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The Deeper Sociology of the Iran Mess

The New York Times (25/06, "Iran Stepping Up Effort to Quell Election Protest" by Nazila Fathi and Michael Slackman) is not content to detail the brutality of the security forces beatings, tear gas, and gunshots in the air. It goes on: "Intelligence agents shut down an office of the defeated presidential candidate, saying it was a 'headquarters for a psychological war.'"

It gives its readers a glance into the orthodox Islamic statecraft: "Analysts suggested that the unyielding response showed that Iran's leaders, backed by the supreme leader, Ayatollah Ali Khamenei, had lost patience and that Iran was now, more than ever, a state guided not by clerics of the revolution but by a powerful military and security apparatus. [President Mahmoud Ahmadinejad has maintained a low profile, but evidence suggests that he has filled security agencies with crucial allies.]

"What has been going on since 2005 is the shift of the center of power from the clergy to the Pasdaran (the Islamic Revolutionary Guards Corps) said a political analyst with years of experience in Iran who feared retribution if identified. 'In a way one could say that Iran is no longer a theocracy, but a government headed by military chiefs.'

"Security agents continued to fan out across the country, detaining former government officials, journalists, activists, people young and old seen siding with those rejecting the conclusion that Ahmadinejad won a landside against the opposition candidate, Mir Hussein Moussavi.

"The official Iranian news agency reported that intelligence and security agents in Teheran concluded that a Moussavi campaign office was being used for 'illegal gatherings, the promotion of unrest, and efforts to undermine the country's security,' leading to speculation that Mr. Moussavi could be arrested. The news agency reported that 'the plotters have been arrested.'

"The government also stepped up its efforts to block independent news coverage of events all across the country, banned foreign news media members from leaving their offices, suspended all press credentials, arrested a freelance writer for *The Washington Times* continued to hold a reporter for *Newsweek* and forced other foreign journalists to leave the country."

Another Face of the Islamic Polyhedron

Another article in the same issue of the *Times* carries a report under a Cairo dateline that opens up other perspectives that we in the West could well miss ("Arab States Aligned with US Savor Turmoil in Iran" by Michael Slackman): "The rancor-

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COMER is bringing a constitutional challenge to the loan provisions of the *Bank of Canada Act*, with respect to loans by the Bank to the federal and provincial governments, particularly as it affects and impact on municipal infrastructure and the governments' calculation of "capital" and "debt."

We are also challenging the Bank's secrecy provisions *vis-à-vis* the interaction and compliance with private international bankers who are not accountable to any government.

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Iran *from page 1*

ous dispute over Iran's presidential election could turn into a win-win for Arab leaders aligned with Washington. In the past these have complained bitterly that President Mahmoud Ahmadinejad was destabilizing the region and meddling in Arab affairs, political analysts and former officials around the region said.

"The good-news thinking goes like this: With Mr. Ahmadinejad remaining in office there is less chance of substantially improved relations between Tehran and Washington, something America's Arab allies feared would undermine their interests. At the same time, the electoral conflict may have weakened Iran's leadership at home and abroad, forcing it to focus more on domestic stability, analysts and former officials said.

"'When Iran is strong and defiant they don't like her and when she is closer to the West, they don't like her,' said Adnan Abu Odeh, a former adviser to King Hussein of Jordan.

"Of course, such an outcome could prove wishful thinking, analysts cautioned. Other power centers in Iran, from the supreme leader, Ayatollah Ali Khamenei, to the military, can have more influence over regional policy that the president. It is also possible that a deeply divided leadership could aim to exacerbate regional tensions to distract attention from its domestic problems.

"The Iranian standoff may also serve as a cautionary tale for Arab leaders who have watched as modern technology, like the Internet, social networking sites and cell phones have yet again undermined the ability of authoritarian states to control distribution of information.

"But the cultural and social differences between Iran and Arab states are so great, there was no sense that leaders feared their citizens would be inspired to rise up. Iran is an important and influential nation in the Middle East, but it is also distant from the Sunni Arab street as a majority Persian country with a majority Shiite population."

As Though There Was an Internet During Europe's Religious Wars

"'A lot of young people in the Arab world would love to see something like that, but the kind of civil liberty they have makes it more natural for this to happen in Iran than in a place like Egypt or Saudi Arabia,' said Ahmed al Omran, a college student in Saudi Arabia and author of the popular blog saudijeans.org.

"Moreover, the dramatic video of Iranians being beaten or shot by Basijis has done incalculable damage to Iran's image as the region's most religiously pure and populist state. Iran's allies in the region, including Syria, as well as Hezbollah in Lebanon and the Hamas movement in the Palestinian territories, also seem likely to suffer a blow to their credibility, and perhaps to their financing, if the election crisis is resolved with heavy suppression or an extended standoff with the opposition, analysts said.

"The state-controlled media around the region has also been relatively low key in its coverage.

"'When you are waiting so much for something that makes you happy, you hold your breath, and make less noise in order not to affect the outcome,' said Randa Habib, a columnist in Amman, Jordan.

"Iran's allies, on the other hand, are restive. Emad Gad, an Egyptian expert in international affairs, said he saw evidence of Iran's allies, especially in Syria, trying to hedge their bet on Teheran. He said that Syria had in recent days been more willing to help Egypt press for reconciliation between Palestinian factions.

"When the Iranian government first announced that Mr. Ahmadinejad had won a landslide victory, there was a collective sigh of regret among Arab leaders aligned with Washington.

"They had hoped that the reform candidate, Mir Hussein Moussavi, would win, but they instead ended up with an emboldened incumbent – it appeared. So it is with a bit of surprise, indeed disbelief and no shortage of cheer, that events may yet turn out even better than if Mr. Moussavi had won, analysts said.

"The Ahmadinejad after this election will be very different from the one before. He will be weaker.

"There is, analysts acknowledge, a potentially darker sequence of events that could emerge – one where Mr. Ahmadinejad comes out of this crisis even less concerned about domestic opinion than before, because of deep splits that the conflict has already caused among the political elite.

"The Arab governments aligned with Washington are part of a camp that has promoted an Arab peace initiative with Israel. Iran, they have charged, has worked to undermine the peace process by financing Hamas and Hezbollah and by attacking those in the peace camp. Before the elections, Iran was increasingly flexing its geopolitical muscles, often in disputes with its much smaller Arab neighbors in the Persian Gulf region.

"Now, Arab leaders are looking to regain the momentum and slow Iran's spreading power and influence, analysts said. They were also looking to use the crisis in Iran to undermine political Islam in general. The Arab world is ruled by authoritarian leaders, kings and emirs – and its greatest challenge to legitimacy and control is political Islamic movements like the Muslim Brotherhood in Egypt and Jordan.

"Opponents of the Islamist movement go far in anticipating the collapse of the Islamic revolution. Said Mohammad Abu Rumman, research editor of the newspaper *Al Ghad* in Amman, 'Anticipating the failure of the revolution is anticipation of the failure of political Islam in general.'"

W.K.

Are the Memories of Exponential Profits Taking Over Even Before the Damage has been Repaired?

The Wall Street Journal (25/05, "Banks Balk To Rein In Derivatives" by Serena Ng) should alert us that deregulated bankerdom today is no readier to abandon the regime of unlimited profits than the bankers of post-World War II. For society, still mangled and bleeding, this should be taken as a warning alert.

"The battle lines are being drawn in the derivatives market, as Wall Street tries to pre-empt new laws that could drain a big source of banks' profits.

"A group of banks and money managers will next week present a plan designed to help fend off some rules proposed by the Obama administration, which is seeking to control trading in the opaque market for over-the-counter derivatives."

In essence it amounts to wiping out all finger prints and thumb-prints. The resulting lack of records under cover of the ban on discussing the really bloodthirsty aspects of unregistered derivative trading use the maths of the atom bomb, with the addition of bogus insurance.

"The banks are treading a fine line. They are being careful not to publicly oppose any rules, But at the same time they are seeking to stymie legislation that could seriously hurt their ability to generate fees. The banks plan to release a letter to the Federal Reserve Bank of New York and other US and overseas regulators in coming days, according to people familiar with the matter.

"Earlier this month, the US proposed giving the Securities and Exchange Commission and the Commodity Futures Trading Commission authority to mandate centralized clearing of certain derivatives, impose new trade-reporting requirements, and force trading of 'standardized' contracts onto exchanges or electronic platforms that will make prices more transparent.

"Wall Street banks with large derivative-trading businesses have been outwardly supportive of greater regulatory oversight of the $684 trillion market. But behind the scenes, there has been hand-wringing over the details of certain proposals and discussions about how the industry can help shape the rules.

"Potentially billions of dollars in revenue is at stake. An effort earlier this decade to improve transparency in the corporate-bond market ended up cutting bank fees by more than $1 billion in a year, according to some studies.

"In the letter, expected to be released next week, the banks will reiterate a commitment to meet the government's goal of transparency.

"The industry will detail plans to expand central clearing of credit default swaps to investment swaps and other market participants. It also will propose that customized credit derivatives that nearly brought down American International Group Inc. be reported to a trade-information ware-house run by Depository Trust & Clearing Corp. On Thursday DTCC moved to have its warehouse overseen by the Federal Reserve as it seeks to align itself with regulators' goals."

Long Live Inaccessible Derivative Prices!

It took an immense amount of gall to market such fraud, gambling our society's survival on it. But the lure of infinite profit increasing at ever higher rates to infinity is hard for speculative bankers to abandon. So, not surprisingly, considering whom President Obama has chosen for his advisers, we are being assured a still higher sped-up rate of speculative banking profits that nothing on this planet can possibly support.

"So far, some regulators and politicians are holding a hard line, insisting that radical changes are needed to avoid a repeat of last year's market panic when large financial firms neared collapsed and no one knew how linked they were to others through derivatives. The reforms also mean that 'the days of conducting standardized derivative trades over the phone will soon be over,' said one senior administration official.

"The industry's letter is unlikely to address whether some trades should go on a central platform and be reported publicly in a similar manner to trades in securities like corporate bonds.

"For credit-default swaps, information about intra-day trades and prices has been controlled by a handful of large banks that handle most trades and most earn bigger profits from every trade they facilitate if prices aren't easily accessible.

"For example, credit distant swaps tied to bonds of companies such as General Electric Capital and Goldman Sachs typically have a pricing gap of 0.1 percentage point between the bid and offer price. That translates into a $40,000 margin for every $10 million in debt insured for five years. Greater price transparency could narrow that gap, lowering costs for buyers and sellers but reducing fees for banks.

"One price-reporting model being considered for the market is a system akin to Trace, a system for corporate bonds. After Trace was implemented in 2002, the gap between bid and offer prices halved, cutting prices trading prices for banks. Many bankers still lament that the transparency made traders less willing to take big positions in corporate bonds and encouraged more trading in the opaque credit-default swap market.

"Wall Street currently reports most credit-default swap trades to the DTCC, which releases data to the public weekly. Earlier this year, financial information provider Markit began publishing end-of-day prices on credit-default swaps tied to about 400 bonds on its web site. Regulators, however, want to see more."

W.K.

Question Mark Over Alberta's Unique Public Health System

The Globe and Mail (11/06, "The future of Medicare is in his hands" by Andre Pacard) carries an alarming report on the prospect of Canada's public health care in its very cradle – Alberta: "If Alberta's centralist model succeeds, it will be copied across Canada. If it fails, recovery will take decades.

"The single most important person in Canadian health care today is someone you have likely never heard of: Stephen Duckett, the new chief executive officer of Alberta Health Services.

"In the twelve weeks he has been on the job, there has been a shakeup the likes of which we have never seen in the country. By all accounts, he has just begun fundamentally to restructure health-care delivery.

"If Mr. Duckett succeeds, the centralized corporatist model he is trying to introduce in Alberta will likely be copied across Canada. If he fails, it will likely take decades for the province to recover.

"Either way Medicare will likely never be the same.

"Alberta has, in the past decade or so created the best, most innovative health system in Canada. Regionalization allowed health authorities to shape services to local needs, created better continuity of care, made the system more responsive, improved public health and led to strong alliances between university researchers and health regions.

"But regionalization also created powerful, independent health leaders like Sheila Weatherill of Edmonton and Jack Davis of Calgary, who used their influence to push for massive infrastructure investment, new research funding and ever-larger health budgets.

"Slightly more than a year ago, Premier Ed Stelmach blew up the structure and replaced the regional health authorities with a single 'superboard' to oversee all health-care services in the province.

"The move was motivated mostly by petty politics. Mr. Davis and Ms. Weatherill had become so powerful that their politics did not align perfectly with those of Mr. Stelmach's rural conservatism.

"The change was extolled with feel-good utterances about a 'new governance model' that will 'clarify the roles and responsibilities' and create a '21st century' health-care system that will be 'more effective and efficient.'

"But the sad truth is that there was no plan other than to purge perceived enemies and get power back in the hands of the political inner circle.

"The year since the regions were dismantled has been a disaster. The Alberta system has been adrift. The supposedly lean and mean superboard has bumbled its way to overspending $1.2 billion and access and quality of care has deteriorated markedly.

"Yet, Alberta Health Minister Ron Liepert insists things are going swimmingly. He describes the restructuring of health care in the province as 'the biggest merger in Canadian history' and an important 'rebranding' of health. He dismisses the complaints as the whining of vested interests and media elites.

"Enter Mr. Duckett, recruited from Australia as the plain-spoken captain who must right the ship in stormy economic times."

Good-bye Regionalization

"One of his first moves was to release a new organizational structure to give people a sense of 'where they fit.' The chart stretches a mind-numbing 86 pages, but it soon became apparent that a lot of current employees didn't fit. Middle managers were forced to reapply for their jobs. Dozens – maybe hundreds, it's not clear – were singled out for elimination.

"Infrastructure spending is on hold. There is a hiring freeze. Every single hire (or rehiring) must be approved by Mr. Duckett personally. Alberta's aggressive hiring of nurses has suddenly evaporated The nursing shortage has suddenly evaporated – budget-balancing oblige. Clearly Mr. Duckett's No. 1 role is to cut spending. The drop in oil prices has left Alberta with a severe budget shortfall. Bringing health spending under control is a laudable and necessary goal. But, despite the rhetoric, there is no evidence that eliminating regionalization is the way to do so.

"It is up to Mr. Duckett to prove otherwise – and the other provinces (where regionalization is the norm) are watching.

"He is being paid $575,000 to prove otherwise, a modest amount for a CEO of a 'corporation' with 8,000 employees and a $13 billion budget. But he will also get a 25-per-cent bonus ($143,750) for meeting his budget goal.

"There are hints emerging of how savings will be achieved. Mr. Duckett likes to talk about the non-nurse work done by nurses, which suggests replacing registered nurses with less qualified practical nurses and support staff.

"He speaks of physicians primarily delivering front-line care, which suggests that Alberta's alternative payment plans that encourage balancing research, teaching and patient care are in the cross-hairs. He wants to fund only research with 'measurable results' – presumably immediately. Other provinces must be licking their chops at the prospect of wooing back all the research stars they lost to Alberta in recent years.

"That Mr. Duckett comes from a country where there is a lot of private and for-profit health care also has health-care professionals worried. But to date he has dismissed suggestions he plans to go the politically risky privatization route to trim public spending.

"The reality is that there is no obvious plan other than tough talk and belt-tightening.

"A year after a successful regional model of health delivery was trashed, there is no clear vision of what should and will replace it.

"And for all the turmoil and bluster surrounding Alberta's restructuring of health care, the single most question remains unanswered: How is this better for patients? The answer to that question will be Mr. Duckett's legacy."

And the legacy of the rest of us is answering the astounding question: how have we allowed our unbridled banks, and the politicians who serve them, rob us of our history? For we should have been aware that we have *prepaid* but *still not spent* an immense investment in *human capital*. This was not only proved to exist in a US government experiment carried out at the end of World War II, that probably taught us what was the most valuable lesson to come out of that blood-bath…. And we propose going on repeating that suppressed key lesson *precisely because it holds the ready-made solution to the present ever-deepening world crisis.* Unless we reclaim our history we shall go on heading for the next world armed struggle. Just as without the world crisis of the 1930s, there would have been no World War II.

At that war's end, Washington sent to Japan and Germany hundreds of economists to study the war's destruction to predict how long it would take for those defeated powers to become once again formidable traders on world markets. Some sixteen years later, one of these economists, Theodore Schultz of the University of Chicago, published his conclusion: it was astounding how wide of the mark he and his colleagues had been in their conclusion. It was, he explained, because they had concentrated on the *physical* destruction, and overlooked the importance of the fact that the highly educated, trained and disciplined work forces had come out of the struggle virtually intact. From that he concluded that *investment in human capital is the most productive investment a government can make.*

For a very few years Schultz was praised and decorated, and then expunged from economists' and governments' memories. I am afraid that COMER today is the only organization that even mentions his work or name.

To make this state of affairs yet more scandalous, a further bit of suppressed history. In a previous world crisis – caused by our deregulated bankers during the 1980s being allowed to ignore the *Glass-Steagall* law – one of the earliest and most fundamental reforms brought in by Roosevelt after his inauguration in 1933.

This barred commercial banks from acquiring interests in the non-banking "financial pillars." In that distant day these consisted of stock-brokerages, insurance and mortgage companies. Today one would have to add to the list credit cards of dozens of different types, derivative swaps, and countless other contrivances that in the hands of banks almost inevitably become scams. Our readers will have recognized that the subprime scandals that brought on the present ever-deepening world mess had their origins in precisely in the three original 'non-banking financial pillars' that laid the world economy on its back.

For once banks get control of such "other non-bank financial pillars" they make a beeline for their cash and near-cash reserves needed for their own businesses and use them as money-base for applying their bank-multiplier. The bank-multiplier used to be explained in every text-book on money creation, but has long-since been purged in those used in our universities today. And the bank-money that resulted through derivatives into swap insurance is projected repeatedly into the future. What results is a skyscraper of financial and monetary fiction with elevators that must always ever more rapidly go up, never down. For should they, the entire structure would crumble as forecast fictitious growth of earnings proved false.

Meanwhile since ideally, the credit created and insured by derivative swaps is put together with collateral mortgages and other rarely marketable components, their market value is, more often than not, difficult to document or appraise.

Like Buying Fire Insurance for a House in Flames

But what does it matter, since this mountain range of financial gibberish was supposed to be "insured"? What the bankers and the economists they whipped into gilded cages fail to understand is that not everything is "insurable." For some things are not just very *"risky"* but simply *"wrong."* For example the proposition 2 + 2 = 5. Insure that and you will guarantee that the insurer and the insured party as well will go broke. It is like writing fire insurance on a house already reduced to cinders. John Maynard Keynes, dead since 1946, had already questioned predictions of the future based on risks disclosed in the past, but not necessarily relevant in a rapidly changing world. That has increased frantically since derivatives and swap insurance have taken over.

It is not surprising that critical or almost any serious discussion of derivatives, and derivative swaps should have been banned at economic conferences even at most of our greatest universities. For driven to extremes, they eventually have arrived, not even realizing the identity, at the mathematics of the atom bomb: the exponential infinite series. If you stick to the variables in the series alone, it is made up of an endless series each one degree higher than the preceding term. The first term is 1 which is a constant and its rate of growth is zero since constants don't grow. Not to worry. The next term is x which grows just as fast as the first term and hence becomes 1 to replace it. And in that way the infinite series being endless always replaces the previous term as the series proceeds – if your let it, it would move across continents and oceans. A further point of no small importance is that the direction is controlled by the constants of integration and derivation. Just as a simple first-degree equation that we were taught in first-year algebras classes depend on their constant coefficients to determine their sense of direction. That is determined by the coordinates of simple no-variant numbers resulting from the constant numerators and the denominators arising from the various integrations and derivations of the variants. If these coordinates had not been carefully considered, the original atomic bomb might have hit not Hiroshima, but Vladivostok or Shanghai. Just as when you replace $X + Y = 0$ with $X + 3Y = 0$, you change the direction of a straight line in elementary algebra. But there has been no attempt to refine derivatives as used by economists. The purpose is to market them to the legendary "bigger fool" and incorporate the profit into the bank's network and get on to the next hyper-scam as quickly as possible.[1]

During the 1980s though in the United States the *Glass-Steagall* legislation was still on the books, it was being increasingly ignored. Moreover, the banks having recovered from the Depression, were plotting a comeback to the glory days of the 1920s when speculation was allowed to run rampant. And for this they required low-profile centers to coordinate the strategies. For most post-war governments had committed themselves to a very different world than the Great Depression. The Bank for International Settlements, originally set up in Basel, Switzerland, to handle the syndicating of the German Government's reparations for their destruction of North Eastern France and Belgium in World War One. The Germans claimed to be able to pay for that only in German marks or with the labor of their underemployed, and the BIS was set up to eventually syndicate payments in German marks into a stronger currency.

Low Profiles Become de rigueur in High Finance

However, when Adolf Hitler marched his troops into Prague, BIS almost fell over itself in surrendering the part of its gold reserve that the Czechoslovak government had left with it for safekeeping. That is why at Bretton Woods in 1944, that planned the postwar financial system, Resolution 5 was adopted calling for the quickest possible dissolution of BIS. Accordingly BIS cultivated a low profile – some of its offices were above a coffee-shop.

Allied governments to give their troops reason for risking their lives in the trenches had promised a post-war world friendlier to the humble than that of the 1930s. There was accordingly a not dissimilar desire for low profiles. That brought the two together in not inviting elected government officials to their gatherings.

What resulted was a network that increasingly ran world finance beyond the reach of elected government. In the United States that made possible sensational bank failures connected with the banks taking over the Savings and Loans – essentially mortgage trusts. To help the banks out of their troubles, BIS in 1988 declared debt of developed countries "risk-free" that banks could accumulate with nothing down. That led to Canadian banks quadrupling their holdings of government bonds to $80 billion approximately with no down-payment. And some three years later the same BIS declared zero-inflation an immediate requirement to be enforced by raising interest-rate as high as needed for that purpose.

What BIS and its following of bankers and central bankers overlooked was that when interest rates go up enough the market value of bonds bought with nothing down a few years earlier when interest rates were lower, crumbles. And that is what almost brought the international monetary system down. As a result the International Monetary Fund, and the US government put up $25 billion each and Canada a single billion to set up the largest bail-out stand-by fund to that date to forestall the collapse of the world monetary system. It turned out that it was not necessary to make use of that fund, but it shook the Clinton government into bringing serious accountancy into its books.

"Accrual" or "capital" budgeting was brought home from Saracen lands by the Knights Templar about one thousand years ago. It was a simple enough procedure for grasping all that there was to know about any investment. The money or credit paid for it was introduced on the debit side of the ledger and "amortized" over the expected useful life of the investment. ("Amortized signified in Latin that it was paid to its extinction according to a preset schedule.) The physical assets on the positive side of the ledger were "depreciated" – depreciated is a reference to their current market price ("pretium") being adjusted to their current circumstance…. Between the two, the system summed up how the investment was faring.

Accrual accountancy helped make possible the glories of the Venetian Republic in building up a lucrative trade with the Muslim world. For the Koran needed the partners in commercial ventures to share risk with its active organizers before they were rewarded with a share of the profits. Otherwise – by Muslim law – the passive partner who received part of the profits *without* sharing the risks – upon his first relapse – would face eternal punishment by fire in the after-world. Accrual accountancy made possible not only the great and costly voyages that led the Spaniards and Portuguese to discover the Americas, and the Portuguese to find the maritime route to India and Eastern Asia around the Cape of Good Hope. It also made possible financing the wars leading to the consolidation of principalities of medieval Europe into centralized kingdoms.

The German Poet Goethe Sang in Vain

The great German poet Goethe sang the praises of this ingenious accountancy system. But even that was not enough to induce our current governments to use it in their own books. They did, however insist on some close replica for their taxpayers' tax-returns.

Why? For that we must refer to a concept of a great French economist, dead and practically forgotten for some two decades, with whom I was closely associated – François Perroux. He held that in every society the class in the saddle manages to impose its own revenue as the one reliable index of the well-being of society as a whole. He called this the "dominant revenue." In Britain after the Napoleonic Wars it was the large landowners who were able behind high tariff walls to screw up their land rents to record heights. Then the "dominant revenue" shifted to the pioneer industrialists who began applying Watt's steam engines, and needed cheaper food imports to lower still further the subsistence wages they paid their workers. All this was convincingly explained by economists like David Ricardo who for the purpose made use of some version of the labor theory of value as basis for their reasoning about what value might be. That was all right so long as the factory workers were illiterate and couldn't get uppish hearing that their labor was the source of all value. But by the mid-19th century not only had workers learned to read, but barricades were being thrown up in most European capitals, and, defeated, socialist and anarchist leaders were arriving as refugees in Britain, including Karl Marx and Friedrich Engels themselves. As a result before you knew it mass meetings were being organized by the refugees including Marx's talented, tragic daughter Eleanor, in Hyde Park practically within earshot of Buckingham Palace.

High time then for a shift in the "dominant revenue." The labor theory of value was abandoned as inflammatory and value-creation was shifted from factories to the pleasure that the finished merchandise afforded the consumers in luxury shopping galleries. So rapid was the need for such a shift that it happened quite independently in at least three capitals at practically within a year or two of one another. Vienna, Paris and London. To make it more plausibly "scientific" it was presented with a smear of calculus that the mathematically illiterate – as is happening again in our day – mistake for a guarantee of scientific validity. In actual fact the empirical contribution that mathematics brings to the table is zero; properly chosen, however its powers of analysis are infinite.

Even George Bernard Shaw fell for the gimmick, professional skeptic and questioner though he was. He wrote a play glorifying the new marginal utility theory of value that ascribed the value of a product to the intensity of the pleasure it gave its ultimate consumer.

One immediate advantage of the new value theory is that is caused the problem of unemployment to vanish. What unemployment? If workers were staying home, it was just that they derived greater pleasure from leisure in their parlors than going to work at the wage offered. What more could any reasonable mortal ask?

High time today to change the "dominant revenue"! The essential quality of the successive "dominant revenues" is that they don't tolerate sharing their privileged status. Thus in the Rooseveltian legislation that set limits on the banks' voracity, there was not a single but two alternate ways of stimulating or bridling the economy. The benchmark interest rates set by the central bank made possible for the central bank to stimulate or brake the exuberance of the economy by varying by lowering the central banks' benchmark interest rates. But there was also the statutory reserve that required banks to redeposit a modest part of every deposit they received from the public with the central bank on which they earned no interest. That not only provided the government with much free credit, but with an alternative to interest rates for encouraging or discouraging investment. Interest, of course, is the basic income and tool of banks and their machinations.

We are at this very moment witnessing the central banks of the US and other countries bringing the benchmark interest rate down to almost zero in the hope of reviving a sinking economy with no further place to go. What is missing is the statutory reserve which was brought in during the Great Depression to avoid just that blind alley. But retaining or bringing back the statutory reserves would be surrendering the monopoly position of the "dominant revenue."

Enter Accrual Accountancy with a Conspiratorial Mustache

The lesson is that the structure of our key laws mimics that of our society, and the "dominant revenue" never surrenders. It can only be swept away by a successful competitive system.

However, we are currently witnessing an even more overwhelming bending of the lessons of logic that makes it impossible to shake off the current still deepening crisis. Having allowed the Bank for International Settlements to almost bring the world to disaster with interest rates intended to achieve what they considered "zero inflation." President Clinton in January 1996 did a drastic bit of rethinking and brought in accrual accountancy into the US government's books. It had taken some four years to rework government accounts to accrual standards going back to 1959. That properly treated physical investment as capital assets and disclosed some 1,350 trillion dollars of physical capital assets that had been written off as spent, consumed assets that left nothing but debt. However a wink and a nudge to appraisers turned the trick.

And even when the amended entries were brought in, they were still listed not as capital investments, but as "Savings," which they were not for that term implies cash or very short-term securities and the items reclassified included century-old buildings, bridges, and roads, etc., etc.

Let me begin a reexamination of the basic flaw in logic of any "dominant revenue" theory that guarantees such results. It is true that if I hold a loaded pistol to my head and press the trigger, I fall dead. But you cannot turn propositions around as a cook flips pancakes. It is not necessarily true, should I fall dead, that I have shot myself. The cause may have been heart-failure or a thousand other things. Nobody but a fool, on moving from, say a town of 20,000 to New York City will expect his cost-of-living to remain the same. How then can he expect that, when humanity makes a similar move? The number of cities with more than 5,000,000 population on all inhabited continents has shot up in recent years almost beyond counting. Greater Mexico City today has a population of some 30 million.

Obviously what has entangled the wits of economists who mistake all price increase for inflation is our old friend the "dominant revenue" that believes in a price level flattened out as though by steam roller.

La Revue Économique in Paris, France, issue May 1970, carried a fifty-some page article of mine developing the view that the price level may go up not necessarily because the quantity of demand has exceeded available supply, because of the rapid increase of essential public infrastructure services that only the state can supply. This I call the "social lien" and examined in detail how it increases the productivity of the economy rather than undermines it.

My theory of the "social lien' was reviewed very favorably by several economic academic publications including that of the Economics Faculty of Cambridge University in Britain.

Harvey Wilmeth, of the University of Wisconsin and a member of COMER's executive committee, immediately pointed out that in fact the government capital investment enters the price index not once but twice. I elaborated on his improvement of my social lien analysis, which I summed up in *Meltdown, Money, Debt and the Wealth of Nations*, 1999: "The GDP in effect counts the output of the public sector doubly. Because the taxation to pay for marketed government services turns up substantially as a layer of price, the cost of government services is already included in the dollar amount of the private sector. But then its are added once again in the cost of public services to arrive to the GDP….

"Wilmeth's remark about the output of the public being counted twice in the GNP says something very similar. If the Output of the Public Sector (P) is subtracted from the GNP to correct this, the average price of the GDP will be shown to have grown by the factor G/G-P) this is equivalent to the infinite series:

$$1 + P/G - (P/G)^2 + (P/G)^3 - (P/G)^4 + \ldots$$

"This is a remarkable result achieved with some tuppenny maths. It shows that the effect on the price level of unpriced government services is in fact more complex than just simple addition. That is because the cost of state-services must be borne by a real GDP that in fact is smaller than first appeared – for in its pricing the cost of public services turns up twice.

"But a smaller private product as a proportion of GDP means that the output of the public sector is relatively greater. And since it is counted twice this implies a further shrunken real GDP to support this creation, and forth. The double counting echoes back and forth between P and G and gives rise to a converging series to show the ultimate effect of the unpriced public services."

Wilmeth's Contribution to My Socien Lien

"Getting back to Wilmeth's analogy: if you were in a joint purchase of a bike with a TV set ignore the value of the bike you get free with the TV, and attributed the cost of a TV set that you had previously been able to buy alone [say] for $300, you would conclude that there had been a 33% inflation. Indeed, that is just what we have been doing by ignoring the value of public services."

And once that word "inflation" is uttered, the alarm bells start ringing, and interest rates go up. And yet that false alarm will bring down prices only by felling the economy.

Let us then pause at this point and review what we have learned and what remains to discover.

A farmer growing potatoes and finding his crop beset by bug or plague, will not put out of mind the successful cure already applied on previous occasions. A roofer confronted with his handiwork springing leaks too often and eventually learning their cause, will not bungle or hesitate remedying the flaw in his craft.

President Obama's position today is no different. His election to the presidency of the world's most powerful nation promised to help expunge both racial discrimination, and at least temper the ranker economic injustices. Between President F.D. Roosevelt's *Glass-Steagall*, and the introduction of accrual accountancy that the Knights Templar brought back from their crusades in the Holy Land a thousand years ago were finally applied in the US government books for the government's *physical* investments. These finally avoided the collapse of the world economic system in 1996. Today President Obama need only apply what was learned in introducing Washington's handling of its *human* capital investments as was already done under President Clinton for Washington's *physical* capital.

Hence this greatest of growers and roofers has no further discoveries to make if he consults the buried lessons already learned in his own country on how to handle the deepening woes that are pushing the world towards disastrous military solution.

If we limited ourselves to taking just the changed purchasing power of the 1996 readjustment of the government between 1959 and 1996, we would come up with some 1.5 trillion dollars in the US debt. But then there is the immense increased size and variety of public services in the US for essential new physical infrastructures that have transformed the world quite beyond recognition, very conservatively we would arrive at least at some $3.5 trillion. Canadian statistics of this sort usually run to about a tenth of their counterparts in the US.

But there is something very special about investments in human capital by governments. The expenditures of the funds invested in human capital usually go on yielding a return indefinitely. Children of better educated parents tend to be better educated than those of uneducated ones. Britain is still pocketing considerable dividends from what funds Stratford-on-Avon laid out educating a Billy Shakespeare.

That is what is lacking in otherwise productive ingenious populations such as India and even Russia. Countries like China today are stocking up with imported metals and other materials to take advantage of the overstocked supply in a depression-stricken world. Rather than spending it on unemployment insurance, it would be better to do so on health and education and on retraining. That would be an investment instead of a demeaning and burdensome current cost of relieving some of the devastating results of our non-functioning economy.

However, to make this clear to our governments and voters, we must rid ourselves of the mono-witted mythology that reins today about what constitutes a balanced budget. We must free ourselves of the tyranny of a "dominant revenue" that is once again preparing the world for the next world war.

William Krehm

1. Derivation refers to the use of derivative, i.e., the rate of growth of the main variable and all the higher rates of growth in an exponential series defined by the rate of growth for the rate of growth always equals the value attained by the total series, and the variables move higher to the end of the infinite series. The first term on the left being a constant "1" becomes zero, 1 being a constant, does not grow. Not to worry it is an infinite series and you can always add a term at the other end or better yet you don't have to because an infinite series goes on to China and beyond. The second term with a variable term of x becomes 1 which grows as fast as x the variable, that is to say replaces the 1 that has disappeared; The only problem is that the constant coordinates And as I explain in the body of the text these are provided by the result of successive derivations and integrations – one in the numerator the other in the denominator these determine the course taken by the explosive growth of the value of the series when applied in warfare. The results when it is used in the economy are hardly less drastic.

China's Stimulus Program Also Has Its Core of Fiction

The notion of a "dominant revenue," developed by the late French economist François Perroux formulated that in every society there tends to be a class so securely entrenched in power that its revenue is taken as an index of the welfare of society as a whole. From there on all is carefully structured fiction. At one point it was the large landowners in Britain who profited from the high tariffs against grains. Then it became the burgeoning industrialists who brought in low tariffs so that the subsistence wages they paid their workers would be still lower. So the most radical remaking of the "dominant revenue" was brought in. Instead of deducing value from hard toil in machine-powered factories the very concept of value and what determined it was changed. From the messy sweatshops of the early industrial age, it came to be measured by the psychological satisfaction it brought to the consumers in luxurious salons. And unemployment – such as we suffer increasingly today was simply denied existence. Value was seen as measurable by the degree of psychic enjoyment the buyer enjoyed in consuming it. And in this optic of "marginal utility" ("marginal" referring to the "scientific" maths, differential calculus, on which the value theory was allegedly based) there simply was no unemployment. If the worker thought he was unemployed, he was simply too ignorant to understand that he derived greater pleasure from leisure in his parlor than working for the wage offered.

We can detect the same pervasive of the "dominant revenue" at work in the variety of "stimuli" being employed in an effort to get the stalled deregulated banking system working. In the United States the government has jumped in and actually ended up buying shares of the illiquid banks. Not so in China where there are other pious fictions to be enforced. But regardless of the local piety to be honored, the "dominant revenue" of Perroux rides the waves.

In *The Wall Street Journal* (10/06, "Concerns About Cost of China's Stimulus Grow" by Andrew Batson): "Beijing – The cost of China's stimulus program is turning out to be much larger than official figures indicate, raising the stakes for the government's attempt to restart high growth through massive borrowing.

"The spending spree has helped steady China's economy while other major nations remain mired in the global downturn. It is one of the largest stimulus programs adopted in the world – yet China plans to hold its budget deficit to just 3% of gross domestic product this year. That's about where the US hopes its deficit can end up in a few years after it scales back its stimulus spending.

"In fact, China's formal budget is paying for only about a quarter of the two-year, four trillion yuan ($585 billion) investment program. Stimulus projects typically get fast approval and a partial financial contribution from the central government, with local authorities left to come up with the majority of the funds. But they don't have much money, as China's tax system channels most revenue to Beijing. The result over the past few months has been an explosion in local government debt – liabilities that have the indirect support of Beijing but don't appear on its books.

"'There is no such thing as a free stimulus package. There is a huge amount of unreported government debt, and we're adding to it clearly,' said Stephen Green, an economist for Standard Chartered in Shanghai.

"A government audit of stimulus projects in May found local governments had put up only 48% of their matching funds. Some local governments were so bad off they used stimulus money from Beijing to retire some of their older debts, the auditor said.

"That means the local governments have to borrow the money for any new projects. As they are largely barred from taking on debt directly, the borrowing is happening through governemnt-backed companies."

Hidden Central Bank Stimulus

"There aren't solid figures on how many loans from state banks went to such firms. But in the first quarter, new loans for infrastructure projects – usually run by companies with government ties – totaled 894.8 billion yuan, equivalent to 22% of the national stimulus package.

"China's relatively new corporate-bond market, where many local governments also are raising funds, provides a bit more clarity. By the end of May, issues of local corporate bonds – virtually all of which are indirectly backed by local governments – totalled

102,53 billion yuan, already more than the 68.39 billion yuan sold in all of 2008.

"The central government in Beijing permits, even encourages, this local debt because its main goal is to ensure the stimulus program gets funded.

"'It is critical to give priority to arranging local government matching funds,' vice minister of finance Zhang Shachun said late May.

"Like other economies with big stimulus plans, China is making the bet that the burden of the debt it takes on now will be lightened by faster economic growth in the future.

"It's a bet that has worked for China before, and many still feel confident. 'If the economy grows, tax revenues will increase, tax revenues will increase, and then paying back is not a big problem. My own judgment is that the scale of these debts is controllable,' says Kiu Shangxim deputy director of the Research Institute for Fiscal Science, the finance ministry's think tank.

"Yet, even before this year's splurge, local-government debt was already sizable. The institute estimates off-budget local government debts at about four trillion yuan – by coincidence, the same amount as the stimulus plan, and equivalent to 16.5% of gross domestic product.

"As the central government is ultimately liable for those hidden debts, China's total state debt is closer to 35% of GDP than the 18% shown by the official figures.

"With tax revenues down sharply, the government's deficit this year could end up exceeding the 3% target. The budget is based on an 8% increase in revenue this year, but as of April revenue is down 9.9%. Deutsche Bank economist Jun Ma says revenue will be at best flat in 2009, and expects the budget will end up at 4% of GDP.

"Though China's government finances are not quite as sterling as they first appear, its position is still better than highly indebted nations such as Japan, Italy or the US. The problem is that the preponderance of off-budget financing makes it almost impossible to know how much worse things are."

W.K.

Were We Standing on Our Heads Before the Great Meltdown Then or Now?

It all began with folks called economists started confusing opposites, and now they have our policy-makers spending their time standing and limping around on their heads, yet their ears are still not very close the ground.

Let me quote from *The New York Times* (06/05, "Politics and the Financial Crisis Slow the Drive to Privatize" by Leslie Wayne) reports with clarity a muddied tale: "It was hailed as a win-win for Main Street and Wall Street – and a way for cities and cities, along with financiers, to make some money.

"But now privatization, the selling of private airports, bridges, roads and the like to private investors, looks like a boom that wasn't. Deals are collapsing. Airy hopes of quick profits are vanishing. And what was celebrated as a new wave of finance is for the moment, barely making a ripple.

"What happened? Damped interest, for starters. The financial crisis with its $787 billion economic stimulus package, a windfall that local governments are now racing to spend. The easy money that Wall Street was counting on to finance its purchases with has largely disappeared.

"Bankers concede they got a bit ahead of themselves. When times were good, investment banks and private investment funds raised billions of dollars in hopes of buying infrastructure. But many state and local governments resisted selling because of money or politics, or both.

"Some deals turned out to be less lucrative than these would-be sellers had hoped. Government officials began questioning whether taxpayers would be better off if infrastructure were in private hands. After Chicago sold its parking system to a private operator, for instance, drivers had to feed meters with as many as 28 quarters to park for two hours.

"'We will see a few transactions,' said Fred Pollock, a vice president at Morgan Stanley Infrastructure, a private equity fund. 'But we know what we won't see – a tidal wave of projects.'

"Some big names still want to enter this business, among them Citigroup, Goldman Sachs, Morgan Stanley and Kohlberg Kravis Roberts. Such investors have raised about $180 billion for global infrastructure projects. Large funds have also been established in Australia, Britain and Bahrain, where such public-private partnerships are more common. More than 20 states enacted legislation in recent years to allow some form of private-public investment that would help fill budget gaps and repair crumbling roads, bridges, and even airports.

"But now the deals are falling apart. In April, a much-anticipated $2.5 billion plan to privatize Midway Airport in Chicago collapsed after a group of investors was unable to obtain debt financing. The deal which had been in the works for four years, was to have been the first in a Federal Aviation Administration project that would have allowed up to five major airports to move into private hands.

"The biggest was the failure last fall of the largest deal proposed to date – a $12.8 billion lease of the Pennsylvania lease to an investor group headed by Citigroup and a Spanish investment firm. Postmortems into that failed effort show that privatization advocates vastly underestimated the political opposition the deal would stir up in the Pennsylvania legislature.

"Late last month plans to privatize 'Alligator Alley,' a 78-mile stretch of Florida highway that connects Fort Lauderdale with Naples, collapsed when no bidders showed up. The failure has had a ripple effect – in Mississippi, state officials state officials have pushed back the bidding schedule for a new 12-miles toll road.

"Proponents of public-to-private asset sales point to the $1.8 billion lease of the 7.8-mile Chicago Sky-way in 2004 and the $3.8 billion raised by Indiana through a 75-year lease of its toll road in 2006 as successful pioneering efforts.

"In Indiana, the money went to pay for a 10-year highway infrastructure program, and Gov. Mitch Daniels was re-elected last year promoting the lease, despite bumper stickers reading 'Keep the Toll Road, Lease Mitch.'

"Obviously the retreat of the automobile from the center of our lives is going to affect the seemingly assured position of the highway system, and what cars we can afford will have to make do on less perfect, and less-used roads for a nation that is likely to afford less travel under most ideal conditions. In short, more stars of uncertainty in our heavens."

And how they blink!

W.K.

Amidst an Inability to Understand the Varieties of Government Debt, the Age of Bonds has Arrived

The Globe and Mail (27/05, "US Braces for bond flood" by Boyd Erman) tries getting the crooked tale straight with less than indifferent success: "Barack Obama admits the US is tapped out, but that's not stopping investors from giving him more cash to finance his massive stimulus package.

"This is a make-or-break week for President Obama's plan for unprecedented borrowing, with more than $100 billion (US) of US government bonds going up for sale amid concern that the United States may lose its top-notch triple-A credit rating because of all the debt.

"Yet Mr. Obama has little choice but to forge ahead, because as he acknowledged in a television interview Monday, 'we are out of money now.'"

However, there is debt of very distinct functions and dysfunctions. At Bretton Woods in 1994 towards the end of World War II, there was no question of returning to the gold standard. Washington saw to it that Britain would pay back enough of her war debts to it to liquidate most of her investments, but the rest of the world emerged from that Conference and from the Peace Conference essentially on the US-dollar standard since much of the world's gold-backed currency had ended up with the US.

Today there is not even the pretense of a gold standard. It is the debt of the US nipping at the heels of the US to share or even replace the Americans in that monetary eminence. Today the Chinese yuan or the Euro that fill the role which is the debt of what country or countries have a positive balance of trade much of the time or a banking system that has managed to disguise their lack of one. Getting one's essential international bills paid are what is decisive. And, of course, it is the debt of the local central government that counts. Currency then is a balancing act backed by the country's ability to produce the goods and services that cannot be produced domestically in other countries or acquired by trade. Its accommodation is to the needs of the very wealthy in sheltering their wealth against their native tax-laws. The pretension of an international currency will reflect too the degree of social cohesion that a country has developed, its natural resources and its progress in having managed to organize their exploitation. To talk about debt as a homogenous substance is to confuse rather than clarify.

To guide him through this jungle, President Obama has certainly chosen a strange guide, Timothy Geithner, an alumnus of the upper banking bureaucracy.

The first result of that choice is Mr. Obama's every decision, and the very language he chooses, echoes the deregulated banking system that led his country and the world into its present crisis.

For even though the legal tender in the US is certainly "debt" it is "debt" of the state which is backed by the tax-powers of the country as a whole. One must be very careful what one does with it. Between that government debt and the creditor no less august relationship must intervene. One definition of legal tender, indeed, is that if any creditor who refuses to accept it in payment of a debt, his debtor can walk away from that debt with a clear reputation and conscience. Insert into that context a dubious mortgage or some other bit of some other questionable collateral, and you destroy the very concept of legal tender.

Remember How Tender Is Legal Tender

And if there is any confusion on the subject, it is largely cultivated by the banks whose very compulsions to grow at an exponential pace, i.e., in accordance with the exponential series defined by its rate of growth, and the growth rate of that rate of growth – in a procession that goes on to infinity. Are we to insist that if legal tender conforming to this growth pattern must be valid or the debt is no longer valid? Translating the legal tender definition into a swap – that is an insurance policy – adds to the confusion. For the notion of being able to insure anything and everything merely by raising the premium high enough – as with derivative swaps – doesn't wash. For example, 2 x 2 = 5 is not merely risky, it is incorrect. Anything whose value depends on such an illiterate dodge can not qualify as legal tender. And it is legal tender that we are talking about: a certain portion of the debt of the central government. Not what it really owes anyone, but our medium of circulation. Without such legal tender we could not operate a modern economy.

You don't have to trust me on that – just reach for your pocket book and haul out any paper bill of currency. I have pulled out a twenty dollar bill. It doesn't promise on request to deliver, it says succinctly: Canada – Vingt – Twenty dollars. That is the end of the line. You take that paper bill when it is tendered in payment of a debt. Or you debtor can walk away with the paper bill cited, or he can walk away from his debt with a clean conscience.

Offering him something collaterally supported by somebody's risky house mortgage as collateral doesn't do the trick. This unique qualification of legal tender that doesn't let anything get between you and the government whose legal tender is crucial. And that is what our banks in their insatiable greed have brought into question.

"If all the sales go as well as the first went yesterday, a $40 billion auction of two-year notes. it will signal investors believe the US can dig itself out of the economic and fiscal hole it's in. Successful bond sales may also help to stop the recent declines in the US dollars, which has led to a rise in the Canadian dollar that's not welcomed by this country's exporters. Should the remaining auctions bomb, there's concern that the US could find itself unable to finance its plans on reasonable terms. 'All eyes will…be on the Treasury market and the dollar, particularly given the sizable amount of Treasuries auction this week,' said Jim Reid, a credit strategist at Deutsche Bank."

Again there is some confusion between the clear recognition of the dollar debt as legitimate currency, and the value of that recognized legal tender. But if the separateness of the two possible roles of the debt – its validity as legal tender and the quotation of legal tender on the market. But unless we seize and hold that distinction we are opening wide the mistaken notion that anybody can invalidate the borrowed dollars as legal tender, merely by placing too low a value on it. That is why you must be careful with a country's legal tender, even though the most astounding complex ideas for making money with it occur to you. Those two subjects must be kept apart, or we are bound to come to grief. And President Obama hasn't helped a bit by sealing them in the same jar labeled "debt." It is like mistaking our Queen for just another woman, no matter how modestly we may appraise her personally.

It would, of course, have been simpler for the government to have borrowed the money directly from the Fed or the Treasury. Since the Treasury – that signs US dollar bills – is part of the government, whereas the Federal Reserve still has private bankers, though a modest part of its profits do go to the government, that issue them as bonds which involves a commission. But gravy-trains criss-cross whatever comes out of Wall Street headed for Washington.

"US bonds rallied in the wake of the successful two-year sale, but yields on bonds maturing in five years and more still remain stubbornly near their highest since late 2008. That signals that there are lingering doubts about the viability of the Obama plan. As a result, analysts said sales of seven-year bonds scheduled for today and to-morrow and $26 million-billion of seven-year bonds scheduled for today and to-morrow, respectively, may be tougher than the two-year sale.

"There's also more concern that the US government will face severe financial hardship in the next couple of years, which would cut the value of bonds for holders outside the US.

"The problems become even more acute when the Treasury tries to sell 10-year bonds and 30-year bonds next week. 'The safety if you want to buy US Treasuries is in the front end,' said Sheldon Dong, fixed-income strategist at TD Waterhouse. 'With all the supply coming out this year, it's a buyer's market.'

"Yet Mr. Obama has little choice but to forge ahead, if he insists on ignoring the long prepaid investment in human capital which we have raised and will continue doing so on future occasions."

W.K.

Banks Gird to Defend their Speculative Privileges

The Wall Street Journal (04/06, "Banks to Stiff-Arm New Rule" by Susan Pulliam), who have been so blind, deaf, and dumb to the interests of the nation, have risen militantly to bring back some of their recent privileges: "The financial-services industry is taking steps to delay an accounting rule that would force banks and others to bring some of their off-balance-sheet vehicles onto their books next year, which could force some to raise additional capital.

"A group that includes the Chamber of Commerce, the Mortgage Bankers Association, and the American Council of Life Insurers and others sent a letter on June 1 to Treasury Secretary Timothy Geithner, regarding the off-balance-sheet accounting-rule change, saying it should be adopted 'and seek to minimize cautiously any chilling effect on our frozen credit markets.'

"The letter was signed by 16 industrial associations, many of which were part of a group known as the 'Fair Value Coalition,' which was formed earlier this year with the goal of changing mark-to-market accounting rules. Mark-to-market accounting rules require banks to reflect market prices in the hard-to-value securities and other assets.

"An article in Wednesday's *Wall Street Journal* detailed how the group spent millions of dollars lobbying members of Congress on the issue, followed by a hearing in which the lawmakers pressured the Financial Accounting Standards Board to amend the mark-to-market rules.

"Now the group of financial organizations is trying to put the brakes on the off-balance-sheet accounting measure, which would banks to bring back onto their balance sheets such off-balance items at the beginning of 2010, effectively forcing them to set aside more capital. Some accounting experts say they aren't surprised by the banking industry's latest effort. 'Here we go again. They will get out their check-books and go the Hill,' says Lynn Turner, the Securities and Exchange Commission's former chief accountant.

"The rule would apply to existing off-balance-sheet entities known as qualifying special purpose entities, which were generally used by banks to package and sell off to investors loans they had made.

"Investor groups Wednesday discussed in a call how to respond in a call how to respond to the banking industry's assault on mark-to-market accounting as well as the off-balance-sheet accounting measure. During the call, organized by the Center for Audit Quality, the group agreed to respond in a letter to lawmakers if a hearing to revisit the market-to-market accounting rules is scheduled.

"The group, which included representatives from the CFA Institute Centre for Financial Market Integrity and FASB, among others, also talked about the banking industry's efforts to push back the off-balance-sheet accounting measure.

"Some banks have begun to estimate the impact on their balance sheet of the new rule, including J.P. Morgan Chase & Co., which said the rule would require it to mark down $145 billion in assets when the rule goes into effect. Analysts don't expect that the bank, one of the healthiest in the industry, will need to raise capital because of the shift.

"The rule 'includes securitization vehicles that played a large role in the bubble and allowed banks to operate with low levels of capital even though they had exposure to these assets that weren't on the balance sheet,' says accounting analyst Robert Willens."

We have gone to the trouble of reproducing the entire article from the *WSJ* to convince our readers that it was not due to our oversight that there is mo mention of the resource that served to get at least part of the world not only out of a crisis but into a boom when the Clinton government in despair brought it into the accountancy of the US after decades of denying it the time of day – accrual accountancy for the physical investments of government. It worked like a charm, but, of course, misnamed "Savings" instead of physical capital investments by the government, invited such abuse. With the feasibility of the accrual accountancy established by recent government policy as well as by the commercial history of a thousand year ago, there was only need to switch to *human capital investment* of governments. And since there is a terrifying amount of surging unemployment spreading and deepening throughout the world the return in financing health, education environment would be immense. But it suffers from only a single defect – it moves dead against the "dominant revenue" of our epoch – the profits escalating at an exponential rate – in fact the very mathematics of the atomic bomb. This explains President Obama's otherwise odd choice of financial experts who already served previous regimes in inflicting the very policies under which the world groans today.

There is nothing served in trying to solve the basic problems of the world economy, unless we begin by removing what gags and blinds economists to the most obvious lessons of our own history and economy, and conscripts us to march blind-folded into the next world war.

William Krehm

Should Washington be Bailing Out Its Outstanding Newspapers Rather Than Its Mega-banks?

Though it has a further stretch to go in getting the whole story of the causes of our economic mega-swindle, the progress made by *The New York Times,* itself under financial duress brought on by the print publication crisis, is particularly laudable. Elsewhere in this issue of *Economic Reform* we carry a far more complete version of the whole tale that we have drawn up for an information firm that has approached us for a full version of what we have been predicting. In the course of doing so we have had to cite great economists, some of them dead for some decades that COMER worked with to warn about the present sea of financial grief literally decades before it took place. This provides our readers with the ability to make comparisons with what COMER or some of its members were collaborating in decades ago. It is of interesting, for example comparing that lengthy document with Frank Rich's excellent column in the *Times* (21/06, "Obama's Make-or-Break Summer"), which we quote. That will allow our readers to note the progress the *Times* has made in recent weeks with putting together the sordid background, and the distance the *Times* still has to go.

"That first 100 days hoopla seems like a century ago. The countless report cards it engendered are already obsolete. The real story begins now. With Iran, universal health care, energy reform and the economic recovery, the still-new, still-popular president's true tests are about to come.

"Here's one thing Barack Obama does not have to worry about: the opposition. Approval ratings for Republicans hit an all-time low last week both in *New York Times/CBS News* and *Wall Street Journal/NBC News* polls. That's what happens when a party's most creative innovations are novel twists on old fashioned sex scandals. Just when you thought the GOP could never match the high bar set by Larry Craig's men's room toe-tapping, along came Senator John Ensign of Nevada, an ostentatiously pious born-again Christian whose ecumenical outreach drove him to engineer political jobs for his mistress, her cuckolded husband and the couple's son. At least it can no longer be said that the Republicans have no plan for putting Americans back to work.

"But as ever, the lack of an adversary with gravitas is a double-edged sword for Obama. It tempts him to be cocky and to coast. That's a rare flaw in a president whose temperament, smarts and judgment, remain impressive. Though we don't know how Obama will fare on all the challenges he faces this summer, last week's big rollout of his reform package was a big punt, an accommodation to the status quo. Given that the economy remains the country's paramount concern – and that all new polling finds that most Americans still think it's dire – this timid response was a lost opportunity. It violated the Rahm Emanuel dictum that 'you never want to let a serious crisis go to waste' and could yet prompt a serious political backlash.

"A tip-off to what was coming appeared in a *Washington Post* op-ed article that the administration's financial gurus, Lawrence Summers and Timothy Geithner, wrote to preview their plan. 'Some people will say that this is not the time to debate the future of a financial regulation, that this debate should wait until the crisis is fully behind us,' they wrote by way of congratulating themselves on taking charge."

No Pop Star Had More Recalls than the Gurus who Already Made the Economy Go Pop

"Who exactly are these 'some people' who want to delay debate on the future of regulation? Not anyone you or I know. Most Americans were desperate for action and wondered why it was taking so long. The only people who Summers and Geithner could possibly be talking about are the bankers in their cohort who helped usher us into this disaster in the first place. Both men are protégés of one of them, Robert Rubin, the former wise man of Citigroup.

"There are some worthwhile protections in the Summers-Geithner legislation, especially for consumers, but there's little that will disturb these unnamed 'people' too much. I'll leave it to financial analysts to detail why the small-bore tinkering in the administration blue-print won't prevent another storm of arcane derivatives, unchecked (and risk-rewarding) executive compensation and too-big-to-fail banks like Citi. Suffice it to say that the Obama team has not resuscitated the *Glass-Steagall Act*, the New Deal reform that Summers helped dismantle in the Clinton years and that would have prevented the creation of banking behemoths that held the economy hostage."

(The reader can take time off to check COMER's journals, website and books to refresh his or her memory on how many years COMER was treated as mad pipers for talking about the Rooseveltian *Glass-Steagall* legislation that would block commercial banks from acquiring interests in non-banking pillars that would allow them to take over their cash and near-cash reserves. That would have blocked the increase of their cash-base for applying the bank-multiplier to float their bank-money creation into the skies.)

"A particularly dramatic example of how the old Wall Street order remains intact can be seen by looking at the fate of credit-rating agencies like Moody's, which gave triple-A grades to some of the cancerous derivatives at the heart of the economic meltdown. As Gretchen Morgenson of the *Times* noted last year, Moody's sins during the subprime frenzy included upgrading its rating of securities underwritten by Countrywide Financial, the largest mortgage lender, after Countrywide complained that the ratings were too tough.

"Since then, more details have emerged in this unsavory narrative. When the Securities and Exchange Commission charged Countrywide's former chief executive, Angelo Mozilo, with securities fraud and insider trading this month, it, it produced e-mails from 2006 in which Mozilo referred to his company's subprime loan products as 'toxic' and 'poison.' Mozilo wrote that 'we have no way of reasonable certainty, to assess the real risk of holding these loans on our balance sheet.' Yet Moody's didn't warn the public by downgrading Countrywide's securities until the summer of 2007. Meanwhile this supposed watch-dog for investors, which like other credit-rating agencies, is paid by the very companies it monitors, took its own tranche of the bubble Moody's profit margins.

"And how have it and its peers in the credit-ratings game fared in the Obama regulation crackdown? Incredibly enough, they can still collect fees from the companies they grade….

"Non-Wall Street Americans who signed on to Countrywide's toxic loans are doing far less well. The White House stood by passively this spring as banking lobbies mobilized to castrate the administration's *Helping Families Save Their Homes Act*. The final version eliminated the key provision that would have allowed judges to lower the principle for mortgage holders whose are worth less than their loans. Dick Durbin, the Democratic senator from Illinois, correctly observed in April that the banks 'are still the most powerful lobby' in Congress and that 'they frankly own the place.'

"The banks' influence at the other end of Pennsylvania Avenue is also conspicuous. The revolving door between the government and Wall Street is as greasy as ever in this White House….

"Obama is very eloquent in speaking of the 'culture of irresponsibility' that led us to the meltdown, but that culture isn't changing so much as frantically rebranding. AIG is now named AIU, and has employed no less than four public relations firms, including one whose bipartisan roster of shills ranges the former Hillary Clinton campaign strategist Mark Penn to the former Bush White House press secretary Dana Perino.

"Taxpayers are paying for that PR, having poured $170 billion-plus into AIG. But we still don't have a transparent, detailed accounting of what was going down last fall when AIG and its trading partners, including Goldman snared that gargantuan cash transfusion. Perhaps if there had been a thorough post-crash investigative commission emulating the Senate Investigation led by Ferdinand Pecora after the crash of 1929, we would have had reforms as thorough as FDR's. It was because of the Pecora revelations that *Glass-Steagall* was put in place.

"If you watch CNBC, of course, the recovery is already here, and the new regulations will somehow stifle it. The market is up, sort of. Even some bank stocks are back. Unemployment, as Obama reminds us, is a lagging indicator. And so, presumably, are all the other indicators that affect most Americans. One in eight mortgages is now either in foreclosure or delinquent, with the share of new mortgages going into foreclosure reaching a record high in the first quarter of 2009. Credit card delinquencies are up to 11% from last year in that same quarter.

"The test for Obama is simple enough. If the fortunes of American households rise along with Wall Street's, he is home free – even if his porous regulatory fixes permit a new economic meltdown decades hence. But if, in the shorter term, the economic quality of life for most Americans remains unchanged as the financial sector resumes living large, he'll face anger from voters of all political persuasions. When the *Fox News* fulminator Glenn Beck says 'let the banks lose their tails, they need to,' he illustrated precisely where right-wing populism meets that on the left.

Where Right-wing Populism Meets That on the Left

It's still not too late for course correction. Before rolling out his financial package, Obama illustrated exactly what's lacking when he told John Harwood on CNBC, 'We want to do it right. We want to do it carefully, But we don't want to tilt at windmills.'

"Maybe not at windmills, but sometimes want to do battle with fierce and unrelenting adversaries, starting with the banking lobby. While the restraint that the president has applied to the Iran crisis may prove productive, domestic politics are not necessarily so delicate. FDR had to betray his own class to foment the reforms of the New Deal. Lyndon Johnson had to crack heads on Capitol Hill to advance the health-care revolution that was Medicare. So will Obama for his own health-care crusade, which is already faltering in the Senate, courtesy of truants in his own party, not just the irrelevant Republicans.

"Though television talking heads can't let go of the cliché that the president is trying to do too much, the latest Wall Street Journal says that only 37% of Americans agree. The majority knows the country is in a crisis and wants help. The issue has never been that Obama is doing too much but whether he will do the big things well enough to move us forward. Now that the new phase of his presidency is giving way to the promised main event – change – we will soon find out."

William Krehm

Reflections on the Double-edged Powers of the Internet

The Globe and Mail (03/07, "Why the Internet is a double-edged sword" by Abraham Cooper and Harold Brackman) revives old memories. Of some of these Canada should be very proud. However, they do have their edge of ambiguity, which explains why they are not run up on this country's highest flag-poles. And more often than not, it has to do with the often ambiguous effects of advanced technology and our clashing responses to it. But let the authors of the article quoted say their piece before I will do my bit of reminiscing around them.

"'Who knows,' Jean-Marie Gustave Le Clezio told the Swedish Academy when he picked up his 2008 Nobel Prize for literature: 'If the Internet had existed at the time, perhaps Hitler's criminal plot would not have succeeded – ridicule may have prevented it from ever seeing the light of day So do the dramatic protests in Iran, dubbed the Twitter Revolution by some, make the French writer a prophet in his own time?'

"There is no doubt that cyber-freedom's promise is limitless, its palpable impact truly global. Evidence: Blogger Xeni Jardin, who visited a remote Guatemalan village without television or telephone landlines but with a few cell phones and a nearby Internet café. Village elder Don Victoriano absorbed the news of Barack Obama's presidential victory over his Hotmail account: with the immediate response 'If a black man can enter the Casa Blanca, maybe a Mayan person one day can become president of Guatemala.'"

And that set my mind down memory's lane. Marshall McLuhan in the 1960s trumpeted the emerging "global village" in which "the medium is the message." Today, it still is just that for those who see the Internet as the herald of a new polity of citizen activism via aerial social networking, e-mail petitions, virtual town meetings and on-line organizing. An English professor at the University of Toronto, McLuhan's prophetic mind simply refused to move in conventional grooves. With no background in economics, he sensed what a monetary reformer like me must signal a breakdown between the medium and the message that so absorbed him, and before I knew it he invited me to expound what I had to say at one of his weekly classes that were not confined to any particular subject. The University had sensed that geniuses tend to be unruly and had a genius on their hands.

There was a rendezvous with the future, which already had a foot in the door, reshaped by the marvelous new technologies for transmitting new ways of perceiving the

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explosive new relationship between man and the transmission techniques that had just begun begin springing their surprises. What concerned McLuhan was less what and how the communication techniques were occurring, but rather what they would do to the human mind as they reached out or failed to reach out to meet the powerful new transmission of information half-way. "The medium is the message" was taken as reason for many of his old English literature colleagues, who may have resented the extent of the attention he received from the American advertising gentry, were too ready to write him off as a little dotty.

But there was nothing defective about McLuhan. He was simply entirely engrossed by the new technology of communication, he sensed with foreboding how it would change society. for better or worse. I was gratified to have been included on a small CBC radio panel to mark Marshall's passing.

Marshall McLuhan can only be paired with an equally prophetic high school dropout of a generation earlier who trained as a metal worker – though he did later get a law degree – that an ungrateful Canada has completely forgotten. Gerald Grattan McGeer, not only grasped the potential of central banks in lifting the economy crippled by Depression, but carried it much farther and much earlier than John Maynard Keynes and other great reforming economists at the world's great universities. After obtaining a law degree he became in turn Mayor of Vancouver, member of the House of Commons in Ottawa. He was in fact the bumble bee on the bottom of the Liberal PM William Lyon Mackenzie King that pushed him into nationalizing the Bank of Canada to deal with the Depression, and then to finance Canada's World War II. Monetary reform was very much in the air in Canada at the time, but McGeer like a sleep-walker moved as though in a trance towards complete solutions for just about every aspect of the problem. and taking that revolution much farther than Keynes, years before Keynes even started along that path. Yet you will search for a copy of his book in the main library of the University of Toronto in vain, unless you head for its Catholic college. That is because, as a pious Catholic for his impeccable logic leading to the ultimate goal he based his argument on the Holy scriptures as much or more than on any of the great early or contemporary economists. But he dealt with every problem that the new concepts of money and the economy dealt with years before other economists, to the extent that they did at all, got around to doing so.

Canada, for having produced a pair of prophets like Gerald Grattan McGeer and Marshall McLuhan could be proud of their contribution to the better world that we are still struggling for – one in which we can live in peace with its every more lightning-like rapidity of technological revolution. That involves reconciling ever more revolutionary scientific technologies, with the improvisation of illiteracies dictated by untrammeled greed. Some of the contributions by the latter which COMER pursuing the analysis of the late great French economist François Perroux involves turning propositions around and holding them to remain valid, or raising that to higher levels assuming that propositions that are wrong rather than just risky can be insured. And just about every mathematical boner, that only dunces seated in the back row of a class or qualifying for a PhD in an economic department of some of our leading universities, could swallow.

That is Canada's penalty for ignoring the great prophets it has produced.

The authors of the otherwise excellent article, miss that point, when they conclude: "There's little reason to believe the Internet could have stopped genocide in 20th-century Europe and more than it has in 21st Africa.

"In 2009, regimes such as Myanmar protest sin on the Internet by outlawing the Web, no medium, no message. But others, from China to Iran, take a more sophisticated approach. The Chinese government, with the complicity of the gatekeepers such as Google and Yahoo, has found ways to squelch Internet dissents even while economically exploiting the Web. Beijing is forcing internet cafes to switch to state-controlled Red Square Software, high use traffic and the system's safeguards against 'viruses….'

"Tehran seems to be going further. Finnish-German telecom equipment maker Nokia Siemens has been criticized for selling eavesdropping technology to Iran that Iranian authorities used to track online dissent during the recent post-election protests.

"As Big Brother regimes manipulate the Internet, extremist movements strive to exploit it. In 1995, when the Simon Wiesenthal Center began tracking online hate, there was one hate website. Today there, there are more than 10,000."

What a shame that McGeer and McLuhan are dead and their great legacy has been buried for the great surrender to our speculative banks.

William Krehm

Is the West's Reliance on China to Pull It Out of the Hole a Dangerous Illusion?

The Globe and Mail ("As China hoards, concern grows about recovery" by Carolynne Wheeler Beijing and Andy Hoffman, Toronto) shatters another illusion that much of the world was leaning on: "For weeks, the ships have been lining up 10 deep at China's booming Quingdao Port, waiting to unload their cargo into storage facilities that cannot keep pace with the thousands of tons of raw materials coming in.

"With imports of iron ore, crude oil and other raw materials spiking – and reports of 90 ships waiting their turn to unload – China's continuing growth, fuelled in part by aggressive government spending, has been keeping world commodity prices afloat.

"As the global economy continues to falter and Chinese exports plummet, there is growing concern that the stockpiling may soon come to a halt, leading to further painful drops in commodity prices.

"'The level of [iron ore] importing doesn't match the level of steel production so far this year, so there's a considerable amount of stockpiling going on,' said Tim Huxley, chief executive of Hong Kong-based Wah Kwong Transport Holdings who along with many in the shipping industry is grateful for what he called 'a shot in the arm.' However, they are skeptical that the stockpiling can continue – especially since many of these container ships are sent away empty without export orders to fill them."

Will China's Voracious Hunger for Metals and Fuel Go On?

"At the same time, China is also stockpiling raw materials used in industrial production rather than exporting them, according to complaints lodged with the World Trade Organization yesterday by the US and the European Union. They allege China is using illegal duties and fees to crimp exports, giving its manufacturers an unfair advantage.

"Both the stockpiling of imported commodities and the hoarding alleged in the WTO complaint could be inflating global prices for resources."

And that would be tantamount to shorting the currencies that it deprives of the advances of drooping costs were China not keeping the hoarded materials to prevent them from lowering competitors' costs.

Moreover, "the risk is that if China's appetite for metals and oil begins to fade as restocking concludes and the rest of the world's demand for goods produced by the Asian economic superpower remains weak, any recovery in commodities could be at risk, undermining the broader recovery. Canada's commodity producers could be in for another bout of serious pain.

"China's buying has largely offset the plunge in base metals demand from Europe and North America. Despite Chinese demand, however, global copper consumption contracted by almost 15% in the first quarter, and is projected to be down about 14% in second quarter. 'I question whether we are actually yet seeing a pickup in underlying consumption in China,' David Wilson, the London-based director of metals research at Société Générale SA, said in an interview in Toronto yesterday. 'China has been the one bright spot this year. If there is a risk, it is that we are attaching too much reliance to China being able to drive a pickup in the rest of the world.'

"Chinese demand for raw materials has been twofold. First, though most actual figures are kept secret, the Chinese government has been openly buying up commodities including crude oil, copper and iron ore for months, in what many believe is a way to diversify its national wealth beyond risky US dollar investments."

This puts China in a defensive rather than an aggressive posture.

"In this the Chinese are being more cautious than the Japanese who plunged much of their profits into US mortgages after the reworking of their economy in the postwar.

"And second, state-owned enterprises and private firms have taken advantage of lower prices to restock supplies that have dwindled during last year's record prices, in anticipation of increased spending for new roads, railways and high-rise buildings, as well as continued factory production promised by their government's four trillion yuan ($668 billion) stimulus package, issued last fall.

"China's demand has helped keep many Canadian mining firms above water during the global recession. Citing strong sales to China, Teck Resources Ltd., Canada's largest base metals miner, recently said its 2009 coal production will be at the upper end of its forecast. 'China is buying our coal and telling us they want to buy more in the future,' Teck spokesman Greg Waller said in an interview.

"But warning signs of slowdown are emerging. Earlier this month, a senior official in China's National Energy Administration warned crude oil purchases for the country's strategic services would halt until it can find new storage facilities. A report from Strator Global Intelligence suggests Beijing may be testing out its global influence with this move.

"Beijing is interested in having a strategic cache of oil to resort to in case of a crisis scenario."

Will China's Stimulus Money Run Out?

"World Bank figures last week also showed that while import volumes of raw materials increased sharply in the last quarter, Chinese imports over all are dropping and exports are falling even faster. Government spending will drive most of China's expected 7.2% GDP growth this year, and that stimulus money is expected to run out by early 2010.

"Clearly the government stimulus is very helpful at the moment, but there is a limit to how much and how long China's economy can diverge from the global economy,' said Louis Kuijs, a senior economist in the World Bank's Beijing office. He noted that China has already felt much of the impact of government spending this year, and warned that exports are not expected to pick up significantly next year. The result is likely a short-term correction as early as this summer.

"'China is probably the world's biggest buyer of these products so when demand slides back substantially, it's going to put pressure on prices,' said Wang Yijiang, a professor economics at Beijing's Cheung Kong Graduate School of Business.

"The concern is significant enough that Moody Investor Service recently downgraded its outlook for the base metals, mining and steel industries in the Asia-Pacific region, putting them on par with the rest of the world.

"However, there is continuing faith that a combination of Chinese government policy and the country's still-growing economy will prevent as major collapse in prices before the global economy recovers."

A Forgotten Strategem of Clinton — Honest Accountancy

What governments should be doing is what the Clinton government did in a not dissimilar crisis at the beginning of 1996. It headed off a major smash-up of the deregulated international financial system, simply by introducing serious accountancy into the government books. Prior to that point, governments had carefully observed the "amortization" of the money or credit they laid out for the financing of their physical investments, but wrote off the actual capital assets resulting from physical investments in a single year. For year two their books entered these at a token $1.

Clearly the result was an apparent negative balance shown from such bogus accountancy. But it was highly useful in keeping down essential social services, and other investments in human capital. Those deficits made possible some brilliant privatization deals for the well-connected.

Bringing in serious double-entry bookkeeping, which the Crusaders brought home from Arab lands to Central and Western Europe almost a 1,000 years ago, made possible the financing of the great sea voyages that led to the discovery of the Americas and of the sea route around the Cape of Good Hope to central and Eastern Asia.

What remains to be done today is simply to reproduce the same accountancy reform to government's investments in *human* capital. Elsewhere in this issue the reader will find the estimates of the amount of this vast ignored human capital already paid for, and available to completely finance enough useful government investment of human capital to overcome the present deepening crisis. *There is no other way out of it.*

We recommend a careful reading of this and the immediately preceding issues of *ER*, where the amounts of such prepaid investments of human capital are carefully estimated. Our crisis is essentially that of leadership, fomented in our governments and universities, where we have been deprived of all that had already been learned the hard way in peace and in war.

William Krehm

RENEW TODAY!
(SEE PAGE 2)

From the Race Horse's Mouth

In its issue of 31/05 ("The Mellowing of William Jefferson Clinton" by Peter Baker"), *The New York Times* reviews the Clinton record in the light of a rather Utopian view at the time of what Mr. Clinton might be about. That is not without interest in clarifying what has driven, and to an ongoing extent continues to drive US policy in war and peace.

I quote (p. 47): "Before Hillary Clinton was picked for secretary of state, some Obama advisers were wary of bringing a freelancing Bill Clinton inside the tent. Clinton has done nothing to complicate Obama's life so far. As of early May, Clinton had never been mentioned during the daily White House senior staff meetings as an issue to be dealt with, according to two officials who attend. By contrast, one of them said, Jimmy Carter has come up twice already.

"But if liberals see Obama as the bold Clinton, some moderates and conservatives worry that Obama is reversing his predecessor's direction. Clinton sought to remake a broken party in a more centrist mold. Beyond balancing the budget for the first time in three decades and overhauling the welfare system, he passed the North American Free Trade Agreement and launched military strikes against Saddam Hussein and Slobodan Milosevic. Now the 'era of big government' he declared over appears back, as Obama tries to jump-start the economy by pushing deficit spending to the highest levels since World War II and inserting government more deeply into the private sector than it has been in generation. Where Clinton failed to pass a $16 billion economic-stimulus package in 1993, Obama pushed a $787 billion stimulus package in 2009 through a more deferential Congress….

"So if Obama transforms Washington, does that validate Clinton or marginalize him?

"The issue came up several times in my conversations with Clinton. 'I see this moment as the triumph of a battle we've been waging for 40 years, and basically [the historic roles] were symbolized by, in effect, Reagan and Thatcher on one side and me and Blair on another,' he said. Now he detects a new era in which the Democratic base has grown and more things are possible, just as many of Theodore Roosevelt's progressive ideas were not realized until his cousin became president. 'I see a lot of the ideas I pushed – that I got enormous pushback for – now flowering,' he said.

"One thing that thrived during Clinton's presidency, the economy, has wilted of late. The economic boom of the 1990s created nearly 23 million jobs, but today, the economy is shedding hundreds of thousands of jobs a month. While this has stoked nostalgia for the prosperity of the Clinton era, it has also focused new scrutiny on his record. What role did Clinton's policies play in creating the conditions that led to the Great Recession?"

Good question, well asked.

"When the subject came up during our conversation in Chappaqua, Clinton calmly dissected the case against him he acknowledged that in some particulars the critics have a point. In almost clinical form, as if back at Oxford as a Rhodes scholar, he broke down the case against him into three allegations: first, that he used the *Community Reinvestment Act* to force small banks into making loans to low-income depositors who were too risky. Second, that he signed the deregulatory *Gramm-Leach-Bliley Act* in 1999, repealing part of the Depression-era *Glass-Steagall Act* that prohibited commercial banks from engaging in the investment business. And third, that he failed to regulate the complex financial instruments known as derivatives.

"The first complaint Clinton rejects as 'just a totally off-the-wall crazy argument' made by the 'right wing' noting that community banks have not had major troubles.

"The second he gives some credence to, although he blames Bush for, in his view, neutering the Securities and Exchange Commission. 'Letting banks take investment positions I don't thing had much to do with this meltdown,' he said. 'And the more diversified institutions in general were better able to handle what happened.'"

Where the Zero Goes in the Credit Worthiness of a Bank — Denominator or Numerator — Makes the Whole Difference

The latter is a most amazing statement that does nothing for grasp of elementary arithmetic taught in the economic courses at Oxford or practiced in the White house. The problem x/0 with sub-prime mortgages that played so great a role can be summed in elementary algebra is that it left the mortgagors and the economy saddled with mortgages that could only appraised as follows x/? where x is the good money owed and ? is a question-mark for the unascertainable denominator because there is no ascertainable value can be placed on the denominator.

Obviously such a mortgage is not marketable and was put together to collect a profit and a commission for the agent who put the deal together and then marketing it to a "bigger fool." What the good ex-President has done in essence is reversed the x/0 statement to read 0/x which would read mortgage paid off. The 0/x expression would be a real statement market booming into the sunny heavens, the actual formula for the subprime mortgage tells you that there is no way of appraising a subprime mortgage because any appraisal is bogus, and there is no market.

Yet the *NY Times Magazine* goes on: "The second he gives some credence to, although he blames Bush for, in his view neutering the Securities and Exchange Commission. 'Letting banks take investment positions I don't think had much to do with this meltdown,' he said.

"'And the more diversified institutions were better able to handle what happened. And again, if I had known that the SEC would take a rain check, would I have done it? Probably not.'"

"But what Clinton is doing is substituting a politically appointed agency for the famous all-self-balancing market is supposed to guide the world, and had suddenly disappeared because it turned up as a zero in the denominator of the crucial appraisal of the market. Clinton has in fact stood the crucial appraisal fraction upside down."

We need go no further. Clinton would in fact have called in another version of Mr. Geithner who is occupied at just such chores.

William Krehm

The US After Deciding to Globalize and Deregulate the World Economy Seeks Solutions to the Problems Created Only in Shards and Slivers

The New York Times (06/22, "California's Standoff Over a $24 Billion Budget Gap Spreads the Pain" by Zennifer Steinhauer) has given the grim details: Los Angeles – There are not a multitude of ways to close a $24 billion state budget gap, but in California, the answer is probably going to involve pain for a lot of people.

"While Democrats struggle to preserve programs for the state's neediest residents through one-time accounting maneuvers and by passing part of the pain to smoker and oil companies through fees and taxes, Republicans are holding the line on new taxes and trying to force large cuts that will have an effect on health care for children of poor families and the early release of thousands of prisoners.

"Lawmakers passed a budget for both 2009 and 2010 in February, but the legislation, which covered 17 months' worth of spending, was dependent on the passage of several ballot propositions that voters overwhelmingly sank in May. As a result, the state's budget gap expanded.

"In response Gov. Arnold Schwarzenegger threatened to allow the government to come to a 'grinding halt,' rather than authorize more borrowing to cover shortfalls, and proposed 16 billion in cuts. These cuts would be largely carried out through the state's programs for the poor: the Healthy Family Program, the health insurance program that covers more than 900,000 children; the main welfare program, known as CalWorks, which provides temporary financial assistance, a college financial aid program.

"Mr. Schwarzenegger also seeks $750 million in cuts to prisons, slashing of the budgets for state parks and other agencies and a 5% pay cut for state workers. And he has proposed a plan to borrow $2 billion from local governments, which enraged local leaders. Republican lawmakers do not care for taking money from local governments, nor do they like the prison plan in its entirety, because it would include the early release of some prisoners. They are otherwise on board with the governor on this go-around.

"Democratic legislators countered with a plan still thick with cuts – $11 billion – to social programs but proposed several accounting maneuvers that would push the deficits into the future to compensate for less-severe reductions to the social programs. For example, the state would push workers' paychecks by one day into the next fiscal year, netting $1 billion.

"The Democratic caucus also rejected borrowing from localities and called for about $2 billion in tax increases: a 9.9% levy on oil extracted in the state, a $1.50-per-pack tobacco tax and a $15 car registration earmarked for state parks.

"Republican lawmakers and the governor have said they will reject all tax increases; such increases were used in the last budgets negotiations, which extracted a huge political price for the few Republican lawmakers who supported the legislation. The rejection of the ballot initiatives last month are widely viewed in Sacramento as a rejection of tax increases, leaving the Democrats hamstrung. California has been hampered by steep drops in tax revenues and by high unemployment, which rose to 11.5% on Friday…. Both Standard & Poor's and Moody's Investor Service last week placed the state on a credit watch list; it already has the lowest credit rating of any state.

"California normally seeks bank-guaranteed short-term notes to pay its bills in the summer before tax revenue flows in. Because of the tightening of credit, the state sought a guarantee from the Obama administration, but that request was rejected."

A Neglected Prepaid Solution

All this provides critical cogency for the Obama government do with government investment in human capital precisely what it did with physical investments of the government. Instead of writing them off in a single year while "amortizing" the credit or cash laid out to finance them over the likely period of usefulness of the investment, it provided a "depreciation" of the physical assets over their current market prices. That made it unnecessary to make use the $51 billion dollar emergency fund that the US Government, the International Monetary Fund and the Canadian Government had put up, interest rates came down, the world started breathing once again.

Elsewhere in this issue of *ER* we describe how at the end of World War II Washington had sent legions of economists to Japan and Germany to assess the war damage and from it foretell how long it would take the two defeated great powers to become formidable competitors on world markets again. One of them, Theodore Schultz some 16 years later, wrote extensively on how wide of the mark he and his colleagues had been This he attributed to their having concentrated on the physical damage of the war, while paying little attention to the more important detail that the highly educated, talented and disciplined workers of these two countries had come through the conflict almost intact. From this he deduced that human capital is the most productive investment government can make. I make some very understated calculations of what such prepaid investment in human capital is available today and come up with an understated figure of 3.5 trillion dollars in the US, and one tenth of that for Canada.

Schultz was celebrated and decorated for a very few years, and since then completely forgotten. Why? Because what he had to say and has to say runs counter to the "dominant revenue" of our day. where outlay for education, health, the environment is considered only an expenditure but not an investment.

In fact investment in *human capital* could be adequately financed by accrual accounting being introduced into our government's ledgers. Since it was done for *physical investments* of the government in the US in 1996, and far more sketchily in Canada in 2002, and worked brilliantly, we would be practically repeating what was tried with brilliant

US Security Must Not Miss the Perils of Abusive Reporting of Neighbours' Institutions

The New York Times (11/06, "This Time, We Won't Scare" by Nicholas D. Kristof) has our thanks for correcting the gross misrepresentation of Canada's health system in the recent election campaign: "Perhaps you've seen those television commercials denouncing health care reform as a plot to create a Canadian-style totalitarian nightmare, and you feel a bit scared.

"Back in the election campaign, some people spread rumors that Barack Obama might be a secret Muslim conspiring to impose Sharia law on us. That seems unlikely now, but what if he's a covert Canadian planning to impose…health care?

"Rick Scott, a former hospital company chief executive, leads a group called Conservatives for Patients' Rights. He was forced to resign after his hospital defrauded the government through overbilling and is now spending his time trying to block meaningful health care reform by terrifying us with commercials of 'real-life stories of the victims of government-run health care.

"So here's a far more representative 'real-life story.'

"Diane Tucker, 59, is an American lawyer who moved to Vancouver, Canada in 2006. Like everyone else there, she now pays the equivalent of just $49 a month for health care.

"Then one day two years ago, Ms. Tucker was working on her office computer when she noticed she was having trouble typing with her right hand.

"I'd realized my hand was numb, so I tried standing up to shake it out,' she remembered. 'But I had trouble standing.'

"A colleague called 911, and an ambulance rushed her to the nearest hospital.

"'An emergency room doctor met me at the door, and they took me straight upstairs to the CT scan,' she recalled. A neurologist explained she had suffered a stroke.

"Ms. Tucker spent a week at the hospital. 'The doctors were great, although there were a couple of jerks,' she said. 'The nursing staff was wonderful.'

"Still, there were still two patients to a room, and conditions weren't as opulent as at some American hospitals. 'The food was terrible.'

"Then again, the price was right. 'They never spoke to me about money,' she said. 'Not when I checked in, and not when I left.' Scaremongers emphasize the waits for specialists in Canada, and there's some truth to the stories. After the stroke, Mrs. Tucker needed to make a routine appointment with a neurologist and an ophthalmologist to see if she should drive again. Initially, those appointments would have mean a two- or three-month wait, although in the end she managed to arrange them more quickly.

"Ms. Tucker underwent three months of rehabilitation, including physical therapy several times a week. Again there was no charge, no co-payment.

"Then last year Ms. Tucker fainted while on a visit to San Francisco, and an ambulance rushed her to the nearest hospital. But this was in the United States, so the person meeting her at the emergency room door wasn't a doctor.

"'The first person I saw was a lady with a computer,' she said, 'asking me how I intended to pay the bill,' Mrs. Tucker did, in fact have insurance, but she was told that she would have to pay herself and seek reimbursement.

"Nothing was seriously wrong, and the hospital discharged her after five hours. The bill came to $8,789.29.

"Ms. Tucker has since lost her job in the recession, but she says she's stuck in Canada – because if she goes back to the United States, she will pay a fortune for private health insurance because of her history of a stroke. 'I am trying to find another job here,' she said. 'I want to stay here because of medical insurance.'

"Another advantage of the Canadian system, she says, is that it emphasizes preventive care. When a friend was diagnosed as being pre-diabetic, he was put in a free two-year program emphasizing an improved diet and lifestyle – and he emerged as being no longer prone to diabetes.

"If Ms. Tucker's story surprises you. you should know that Mr. Scott's public relations initiative against health reform is led by the same firm that orchestrated the 'Swift boat campaign' against Senator John Kerry in 2004. These commercials are just as false, for President Obama is not proposing government-run health care – just a public insurance element in the mix.

"No doubt there are some genuine horror stories in Canada, as there are here in the US.

"But the bottom line is that America's health system spends nearly twice as much as Canada's (building the wealth of hospital tycoons like Mr. Scott). Yet our infant mortality rate is 40% higher than Canada's, and American mothers are 57% more likely to die in childbirth than Canadian ones.

"In 1993, the 'Harry and Louise' commercials frightened Americans into questioning health reform. Let's ensure those scare tactics don't work this time."■

results. What is involved is depreciating the value of the physical assets of government investments not in a single year but over the period of their usefulness, the ledger listing the initial amount and the growth in value of the increase in value of the very expenditures of this prepaid investment.

Why has this not been done? Because the very concept runs counter to the "dominant revenue," as conceived by François Perroux, which our reader will also find, treated in this issue of *ER*. These must be retrieved before we are led into the next world war for having made no use of our investment in human capital, just as we learned to recognize our government's investment in physical capital.

William Krehm

Ritual Killing in Uganda and Closer Home

You don't have to be an academic sociologist to detect an echo of some remote ancestral custom of particular horror in some of our most supposedly sophisticated official statecraft.

In the *National Post* (07/03, "Ritual killings plague Uganda" by Michael McKiernan) we read: "Twelve-year-old Joseph Kasirye never made it to the village well after leaving his home in Kayugi in southern Uganda.

"As he walked to fetch water on October 27 last year he was hit on the head with a hoe, allegedly by a man he knew – Umar Kateregа, the local witch doctor.

"His head and genitals were then cut off and given to property tycoon Godfrey Kato Kajubi who, according to police, wanted to guarantee the success of his latest development the only way he knew how: by burying the parts under a mansion under construction.

"Ugandans have been gripped by the details of the macabre tale involving a rich businessman, a poor boy and a witch doctor and his accomplice out to make themselves wealthy. But there is a troubling familiarity in this country with the practice at its core: child sacrifice.

"A surge of cases in the past three years has made the gruesome news of ritual murders shockingly routine. Joseph's was just one of 25 confirmed by the Ugandan forces in 2008.

"A list of some of the ritual murders is shocking for its similarities: Ismael Saekajjia, nine –beheaded; Patrick Makonzi, 12 – beheaded; Bwenge, seven – private parts and heart missing; Esther Among, a student – beheaded.

"Police have also recorded more than 300 child abductions in the same period, many of them unsolved, leading to fears that the real number of child sacrifices may be much higher. Police said that most of the ritual murders were committed by parents or relatives.

"In February, police responded to the wave of murders by setting up a national committee devoted to the investigation of child sacrifice reports.

"In the case of Joseph, Mr. Kasjubi had allegedly promised the witch doctor $6,000 for a boy's head. In the end, an upfront payment of closer to $200 was enough to get the job done in a country where the average annual income sits below $400.

"Here in Africa, many believe that in order to get rich, you need to sacrifice for it, said Mubatsi Asinja Habati, a crime reporter with *The Independent,* a Ugandan newspaper. 'For the most unscrupulous people, they look at human people as the ultimate sacrifice.'

"This is a country arguably best known for Idi Amin's brutal regime, believed to have cost up to 300,000 Ugandan lives. In the 1980s, the Lord's Resistance Army began a guerrilla rebellion that continues to this day and now a new blight threatens to taint the country's reputation.

"'In every corner of the country you hear people are really disturbed by [child sacrifice],' said Betty Ocan, an MP representing the Gulu district in the north of the country, she is also a member of the Uganda Parliamentary Forum for Children.

"A passion for children brought Timothy Opobo to the country's African Network for the Prevention and Protection Against Child Abuse and Neglect four years ago. He had seen ritual murder shoot to the top of

Continued on next page

India Legalizes Homosexuality

The Globe and Mail (7/3, "India Overcomes an Archaism") editorializes: "Homosexual sex was a crime throughout India until yesterday, when the New Delhi High Court ruled that provision unconstitutional. It was an archaic provision – rooted in a bizarre definition of 'unnatural offences' – and yet it was on the books in Western countries until recently. Canada decriminalized sex between men in 1969, two years after Pierre Trudeau, then the Justice minister, said 'What's done in private between adults doesn't concern the Criminal Code.'

"In retrospect, that was the first step on the road to gay marriage, legalized by court decision in 2003….

"In English common law, sodomy was first recorded as a crime in 1290; the idea was that anyone who engaged in it should be burnt alive. That idea, and its variants had a long life. Gay sex was penalized by hanging in the 1500s (the *Buggery Act* of 1533), and oral sex was not removed from the definition of buggery until 1817. The death penalty remained until 1861, the same year the 'unnatural offences' proscription against gay sex was introduced in British India.

"As recently as 1986, the United States Supreme Court upheld anti-sodomy laws; those laws continued to exist in 13 states until 2003, when the Supreme Court struck them down. The World Health Organization removed homosexuality from its list of mental disorders as late as 1992. And only this week, the British Conservative Party apologized for having supported as 1988 law that banned local authorities from showing homosexuality in a positive light.

"In the face of such widespread change, India's defense of its archaic law wilted under scrutiny. Each argument made by the country's Home Affairs Ministry – that gay sex is immoral according to the majority in India, and that allowing it would lead to a resulting rise in HIV-AIDS – was quickly shot down by the New Delhi Court, citing court decisions in Canada and other democracies.

"The ascendant idea is that the state must not undermine human dignity by singling out homosexuals for different treatment. Its time has come in India, and its travels are far from over."■

his agenda.

"He says witch doctors have capitalized on a trend toward traditional medical practices, convincing desperate clients to do anything to lift a perceived curse.

"'Witch doctors call themselves traditional healers and publicize their activities in the newspaper and on the radio,' he said. 'More people are accessing their services and more people are brainwashed to believe that to get rich, have to sacrifice a child.'

"According to Mr. Opobo, the problem has been compounded by a recent ban on traditional healers in Tanzania. Uganda's southern border is shared with Tanzania, making it a natural destination for exiled practitioners.

"Dr. Yahaya Sekagya, director of the Ugandan chapter of the Association for the Promotion of Traditional Medicine for exiled practitioners.

"Dr. Yahaya Sekagya, director of the Ugandan chapter of the Association for the Promotion of Traditional Medicine, agrees that some unsavoury elements are tainting his profession.

"'We need to dissociate with child sacrifice because it is not part of our traditional healing. That infiltration is destroying our culture,' he said.

"According to Mr. Opobo, the country needs a law that addresses child sacrifices directly to ensure all involved are properly punished. A *Witchcraft Act* already exists, dating from colonial days, but it has fallen into disuse and makes no mention of child sacrifices.

"'Most perpetrators must be found guilty. Let people know there is a penalty for this and that will act as a deterrent,' he said.

"'Sometimes the witch doctors do the sacrifice themselves. But sometimes, it is done by other people and the witch doctors take what they need from the bodies of the victims. That is really murder and such people should face the charge,' Ms. Ocan said.

"Last month, Save the Children, together with Mr. Opobo's organization and other groups, marched on the parliamentary building in Kampala to protest child sacrifice and call for witchcraft to be stamped out.

"The country's President, Yoweri Museven, has also called publicly for the death penalty for perpetrators of child sacrifice.

"In the meantime, Mr. Opobo has set his sights on education for children and parents that he hopes will reduce cases of child sacrifice by demystifying traditional healing practices.

"'Since our stories brought attention to this subject, many parents have taken their children to get ear piercings and circumcisions, because witch doctors consider these mutilations and will not accept those children's bodies,' he said."

Ghastly story. But if we look into the record of our own government have we not be blinded by our politicians to see the sacrifice of children by slashing unemployment insurance, the educational system, and all the services so that prosperity may come back to reward who have balance our budget – no matter how rotten its accountancy – so that a privileged few may rake in ever greater profits?

William Krehm

On the Heavenly Wings of Commerce

The Wall Street Journal (7/3-5, "Siemens Settles With World Bank on Bribes" by Vanessa Fuhrmans) brings us some weighty news "Siemens AG reached a settlement with the World Bank over bribery allegations, agreeing to pay 100 million to help anticorruption efforts and to forgo bidding on any of the development bank's projects for two years.

"The agreement marks the latest step in Siemen's quest to rehabilitate its image in the wake of a bribery scandal that forced several of its top executives to resign.

"The agreement with the World Bank also follows much larger settlements with US and German regulators.

"Investigators have alleged that the German engineering conglomerate spent more than $1 billion in recent years bribing government officials in at least 10 countries to win contracts on projects ranging from supplying power and medical equipment to building refineries.

"The World Bank's investigation focused specifically on a bank financed in Moscow.

"The bank tries to root out fraud and corruption in projects it helps finance, and it has penalized more than 350 companies and individuals in the past decade by permanently or temporarily banning them from receiving World Bank contracts.

"The Siemens agreement is the first to involve a financial settlement, a World Bank spokesman said.

"Under the terms of the accord, the company pledged to pay $100 million over the next 15 years to combat corruption through training and education, help governments recover assets stolen by corrupt leaders and strengthen efforts to crack down on corrupt practices, the bank said.

"Siemens also voluntarily agreed to shut itself out of the World Bank contract bids until the end of 2010. It said it would also withdraw any bids that weren't accepted as of January 2009.

"Siemens said it has generated roughly $160 million in annual revenue in recent years from World Bank-financed projects.

"As part of the settlement, Siemens's Russian unit faces a ban of up to four years from project contracts there.

"But the comprehensive settlement means the company won't face any additional World Bank sanctions involving subsidiaries in other countries.

"'That's a significant benefit for us,' said Peter Solmessen, Siemens's general counsel and a management-board member.

"Though Siemens still faces investigations in several other countries, the World Bank agreement is a major milestone in resolving the bribery scandal.

"In December, the company agreed to pay $800 million in fines – the largest penalty ever imposed under the US *Foreign Corrupt Practices Act* – to end litigation claims by the US Justice Department and Securities and Exchange Commission.

"It has also agreed to pay €596 million, or $839.4 million, to German authorities, including a €201 million fine levied by as Munich court in 2007.

"Despite the record settlement, Siemens has managed to avoid much larger sanctions by cooperating with various officials.

"A Justice Department filing in December said the agency would have sought much larger fines had it not been for the 'extraordinary steps' taken by Siemens to cooperate with authorities and beef up its compliance its compliance procedures.

"And Mr. Solmessen said it was Siemens that brought the specifics of the Russian case to the World Bank's attention in 2007."

Never in the days of the Lord and the prophets was repentance on such a scale. Ours must therefore be a deeply religious age.

W.K.