were wondering if we were missing out on something,” said Ms. Kochhar of Icici. Banks in the US seemed to have come up with some magical new formula money: make loans that required no down payment and little in the way of verification – and post instant, short-term profits.

“Ms. Kochhar said that the underlying risks of having ‘a majority of loans not owned by the people who originated them’ was not apparent during the bubble. Now that those risks have been made painfully clear, every banker in India realizes that Mr. Reddy did the right thing by limiting securitizations....

“None of this is to say that the global credit crisis hasn't affected India. It certainly has. September 15, the day Lehman Brothers defaulted – changed everything, even here, on the other side of the world.”

The next significant change that remains to be recognized: how in the immense investments in human capital still appear on the government books of developed countries at token one-dollar values. From that unrecognized store there is enough prepaid surplus investment that merely awaits recognition to support further investment in human capital. That was recognized on the carefully assessed lessons of the reconstruction of Germany and Japan from the destruction in World War II as the most productive investment a government can make. So to stave off the mass unemployment that we are heading into, our government must use that vast unrecognized investment to make capital expenditures in essential human capital. That in fact will constitute further investment – of the most productive sort a government can make. And we learned how that was done with the unrecognized *physical* investment of govern-

ment – in 1996 in the US and in 2002 in Canada. We need only follow our noses, with a minor amount of mental exertion to recapture our own history.

Isn't this an urgent time for a little serious public discussion on our own fairly recent history? Canadians owe it to themselves not

to allow politicians of any party to continue making fools of them by suppressing our knowledge of our own quite recent history. COMER will be happy to provide spokesmen to carry on public discussions on these points.

*William Krehm*

## With Economics Come Bumbling Fingers

Of course the two are devoted travel companions.

Gretchen Morgenson in *The New York Times* (28/12) cites an example: “With house prices in full fall and mortgage delinquencies mounting, pressure to modify troubled loans is ratcheting up.

“But lawyers who represent candidates for modifications say the programs are hobbled by the complexity of securitization pools that hold the loans, as well as uncertainty about who actually owns the notes underlying the mortgages.

“Problems often emerge because these notes – which are written promises to repay the full amount of a mortgage – weren't recorded properly when they were bundled by Wall Street into pools or were subsequently transferred to other holders.

“Under such conditions the willingness or ability of the mortgagor to pay is not the issue. But that can make the psychic effects all the more flooring.

“How can a loan be modified, these lawyers ask, if the lender cannot prove that it actually owns the note? More and more judges are asking the same thing about lenders trying to foreclose on borrowers.

“And here is another hurdle: most loan servicers – the folks responsible for handling all the paperwork surrounding monthly mortgage payments – aren't set up to handle all of the details involved in a modification.

“Loan-servicing operations are intended to receive borrowers' payments; producing loan histories and verifying that payments were received or junk fees were not applied is considerably more labor intensive. This cuts into profits.

“These services are not staffed up and they don't have a chance in the world to do the stuff they are supposed to do,” said April Charney, a consumer lawyer at Jacksonville Legal Aid. “Many servicers continue to stonewall troubled borrowers who ask for a history of their loan payments and fees,” she said.

“This is your biggest expense – your home – and when you ask for a life-of-loan history your servicer tells you to get lost,” she said.

“So even if loan modifications were to rise rapidly, it is unclear that borrowers can trust what lenders tell them they owe.

“Consider a federal bankruptcy court case in Colorado. It involves two borrowers who got into trouble on their loan but agreed, under a bankruptcy plan, to make revised mortgage payments to get back on track. The lender in the case is Wells Fargo, and last Monday the judge overseeing the matter took a tough stance on the bank's record-keeping and billing practices. In June, 2004, Brandon A. Burrier received a \$183,126 loan for a property in Arvaddada, Colo. The note was later transferred to Wells, Fargo, court filings show.

“The Burriers fell behind on their loan and in February, 2007, they filed a Chapter 13 bankruptcy, agreeing to pay \$12,000 that Wells Fargo said they owed. Chapter 13 bankruptcies allow debtors to retain their property and work out a repayment plan based on their income and the level of their indebtedness.

“The Burriers' payment plan was confirmed by the bankruptcy court in August 2007; last December, as second plan requiring high payments was approved by the court.”

### The Ambiguities of Payment

“Two months later, Wells Fargo told the court that the Burriers had failed to make four of their payments and that it should be allowed to begin foreclosure proceedings.

“The Burriers denied that they had missed payments, but in April to keep their home, they agreed to make double payments to cover the ones Wells Fargo claimed they had missed.

“If the borrowers could prove that the mortgage checks were submitted, Wells Fargo said, their account would be credited

and they would no longer have to make up the payments. The proof required by Wells Fargo and approved by the court was 'valid, accurate and true copies' of the front and back of the checks the borrowers sent in.

"Last August, the parties were back in court, with Wells Fargo stating that the borrowers had failed to comply with the deal. Mrs. Burrier testified that she had asked her local bank repeatedly for proof of the payments made to Wells Fargo, but had no luck. The payments to Wells Fargo were processed electronically, she learned, and

that meant it did not return the checks to her bank.

"The borrowers did produce bank statements showing that the checks were actually cashed by 'WFHM,' an entity that they assumed was Wells Fargo Home Mortgage.

"Finally, Wells Fargo demanded that the Burriers provide the routing number of the account at Wells Fargo that their cheque went into. If they could not, the bank said, they would have to keep making extra payments. But Sidney B. Brooks, the judge overseeing the case, was clearly dismayed by

the bank's performance.

"In his opinion, he fumed, Wells Fargo had asked the borrowers for canceled checks as proof of payment, even though such checks were often not available. Wells Fargo's request for canceled checks was especially troubling, the judge said, given that the bank was a proponent of the 2003 law that allowed banks to stop returning canceled checks to customers."

These are clearly troubled water that will not soon calm.

W.K.

## Mirror-image or Parallelism in the Relations of State and Production

In the relations between the governments and the private economic firms in the great financial powers and Russia a haunting parallel is emerging. The story-line that motivates it, and even the degrees of corruption and the direct influences between structures and direct overflows are shaping up as a great surprise.

The interdependence between state and private corporations – industrial as well as financial, and the plain trauma of it all – whether of the stock market, class war, and threatened military operations real or just threatened, are not lacking. The resulting distribution of power and influence can scarcely be dignified with pretentious titles such as "ideologies." Almost everything emerges from the process cut up and rescrambled, except the ever mounting powers of destruction accumulating in the background.

We have lived so closely with the breakdown of the globalized and deregulated market portion of the parallel, to the point of the surprise in the tidings out of Russia: *The New York Times* (08/12, "In Hard Times Russia Moves In To Reclaim Private Industries" by Clifford Levy) helps us keep up with the obscure but powerful parallel: "Berezniki, Russia – In Late October, one of Vladimir V. Putin's top lieutenants abruptly summoned a billionaire mining oligarch to a private meeting. The official, Igor I. Sechin, had taken a sudden interest in a two-year-old accident at the oligarch's highly lucrative mining operations here in Russia's industrial heartland.

"Mr. Sechin, who is a leader of a shadowy Kremlin faction tied to the state security services, said he was ordering a new inquiry into the mishap, according to minutes of

the meeting. With a deputy interior minister who investigates financial crime at his side, Mr. Sechin threatened crippling fines against the company, Uralkali.

"Startled, the oligarch, Dmitry E. Rybolovlev, pointed out that the government had already examined the incident thoroughly and cleared the company of responsibility. He further sought to fend off the inquiry by saying he would pay for some of the damage to infrastructure from the accident, a mine collapse that injured no one but left a gaping sinkhole.

"His offer was rebuffed, and it seemed clear why: the Kremlin was maneuvering to seize Uralkali outright.

"Mr. Putin, the former president and current prime minister, has long maintained, that Russia made a colossal error in the 1990s by allowing its enormous reserves of oil, gas and other natural resources to fall into private hands. He has acted uncompromisingly – most notably in the 2003 attack on the Yukos Oil Company – to get them back."

### Capitalizing the Economic Crisis

"Now, the Kremlin seems to be capitalizing on the economic crisis, exploring the opportunity to establish more control over financially weakened industries that it has long coveted, particularly in natural resources."

How can one miss the parallel with the Washington government, whether through the Treasury or the Federal Reserve, acquiring preferred shares in leading banks or in the insurance and brokerages and mortgage companies that they used to own outright – Fanny Mae and Freddy Mac? What complicates the situation more basically in the

United States and the other capitalist lands is that since 1970, when Washington departed from the gold standard, the debt of the federal government has been the only legal tender.

And when and how will the government be able to untangle once again what is becoming increasingly intertwined with complicated structurings with blocks of derivatives? For what emerges as often as not is the mirror image that strives to balance what is standing on its head with what, hopefully, might rest on solid, well-placed legs. So long as someone with influence is seemingly making money on an ever mounting scale, the word goes out that the nation is progressing with a flat foot on the accelerator. Particularly if it is blessed with abundant oil fields.

Given the difference in the two backgrounds the temptation and the bad habits still smack more of the ex-communist regime, when the well-paid experts contracted with the blessings of the State Department to bring in capitalism advised the Russian government of the day to liquidate all the state-owned firms to the first takers. This applied as well to state firms in the Siberian wilderness who happened to provide public services like schools, and sanitary systems. So long as the oligarchs bought up the shares that had most democratically been distributed to all citizens – many of whom had no job and did not know what to with a share of stock since you couldn't eat it, or heat your house with it, it looked like a fine, competent job.

Was the United States with its own de-regulations of the banks not coming down a similar road hardly better paved?

W. Krehm

---

# Reductio Ad Absurdum

*The Globe and Mail* (30/12, "A way to ease global slumps" by Kevin Carmichael, Ottawa) reports: "The International Monetary Fund is proposing that government guard against a deepening of the financial crisis by providing insurance against 'extreme recessions.'

"Policy makers should approach the crisis the same way that mortgage companies deal with the risk of floods and other natural disasters, a team of IMF economists suggested in a report released yesterday in Washington.

"The idea stands out for its novelty among the free advice being offered to policy makers from Canada to India to France who are preparing stimulus programs that will cost hundreds of billions of dollars.

"The proposal is that the IMF seeks to address if the uncertainty that risks paralyzing the global economy, Consumers are afraid to spend because they fear losing their jobs, companies are afraid to invest because they fear profits will disappear, and banks are afraid to lend because they fear defaults.

"A certain amount of confidence could be restored if governments offered insurance against the effects of gross domestic product collapsing below past a defined threshold, according to the IMF report.

"Such insurance contracts would be attractive to companies, but governments could also extend them to individuals, the IMF report says. Banks would be more at ease because they could make buying such insurance a condition of loan approvals. The program would promote economic stability in the same way that employment insurance and other automatic stabilizers prop up demand when output drops.

"Widespread use of such contracts would provide an additional automatic stabilizer because payments would be made when most needed, namely in bad times, the IMF economists wrote.

"Such a market would also provide as market-based view of future output and the likelihood of severe shocks.

"Analysts outside the IMF were skeptical that extreme recession insurance would work.

"John Curtis, a distinguished fellow at the Centre for International Governance Innovation, said downturns are a natural part of the business cycle and governments risk skewing markets by offering insurance

against slowdowns.

"Such a policy also would have little chance of reversing the current crisis, another economist said.

"You don't offer fire insurance for someone whose house is already burning,' said Nicholas Rowe, an economic professor at Carleton University.

"The idea is worth considering over the longer term, but as a policy to help us right now this sounds pointless,' Prof. Rowe said.

"The recession insurance scheme is one of several proposals to receive the IMF's stamp of approval in a 36-page report called 'Fiscal Policy for the Crisis,' a document that reads like a guide to fighting the financial crisis.

"Other suggestions include favouring direct government spending on infrastructure programs that can be started quickly over tax cuts because there is more certainty that the money will be spent.

"The solution to the current financial and macroeconomic crisis requires bold initiatives aimed at rescuing the financial sector and increasing demand,' the IMF financial report concludes."

## The Avoidance of Serious Accountancy

In actual fact the proposal of using insurance leads nowhere, because what has brought on the present spreading crisis has been faulty accountancy. And insurance is now being proposed to remedy the violation of faulty bookkeeping in the government accounts. We can say this by citing the fact that as of January 1996 the government of the United States finally brought in double entry bookkeeping as far as the posting of physical investments by the federal government of the federal government was concerned. Prior to that date when the government built a bridge, a highway, a bridge, or a building, it would "amortize" the debt incurred over the approximate expected period of usefulness of the assets built or acquired, but the asset was completely depreciated in the first year of its existence. This distorted the picture of the investment in a double way. (1) It created the illusion of a net debt (the depreciated value of the asset less the amortized value of the debt); (2) By carrying the asset on the government books at a token dollar, it made

possible lucrative privatizations, that robbed the government treasury for the benefit of private speculators.

It is nothing short of scandalous at this late date that insurance should be proposed for what is basically simply the failure to use double-entry bookkeeping that is reported to have been brought back from the Holy Land by the Templar Order of Crusaders approximately a thousand years ago. What is known as a certainly is that the Republic of Venice was using double-entry bookkeeping and requiring the financiers of commercial missions to Islamic lands by the mid-14th century. and to that its great prosperity as the only Christian land to trade with Islamic lands. That help liberalize Venetian liberties at home where Christian, Muslims and Jews lived in peace side by side; no one was burned at stake in Venice for whatever his religion might be.

In 1996 the United States which had depreciated its physical investments in a single year, switched to accrual accountancy. and carrying the process back to 1959, recouped well over one trillion dollars in what had been ignored assets, though the Department of Commerce figures still listed the identified understatement of assets under the heading of "Savings" which usually applies or short-term securities readily convertible into cash. This the retrieved one trillion dollars of government assets most definitely were not.

The Canadian auditor general encouraged by the American adoption of double-entry bookkeeping (also known as accrual accountancy) in the US followed suit in overcoming the stiff resistance to such a move by the then Finance Minister Paul Martin. The final result was a demeaning document signed by the auditor general in return for the adoption of accrual accountancy, in which the auditor stated that since no new money had entered the treasury, the introduction of accrual accountancy would not justify new programs. In face what had appeared on the government books as a debt came to be classified as an asset. By elementary accountancy that bring as much asset values as the what had been physical assets that had been completely depreciated in a single year. For a finance miniature to twist the arm of the auditor general to introduce such distortions is bad as anything that Enron executives were sent to prison in the US.

What is even more important is that adoption of accrual accountancy on physical investments of government both in the US

and in Canada, clears the way for its extension to investment in human capital. That precedent for the recognition of the even more important government investment provides a ready if completely neglected solution for preventing the economic crisis that is settling upon the world.

The background of for the recognition of this source is even more important than the recognition of the physical investments of the governments of US and Canada.

Let me recount it once again, since it seems designed to take care of the negative forces that are driving the world economy into a depression. At the end of the war Washington sent hundreds of economists to

Japan and German to study the war damage to predict how long it would take the two defeated powers to recoup their roles as formidable competitors on world markets. Two decades later one of these economists produced a study in which he declared that it was amazing how wide of the mark their forecast had been. The reason he added was that he and his colleagues had concentrated on the physical destruction suffered by the two chief Axis powers, but overlooked that their highly educated and disciplined work forces had come out of the war essentially intact. From that he went on to deduce from that one of the most important lessons to come out of WWII – that human invest-

ment is the most productive investment a government can make. So much so that the reinvestment of the discovered prepaid capital investments in human capital is itself an investment rather than just as investment. Thus the children of educated parents tend to be better education from their home experience in addition to what they learn in outside institution. They also tend to be healthier and better adjusted. These expenditures in fact resemble investments more than other expenditures.

The money spent to teach William Shakespeare how to read and write are still making a significant contribution to the national income today. The same goes for

---

## The Casting Could Not Have Been Better!

*The Wall Street Journal* (04/12, “Bill Gates Prods Washington on Foreign Aid, Education” by Robert A. Guth) is what you might applaud as brilliant casting to underline an important method. No need for us to introduce Bill Gates. The youngish man who is reputed to have made more money out of internet technology (Microsoft Corp.), and now retired into full-time philanthropy (Bill & Melinda Gates Foundation). In a speech to the students and faculty at George Washington University, DC.

“Among his proposals is a more active role by government in education. ‘If the federal government becomes a dynamic agent of school reform, it will help bring us out of the downturn better off than when we went in,’ Mr. Gates said.

The *WSJ* comments: “One education expert said that Mr. Gates’s proposals are unlikely to be followed, given the priorities of the US government as it grapples with the economic meltdown. ‘Bill Gates’s speech is essentially advocating a completely different role for the federal government than it’s ever had,’ said Tom Loveless, as senior fellow at the Brookings Institution. ‘It urges an expansion of that role at the very time that that’s least likely to occur.

“Mr. Gates’s comments are part of a coming-out of the software mogul as a more public voice for social change. As co-chair of the world’s largest private philanthropy, Mr. Gates has a bully pulpit to push for changes his foundation has chosen to invest its money which include US education, global health and development in poor countries.

“The speech Wednesday came as the financial crisis has decimated the endowments

that feed many non-profits and has strained many government-supported programs. Mr. Gates’s own philanthropy has seen its endowment size fall, though the foundation will still increase its disbursements.

“Mr. Gates called for a distinctively different role of the federal government in education which is largely handled and funded by state and local governments. ‘The federal government can make a huge difference here,’ he said. Specifically, Mr. Gates called for federal incentives to boost recruitment and retention of effective teachers, to align state standards, to reward college graduates and to push school overhaul through performance measures.

“In foreign aid, Mr. Gates said the current economic turmoil provides a chance to cut some aid programs while expanding others, ‘We need to make the most of this downturn and the budget scrutiny that comes with it,’ he said.”

### **An Investment Whose Very Spending is Productive Investment**

What we have here is an excellently intentioned man, master of software innovation, who, however, turns out to be woefully uninformed about the American economist who more than any other man delivered the message that Mr. Gates is struggling to deliver.

Apology to our readers since it is an introduction of one immensely great American to another who should know each other in a great common cause. Our apology to our regular readers who have had Theodore Schultz’s great conclusion drummed into their heads by COMER over the years – cer-

tainly one of the most important messages to have come out of WWII into their awareness by COMER for some years.

At the end of WWII Washington sent hundreds of young economists to Japan and Germany to study the war damage and from it predict how long it would be before these two great powers would take to emerge as the formidable competitors on world markets.

Twenty years later Schultz wrote, “It is astounding how wide of the mark we were. The reason was that we concentrated on the physical destruction and overlooked the importance of the highly disciplines and educated work force of these nations that came through the war essentially near intact. From this he concluded that investment in human capital – education, and hence health, social services, and the environment – for on its breast we live and die – must be included in the concept of human capital.”

And when you have reached that conclusion, such investments cannot be seen as the investment of funds that are left over from other spending. On the contrary education as well as health, a favorable environment tends to depreciate – if at all – over unusually lengthy periods. The children of healthy, well-educated parents will on average tend to be better educated, healthier and better adjusted than those without such a background.

It is therefore a great distortion of the facts to see investment in human capital as improvident spending. It is an investment that will continue to grow through the very investments it makes possible.

*William Krehm*



every engineer or scientist. By reinvesting the income from this still unrecognized pre-paid bonanza in human capital we can not only stave off the Depression, but deal with the better preservation of the environment. For that is also an investment in human capital since humanity and its future depend on keeping the environment as benign as we can and our hospitals at maximum efficiency.

This then should be a time for lower-

ing university fees and health care fees, for reclassifying human capital as an investment rather than a particularly bountiful sort, we find ourselves with a sizeable amount of pre-paid capital of a particularly helpful sort – its very expenditure is a further investment.

It is most remarkable, and indicative of the ramshackle state of economic theory today that this bonanza of bonanza should have mistaken governments and IMF alike. Combined with using our central banks

certain for the capital needs for maximum investment in human capital, it is ridiculous to propose purchasing insurance for insuring government deficits. You cannot buy insurance to protect you from your barn-sized errors in accountancy, or forgetting that a similar depreciation of the government physical investment was carried out successfully in the US 13 years ago, and in Canada a full decade ago.

*William Krehm*

---

## Why We Are Starting This Lead Article With An Advertisement

It could be because in the midst of our boasted wars for freedom of thought, it is only in paid ads is there freedom in the ways that we are allowed to use our minds in the official areas of crucial thinking.

We quote from the full-page IBM advertisement in *The Wall Street Journal* (1/12/08, “The Roads to a Smarter planet”): “In 2007, for the first time in history, the majority of the human population lived in cities. And this urbanization is accelerating. By 2010, there will be 59 metropolitan areas with populations greater than 5 million – up 50% from 2001.

“Many of those city dwellers will be driving cars, and the products they consume will be arriving in trucks.

“In the U.S. alone, 3.7 billion hours are lost every year to people sitting in traffic, and 2.3 billions gallons of fuel – enough to fill 58 supertankers – burn needlessly at a cost to the economy of \$78 billion each year.

“That isn’t smart – but it can become so. The systemic nature of urban transportation is also the key to the solution. We need to stop focusing only on pieces of the problem: adding a new bridge, widening a road, putting up signs, establishing commuter lanes, encouraging carpooling or deploying traffic copters.

“Instead, we need to look at relationships across the entire system and all other systems that are touched by it: our supply chains, our environment, our companies... the way cities and people live and work. Traffic isn’t just a line of cars: it’s a web of connections.

“‘Smart traffic’ isn’t yet the norm, but it’s not some far-off vision of tomorrow. In many places, IBM is helping to make it happen today.

“In Stockholm, a dynamic toll system

based on the flow of vehicles into and out of the city has reduced traffic by 20%, decreasing wait time by 25% and cut emissions by 12%. In Singapore, controllers receive real-time data through sensors to model and predict traffic scenarios with 90% accuracy. And in Kyoto, city planners simulate large-scale traffic situations involving millions of vehicles to analyze urban impact.

“All of this is possible because cities can infuse intelligence into their entire transportation system – streets, bridges, intersections, signs, signals and tolls – which can all be interconnected. They can reduce congestion, shrink fuel use and cut CO<sub>2</sub> emissions.

“Our rapidly urbanizing planet depends on getting people and things from here to there. In the 20th century, that meant freeways from state to state and nation to nation. In the 21st century, ‘smart’ traffic systems can be the new milestone of progress.”

Now the most remarkable thing about this is that what is actually discouraged in allowing proper routes, bridges channels not blocked so much by the flow of excessive traffic, as in noting that different roads cross and tangle. As a result they may be left not overused, but underused. That could be solved by a discipline known as systems theory. By this the human mind itself to sorting out when and what roads are in demand for what purposes. And for that subsystems have to be identified and arranged to work in harmony without tripping over one another. Each of these vital subsystems had to function individually and in concert, or cars could not budge. Much as the different parts of a car internally. There is the fuel system, the motor, the electrical system, the brakes, the mechanical system. Only when the car had passed such multi-system tests,

could IBM and the others have attacked the problem of overcrowded highways throughout the world. For they would have served no purpose.

But there are further steps in this harmonizing of the different subsystems of vital problems. And this requires recognition of a whole range, you might even call it hierarchy of systems that must be respected.

Considered as a whole, it requires highly developed skills of mind. That is essentially what mathematics are about. From the solution of simultaneous linear equations that we learned to handle in our first year high school, to Albert Einstein identifying velocity as another dimension of space.

It is when we fail to put these myriad and ever multiplying systems that our society requires in place, that we fall down with so resounding a crash that could very well be a death notice for our civilization. What ties together the multiplying variety of ever more embracing systems is the economy – both through the government sector and the private sector. There was a time when the effort was made by the Club of Rome to bring systems theory into economics. However, there were predictions expressed by conventional economists that if oil prices were raised high enough there could never be a lack of oil. Courses in system theories had actually set up on many universities. But the course of economics was set with an eye on a quite different star.

The work of a generation of economists who tried bringing systems theory into our economy has been buried and forgotten.

The problems overwhelming us can clearly not be left to balancing of supply and demand achieved by our banks setting the proper interest rates to handle such problems.

*William Krehm*

# BookStore

Available from COMER Publications  
245 Carlaw Avenue, Suite 107  
Toronto, Ontario M4M 2S6

Price EXcludes postage and handling.

## Hazel Henderson

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

## W.F. Hixson

- *It's Your Money*, \$10

## William Krehm

- *Towards a Non-Autistic Economy — A Place at the Table for Society*, \$10
- *Babel's Tower: The Dynamics of Economic Breakdown*, \$10
- *The Bank of Canada: A Power Unto Itself*, \$5
- *Democracies and Tyrannies of the Caribbean*, second English and third Spanish editions available, \$15
- *Meltdown: Money, Debt and the Wealth of Nations — Volume 1*, ER from 1988–1998, \$25
- *Meltdown: Money, Debt and the Wealth of Nations — Volume 2*, ER from 1999–2001, \$30
- *Meltdown: Money, Debt and the Wealth of Nations — Volume 3*, ER from 2002–2003, \$30
- *Price in a Mixed Economy — Our Record of Disaster*, \$15

## COMBO OFFERS:

- One volume of *Meltdown* plus either *The Bank of Canada* or *It's Your Money*, \$35
- One volume of *Meltdown* plus *Democracies* (English or Spanish), *Price in a Mixed Economy*, *Babel's Tower*, *The Bank of Canada* and *Towards a Non-Autistic Economy — A Place at the Table for Society*, \$90

# Another Revival

*The New York Times* (31/12, “Parched for Credit” by Eric Dash and Vikas Bajaj) emphasizes its point by accompanying the title with a large picture of a closed garden tap and a reference to Walter Bagehot, the English editor of mid-Victorian times. Bagehot, indeed, has earned himself more lives than the legendary cat, but there is a world of difference between the Victorians who pursued the problems to a truly English control system, and what passes for monetary policy in our day.

“Credit, the disposition of one man to trust another, is singularly varying. ‘In England, after a great calamity, everybody is suspicious of everybody; as soon as that calamity is forgotten, everybody again confides in everybody.’

“The problem, as Mr. Bagehot observed, is trust – or rather the lack of it. Even after receiving millions, in some cases billions, of dollars from the government, banks are reluctant to lend money. Crucial parts of the financial system have stopped functioning. The exuberance of the boom, which had led bankers to make loans to people who could not repay them, has given way to a seemingly intractable fear of making any loans at all.”

And then, of course, the wily British came out with bond issues that never fall due. Nor should it be forgotten that the tap that heads the *Times* article is not dripping because of the complications of the United States, and with it the world having left the gold standard, is without the sense of trust that Bagehot's readers had developed.

But let us read on. “The financial crisis began in the credit markets, and eventually it will end there. But as the financial industry rounds out one of the most wrenching years in its history, and policy-makers are struggling to see the way out of the mess. Despite triage by Washington and trillions of dollars of taxpayers' money, credit is not flowing nearly as much as many had hoped.”

Surely that brings us to something that the *Times* article flits over, but that calls for careful consideration. With the departure of the US from the gold standard in 1970, the debt of our the central government of the United state is backed only by federal US government debt. Have the government bail out so many troubled banks and even troubled auto companies, and you end up

debasement of the legal tender of the land. And then you will have subprime legal tender which is not legal tender at all.

Hence we must put down our current thinking modes, and even what is accepted as economic wisdom, and return to our history, to seek out the wisdom of F.D. Roosevelt. This consisted in listening carefully to whatever advice was being offered, carefully eliminating what experience had already proved unworkable. For by the time Roosevelt had been inaugurated for his first term, 9,000 American banks had already shut their doors, and one of the new president's first acts was to declare a bank moratorium, that lasted an entire month.

## Bring Back Glass-Steagall Restrictions

And when the banks did reopen for business, the Glass-Steagall legislation was brought in that forbade the banks of the federal system from acquiring an interest in non-bank financial pillars – stock brokerages, insurance, and mortgage companies. The reason? Each of these other non-banking pillars had cash reserves for the need of its own business. Give the banks access to these, and they will take over these cash and near-cash (i.e., short-term interest-bearing loans) and use them as the cash-base for applying the “bank multiplier” – which for almost a couple of decades has been deprived of all mention in university textbooks. What results is a many-storeyed debt structure – a skyscraper of debt served by elevators that run only upward, never down. That is the drive of our private debt creation to accelerate in its expansion approaching an exponential rate. Exponential rate, in fact, is the mathematical formula of the atomic bomb. And what we have been experiencing in our credit system, is the equivalent of what happened at Hiroshima. with the atomic bomb.

There are further mathematical aspects of our banking crisis. As the Roosevelt reforms left the banking system, of the US and to an extent of most of the banking systems of advanced countries, there were two alternative means whereby the central bank could encourage or discourage economic activity. It could use the benchmark interest rate that set interest rate that one bank could lend the other strictly overnight, to meet its obligations to the central bank. Note well that did not provide for the central bank to

lend the money – it merely set the benchmark rate for such rates. There was also a higher “discount rate” where the central bank lent the money directly at a higher rate of interest, but banks avoided using that because it advertised to the world that the bank making use of it was experiencing serious cash problems.

And there was the *statutory reserves* that required the banks receiving deposits re-depositing with the central banks a fraction of the deposits they had received from the public. This acting on the amount of financing by originating in the deposit received by the bank rather than in the benchmark interest rates, it not only provided an alternative to endowing the banks with the sole power of stimulating or braking the economy. Reducing the control of the money supply to what the private banks can create, thus puts supreme economic and hence political power in their grip. And on top of that, to bail out the banks from their taking over mortgage trusts (the US “Savings and Loans”) in the 1980s brought about vast losses in bank gambles that misfired. Not only were they bailed out by the Bank of International Settlements – a sort of war room to bring the bank their past glories of the pre-Depression and having all the borrowing of the government shifted from its own central bank which had been at near zero rates – the net interest coming back to the government as dividends since the Bank of Canada had been bought out from its 12,000 private investors in 1938 And in the US by virtue of the seigniorage inherited from ancestral monarchs.

But in 1988 to help the banks out of its heavy losses in taking over the Savings and Loans, the BIS had declared the debt of developed countries risk-free, and thus needing no down-payment for banks to acquire. In Canada the banks increased their holdings of government bonds from \$20 billion approximately to \$200 billion. But then, notwithstanding the throng of private bankers at its knees – nobody except central bankers connected with government were permitted to attend BIS meetings, the then manager of BIS, declared zero inflation the only acceptable rate of interest to achieve a perfectly flat (alias “inflation-free”) price level. However, prices can go up for reasons quite different from too much demand and not enough supply. They might go up because the public sector has grown as a portion of the economy. After all, nobody moving from a town of 10,000 to New York City is fool enough to expect his cost-of living to

say the same. How then could it when humanity has been making just such a move, reflecting the need for more education, libraries, research institutions, universities, subways, museums, the very infrastructures of our culture and our future.

That brought the completely leveraged bonds issued when rates were lower tumbling, and threatened the collapse of the financial institutions throughout much of the world. Only the greatest standby fund to that date – some \$51 billion put up by the IMF, the US and Canada – saved the day. And that convinced the Clinton government that the day of ever higher interest rates was over.

Oddly enough what was involved was the government using a primitive system of bookkeeping that would bring a private citizen or corporation into hot water with the government for hiding rather than revealing its real investment assets subject to taxation.

The Crusaders are said to have brought double entry-bookkeeping back from Muslim lands roughly one thousand years ago. Certainly the Venetian republic used it in establishing close trading relations with the Muslim countries, and even designing special companies that would respect the Muslim belief that only partners who share the risk of commercial undertakings can share in the profits. It was on that premise that Venice built a unique culture where Christian, Muslim, and Jews lived and worked side by side, and no one was ever burned at stake for his religion. On that they founded a great economy and a great culture.

But until 1996 in the US and 2002 in Canada when the government made an investment the physical assets acquired were “depreciated” in a single year and in year it was carried on the books at a token \$1 to remind the accountants that it had not been forgotten through a slip of memory. The debt incurred or the capital spent to finance the investment was carefully “amortized” over approximately the expected useful life of the asset. This served a double purpose for the class in the saddle: it created the illusion of a budgetary deficit not necessarily there – simply wretched accountancy that would bring on a heavy fine for a private taxpayer who attempted to get away with such accountancy. For it not only showed a loss and avoided taxes, but set the scene for some stunning privatizations. With a value of \$1 in year two, a practitioner who got away with this game could purchase a government asset at 100 times “book” and

then head for his bank to deposit an immense profit.

To close the curtains on what was really being done, it appeared on the Department of Commerce book under the heading of “Savings,” which it certainly was not since that refers to cash or near-cash (i.e., interest-bearing deposits) and what might be involved here might be century-old bridges, or 50-year-old buildings.

But even with this continuing lack of openness, the introduction of this semi-hidden double entry-bookkeeping carried back to 1959 retrieved considerably more than \$1 trillion, brought down interest rates, prolonging the high tech boom until 1998 when the high-tech bust took over.

That, however still left the government investment in human capital that is a major tale in itself.

### **Our Neglected Human Capital Must Be Recognized and Used**

At the end of World War II, Washington sent hundreds of economists to Japan and Germany to study the wartime damage and predict how long it would be before these two great defeated powers could reappear on world markets as the formidable competitors that they were. Twenty years later, one of these economist wrote that it is remarkable how false their forecasts had been, and this he attributed to their concentrating on the physical destruction and overlooking that the highly educated, disciplined, and ingenious human capital had come through the war largely intact. From this, economist Theodore Schultz, of the University of Chicago, concluded that the most productive of all government investment that can be made is in human capital. Amongst much else the very return takes the form not just of revenue but of further even more productive investment. For the children of educated folk tend to be better educated, healthier, and better adjusted. We are still drawing returns from the primary education of an Englishman called William Shakespeare, but even where such genius is not involved, appreciating the writings of the great bard is an aid to a more productive return on human capital.

Now, on to the next advantage. All that has to be done to correct the government books to double-entry booking has already been achieved with physical investments of government. What is involved is a matter of accountancy – but without proper accountancy the resulting economics are a fraud.

But does this not mean that we will be bailing out the banks once again. Properly

done, it should not. With the greatest tact, in return for the shift in their accountancy from what is fraudulent to what is sound, the bank being shepherded through the correction of its accountancy should very carefully, with no insults, but in a helpful mode, be given the choice of amending its charter to forgo one of the non-banking financial pillars – stock markets, insurance, or mortgages, or let us say credit cards and the innumerable new fields that banks have entered in order to reduce their exponential

plans of growth. In this way for some temporary accommodation the banks will be led back tactfully with no abuse. Since it has been done with physical government capital before, we need only imitate what has been done with complete success.

And above all we will have turned around the credit disaster by bringing in accountancy worthy of the name. A likely by-product is taking the edge off the armed menace between Muslim and non-Muslim nations.

With the ignored government capital

that is there though deliberately forgotten, there will be enough to avoid the major depression that is taking the stage. What a time for multiplying scholarships and lowering university fees, and increasing hospital beds to take care of the increasing average life-spans, and founding choirs and orchestra to praise the Lord for such blessings, that only in our dull-wittedness we mistook for the fault of high finance instead of the lack of serious accountancy.

*William Krehm*

## When Nature's Subsystems Clash with Those of Humans, the Verdict is Shattering

One of the certainties a great dictator projected into his problems was that China was immensely overpopulated, and to get ahead, it had to limit families to a single child. But in doing so he was ignoring constraints that one so readily can overlook. That immense population still comes in families, small units essential for survival, and exposed to life's hazards, without adequate unit reserves. It is in fact quite the same mathematical mistake that conventional economists make in glorifying the national production with little curiosity for its distribution. Like all autocrats Mao Tze Tung had a ready answer for that problem too. Cut down family sizes to a single child. But then he was stepping over the fencing that marked off population as a statistic, and population as it determined whether single-child families would answer even minimal requirements in a country where great areas are exposed to earthquakes and other natural disasters, and where social security is sketchy at best. In short, what the great dictator overlooked, as dictators great and small so often do, was systems theory.

Our institutions, no matter how overweening the political power behind them, are exposed under such circumstances to surprising downward revisions.

At this point, we will hand this tale to *The Wall Street Journal* (4/12, "After Quake, Parent In China Start Over" by Mei Fong): "Leshan, China – Ten days after his daughter died in May's earthquake, Zhu Jianming thought of having another child. Five weeks he had a reverse vasectomy, paying for it in part with money he received from the government.

"Now, the lean miner, 50 years old, and wife Lu Shuhua, 45, are trying to conceive again. Though still mourning, the aging couple felt they had to move quickly if they

wanted to start a new family.

"Moving fast is something of a specialty for China, a nation that has sprung from the poverty of the Cultural Revolution to the world's fourth largest economy in a single lifetime. So it is with many of the survivors of the Sichuan earthquake, which left nearly 90,000 people dead or missing. The most devastating natural disaster to hit China in three decades, the quake was one of several big challenges to the Chinese leadership in a tumultuous year that included protests in Tibet, the Olympic Games in Beijing and an economic slowdown that is erasing thousands of factory jobs.

"In Sichuan, there is some evidence of recovery, schools are being rebuilt. And bereaved parent are doing their best to move on after losing the only child that they were allowed to have under the region's strict population-control policies. Many parents are taking advantage of government waivers and subsidies to help their odds of conceiving again."

"More than a hundred quake mothers in the town of Dujiangyan – where hundreds of students were killed in their school when the earthquake struck on May 12 – are now pregnant, and there are more than 800 who want to have another child, says Wang Haiyunm a health official from Shanghai district dispatched to help the town.

"Many parents, especially those of middle or high-school students, are too old or have had procedures to prevent pregnancies because of the one-child policy. Some hospitals are trying to help.

"The Sichuan Reproductive Faculty Hospital in Chengdu has performed more than 30 procedures to reverse tubal ligations and vasectomies for quake parents, including Mr. Zhu. More than 110 couples have

visited the hospital for consultation since the earthquake. About half have been given some for of fertility treatment or counseling, although the hospital turned away 18 couples because they were believed too old to benefit from treatment.

"The disaster has highlighted the human costs of the one-child in May's quake when thousands of school rooms collapsed. In Beichuan County, the worst-hit area in the earth-quake 817 parents have registered for permission to have another child. Liu Juhong, an official from the district family-planning committee, said many of them require surgery to remove contraceptive devices, a procedure that requires six months of post-operative recovery. Because of that, she said it is unclear how many couples are already pregnant, 'but the number should be small.'

"Beyond the grief in losing a child, parents in China also face a future without the offspring on whom they traditionally rely for almost all their old age support. Since the loss of their daughter, who was 14, Mr. Zhu and his wife say they have been shunned by old friends. Ms. Lu thinks that these friends fear the now-childless couple will increasingly lean on them. Many parents charge that shoddy construction may have been at least partly responsible for school collapses. Some parents were so afraid to talk to a reporter that they only did so on a hilltop out of sight of the authorities."

But wrapped around the tragic details is a warning that humans must allow for the cards held in nature's hand. It is instructive that even a millennial culture like that of China should have slipped up in forgetting that. And yet earthquakes could hardly be a novelty in China.

*William Krehm*