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Obama's Amnesia About Policies That Worked

Poor President Obama is being led by old Fed and Treasury bureaucrats into a state of amnesia about policies that did work.

One of the keys missed by him is the recognition of the investment of government in human capital. Once this was recognized by economists as the most productive investment a government can make. But not today at the very time when increasing numbers of countries in the European Union – Greece, Spain and many others – have abandoned all pretence of respecting the 3% limit on borrowing by members from the Euro central bank. And on such excesses covered by the European Union members received interest rather than forgo interest, in order not to depend on wholly on higher interest rates to keep the economy on a more or less higher keel. The system brought in by the US under President F.D. Roosevelt provided for statutory deposits by the government that earned them no interest, *thus providing an alternative to higher interest rates for controlling inflation.*

Clearly the current world of high finance has gone quite berserk when the Euro Union that is in notorious trouble is taken as the model for the motley Obama efforts to save bankerdom rather than a world in ever deepening crisis. Yet they are being accepted as model to countries by the US and Canada who not only managed to get out of the war without serious inflation, but financed their reconstruction after ten years of depression and five of war. That was particularly the case of Canada that had nationalized its central bank in 1938 while Britain did so only after the end of the war.

The present deepening mess in world affairs is due largely to Washington having buried the records of its successful handling of "inflation."

To retrieve that knowledge President Obama should not go to the high financial officials of past regimes but consult any coffee chain to learn to the tremendous difference between flipping over a pancake and trying to apply the same flip-over process to economic solutions.

Example: If I hold a loaded pistol to my head and pull the trigger, I drop dead. But it cannot be concluded that, turned around, the same proposition is valid. If I fall dead, it does not necessarily mean that I suicided. It could have been heart-failure or an endless list of other possible causes. That should, but does not apply to official economic theory. Properly defined, inflation means higher prices due to a shortage of available market supply to cover demand. But turn that around and you are dealing with completely different problems. Nobody moving today from a town of say twenty thousand to New York City is fool enough to expect his living costs to remain the same. How then can he expect it will when a great part of humanity is making such a move? It can't and it won't, and its failure to do so will put trillions in the pockets of speculative bankers, until it gets them into major trouble.

Elsewhere in this issue we examine the deceptive nature of many of the official statistics. and the immensely different factors that may lead to higher prices.

I solved that one in a 70-odd page article in what was the leading French economic publication at the time, *La Revue Économique*, issue of May, 1970. In it I made the distinction between higher prices due to an excess of demand over supply, which was real "inflation" and was due to the increased non-marketed government investments. And this had to be distinguished

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Basic Money Magic

By R.W. Zimmerer

Preface to Senior Center Study Group

My intention is to explain the barest essentials of our US financial structure. I have avoided complex technical details and unfamiliar language of the official *Handbook of the Federal Reserve System* (Ref. 1) and Prof. Mishkin's attempts to explain it in many editions of his book (Ref. 5). A successful attempt by the Chicago Fed (Ref. 3) to explain money creation by Fractional Reserve Banking is no longer in print but still available on the Internet! David Bazelon writes a witty history and explanation of money in *The Paper Economy* (Ref. 6) revealing how banks, and governments create and manage our money supply. Ellen Brown writes the most recent history and explanation of money in the *The Web of Debt* (Ref. 2) and posts frequent commentaries about today's ongoing financial crisis on her own and other web sites.

How money is created, enters commerce, and becomes part of the money supply as here explained implies many consequences and invites suggestions how a new financial structure could be constructed to avoid frequent financial collapses. "Basic Money Magic" is a work in progress. Comments are welcome.

It could be helpful to first read excerpts of several references I include before reading my brief essay.

Basic Money Magic

Money supply is here defined as legal tender, coins and federal reserve notes (cash), together with vastly larger amounts of money held in checkable deposit accounts, whose checks can be cashed for legal tender upon demand of the deposit owner. Citizens and corporations each own small portions of this money supply as cash in hand and in checkable deposit accounts.

The words loan, debt, credit, capital, interest, profit, even wealth, are loosely used in ordinary conversation. When one loans a neighbor a garden hose the use of that garden hose has been transferred temporarily to the neighbor. One garden hose can only be used by one homeowner at a time. You confidently "credit" the neighbor that he will return the borrowed hose. If you loan the neighbor $129 he gets to spend it not you. $129 will be returned but not the exact same $129 (as with a borrowed garden hose) for the money was spent into the economy. To repay you the neighbor transferred back to you a different $129 and you regain the right to spend $125. In either case $129 remained part of the money supply only its ownership was being transferred: from you to neighbor to merchant back to you from neighbor.

When a bank loans your neighbor $125 it gets a formal commitment in writing, a contract, agreeing he will repay the bank the full amount of $125. This contract is a debt, a financial asset to the bank which can sell it to a willing buyer and a liability to your neighbor. It has value beyond returning $125 because it earns interest to whomever owns the contract, the debt.

The credit card today has been called plastic money replacing the bank check in everyday shopping. It illustrates much of how banks manage the money supply. A credit card gives its owner a "line of credit," a pre-approved amount of money which can be loaned to the owner by the bank underwriting his credit card.

The Ambiguities of the Word "Swiping"

When making a purchase the card is "swiped" and a receipt is printed out for the owner's signature much like he signs a personal check. The merchant accepts it like cash. The underwriting bank makes good on the cash value of the merchant's receipt depositing that amount into the merchant's bank account, transferring money to the merchant. The card owner acquires a debt to the bank of the amount of the purchase. This has been a bookkeeping activity, no cash has actually changed hands.

The bank could deposit its own money in the merchants account transferring its ownership to the merchant. When the card owner pays-off his debt the bank recovers its money paid to the merchant. Money was moved among bank accounts, a bookkeeping exercise. The money supply at no time increased or decreased. This is the common understanding of all bank loans. Savings & Loan banks (Thrifts) did it this way lending S&L depositors' money to build houses in the community. Commercial banks do not lend depositors money. They loan new money into existence – they create money. This is derogatorily called printing money.

It has long been the legal business of commercial banks to create new money by a bookkeeping act.

When a commercial bank deposits the amount of the credit-card charge into the merchant's bank account it creates that money by its government given legal authorization to create money out of nothing by a bookkeeping entry. The money supply is increased by the amount of the purchase charged. The owner can pay off the loan with a check on his bank account or maintain it as debt upon which he will pay interest.

In the first instance the card owner transfers money from his account to the bank's account "extinguishing" his debt. The debtor has effectively repaid his loan with the money the bank had created and added to the money supply. Paying off the debt has increased the bank's ownership share of the money supply by the amount of the repaid debt. The bank has printed its own money!

In the second instance a debt to the bank is created, a claim on the money supply which earns the bank interest until it is paid-off. The bank has a money earning asset of some financial value which it can sell. The money supply increases with each swiping (loan) because the underwriting bank is creating new money with each swipe which is "balanced" (a bookkeeping concept) by a corresponding debt on the bank's books. The bank is creating money "backed" by new debt. If this growing credit card debt were paid off ownership of that portion of the money supply would be transferred to holders of the credit card debt, the underwriting bank.

In all this discussion there is no mention of legal tender, cash. Bank transactions are all accomplished by bookkeeping entries, creating and moving money among bank accounts. Debts earn interest, money ownership being continuously transferred to the debt holder. If commercial loans cease being made, the money supply stops increasing from new debt creation. Interest payments will move ownership shares of the now fixed money supply into the bank accounts of debt holders, concentrating ownership of money from many borrowers to fewer lenders.

In a prospering economy ownership of the increasing money supply derived from increasing debt is spread among businesses, employees, and customers. Is there no limit to money creation by commercial banks making loans (extending credit)?

Underwriting the entire system of money creation and the US money supply is legal tender. It is needed to satisfy that occasional demand for cash and support faith in the US money supply. Only the federal government can manufacture legal tender whether it be gold coins or paper federal reserve notes. The Federal Reserve Bank is the US Central Bank created by an act of Congress in 1913 delegating some of its Constitutional authority for money management to this private bank.

The Fed supplies legal tender manufactured by the US Treasury to private banks as they need it and sets rules limiting money creation by banks. The Fed requires banks to maintain deposit accounts at the Fed and limits the amount of money they can create to a multiple of the legal tender in the money supply. The Fed is one of many federal government departments which examine private bank operations to enforce compliance with Fed rules and regulations. Banks can be fined, closed, or sold, if not complying. The Fed can loan or withdraw legal tender from Fed bank accounts to exercise control over banking activity. It is done by a key stroke on a computer, a bookkeeping act!

A historical note.

US banks originally issued private bank notes redeemable in gold coins manufactured by the US Treasury. They routinely issued more bank notes than they had gold in their vaults to redeem them. Banks were creating money! This expanded the money supply far beyond the gold coins in existence. Public faith in bank notes depended on being able to exchange them for gold coins. Banks would often not accept each other's bank notes for fear that they could not be redeemed in gold coins. Bank runs were common consequences with bank depositors losing their money. Today there is but one bank note and it is accepted by all banks. It is the Federal Reserve (bank) Note. It is no longer redeemable in anything and stands alone as the physical legal tender of the USA, legal for the payment of all debts.

A Central Bank

The privately owned Fed is the US Central Bank by Act of Congress. It is also the US Treasury's bank. The US Treasury which is the only source of legal tender borrows money from the Fed. The US Treasury does not simply spend its legal tender to pay the expenses of the federal government. It must first borrow money from the Fed just as do any of the Fed's private member banks. But Treasury seldom borrows directly from the Fed. Treasury usually sells bonds to the public which buys them with money from the money supply transferring ownership from buyer's bank account to Treasury's bank account. The money supply does not change only ownership changes.

Treasury bonds earn interest from Treasury and have been highly valued as risk free because Treasury can always pay the interest on its debt with legal tender. The Fed manages the money supply by buying these

NOTICE, MARCH 7, 2010

Legal Challenge re: Use of Bank of Canada for Canadians

A note from Connie Fogal, supervisor of the project.

The Committee on Monetary and Economic Reform (COMER) has retained Rocco Galati as legal counsel to conduct a constitutional challenge respecting the use of our statutory Bank of Canada.

The intention is to try to compel our governments to use Canada's Bank of Canada to finance Canadian needs instead of using the private banks to do so with their crippling debt creation.

The goal is to put the power of money creation back into the hands of the people.

The hope is to enable the Canadian public to be masters over money, not slaves to money.

This notice is an update on the status of that lawsuit:

1. The examination of the extensive legislative history is completed.

2. Locating experts who are willing and able to stand forward with expert testimony has been difficult and problematic. (Please be bold and come forward.)

3. The documentation required to launch the court proceedings is in process.

4. The case will be commenced in court no later than late summer 2010.

Contact Rocco Galati directly only if you can assist in the case at (416) 536-7811.

Contact William Krehm, editor of COMER, for all other information at (416) 924-3964.

bonds from the public paying legal tender for them. This is not just new money it is new legal tender. The money supply increases and decreases as the Fed buys and sells Treasury bonds with legal tender. It also increases and decreases as the Fed changes the required money reserves banks must have and how the Fed defines money reserves.

Treasury can sell its bonds directly to the Fed avoiding new publicly held US Treasury debt, US National Debt. The Fed "earns" interest from Treasury on the Treasury bonds it owns. It pays its operating expenses from this interest and deposits the rest into the US Treasury Fed account. Treasury is paying interest on its bonds to itself when the Fed owns them. If the Fed (US Central Bank) were part of the US Treasury, there would be no need to sell Treasury bonds. Treasury would manage the bank accounts of private banks and write checks on its own account. It could still sell Treasury bonds to provide default proof interest paying investments for the public.

Commercial banks which create most of the money supply are limited by Fed rules and regulations in how much money they can create to some multiple of legal tender in the money supply. In a prospering economy of growing business activity and population dependent on borrowing money from commercial banks, the amount of legal tender in the money supply must also increase. To increase legal tender in the money supply Treasury must borrow it so the Fed can buy it. Thus it becomes necessary for the US National Debt to increase.

Treasury borrows most of the money it spends into the economy to pay federal government expenses. Treasury must pay its interest by borrowing more money for interest payments in addition to paying the operating costs of the federal government. According to the historical record US National Debt has increased from $2 billion to $12,000 billion since 1900 averaging 8% a year increase including a 6x jump for WW I and WW II.

In the ongoing world financial crisis starting in 2008, the Fed has been putting legal tender into the money supply by directly "adjusting" the bank reserves of banks and near banks. To save Goldman Sachs, an investment bank, it was quickly converted into a commercial bank so the Fed could "give" it legal tender as it was doing for overextended commercial banks. This new money does not flow from any new appropriation by Congress nor increased US National Debt! It is off-the-books so to speak.

References

1. *Purposes & Function of the Federal Reserve System,* www.federalreserve.gov/pf/pdf/pf_complete.pdf. This is the Fed's official handbook on management of the US money supply.

2. *The Web of Debt,* 3rd edition, February 2008 by Ellen Brown, www.webofdebt.com, is in my opinion the definitive exposition of the failure of the money = debt financial system practiced today. It is the underlying cause of the financial boom and bust cycle of contemporary economies. Chapters can be viewed on her web site where her frequent commentaries on the present financial crisis can be read.

3. *Modern Money Mechanics, A Workbook on Bank Reserves and Deposit Expansion* was originally produced and distributed free by the Public Information Center of the Federal Reserve Bank of Chicago. It is now out of print but it is available on the Internet at www.rayservers.com/images/ModernMoneyMechanics.pdf.

It is a very readable 38-page explanation of Fractional Reserve Banking by which a deposited $100 check can result in bank deposits, the money supply, increasing $1,000 or more!

A snippet from *MMM:* "The actual process of money creation takes place primarily in banks. As noted earlier, checkable liabilities of banks are money. These liabilities are customers' accounts. They increase when customers deposit currency and checks and when the proceeds of loans made by the banks are credited to borrowers' accounts.

"In the absence of legal reserve requirements, banks can build up deposits by increasing loans and investments so long as they keep enough currency (legal tender) on hand to redeem whatever amounts the holders of deposits want to convert into currency (cash). This unique attribute of the banking business was discovered many centuries ago.

"It started with goldsmiths. As early bankers, they initially provided safekeeping services, making a profit from vault storage fees for gold and coins deposited with them. People would redeem their 'deposit receipts' whenever they needed gold or coins to purchase something, and physically take the gold or coins to the seller who, in turn, would deposit them for safekeeping, often with the same banker. Everyone soon found that it was a lot easier simply to use the deposit receipts directly as a means of payment. These receipts, which became known as notes, were acceptable as money since whoever held them could go to the banker and exchange them for metallic money.

"Then, bankers discovered that they could make loans merely by giving their promises to pay, or bank notes, to borrowers. In this way, banks began to create money. More notes could be issued than the gold and coin on hand because only a portion of the notes outstanding would be presented for payment at any one time. Enough metallic money had to be kept on hand, of course, to redeem whatever volume of notes was presented for payment.

"Transaction deposits are the modern counterpart of bank notes. It was a small step from printing notes to making book entries crediting deposits of borrowers, which the borrowers in turn could 'spend' by writing checks, thereby 'printing' their own money."

4. *Money As Debt* is an excellent 47-minute DVD video production which explains in understandable lay terms the flawed "money = debt" system and offers some remedies. It is a wonderful teaching tool to make clear the basics of money creation. It can be ordered on the Internet at www.moneyasdebt.net and portions can be seen on YouTube.

5. An excellent (attempted) exposition of the Byzantine US money system is Prof. Frederic S. Mishkin's book, *The Economics of Money, Banking, and Financial Markets.* The third edition of 1992 is particularly enlightening with many recent examples of bankers' folly, failures, and rescues by the Fed. Since 1992 many new techniques of money manipulation have become prominent to evade Fed rules and regulations. The abuses of the system we are witnessing today are direct results. These many bank innovations are reviewed in his 4th edition.

Columbia University Prof. Mishkin has been a consultant to many banks and nations. In 2006 Mishkin co-authored a report called "Financial Stability in Iceland." The report maintained that Iceland's economic fundamentals were strong. The report was commissioned by the Icelandic Chamber of Commerce in response to critical reporting on the Icelandic economy and certain Icelandic companies in the international business media.

Iceland subsequently experienced a spectacular collapse within a year of Mishkin's good report.

Britain has called on Iceland to honor its compensation obligations, two days after the Icelandic president vetoed a bill to repay the UK government over the failure of Icesave bank. Icesave was an online subsidiary

of Iceland's Landsbanki bank, which had to be rescued in October 2008 as the global credit crunch hit.

Mishkin was confirmed as a member of the Board of Governors of the Federal Reserve on September 5, 2006 to fill an unexpired term ending January 31, 2014. On May 28, 2008, he submitted his resignation from the Board of Governors, effective August 31, 2008.

6. *The Paper Economy* by David Bazelon (1963) is a delight to read. He was a corporation lawyer writing from long experience serving the wielders of corporate power. He retired and taught many years at the U. of Wisconsin in Madison. Among his many insights Bazelon defines money.

"For one thing, money is a contract – the freest, most gorgeous contract of them all. Money is somebody else's promise to pay, to give me what I want, when I want it. What a magnificent conception! The fully alienable contract for anything, anytime, anywhere. If you are at all aware of the history of contract law, you will realize what an immense historical achievement modern paper money represents. Whatever else history may ultimately record of the Western bourgeoisie, this honor most certainly must be accorded them: they perfected modern money, which is a contract with parties unknown for the future delivery of pleasures undecided upon."■

New Problems Disguised as Solutions

Short-cuts to alleged solutions may bury us beneath a new crop of the old problems.

The New York Times (14/03, "In Hard Times, Lured into Trade School and Debt" by Peter S. Goodman) reports: "One fast-growing American industry has become a conspicuous beneficiary of the recession: for-profit colleges and trade schools.

"As institutions that train students for careers in areas like health care, computers and food service, enrollments are soaring as people anxious about weak job prospects borrow aggressively to pay tuition exceeding $30,000 a year.

"But the profits have come at substantial taxpayer expense while often delivering dubious benefits to students, according to academics and advocates for greater oversight of financial aid. Critics say many schools exaggerate the value of their degree programs, setting young people on dreams of middle-class wages while setting them up for default on untenable debts, low-wage work and a struggle to avoid poverty. And the schools are harvesting growing federal student aid dollars including Pell grants awarded to lower-income students.

"'If these programs keep growing, you're going to wind up with more and more students who are graduating and cannot find meaningful employment,' said Rafael I. Pardo of Seattle University School of Law and an expert of educational finance. 'They can't generate income needed to pay back their loans, and they're going to end up in financial distress.'

"For-profit trade schools have long drawn accusations that they over-promise and under-deliver, but the woeful economy has added to the industry's opportunities along with the risks to students, according to educational experts. They say these schools have exploited the recession as a lucrative recruiting device while tapping a larger pool of federal student aid.

"They tell people, 'If you don't have a college degree, you won't be able to get a job,' said Amanda Wallace, who worked in the financial and admission offices at the Knoxville, Tenn., branch of ITT Technical Institute, a chain of schools that charge roughly $40,000 for two-year associate degrees in computers and electronics. 'They tell them. "You'll be making beaucoup dollars afterward, and you'll get all your financial aid covered."'

"Ms. Wallace left her job at ITT in 2008 after five years because she was uncomfortable with what she considered deceptive recruiting, which she said masked the likelihood that graduates would earn too little to repay the loans.

"As a financial aid officer, Ms. Wallace was supposed to counsel students. But candid talk about job prospects and debt obligations risked the wrath of management, she said. 'If you said anything that went against what the recruiter said,' Ms. Wallace said, 'they would threaten to fire you. The representatives would already have conned them into doing it, and you just had to keep your mouth shut.'

"A spokeswoman for the school's owner, ITT Educational Services, Lauren Littlefield, said the company had no comment.

"The for-profit educational industry says it is fulfilling a vital social function, supplying job training that provides a way up the economic ladder."

That, however, would seem to have its rungs in bad, bad shape, resembling in fact the liberties taken with the facts, and our history with them, our history, and what our schools and legislators have been forced to forget. And now, it would seem, instead of repairing the damage cause by this background, more of the same is being dished up as a supposed part of the remedy to our great and deepening crisis.

"'When the economy is rough and people are distressed with unemployment, they look to education as the way out,' said Harris N. Miller, president of the Career College Association, which represents approximately 1,400 such institutions. 'We're preparing people for answers.'

"Concerned about aggressive market-practices, the Obama administration is toughening rules that restrict institutions that receive federal student aid from paying their admissions recruiters on the basis of enrollment numbers.

"The administration is also tightening regulations to ensure that vocational schools that receive aid dollars prepare students for 'gainful employment.' Under a proposal being floated by the Department of Education, programs would be barred from loading students with more debt than justified by the likely salaries of the jobs they would pursue.

"'During a recession, with increased demand for education and more anxiety about the ability to get a job, there is a heightened level of hazard,' said Robert Shireman, a deputy under-secretary of education. 'There is a lot of Pell grant money out there, and we need to make sure it's being used effectively.'

"The administration's push has provoked fierce lobbying from the for-profit educational industry, which is seeking to maintain flexibility in the rules.

"The Career Education Corporation, a publicly traded global giant, last year reported revenue of $1.84 billion. Roughly, 80% came from federal loans and grants, according to BMO Capital Markets, a research and trading firm. That was up from 63% in 2007.

"The Apollo Group – which owns the for-profit University of Phoenix – derived 86% of its revenue from federal loans and grants, according to BMO Capital Markets, a research and trading firms, according to BMO. Two years earlier it was 69%."

Adept at Capturing Grants Rather Than Spreading Truth

"For-profit schools have proved adept at capturing Pell grants, which are a centerpiece of the Obama administration's efforts to make higher education more affordable. The administration increased financing for Pell grants by $17 billion for 2009 and 2010 as part of its $787 billion stimulus package.

"Two years ago, students at for-profit trade schools received $3.2 billion in Pell grants, according to the Department of Education, less than went to students at two-year public institutions. By the 2011-12 school year, the administration now estimates, students at for-profit schools should receive more than $10 billion in Pell grants, more than their public counterparts, depending on the outcome of wrangling in Congress over health care and student lending.

"Enrollment at for-profit trade schools expanded about 20% a year the last two years, more than double the pace from 2001-07, according to the Career College Association.

"Mr. Miller, the association's president, said for-profit schools were securing large numbers of Pell grants because their financial aid offices were diligent and because the schools served many low-income students.

"But financial experts say the surge of federal money reaching such institutions reflects something else: their aggressive, sometimes deceitful recruiting practices.

"Jeffery West was working at a pet store near Philadelphia, earning about $8 an hour, when he saw advertisements for training programs offered by WyoTech, a chain of trade schools owned by Corinthian Colleges Inc., a publicly traded company that last year reported revenue of $1.3 billion.

"After Mr. West called the school, an admissions representative drove to his house to sell him on classes in auto body refinishing and upholstery, a non-month program that cost about $30,000.

"Mr. West blanched at the tuition, he recalled, but the representatives assured him the program amounted to an antidote to hard economic times.

"'They said they had a very high placement rate, somewhere around 90%,' he said. 'That was one of the key factors that caused me to go there. They said I would be earning $50,000 to $70,000 a year.'

"Some 14 months after he completed the program, Mr. West, 21, has failed to find an automotive job. He is working for $12 an hour weatherizing foreclosed houses.

"With loan payments reaching $600 a month, he is working six and seven days a week to keep up.

"'I've got $30,000 in student loans, and I really haven't much to show for it,' he said. 'It's really frustrating when you're trying to better yourself and you wind up at Square One.'

"'The majority of our students graduate,' said a spokeswoman, Anna Marie Dunlap, in a written statement. 'Most see a significant earnings increase.'

"The increase in market opportunities for the for-profit education industry comes as governments spend less on education. In states like California, community colleges have been forced to cut classes just when demand is greatest.

"'This is creating a very ripe environment for the for-profit schools to pick off more students,' said Lauren Asher, president of the Institute for College Access & Success, a California-based nonprofit research group that seeks to make higher education more affordable. 'The risks of exploitation are higher and the potential reward of these practices is higher.'

"For-profit culinary schools have long drawn criticism for leading students to rack up large debts. Now, they are enjoying striking growth. Enrollment at the 17 culinary schools of the Career Education Corporation – most of them operated under the name Le Cordon Bleu – swelled by 31% in the final months of last year from a year earlier.

"When Andrew Newburg called the Le Cordon Bleu College of Culinary Arts in Portland, Ore., to seek information, he was feeling pressure to start a new career. It was 2008, and his Florida mortgage business was a casualty of the housing bust. A associate degree in culinary arts from a school in the food-obsessed Pacific Northwest seemed like a portal to a new career.

"The tuition was daunting – more than $41,000 for a 14-month program – but he said the submissions recruiter portrayed it as the entrance price to a stable life.

"The recruiter said, 'The way the economy is, with the recession, you need a safe way to be sure you will always have income,' Mr. Newburg said. 'In today's market, chefs will always have a job, because people will always have to eat.'

"According to Mr. Newburg, the recruiter promised the school would help him find a good job, most likely as a line cook, paying him as much as $38,000 a year.

"Last summer, halfway through his program and already carrying debts of about $10,000, Mr. Newburg was alarmed to see many graduates taking jobs paying as little as $8 an hour washing dishes,' he said. He dropped out to avoid more debt.

"They have a basic money-making machine.' Mr. Newburg said."

It has been, in fact, the go-go ethic of piling up producers' debt as ever-accelerating speculative financing which was the curse that President Obama was supposed to be exorcizing rather than surrendering to.

More Bills Than Paychecks

"Career Education says admissions staff are barred from making promises about jobs or salaries. The school requires students to sign disclosures stating that they understand that its programs afford no guarantees.

"'Our students are given the tools needed to become the future leaders in the industry,' proclaims the Le Cordon Bleu web site. 'Many graduates have attained positions of responsibility, visibility and entrepreneurship soon after completing their studies.'

"The job placement results that the school files with accrediting agencies suggest a different outcome. From July 2007 to June 2008, students who graduated from the culinary arts associate degree program landed jobs that paid an average of $21,000 a year, or about $10 an hour. Oregon's minimum wage is $8.40 an hour.

"The job placement list is cited in a class-action lawsuit filed against the Portland school – previously known as Western Culinary Institute – by graduates who claim fraud, breach of contract unlawful trade practices. Executives at Career Education denied the allegations while asserting it would be wrong to judge the school on the basis of its graduates' first jobs.

"'You go out in the industry and work your way up,' said Brian R. Williams, the company's senior vice-president for culinary arts.

"On a recent morning at the campus in Portland, hundreds of students donning chef's whites labored in demonstration kitchens stocked with stainless steel countertops and commercial gas ranges. A chef inspected plates of boeuf Bourgogne and risotto Milanese. Students melted and pulled sugar into multicoloured ribbons. Others used a chainsaw to sculpture blocks of ice into decorative centerpieces.

"'It's employable skills; that's what we teach people here,' said the school president, Jon Alberts. 'We try to give them as much of an industry experiences in the classroom as possible.'

"But several local chefs said the program merely simulated what students could learn in entry-level jobs.

"'When they graduate and come in the kitchen, I tell them, "I'm going to treat you like you don't know anything,"' said Kenneth Giambalvo, executive chef at Bluehour, an upscale restaurant in Portland's Pear District. 'It doesn't really give them any edge.'

"What the school does give many students is debt, often at double-digit interest rates – debt that even bankruptcy cannot erase without a lengthy, low-odds legal proceeding."

William Krehm

Some Simple Answers to Buried Questions

Rene Moreau was good enough to bring to our attention the following item by Jeannine Aversa in The Star.com ("Insurance Contracts on Greek by Debt Probed," 16/02): "Washington – Federal Reserve Ben Bernanke told lawmakers Thursday that the central bank is examining the use by Goldman Sachs and other Wall Street firms of a sophisticated investment instrument to bet that Greece will default on its debt.

"Bernanke said the Fed is examining companies' use of credit default swaps, a form of insurance against bond defaults. Bernanke made the comments at the start of a Senate Banking Committee hearing, the second day of the Fed chief testimony on Capital Hill about the state of the economy.

"'Obviously, using these instruments in a way that intentionally destabilizes a company or a country is counterproductive.' Bernanke said, adding that the Securities and Exchange Commission probably will be looking into this matter as well. 'We'll certainly be evaluating what we can learn from the activities of the holding companies that we supervise here in the US,' Bernanke said.

"The panel chairman, Connecticut Democrat Senator Christopher Dodd, said that this practice could worsen Greece's debt crisis. 'We have a situation in which major financial institutions are amplifying a public crisis for what appear to be private gain.'

"Dodd wondered whether there should be limits on the use of credit default swaps to prevent 'the intentional creation of runs against governments.'

"On another topic, Bernanke said that the snowstorms and bad weather that have recently affected the United States are likely have a short-term – but not permanent – impact on unemployment and layoffs. He said policy makers will 'have to be careful not to over interpret' upcoming data.

"Even though the economy is growing once again, senators on both side of the aisle worried about high unemployment – now at 9.7%, rising home foreclosures and difficulties people and businesses have in getting loans.

"'The state of our economy as a whole may be improving, but if we're talking about the situation of ordinary American families, I think I can sum up this recovery in three words: "not good enough,"' Dodd said.

"Senators pressed Bernanke for ideas about what Congress can do to help out, especially in bringing down unemployment.

"Bernanke shied away from providing recommendations, but did say that if additional measures are approved, it would be 'very constructive' to pair them with a plan on how the government intends to lower record-high deficits down the road."

The Structural, Non-inflationary Causes of Some Higher Price Rise

The one-word answer to that problem is "accountancy" worthy of the name, and then we can go on to our "history," our "natural and social sciences," the teachings of our great economists long since purged from the curricula of practically all our universities. Since other university faculties have enjoyed far greater freedom – it should be possible to bring to the purged faculties of economics the buried science of which society has been so systematically deprived.

Some fifty years ago I concluded that not all rises of the price level could be attributed to "inflation," properly described as an excess of demand over existing supply. Some of it might, indeed, be due to that. However, quite often, and in our society with increasing frequency, rising prices are due to quite different causes. These I identified as *structural* factors inevitable in a mixed economy. In our highly urbanized, high-tech economy, increasing public investment is taking place in both physical and human investment by the public sector. Economic thought, as taught in our universities today is crippled by confusing an increased price level *per se* as identical with inflation due to an excess of demand over available supply. And with that comes the arbitrary assumption that the price increase must be suppressed with higher interest rates.

I reached the conclusion that prices can go up in the contemporary world for two very distinct reasons. It could, indeed, be because market demand has exceeded available supply, and that is genuine inflation. But it might be due to completely different factors.

I realized that prices can go up not necessarily because of an excess of demand over supply – which may be "inflation" – but because of increased government investment in physical and human capital. This latter I called the "social lien," and sent a long manuscript to some 30 economics journals throughout the world. It was purchased by *La Revue Économique*, at the time the leading journal on economic theory in France, and published in May, 1970. It received excellent reviews in a half-dozen European publications on economic theory including the economics journal of Cambridge University in the UK, which in particular praised my choice of the name "social lien" to distinguish such higher prices due not to an excess of demand over supply, but to government investments in physical and human capital.

It was only later that I realized why they accepted my manuscript. On their editorial board were two distinguished economists who over some 15 years had tested statistically the rise of prices against the supply-and-demand situation and found that they did not explain why price levels had risen when they did and found no positive relationship. They concluded that some factor still unidentified by them was involved. And then my manuscript arrived. On the editorial board of *La Revue Économique* there was also the great iconoclast French economic historian Fernand Braudel (1902-85), a leading member of a school of French historians that shifted the focus of the discipline from the "froth of events" to underlying geographic, economic and social factors. In this sense he and his colleagues of the publication *Annales d'histoire économique et sociale* – Marc Bloch, Lucien Febvre, the Belgian Henri Pirenne – were in headlong conflict with the "Sorbonne" establishment historians. They were in a broad sense doing to historical research what a few of us who later formed COMER have been attempting in economic theory – putting it in the context of other relevant disciplines. Braudel's iconoclasm was rewarded with years in the wilderness. It was only at the age of 82 that he was accepted into the French Academy. Partly because of his long boycott by the French historical establishment, he spent long years in far-off climes like Algeria and Brazil. That only sharpened his insights into the independence of disciplines and cultures. In the sixties the French *Annales* writings had considerable influence on my attempt to broaden economics from the study of an idealized market to embrace the entire burgeoning mixed economy.

Braudel's unfinished masterpiece on which he laboured with a team of researchers for some twenty years, *Civilisation, économie et capitalisme Xve-XVIIIe siècles* examines earlier attempts to embrace the entire mixed economy that was developing.

Economic theory, however, has been castrated to assume that logical propositions are reversible. In the *Revue Économique* I developed the point that not all price rise is inflationary. Prices may go up because of increased investment by the government in physical and human capital. This must not be confounded with inflation, as it is both by the Obama government in the purged economic courses of practically all universities. There is no other instance in any serious discipline of applying the same name of different effects. That it has happened in the case of the "social lien" indicates a determination rather to confuse than to clarify.

The publication of the article in *La Revue Économique* led to my contact with French economists of note, in particular with François Perroux. The most productive of the great French economists of the era. When I circulated copies of the French article, I received an immediate invitation from John Hotson, a leading member of University of Waterloo economics department to come to Waterloo to explain my theory, and there the foundations of the future COMER were laid. I brought Perroux to the University of Waterloo. For years COMER held its annual conferences at the University of Waterloo. But in a few years Hotson in his very prime was given early retirement, "too good to turn down," though it broke his heart and contributed to his early death. It was a big, big, broom that swept the economic faculties of our universities throughout the world clean of any wisp of an idea that challenged the might of our speculative bankers.

William Krehm

On Catastrophes and Renewal

Amongst the privileged, major disasters giving rise to reappraisals of man and his destiny, *The Wall Street Journal* (16/01, "Rising from the Ruins" by Kevin Rozario) provides an excellent example): "The earth shuddered. According to an American observer, 'every Building rolled and jostled like a ship at sea, which put in Ruins almost every House, Church, and Publick Buildings, with an incredible Slaughter of the Inhabitants.' Fires broke out all across the city, and the river rose 20 feet, breaking its banks and engulfing the lower elevations. It was November 1, 1755, and without warning, Lisbon, capital of the Portuguese empire, became a wasteland. Earthquake, fire and flood left 15,000 people dead (reports at the time spoke of 50,000); 17,000 of the city's 20,000 homes were destroyed.

"The scale of the calamity shocked the Western World. It demanded a response, and an explanation. Aid arrived from many nations; explanations were harder to agree upon. Clerics in this Age of the Inquisition described the calamity as an act of God, a judgment for the sins of the people. Fashionable thinkers attempted to explain the earthquake as a blessing in disguise, part of God's benevolent design wherein everything happened for the best.

"But the French philosopher Voltaire denounced both views. Could any survivor be expected to be consoled by the fact that 'the heirs of those who have perished will increase their fortune; 'masons will earn money by rebuilding the houses'? He cared nothing for divine designs, his sympathy lay with the victims, and the only truly ethical response to the Lisbon earthquake was to act, to repair bodies and buildings, and to study nature all the better to protect against nature's harms. Like London after the great fire of 1666, after cities had been rebuilt, and often improved after past calamities. But Voltaire turned this into a modern moral imperative. A civilization worthy of its name should pay special heed to disasters, learn from the mistakes they revealed, and harness intelligence, science and sympathy to make a more secure world. This was the project of modernity.

"What he did not expect was that Lisbon would itself rise so triumphantly from the rubble. Employing the absolute power of the monarchy and the resources of empire, the Marquis de Pombal built a new metropolis with earthquake-proof buildings, wide thoroughfares and a sewer system. Merchants had braced themselves for business failures and the decline of their fortunes. But Pombal turned one of the worst natural disasters in European history into an occasion for modernization. The message was clear, and it was one that would resonate down through the centuries; with the right intervention, catastrophes presented extraordinary opportunities to make improvements.

"Indeed, over time, and nowhere more so than in America, urban disasters came to be understood as engines of urban development and economic growth. Puritans had viewed calamities as useful 'corrections,' afflictions sent by God to call sinners back to the path of virtue. But the material benefits of destruction were soon apparent, too. After a fire wiped out much of Boston in 1676, the town took advantage of the destruction to build wide thoroughfares and implement new fireproofing regulations. Such measures, repeated after subsequent fires into the 19th century, equipped the city for commercial expansion, laying the foundations for the seaport's subsequent prosperity and growth at a time of burgeoning trans-Atlantic trade. Disasters demanded a response that was often impossible in ordinary times."

Economic Theory Adopts Models Leading to Calamities

"With the establishment of credit networks, insurance coverage, new technologies and systems of industrial production over the next two centuries, successful reconstruction became so predictable that it became a tradition of the modern age that disasters were instruments of progress. When most of Chicago burned down in 1871, prominent clergyman Henry Ward Beecher made the extraordinary statement that Americans 'could not afford to do without the Chicago Fire.' The official account of the conflagration enumerated the 'unquestioned material advantages' that were sure to be realized if the 'natural laws' of the market were allowed to guide the reconstruction of the city, encouraging readers to look beyond the destruction to the bigger and better metropolis that would arise from the ruins. And, indeed, Chicago became the fastest growing city in the Western Hemisphere over the next two decades, staging the colossal World Fair in 1893 to celebrate the economic forces, technological developments and political values that had ensured the great fire would become a source of prosperity.

"By 1908, one newspaper correspondent was so struck by soaring stock prices after the decimation of San Francisco by earthquake and fire that he launched an investigation into what he called 'catastrophe markets.' What he discovered was that the enormous profits for some and enabled economic innovations that increased productivity – a combination of circumstances that fueled investor confidence…. Hence the broad resonance of economist Joseph Schumpeter's famous description of capitalism as a 'gate of creative destruction.' As Federal Reserve Chairman Alan Greenspan explained in the 1990s, this metaphor captured the dependence of a capitalist economy on the continual obliteration of outmoded goods and structures to clear space and make way for innovation, new efficiencies and greater productivity.

"Disasters, it seemed, were good for business in a dynamic, expansive, capitalist economy. In part this was so because investors believed it to be so. In 1999, *The Wall Street Journal* reported that major calamities like the 1989 Hurricane Hugo and the earthquake in California had generated intermediate and long-term gains that more than offset initial losses; 'anthill economics' illustrated the general principle that disasters promoted economic growth. And this was by no means exclusive to the US. The Chinese State Information Research Center claimed the earthquake that killed 80,000 people in Sichuan Province in May 2008 would trigger a building boom that would boost national economic growth by 0.3%. Whether or not this figure is reliable, there were ample precedents here, not least the response to the Tangshan earthquake that destroyed 78% of residences and killed at least 240,000 people in 1976. Economic production from this important industrial center was restored within two years and, after careful planning and investment, a new-and-improved Tangshan was completed in 1986 and presented as a symbol of Deng Xiaoping's success in modernizing China.

"In the US such confidence has taken a hard hit in recent years, and perhaps nothing speaks more to the possibility that we may be entering an age of diminishing expectations than the difficulty we have in seeing disasters as opportunities. Such optimism seemed to evaporate after Hurricane Katrina in 2005. Certainly, the president of Merrill Lynch reminded investors that disasters historically promised economic opportunities that would compensate for any losses. And New Orleans Mayor Ray Nagin promised 'to bring our city back bigger, better and stronger.' But the optimists, for once, were outnumbered."

Clearly this had an intimate connection with the detail that human capital – largely because of the racial colour bar – had created a local undervaluation of human capital that, today has been overtaken by Washington policy, to say nothing of the official Deregulation and Globalization criteria that have dominated the world.

Let us return to *The Wall Street Journal* for guidance: "From the beginning many observers emphasized the social and environmental costs of the calamity. The mismanaged evacuation of poor and African-American

Is Obama Mistaking the Measuring Tape for the Client Actually Being Fitted?

Or in other words, is he confusing mathematics for the substance of basic issues rather than a powerfully neutral tool that it is? For mathematics can bring no new factual evidence to the table. It is a castrated economic theory that has allotted a deceptive primacy that has taken over most of our great universities and governments since the 1980s. It reclaimed for mathematics the very "essence of economic policy" rather than just a mighty *neutral* tool. COMER and the great positive tide of social analysis from Socrates in ancient Greece through the adherents of one form or another including Einstein and the Quantum theory physicists stuck with keen perception to the strictly investigative rather than the alleged substantive powers of mathematics. As did the proponents of labour and/or the cost of production theories of value. By raising false claims for maths, in their analysis, especially since the introduction of marginal utility theory in the 1870s, official economic theory has avoided the substantive content of economic analysis like the plague. We shall prove here that President Obama in his utterances, has not only sponsored but helped perpetuate this fraud.

Let us then check carefully to see whether Obama is abiding by the claim that he is dealing with *real* deficits. We shall show that in fact, without acknowledging it – possibly without even realizing it – he has smuggled in processes of purely political reform that attributes a substantive role to maths rather than a strictly technical one. Old hands of bankerdom cleared the path for replacing the essence of social analysis from the legitimate and powerful use of maths from a tool into the very subject of analysis.

Thus in *The New York Times* ("In Lion's Den, Obama and GOP Exchange in Give and Take") President Obama showed his hand in changing the role of maths from a strictly analytical tool to a defining solution. "The president grew more exasperated when Representative of Texas challenged him on the spending plan he will unveil next week. 'Will that new budget, like your old budget, triple the national debt and continue to take us down the path of increasing the cost of government almost 25% of our economy?' Mr. Hensarling asked.

"Mr. Obama called the question 'an example of how it's very hard to have the kind of bipartisan work that we're going to do because the whole question was structured as a talking point for running a campaign.'"

Thus in the same issue of the *Times* ("Searching for Some Light Amidst the Heat" by David M. Herszenhorn) contains the passage: "Calculating the stimulus effect on employment relies on complex macroeconomic modeling and analysis of historical data. In November, the non-partisan Congressional Budget Office estimated that by the end of October, an additional 600,000 to 1.6 million people were employed than would have been the case in the absence of the stimulus. Earlier this month, the president's Council of Economic Advisers, using similar models, put the number at 1.5 million to 2 million, as of the end of December.

"Calculating the stimulus effects on employment relies on complex macroeconomic modeling and analysis of historical data. In November, the nonpartisan modeling and analysis of historical data, were employed than would have been the case given an absence of the stimulus."

In short instead of using mathematics as a tool for analysis it was used as a source for actual solutions.

W.K.

residents from New Orleans symbolized *the social costs* of capitalist development. Commentators noted the deleterious effects of developing the wetlands and barrier islands upon which New Orleans depended for natural protection against storm surges, and explored the links between industrial production, carbon dioxide emissions and the increased ferocity of hurricanes. Development was not the solution, the inevitable happy outcome, but the problem.

"In truth, the dominant narrative of disasters as instruments of progress has always been contested. Disasters have often been truly disastrous for the poor. The emergency conditions introduced by calamity have often encouraged a disregard for the rights of citizens; a fervent commitment to economic development often discouraged attention to social costs. Because employers disregarded safety measures, more died – as many as 12 workers a day – in the rebuilding of Chicago than during the 1871 fire itself. And free-flowing investment and government aid has only encouraged businesses, developers and home owners to refuse the lessons of endless hurricanes in Florida and the Gulf Coast, rebuilding and expanding settlements along vulnerable coastal zones, and thereby increasing the likelihood of future destruction. Voltaire would despair.

"For the most part, the social and environmental costs of development have been rendered invisible by dominant articulations of American progress."

(This even uses the language of François Perroux's "dominant revenue" that for close to a half century we have laboured to bring to the attention of our governments. There is a crucial message for President Obama in these lines, that he has been ignoring only by putting the future of the US and the world at risk.)

"But after Hurricane Katrina, this buried history surfaced with a vengeance. The timing is key here. In an age of energy crisis, terrorist attacks, global warming and global financial instability, progress no longer seems quite so inevitable. Disasters increasingly present themselves as manifestations of a catastrophic world rather than as instruments of improvement."

Which brings us to Haiti, shattered by an earthquake that adds to the compounded tragedies of its history. Home of one of the world's few successful slave revolts – overthrowing an army of Napoleon, no less, it worsened the crime of liberation by providing shelter to Simon Bolivar, one of the two great Liberators of Spanish America during an interval when the war gods scowled at him. That hardly recommended the former slave republic to Washington, land of the free that still had a civil war ahead to sort out even the shallower formalities of freedom.

When History Foretold the Guantanamo Disaster

Until it had, these ruled the Americas, and a good part of the world in a way that foretold the Guantanamo Bay Chapter. By the so-called Monroe Doctrine it reserved the right to prevent any outside power from contributing to free any part of the New World pole to pole. Even F.D. Roosevelt, while fighting a world war for human freedom could boast that the Haitian Constitution was a good document – he had written it himself, when Assistant-Secretary of the Navy under President Wilson. And after WW II had been won the US army set up a school of torture in the Canal Zone where the armies of Washington-supported dictators throughout Latin America were instructed in techniques of torturing aspiring liberators. Perfectly elected regimes from Guatemala to Chile were tumbled, and their presidents murdered. Hundreds of democrats were dropped into the ocean that lapped the US-certified lands of the free.

What then sets off one small country like, say Belgium or Finland that is able to maintain its independence and freedom from s small country like Haiti that spectacularly is not. The answer to that riddle was given by a great French economist, dead for some two decades, and is largely forgotten even in France – François Perroux. And yet before the world economy was so completely globalized, the work from which I quote was published by Unesco, and such matters were discussed at university conferences outside most approximately democratic lands. I quote a single summary of the rich content of ideas relevant to the problem posed for us by Haiti and its human problems, essentially the reasons why it so sorely lacks the human resources for converting its formal "independence" to a meaningful regard for preserving and increasing its potential for recovery and independence.[1]

We quote: (p. 35): "Let us consider a national economy very much inspired by the liberalism of the current period to benefit from the closeness of both Germany and France for adapting its economy quickly to make the most of contemporary trends accessible to it from its position rather than accepting passively what its inherited economy provides. For us the foreign trade will be determined not by the given structure of their economies but by taking advantage of the integrated and integrating structures that are at hand and that can be taken advantage of to increase their economic potential."

The influences of one structure on another through the flow of foreign exchange have to do with the asymmetrical relationships in three different domains: exports, direct investments and monetary flows.

Haiti lacks even the educated labour force that the Netherlands or Finland have in prodigious quantity: a capacity for direct investment in what is at hand from its neighbours, and similar monetary influences to use to advantage in such situations.

And of course, a highly educated population to apply such favored structural assets.

That is why destruction in Haiti will not in any sense of the imagination automatically lead to renewal of population and resources. Nothing will automatically arise on its own from those ruins – any more than they did in New Orleans.

"This disaster, like all disasters, then poses a question. One argument holds that the solution to both the poverty and the disaster is integration into world markets, more International Monetary Fund loans and structural adjustments. On the day after the earthquake, James Roberts, a research fellow at the Heritage Foundation laid out an expansive vision of the prospect this disaster presented for a 'bold and decisive' US intervention to impose to impose the democratic and economic reforms that would turn Haiti into a stable state and trading partner. Disaster, once again, figures as an agent of progress.

"At the same time, critics of neo-liberalism are arguing that the disaster was the result of capitalist development, as mandated by the international community. The country – impoverished over the centuries by slavery, the extraction of its resources to imperial metropolises, international occupations – has been dependent on IMF loans since the 1980s, but these have come with strings attached. Haiti, once self-sufficient in rice production, was forced to remove barriers to heavily subsidized American rice. This led to the decimation of local farming and the migration of farming dwellers to the city in search of work. With recent escalating world food prices, Haitians, unable to grow their own food, have sunk deeper into poverty, locked in a cycle of dependency that contributed to the scale of the destruction and loss of life in the wake of the earthquake.

William Krehm

1. François Perroux, *Independence de la Nation*, Professeur au College de France.

No Peace for the Imperial Romanov Even at the Hands of Their Own Church Almost a Century after Their Execution

The New York Times (13/03, "Where Some Envision Czar's End, Church Sees Building Site" by Clifford J. Levy) tells a shattering tale of the Romanovs, executed by Lenin, almost a century ago being denied peace by their own Church.

"Visitors from around the world have turned an isolated ravine in central Russia into a pilgrimage site in recent years. They arrive to gaze at the unadorned earth where the Bolsheviks in one final act to defile the dynasty that they toppled, are believed to have dumped the remains of Czar Nicholas II and his family in July 1918.

"But now the site is threatened by an unlikely opponent: the powerful Russian Orthodox Church, which to this day has not acknowledged that the bones retrieved there over the last two decades are those of the royals.

"The church wants to build a large Russian Orthodox cemetery and cathedral at the site, effectively obliterating its historic and archeological value, according to professionals who have worked there and experts on the royal family. The church hopes to begin construction in April, when its leader, Patriarch Kirill I visits for a groundbreaking for the project, in Yekaterinburg in the foothills of the Ural Mountains.

"The project will not include memorials or other references to the remains because the church does not believe they are genuine, a position that flies in the face of an overwhelming scientific consensus based on extensive DNA testing by major laboratories in Russia, Europe and North America.

"'The results of our studies provide unequivocal evidence that the remains of Nicholas II and his entire family, including all five children, have been identified,' a team of prominent Russian, American and Canadian researchers wrote last year in the Proceedings of the National Sciences of the United States.

"After conducting its own inquiry, the United States Armed Forces DNA Identification Laboratory reached the same conclusion last year.

"The church's seemingly inexplicable stance has bewildered the experts, particularly because the remains have been scrutinized by so many.

"But it is a long-standing conflict. In 1998, for example, when the bones of Nicolas and most of his family were interred in the crypt of the czars in St. Petersburg, the church would not endorse them because of its concerns.

"The most recent DNA studies have been aided by a surprising break-through. In 2008, when investigators came across a blood-stained shirt that Nicholas wore when he was attacked during an attempted assassination in Japan in 1891. The shirt had been stored in the Hermitage Museum in St. Petersburg, and the blood provided samples of his DNA.

"Nevertheless, scientists and archeologists said the church seemed determined to move forward with the project, and there was little chance of stopping it."

Like a Real-estate Developer Anxious to Draw Down His Mortgage Funds

"The church hates these remains and wants to destroy any evidence of them,' said Vladimir Solovyov, one of the Russian government's most famous criminologists, who has long spear-headed the research into the bones. 'It is difficult to understand how, two decades after they were first discovered, the church continues to deny them.'

"Mr. Solovyov and other experts said that while bones had been removed from the site it was highly likely that other remains, as well as artifacts related to the royal family, were still buried at the site.

"Local officials have declined to impede the project. Under Communism, the church was brutally persecuted, but since the Soviet Union's fall it has grown increasingly influential, especially at the regional level.

"The dispute over the site is an unanticipated twist in the tale of the demise of the Romanov family in the final days of the Russian Revolution.

"Bolshevik guards knifed and shot to death the czar, his wife, five children, a doctor and three servants in the basement of a house in Yekaterinburg where they were held after the czar abdicated.

"To prevent royalists from discovering the graves and making martyrs of the family, the guards first discarded bodies in a mine shaft, then moved them to a ravine off a main road.

"The remains lay there for decades. In 1991, as the Soviet Union was collapsing, it was announced that they had been located.

"Church officials immediately expressed skepticism. They questioned why the bones of only 9 people were found at the site, when 11 were killed. The remains of the czar's son, Aleksei, and one sister were missing.

"In 2007, a group of amateurs located Aleksei and his sister in a separate spot at the site. Recent DNA inquiries have confirmed those findings, though there is some debate about whether the sister is Maria or Anastasia.

"Church officials immediately said questions persisted about whether the bones were authentic, as well as how the Romanov family was killed by the Bolsheviks. They said a church panel was conducting a new enquiry into the evidence.

"The church canonized the czar and his family in 2000. Russia's Supreme Court formally rehabilitated them in 2008, ruling that they were victims of 'unfounded repression.' Citing that decision, family heirs have called upon prosecutors to reopen an inquiry into the murders to establish exactly how they were carried out.

"Russia's Supreme Court formally rehabilitated them in 2008, ruling that they were victims of 'unfounded repression.' Citing that decision, family heirs have called upon prosecutors to reopen another inquiry into the murders to establish exactly how they were carried out. Prosecutors refused last year, saying that too much time had passed.

"Archpriest Vsevolod Chapin, a spokesman for Patriarch Kirill I said government officials and scientists needed to provide more information about their enquiries.

"'Many people still have questions, the crime has not been completely investigated, the case was closed without detailed consideration of all the theories about the guilt or lack of guilt of a number of people,' Father Chaplin said.

"Scientists said they had disclosed all

their work, stressing that recent inquiries had been published in widely respected journals, available on the internet. They encountered that the church's refusal to acknowledge the remains stems from its resentment over not being asked to take part in the original excavations in the 1990s.

"Currently, there are crosses and small memorials at the ravine to mark where bones were found.

"Father Chaplin said the early stages of construction would not affect those exact spots.

"But Sergei Pogorelov, a government archeologist who has long worked at the site, said the entire area should remain a preserve. He said it would take money for archeologists to ensure that they had examined all the surrounding land.

"Mr. Pogorelov accused the church of clinging to its doubt about the bones because it did not want to concede that its suspicions in the 1990s were unwarranted.

"'It is very hard for the church to admit its mistakes,' he said.

"'This site will be destroyed as a place of any significance,' he said. 'This is the history of our country, and it will be ruined.'"

The sins of Czar Nikolai were not small, but a century of reassessment of the martyrdom of his family possibly outstrips the incompetent brutality of his government.

W.K.

Changed Social Topography Leaves Trail of Traumatic Problems

The New York Times (6/02, "After Unemployment Ends, Pain and Trauma May Linger" by Michael Luo) reports: "Raleigh, NC – Antjte Newby went back to work in September, but she has still not escaped the burden imposed by nine months of unemployment.

"Mrs. Newby and her husband were forced to walk away from their house in suburban Detroit and are now living here in as rented house with their three children. They are bracing for a huge tax bill in the spring because of early withdrawals they made on her 401(k) and taxes they still owe on unemployment benefits. Their credit is in tatters, and their 10-year marriage showed cracks they are still trying to repair.

"'We're not done living through the fallout of all of that,' Mrs. Newby said, four months into her new job as an account director of an advertising agency here.

"The wound of unemployment, as her family has learned, is not cauterized so quickly, and lives do not simply go back to the way they were."

In all there is a deep lesson about the swerving human reactions to drastic shifts in social institutions, be they good or bad. Even religions are caught short in their guidance to their flocks on how to adjust, which suggests that even the Lord in his Heaven takes time to keep up with the improvisations of His creation.

"Interviews with more than a dozen people who were out of work at least a half-year during the recession and have now landed jobs found many adjusting to new realities. Some of these changes are self-imposed; others forced upon them. They include grappling with newfound insecurities and scaled-back budgets, reshaped priorities and broken relationships. In some ways it is equivalent to the lingering symptoms of post-traumatic stress.

"In returning to work, Mrs. Newby, 41, has fulfilled a dream of millions of jobless people as the economy lurches back to life. But with the average duration of unemployment no more than six months, the consequences of the period will continue to ripple into fewer jobs in December, a downward adjustment of roughly 1%. The revisions showed that the economy lost 150,000 jobs to December, far more than the 85,000 initially reported.

"In calculating the unemployment rate, the report used new census estimates of the population, an annual adjustment. That prompted some economists to dismiss the drop in the jobless rate as a statistical quirk though the Labor Department said the change was negligible.

"'Everyone goes crazy over today's number,' said Joshua Shapiro, chief US economist at MFR Inc. in New York, 'but history has been rewritten.'

"Mr. Shapiro focused on the economic anxiety and tight finances that still grip many households, suggesting this would dampen consumer spending, which represents more than two-thirds of the economy. That would keep employers reluctant to hire. 'The question is, what is the rate of improvement going to be? "Very slow."'

"The Obama administration portrayed the report as grounds for cautious optimism."

9.7% Unemployment Can't Be Less than a Sea of Tragedy

"'It's somewhat encouraging,' said Chistina D. Romer, who heads the president's council of economic advisors. 'The overall number is too high. You can't look at 9.7 percent unemployment and say that's anything but a tragedy.'

"Ms. Romer acknowledged that she and her colleagues failed to grasp the magnitude of the employment crisis last year when putting together a $787 billion package of spending measures aimed at stimulating economic growth. The administration had assumed that without the stimulus the unemployment rate would top our at 8.9% by the end of last year, considerably below the 10.1% which now represents the peak.

"'Forecasting is a difficult business,' she said, adding that she felt 'pretty confident' the economy would produce sustained job growth by the spring.

"Economists remain divided in that prognosis. Some envision the jobless rate reaching nearly 11% by the end of next year, which would raise the prospected new shocks to the system: a retreat in consumer spending and renewed fears in the banking system as jobless people lose the wherewithal to pay their mortgages.

"Such visions are at the center of concerns that the end of this recession may signal the beginning of a long period of disappointingly slow growth, or perhaps just a pause before another downturn.

"Construction continued to suffer in January, losing 75,000 net jobs. Transportation and warehousing lost 19,000 net jobs. State and local governments collectively lost 41,000 jobs.

"Small companies complain that loans remain exceedingly difficult to secure, limiting their ability to expand and hire. The Obama administration is seeking Congressional approval for a measure that would direct $30 billion towards loans for small businesses.

"In Cleveland, Kirk K. Meurer, the owner of an office furniture store with 30 employees, has frozen wages and stopped buying new cars to trim costs. He has a $250,000 line of credit, but complains that it has been difficult to persuade the bank to lend more.

"'I'm being very frugal with my decisions,' Mr. Meurer said. 'For us to hire, we need to see a turn in the economy.'

"Many economists saw in Friday's jobs report heartening signs that such a turn had arrived.

"For months, American businesses have expanded their production while continuing to shrink their work force. The January data – particularly the increase in manufacturing and the hours worked – suggested that employers finally felt enough confidence in expanding business opportunities to add to their payrolls.

"Health care, long a bright spot in a dismal economy, grew by 17,000 jobs. Retailing gained 42,000 jobs, and professional and business services added 44,000.

"'We've seen a surge in demand for graphic designers and people who create display and advertising for the Web,' said Pablo Rostatt, chief executive of Elance, an online job market for freelance computer programmers and other tech-related workers. 'There's been an increase in confidence among employers.'

"Adding to the sense that employers are finally inclined to add labor, the number of so-called involuntary part-time workers – people who cannot find full-time jobs, or whose hours have been cut – fell to 8.3 million in January, from 9.2 million.

"But even among the signs of improvement, the report presented unambiguous evidence that these remain grim days for millions of ordinary people.

"The unemployment rate reached 16.5% among African-Americans, 12.6% among Hispanics, and 28.4% among teenagers.

"'African-Americans and Latinos continue to bear the brunt of this economic recession,' Representative Maxine Waters, Democrat of California, said in a written statement. 'We cannot in good conscience welcome these numbers without acknowledging the disparity that exists between the general population and communities of colour.'

"The so-called underemployment rate – which counts involuntary part-time workers along with people who have given up looking for jobs – was 16.5% in January. That amounted to an improvement from the 17.3% a month earlier, yet it was nearly double the level of three years ago.

"Those who have been out of work for six months or longer swelled to 6.3 million in January, from 6.1 million in December, the highest level since the government began tracking such data in 1948.

"'Things are getting bad less rapidly,' said Dean Banker, co-director for Economic and Policy Research in Washington. 'We're sort of hitting bottom, but there is no evidence of a robust turnaround.'"

From frail, inadequate statistics, that convey optimism that turns out misleading at best, there is all the more reason to bring back serious accountancy into our government's books that would recognize investment in human capital, education, health, research in human capital. This had been recognized on evidence deduced from the rapid recovery of Japan and Germany from the destruction in WW II was proven to be the most productive investment governments can make. It is time to make use of that great discovery that didn't lie and permitted the rebuilding of the world after a decade of Depression and the Second World War. President Obama must make full use of what was learned at an immense cost during the Great Depression and from the recovery of the World after WW II, or face a damning verdict from history.

William Krehm

More Than Just Money Depends on the Banks Being Able to Lavish Bonuses on Top Bankers

The New York Times (01/10, "For Top Banker On Wall Street 7 Figures or 8?" by Louise Story and Eric Dash) recounts a cloven tale: "Everyone on Wall Street is fixated on The Number.

"The bank bonus season, that annual rite of big money and bigger egos, begins in earnest this week, and it looks as if it will be one of the largest and most controversial blowouts the industry have ever seen.

"Bank executives are grappling with as question that exasperates, even infuriates, many recession-weary Americans: Just how big should their paydays be? Despite calls for constraint from Washington and a chafed public, resurgent banks are preparing to pay out bonuses that rival those of the boom years.

"Industry executives acknowledge that that the numbers being tossed around – six, seven, and even eight-figure some for some chief executives and top producers – will probably stun the many Americans still hurting from the financial collapse and ensuing Great Recession.

"Goldman Sachs is expected to pay its employees an average of $595,000 each for 2009, one of the most profitable years in its 141-year history. Workers in the investment bank of JPMorgan Chase stand to collect about $463,000 on average.…

"While average bonuses are expected to hover around half a million dollars, they will not be evenly distributed. Senior banking executives and top Wall Street producers expect to reap millions. Last year, the big winners were bond and currency traders, as well as investment bankers specializing in health care.

"Even some industry veterans warn that such paydays could further tarnish the industry's sullied reputation. John S. Reed, a founder of Citigroup, said Wall Street would not fully regain the public's trust until banks scaled back bonuses for good – something that, to many, seems a distant prospect."

Nothing Learned from Past Crises

"'There is nothing I've seen that gives me the slightest feeling that these people have learned anything from the crisis," Mr. Reed said. 'They just don't get it. They are off in a different world.'

"The power that the federal government once had over banker pay has waned in recent months as most big banks have started repaying the billions of dollars in federal aid that propped them up during the crisis. All have benefited from an array of federal programs and low interest rate policies that enabled the industry to roar back in profitability in 2009.

"Most companies pay bonuses only when they make money. But big banks paid bonuses during the financial crisis even though the their profits tumbled or, in some cases, vanished altogether.

"This year, compensation will again eat up much of Wall Street's revenue. During the first nine months of 2009, five of the largest banks that received federal aid – Citigroup, Bank of America, Goldman Sachs, JPMorgan Chase and Morgan Stanley – together set aside about $90 billion for compensation. That figure includes salaries, benefits and bonuses, but at several companies, bonuses make up more than half of the compensation.

"Goldman broke with its peers in December and announced that its top 30 executives would be paid back only in stock. Nearly everybody on Wall Street is waiting to see how much stock is awarded to Lloyd C. Blankfein, Goldman's chairman and chief executive, who is a lightning rod for criticism over executive pay. In 2007, Mr. Blankfein was paid $68 million, a Wall Street record. He did not receive a bonus in 2008.

"Goldman put aside $16.7 billion for compensation during the first nine months of 2009. At that rate, its compensation pool would total $21 billion for the year, according to an analyst consensus projections tallied by Thomson Reuters. A spokesman for Goldman, Lucas van Proog, declined to comment.

"Responding to criticism over its pay practices, Goldman has already begun decreasing the percentage of revenue that it pays to employees. The bank set aside 50 percent in the first quarter, but that figure fell to 48% and then to 43% in the next two quarters.

"JPMorgan's investment bank, which employs about 25,000 people, has already reduced the share of revenue going to the compensation pool, from 40% in the first quarter to 37% in the third quarter.

"At Bank of America, traders and bankers are wondering how much Brian J. Moynihan, the Bank's new chief will be awarded for 2010. Bank of America, which is still absorbing Merrill Lynch, is expected to pay large bonuses, given the bank's sizable trading profits.

"Bank of America has also introduced provisions that would enable it to reclaim employees' pay in the event that the bank's business sours, and it is increasing the percentage of bonuses paid in the form of stock.

"'We're paying for results, and there were some areas of the company that had terrific results, and they will be compensated for that,' said Bob Sticler, a Bank of America spokesman.

"At Morgan Stanley, which has had weaker trading revenue than the other banks, managers are focusing on how to pay stars in line with the industry. The bank created a pay program this year for its top 25 workers, tying a fifth of their deferred pay to metrics based on the company's later performance.

"A company spokesman, Mark Lake, said, 'Morgan Stanley's board and management clearly understands the extraordinary environment in which we operate and, as a result, have made a series of changes to the firm's compensation practices.'

"The top 25 executives will be paid mostly in stock and deferred cash payments. John J. Mack, the chairman who retired as chief executive at the end of 2009, is forgoing a bonus.

"And at Citigroup, whose sprawling consumer banking business is still ailing, some managers were disappointed in receiving in recent weeks the preliminary estimates of their bonus pools, according to people familiar with the matter. Citigroup's overall 2009 bonus pool is expected to be about $5.3 billion, about the same as it was in 2008.

"The highest bonus awarded to a Citigroup executive is already known. The banks said in a regulatory filing last week that the head of its investment bank, John Havens, would receive $9 million in stock. But the bank's chief executive, Vikram S. Pandit, is forgoing a bonus and taking a salary of just $1."

RENEW TODAY!
(SEE PAGE 2)

Introducing Douglass North's Law

What we are confronted with, in fact, straddles and instinctively attempts to neutralize an important law in 1993 by an American economic historian Douglass North in 1993 for which he was awarded a Nobel Prize for Economics.

We describe it on page 167 of *Meltdown,* Volume 4), as follows: "[Dr. North deals with] the political consequences of a fundamental shift in the distribution of the national income. He showed that the latter can undermine the dominant political alliances based on the previous income distribution [in society]. The end of the statutory reserves put our chartered banks in the direct line of succession of our ancestral monarchs in the creation of money.

That spells power beyond anything decided at the ballot box. That was at once evident in the further deregulation of our banks shortly after their unpublicized bailout. That in turn permitted them to acquire stock brokerages, enter merchant banking, underwriting, insurance. This had been expressly forbidden by the 1933 banking legislation of F. Roosevelt that threw up firewalls between commercial banking and the four non-banking pillars of the financial system – banks and the stock market, insurance, and stock brokerages. It was echoed throughout much of the Western world.

"Each of these financial specialties has its own pools of capital essential for the conduct of its particular business. Allow the banks with their multipliers of money creation access to these capital pools, particularly with the wild leverage that the end of statutory reserves had allowed them, and the result was bound to be speculative inflation.

"In the perspective of Douglass North's work, the break-up of the reigning Conservative Party [in Canada] arising from Brian Mulroney's surrender to the banks was inevitable. And, notably, the surrender of most of our money creation was continued by the succeeding Liberal government with hardly a burp. *As a result the Liberal Party seems headed for a not dissimilar fate.* And the obstinate refusal of the NDP to even mention the importance of using the legislation and ownership of the Bank of Canada by the government of Canada as a major source of our economic troubles, slams the door on any possibility of working our way out of the present deepening crisis in a peaceful, logical way."

In Mexico where the achievements of the Former Cardenas regime in nationalizing the oil fields and replacing the recurrent civil wars with a peaceful, social-minded regime, has not only been abandoned but the old-fashioned assassinations as a feature of political process has cropped up again.

What Douglass North has achieved is a sort of inverse of the "dominant revenue" law of Perroux. He draws attention to the break-down when the old dominant revenue is not functioning, and political alliances based on the existing dominant revenue have started crumbling.

At that time naked force is called upon and military actions come to the fore, to distract from the internal economic crisis by foreign military adventures that, of course, have their role in strong-arming domestic politics as well.

The Douglass North "theorem" explains why the Obama regime, frustrated in curbing the banks that have dug their sharp dentures into the breasts of the economy, should also be relying increasingly on further military adventure in Afghanistan, in which the personnel of the previous rightist regime can be expected to play an increasing part.

William Krehm

What Economists Can Learn from Cancer Research

The New York Times (29/12, "In War on Cancer, Old Ideas Can Lead to Fresh Directions" by Gina Kolata) provides some enlightening contrasts to awaken official economists from their snoring slumbers.

We quote: "Mina Bissell will never forget the reception she got from a prominent scientist visiting Lawrence Berkeley National Laboratories, where she worked. She gave him a paper she had just published on the genesis of cancer.

"He took the paper and held it over the wastebasket, and said, 'What do you want me to do with this?' Then he dropped it in.

"That was 20 years ago, and ever since, Dr. Bissell and a few others have struggled for acceptance of what seemed a radical idea: gene mutations are part of the process of cancer, but mutations alone are not enough. Cancer involves an interaction between rogue cells and surrounding tissue.

"The idea seemed messy and unduly complicated. And cancer genes seemed comparatively clear-cut. So it was often ignored or dismissed as researchers focused on genes and on isolated cancer cells growing in Petri dishes in laboratories.

"Now, though, more and more researchers are plunging into those murky depths, studying tumors in their cellular environments. And once they do, they say, they can explain many anomalies of cancer. The new focus on a cancer's surroundings, researchers say, is a major shift in thinking why cancer occurs and how to stop it.

"As yet, the research has not led to cures, and scientists expect the real fruits of their efforts – if they occur at all – will be years in the future.

"But as the war on cancer drags on, nearly 40 years after it began, scientists say new directions are urgently needed. The death rate has barely budged for most cancers, and the great mutation strategy has so far had a limited effect. That is probably because cancer cells have so many genetic abnormalities. If one mutated gene is attacked, others take over.

"So some researchers are taking a fresh look at ideas that were dismissed as folklore – a blow to the breast might spur cancer, an infection might fuel cancer cells, a weak immune system might let cancer spread. They also say the new approach may help explain mysteries, like why the breast cancer rate plummeted when women stopped taking menopausal hormones. One answer may be that hormone therapy changes normal cells of the breast and may allow some tiny tumors to escape from the milk ducts where breast cancer starts.

"The same idea – still in the experimental stages – is that cancer cells cannot turn into a lethal tumor without the cooperation of other cells nearby. That may be why autopsies repeatedly find that most people who die of causes other than cancer have at least some tiny tumors in their bodies that had gone unnoticed. According to current thinking, the tumors were kept in check causing no harm.

"It may also be that cancers grow in part because normal cells surrounding them allowed them to escape. It also means that there might be a new way to think about treatment: cancer might be kept under control by preventing healthy cells around from crumbling.

"'Think of it as this kid in a bad neighborhood,' said Dr. Susan Love, a breast cancer surgeon and president of the Dr. Susan Love Research Foundation. 'You can take the kid out of the neighborhood and put him in a different environment and he will behave totally differently.'

"'It's exciting,' Dr. Love added. 'What it means is that we should be able to reverse cancer without having to kill cells. This could open a whole new way of thinking about cancer that would be a lot less assaultive.'

"Some companies are taking note. Genentech, for example, is investigating the way some skin, ovarian, colon and brain cancers signal surrounding cells to promote cancer growth. The company has an experimental drug that it hopes might block this signaling.

"Others are studying drugs like status or anti-inflammatory drugs that may act by affecting signals between surrounding cells and cancers. But, says Dr. Robert Weinberg, a cancer researcher at MIT, 'this is not a clearly articulated scientific agenda, in large part because we still know too little about these signals and how their release is controlled.'

"The researchers are cautious. They, more than anyone else, know the blind alleys of cancer research over the past few decades. And no one is suggesting that controlling a tumor's environment will, by itself, cure cancer.

"And they are not discounting cancer-causing genes. But even some who have made their careers studying cancer genes say a tumor's environment can no longer be ignored.

"'I am an unabashed cancer geneticist,' said Dr. Bert Vogelstein, director of the Ludwig Center for Cancer Genetics and Therapeutics at John Hopkins. 'The genetic alterations in the cancer cells are the proximate cause of the malignancy.'

"But, Dr. Vogelstein said, 'one cannot fully understand that disease unless one understands the disease's environment.'

"It can be a reciprocal interaction, especially as cancers grow and become more advanced. The surrounding cells might let cancers start, but once they do, cancers appear to change the surrounding cells to help fuel the cancers' growth.

"'This notion is not a flash in the pan that will come and go,' said Dr. Weinberg, who in 1981, discovered the first human oncogene, a naturally occurring gene that, when mutated, can cause cancer.

"And Dr. Bissell is now hailed as a hero, with an award named after her.

"'You have created a paradigm shift,' the Federation of American Societies for Experimental Biology wrote in a letter announcing that she had won its 2008 Excellence in Science award."

Struggles for Acceptance

"Dr. Barnett Kramer, associate director for disease prevention at the National Institutes for Health, recently discovered a paper that startled him. It was published in the medical journal *The Lancet* in 1982, about a decade before the war on cancer was announced by President Richard M. Nixon. In it, Dr. D.W. Smithers, then at Royal Marsden Hospital in London, argued that cancer was not a disease caused by a rogue cell that divides and multiplies until it destroys its host. Instead, he said, cancer may be a disorder of cellular organization.

"'Cancer is no more a disease of cells than a traffic jam is a disease of cars,' Dr. Smithers wrote. 'A lifetime of study of the internal-combustion engine would not help anyone understand our present traffic problems.'

"Dr. Kramer said: 'I only wish I had read

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this paper early in my career. Here we are, 46 years later, still struggling with issues this author predicted we'd be struggling with.'

"Dr. Bissell said she had struggled for decades to find acceptance for her ideas.

"She was not alone. In 1975, not long after Dr. Bissell started her work, another scientist published a hard-to-refute seminal experiment that seemed to indicate that cancer cells could become normal in the right environment.

"The scientist, Beatrice Mintz of the Fox Chase Cancer Center in Philadelphia, inserted mouse cancer cells into early mouse embryos. The embryos grew into mice with cells from the original embryo. The cancer cells had certainly been incorporated into the mouse embryo, but they were not defanged, developing normally. Yet the same cancer cells will spread and kill an adult mouse if they are injected under the skin or into the abdomen.

"'It was a sensational experiment,' Dr. Mintz said.

"Dr. Bissell also thought the experiment was sensational. But she wanted to know why cells would become deadly tumors in one location and not another.

"At the time she was working with Rous sarcoma virus (RSV), which causes fatal tumors in chickens when inserted into cells. Then one of her postdoctoral fellows, Dr. David Dolberg, unearthed papers suggesting that the cancer virus would behave differently in chicken embryos.

"They injected the virus into embryos. The old papers were correct.

"'That meant that if you put the virus in cells in an embryo, you don't get cancer,' Dr. Bissell said. 'And if you put it in a chicken, you do.'

"Dr. Bissell and Dr. Dolberg's paper – the one the visiting scientist dropped into a wastebasket, thinking it ridiculous and clearly wrong – was published in the journal Nature in 1984. The scientist was not the only one who scoffed, said Dr. Bissell."

Sleeping Cells Awakened

"Next, Dr. Bissell did an experiment that gave some credence to an old idea oft dismissed.

"Over and over, doctors and patients tell stories of injuries that seemed to spur a cancer. A blow to the breast, an operation, and suddenly cancer takes off. It may mean nothing, just an effort to explain the seemingly inexplicable.

"Yet some stories end up in publications. For example, says Dr. Michael Baum, as professor emeritus of surgery at University College London, there is a report of eight men who had surgery to remove the tumors, followed by 'a sudden and dramatic exacerbation of the disease.' Animals studies find similar effects, Dr. Baum says.

"And in breast cancer, he says, observations of women whose cancers accelerate after breast surgery as well as mathematical modeling indicates that surgery at the site of a dormant tumor can spur it to grow in some unusual cases; chronic inflammation, as can happen with hepatitis B and C viruses, is thought to lead to cancer. The current hypothesis is that chronic liver inflammation can disrupt the normal architecture of cells, allowing cancers that might have lain dormant to thrive.

"That is what happened when Dr. Bissell did an experiment on chickens.

"She knew that when she injected a chicken with RSV, the cancer-causing virus, the bird would develop a huge tumor at the site of the injection. But Dr. Bissell had injected the virus into the bird's blood. Why weren't there tumors everywhere?

"She reasoned it through.

"'What do we do when we inject?' Dr. Bissell asked. 'Well, we make a wound. We injected the virus in one wing and got a huge tumor. What would happen if we injected the virus in one wing and wounded the other wing?'

"She tried it. A huge tumor grew where she had injected the virus and another grew on the other wing where she had made the wound.

"Obviously it's more than just surgery, Dr. Love said. 'The majority of people who have surgery don't have a problem.'

"'But,' she said, the findings tell her that if people have a choice of more or less invasive surgery – laparoscopy versus open surgery, for example – they might want to choose the less invasive.

"'And I say this as a surgeon who likes to put her hands in and muck around,' Dr. Love added.

"Dr. Kramer said that made sense, but added: 'Would I avoid operations? No, I don't think the evidence is good enough. Researchers are not saying that injections will cause cancer or cause cancer to spread. Most likely, if there is an effect, it happens only if tiny cancers are already present at the site of the injury.

"A bigger risk than wounding, Dr. Bissell says, is simply aging, in which cell architecture crumbles, which is why people get wrinkles, for example. And it may be why cancer occurs in older people."

Contrast the untiring reconsideration of past data and hypotheses that goes on in cancer investigation with the flat expunging of our history, our accountancy, proper use of our nationalized or even partially nationalized central banks, the social role of government debt which includes the entire money supply – a detail that President Obama hides from the public on the advice of his advisers, and the real nature of public investment in physical and human capital as key prepaid investments rather than just "debt." The world must be allowed to recapture its literacy in such matters instead of being trundled to destruction in ever more hopeless, desperate wars.

W.K.

When the Medium has Become a Thousand-legged Milliped of Deception, What is Left of McLuhan's Great Truth?

The Globe and Mail (05/02, "In Toyotaland, a painful blow" by Mariko Sanchanta and Miho Inada) tells a shattering tale: "Tokyo – The emperor of Japan, its prime minister and nearly half of the population of the world's second economy have one thing in common. They all ride in Toyotas.

"The world's biggest auto maker's tentacles and its sprawling subsidiaries stretch from cars to real estate to the upper echelons of government. It is the nation's biggest corporate employer. Its advertisements grace nearly every magazine and newspaper. So great is its reach that Japan sometimes is called Toyotaland.

"Alumni from Toyota Motor Corp.'s executive ranks are scattered like seeds: in the government, in Japan's leading business lobby group, on company boards such as Sony Corp.'s. Last year, 48% of all new standard passenger vehicles sold in Japan were either a Toyota or its luxury Lexus brand, according to the Japan Automobile Dealer's Association.

"…And for a beleaguered country that has suffered a series of institutional blows in recent months – the collapse of the long-ruling political party, the bankruptcy of its champion national airline, a renewed bout of inflation – the global humiliation of Toyota may be the psychologically most damaging blow of all.

"The once impregnable car-maker is facing questions over its reputation, quality control and trustworthiness in a market where it has long been a pillar, if not the pillar, of Japan, Inc. Even worse, these questions are focused squarely on Japan's best-selling car, the Prius hybrid, over a possible defect in its braking system.

"'I trusted Toyota.' said Ryota Motoikem, 25, an employee of a railway company, who bought a Toyota Wish. 'The fact that in the popular Prius, which I was thinking of buying at one point, bothers me,' he added. 'I cannot trust Toyota for now at least. I don't want to get hurt in an accident….'

"Until the Prius brake issue came to light in Japan, consumers here were relatively sheltered from the deluge of recall news emanating from the US. Japanese news-makers wrote curiously little about the issue.

"Toyota is a major advertiser in Japan so there is a tendency not to say anything too severe about it….

"Aftershocks from the crisis in Japan will be felt far and wide. Toyota has a huge impact on companies around it. Whether it's good or bad, that impact would ripple through the group companies and subcontractors.

"Across corporate Japan and in Kasumigaseki, Tokyo's hub of government, Toyota's former and present executives wield considerable influence.

"Japan's emperor and empress glide around in a Toyota Century Royal, the official state car that is custom-made for $500,000 (US). The official car of Prime Minister Yukio Hatoyama is a Lexus hybrid LS600HL. In the summer of 2008, the government decided that all high-ranking ministers and public servants must switch to eco-friendly cars by the end of March 1013."

The Questions Mount

The same issue of the *G&M* ("As recalls mount so do the questions" by Greg Keenan, Steven Chase and Jeff Gray) informs us: "On a mid-July morning, Doug Landry pulled into the passing lane in his 2009 Toyota Avalon. He passed a car at 90 kilometers an hour, then took his foot off the gas when the speedometer hit 110. The car sped up, racing along Highway 11 north of Huntsville, Ont. When it his 150 kilometers an hour, Mr. Landry said, he put both his feet on the brake pedal and all but stood on the brakes to try to slow down.

"'You've got two feet on the brake and the car's not screeching to a halt,' he recalled. 'It's going as if there's a ghost in the car. As if I had somebody with their foot on the gas.'

"This sudden, unintended acceleration lies at the heart of a serious and growing crisis of Toyota Motor Corp. in the face of two massive recalls of its best-selling North American vehicles.

"Toyota, now the world's largest auto maker, has begun repairing potentially sticky accelerators in some 2.3 million vehicles by inserting a tiny piece of steel. An earlier recall, made in November and expanded last month so that it now covers about 4.8 million vehicles, including Mr. Landry's Avalon, affects cars with floor mats that might cause a gas pedal to stay depressed…. And to add to the consumer consternation the US said yesterday it has begun an investigation of the brake system on the 2010 Prius, a vehicle not subject to the floor mat or accelerator pedal recall.

"In addition, there is a growing chorus wondering whether the separate recalls for pedals and floor mats have diverted regulators from examining another potential cause: the electronic throttle control system that works in combination with the accelerator pedal to control the speed of a car. That system is a key focus in several US law-suits filed against Toyota.

"[All] this…emphasizes how technology, social structure, and the power-distribution in a given society, get wrapped up with…perceptions of economic value and…worth."

It was always so, and can be lessened and kept at least under enough social control to note how it interferes with or helps society's survival.

Karl Marx, in his *Capital,* makes a great point about the value of an ounce of gold being determined by the average amount of labour needed to mine and refine such gold. Yet in actual fact gold reaching Britain from the Americas was stolen from the Indians who were worked to their deaths by the Spaniards and then robbed on the high seas by British pirates specially licensed for the purpose by their government. Hence, if it was time and effort that had to be reckoned, it would not be of the enslaved native labour, but the social environment's own highly stretched simplifications.

The technology of the day was reflected no less in Marx's confidence that he was turning Hegel's view on society's evolution from standing on its head onto its feet. At least as great as Hegel's influence was the detail Marx had spent his youth in the great railway-building age. And from that he saw future ever more powerfully coming in along predetermined routes in until it arrived at the terminal where all passengers got off with blissful expressions on their faces.

That was a powerful pattern imposed on Marx's view of society by the incoming technology of the day entirely unconsciously, and hence honestly biased. Something that my late friend Marshall McLuhan, who had been trained to teach literature captured as no economist of his day had – with the use of the fewest possible words "The medium is the message."

We might call it prophetic insight with an honest inevitable time-determined bias. If the bias is consciously set for a less disinterested goal, the result is what the great French economist François Perroux called the "dominant revenue." This is the revenue of social group in control takes to be a reliable index of the welfare of society as a whole. Thus in Britain during and after the Napoleonic Wars, this dominant revenue was the land rent charged the actual working farmers and renters of the city sites on which they built their buildings. But then James Watt's steam engines upset that arrangement – Perroux's dominant revenue shifted to that of the industrialists who needed free trade to lower further the strictly survival-rate wages that they could get away with paying their workers, and perhaps even con other countries to adopt free trade for British factory owners' benefit.

But the most astounding example of Perroux's dominant revenue arose when the British working class learned to read. The great founding fathers of economics, like Adam Smith and David Ricardo, had in one form or another adopted some version of the labour theory of value – the "average amount of human labour" – to deal with society's problems – whether it explained the intrinsic value of a given product or the rates at which it traded with other items. But once the workers learned to read that became a potentially dangerous social weapon. Especially since beginning with the barricades thrown up most European capitals in 1848 and climaxing in the Paris Commune of 1871, hundreds upon hundreds of defeated Socialist and Anarchist leaders arrived in Britain as refugees. Amongst them were in fact Karl Marx and his family members, who lost no time in organizing open-air meetings in Hyde Park – almost within earshot of Buckingham Palace.

The time had come for a drastic change in the dominant revenue of the day. So clearly was the point grasped that the adjustment in economic thinking was made – quite independently – in at least three European capitals within a very few years of one another. The crucial appraisal of the intrinsic and exchange value of goods became not what transpired in the grimy factories where goods were produced but in the elegant shops where they were sold, at prices set by the subjective enjoyment they gave their purchasers. This solved all socially delicate problems with elegance. For example, mass unemployment, that had become a periodic problem. It simply was banished from existence, explained by the free choice of the unemployed worker who had simply compared his pleasure from his enjoyment of the leisure in his parlor with that offered by employment at the wage offered. And where the logic needed a bit of enforcement, an illiterate application of calculus did the trick. Economics faculties in most universities adhere to this value theory – to this day.

The purpose of this pilgrimage on the powers of social analysis was to compare its efficiency – or lack of it – with the way in which the Japanese Toyota firm is addressing the current crisis. And to show how the economic effects, are already affecting the prospects of President Obama's already untenably reduced programs.

Let us begin with *The New York Times* front-page story (5/02, "Lawsuit Adds to Difficulties For Carmaker" by Bill Vlasic): "Flint, Mich. – The trip was one that Guadalupe Alberto had made many times before, just a few miles through her neighborhood to the small grocery store her family had owned for years.

"It was a Saturday afternoon, April 19, 2008, and Mrs. Alberto, a 77-year-old autoworker, was driving her 2005 Toyota Camry. Within blocks of her home, witnesses told police, the car accelerated out of control, jumped a curb and flew through the air before crashing into a tree.

"Mrs. Alberto was killed instantly, leaving her family stunned at how such an accident could happen to someone who was in good health, never had a speeding ticket and so hated driving fast that she avoided taking the freeway.

"Her car was not among the millions of Camry models and other Toyotas recently recalled for sticky accelerator pedals. And it did not have floor mats at the time, which were part of a separate recall.

"Indeed, the crash is now being looked at as a possible example of problems with the electronic system that controls the throttle and engine speed of the Toyotas.

"Such computerized systems are part of a broader inquiry by federal regulators into problems with sudden, unintended acceleration in Toyotas, beyond the issues that have led to the company's recent recalls. Toyota denies there is a problem with such systems."

Choosing Which Fatal Accidents to Eliminate

"In a lawsuit filed in Circuit Court in Genesee County, Mich., Mrs. Alberto's family claims that Toyota and one of its suppliers, the Japanese firm Denso, were negligent in manufacturing an electronic throttle system that caused her death.

"'We think Toyota has a safety problem with the electronic throttle control system in Camrys and other Toyota models,' said Eric Snyder, a lawyer for the family.

"The case materials include a rare deposition from a Toyota executive about how the company and the National Highway Traffic Safety Administration agreed to categorize different accidents when the agency investigated control issues in 2004 on certain models.

"For example, according to the deposition, the 2004 investigation excluded incidents of high-speed acceleration lasting several seconds from a larger universe of low-speed incidents of engine speed increasing briefly.

"In his deposition – part of the public case file provided to *The New York Times* by the Albertos' lawyer – the Toyota executive, Christopher Santucci, said the company did not provide details of high-speed incidents because federal regulators had not requested them. He also testified that the electronic throttle control system in Mrs. Alberto's 2005 Camry was similar to the computer equipment in other Toyotas now under recall for sticky pedals and unsecured floor mats.

"Toyota said on Monday that it had found no problems with its throttle control system, which it began using in 2002. 'It is not an electronic,' said James E. Lentz III, president of Toyota's US sales division.

"But Transportation Secretary Ray LaHood has said that federal regulators will 'continue to look' into whether Toyota's electronic systems pose a safety concern."

The Medium Is the Message that Cannot Ever Stand Still in the Age of Marshall McLuhan

"Mr. Santucci, who had previously worked for the safety agency, said the company had discussions with the agency about limiting the type of acceleration incidents to be investigated.

"'I recall them saying to us, Toyota, myself, that they were not interested in reports alleging uncontrolled acceleration that occurred for a long duration,' Mr. Santucci testified.

"In fact, the safety agency had decided to look only at cases of unintended acceleration in which drivers had not applied their brakes – ostensibly to rule out potential braking concerns from the scope of the investigation.

"A spokeswoman for the Transportation Department, Olivia Adair, said on Thursday that incidents in which brakes were applied raised questions of whether the driver had mistakenly stepped on the accelerator instead of the brake….

"Mr. Santucci testified that limiting the vehicles to short-duration incidents was beneficial for both Toyota and the safety agency. 'I think it worked out well for both the agency and Toyota, meaning Toyota provided what they were looking for,' he said.

"The government closed the investigation a few month later without finding of any vehicle defect. 'A vehicle trend has not been identified at this time, and further use of agency resources does not appear to be warranted,' the agency said in a document dated July 22, 2004."

The same issue of the *Times* enters into the details of the perils of wedding the computer to the safety on our roads ("The Dozens of Computers that Make Modern Cars Go (and Stop)" by Jim Montavalli: "The electronic systems in modern cars and trucks – under new scrutiny as regulators continue to raise concerns about Toyota vehicles are packed with up to 100 million lines of computer code, more than in some jet fighters.

"'It would be easy to say the modern car is a computer on wheels, but it's more like 30 or more computers on wheels,' said Bruce Emaus, the chairman of SAE International's embedded software standards committee.

"Even basic vehicles have at least 30 of these microprocessor-controlled devices known as electronic control units, and some luxury cars have as many as 100.

"These electronic brains control dozens of functions, including brake and cruise control and entertainment systems. Software in each unit is made to work with others. So, for example, when a driver pushes a button on a key fob to unlock the doors, a module in the trunk might rouse separate computers to unlock all four doors.

"The evolution of automotive control electronics has been rapid. IEEE Spectrum, an American technical publication, reported that electronics, as a percentage of vehicle costs, climbed to 15% in 2005 from 5% in the late 1970s.

"The 1977 Oldsmobile Toronado had a very simple computer unit used for spark-plug timing, and the next year the Cadillac Seville offered an optional trip computer that used a Motorola chip."

Our Dependence on Inventions Ever Driven to be Re-invented

"According to Bob Hrtanek, as spokesman for the auto supplier Delphi Powertrain Systems, the first Delphi units were introduced around 1980 to improve emission systems.

"Throttle-by-wire technology, also known as electronic throttle control, replaced cables or mechanical connections. In modern systems, when the driver pushes on the accelerator, a sensor in the pedal sends a signal to a control unit, which analyzes several factors (including engine vehicle speed) and then relays a command to the throttle body. Among other things, throttle by wire makes it easier for car-makers to add advanced cruise and traction control features.

"These systems are engineered to protect against the kind of false signals or electronic interference that could cause sudden acceleration.

"Mr. Emaus says that cars are engineered with 'defensive programming to counter erroneous engineering effort, and testing and validation, to guard against problems,' he said. 'But given the complexity, can they test against every eventuality? Probably not.'

"Mr. Emaus said that perhaps one in 100 new microprocessor designs had 'an issue' and might need programming or replacing, usually before it reached customers.

"And he identified the metal-to-metal connections between electronic control harnesses as a potential weak point."

In short we would seem to have the notorious "invention that is always in the process of being re-invented" that is the computer, driven by our speculative financial system to get bigger or go broke, and much of the international automobile world business in receiver's hands. Link the two and put the lives of the users in the derivative-driven scales, and what can you expect?

"And this is the world that President Obama is trusting in every decisive way to help him achieve the millennium he promised those who voted him into office. The prophet who presented himself as harbinger of a better world has surrounded himself with party hacks who brought the world into its present mess.

However, the advice of two great innovative Americans who revolutionized our understanding of how societies work is disregarded, and with them all the dearly bought lessons of the history of the world to say nothing of that of the United States have been declared non-existent. One was the improvisations under President F.D. Roosevelt that led to the Glass-Steagall law that barred commercial banks from acquiring interests in non-banking "financial pillars." Allow them to do so and they will get control of the cash reserves needed for such financial non-banks, other businesses, and use those cash reserves as the money-base for its own credit-creation in an ever speeding upward sky-scraper of inflationary ascent, always upward, never down, for their liquidity depends on their forward gambles being met. Significantly, it took President Obama something like nine or ten months even to utter the name Glass-Steagall, let alone propose bringing it back.

The *Times* (07/02, "This Crisis Won't Stop Moving" by Gretchen Morgenson) should give President Obama a lot of second thoughts to ponder: "You know we're in trouble when we're told that the economic problems in Greece, Portugal and Spain, the most indebted countries in the euro zone, are likely to remain safely contained in those nations.

"After all, we heard the same nonsense in 2007 from the US financial leaders talking about the subprime mortgage mess. Both Ben S. Bernanke, the chairman of the Federal Reserve Board and Henry M. Paulson Jr., then the Treasury secretary, rolled out to reassure concerned investors that troubles in mortgage land wouldn't permeate the rest of the economy.

"As we all know, mortgage woes were contained – to planet Earth. So it may be with retrieving overleveraged nations in Europe.

"Simply put, contagion is a fact of life in our global economy and financial markets. And that means investors must strap in for more gyrations in the stock and bond markets as the great and painful deleveraging that began in 2007 and continues around the world.

"Sure, there are rays of light amid the gloom. The slightly upbeat jobs report on Friday, for example. But it is only one data point and not enough to move the needle on much larger issues that remain, including investor fears that Greece, Portugal and Spain may default on their debts.

"'This is a reminder that every country has its limit,' said David A. Rosenberg, chief economist at Gluskin Sheff & Associates, one of Canada's top wealth management firms. 'And out heightened concerns over sovereign credit quality are not going to abate anytime soon.'

"During his years as chief economist at Merrill Lynch in NY, Mr. Rosenberg was perspicacious indeed. So his take on the potential fallout from financially stressed countries is a valued one.

"First, Mr. Rosenberg reckons that the flight to the dollar will continue. 'Even though the US has plenty of its own economic challenges – enormous public debt weighing on a struggling economy, for example – our lot is better than others,' he maintains. "In the land of the blind, the one-eyed man is king." The US dollar is that one-eyed man.'"

Our Debt Purge Being Ill-defined Is Ever Incomplete

"But that doesn't mean that we are finished with our own debt purge.

"Watching this situation in Europe, it's not even clear that the root cause of problems here at home have been solved. 'We still have a very fragile situation: household balance sheets, and delinquencies, defaults and home prices are still vulnerable to another down leg. People think because you finish one chapter in this post-bubble credit collapse that the book is done.'

"As for housing prices, Mr. Rosenberg expects further declines of 10 to 15% over the next few years. He pointed to the roughly nine million residential units available for sale across the country, a very high vacancy rate when judged against a total housing stock of 130 million units…. Mr. Rosenberg reckons that the flight to the dollar will continue. Even though the United States has plenty of its own economic challenges – enormous public debt weighing on a struggling economy, for example – Mr. Rosenberg estimates that fully half of the mortgage-holding population could be underwater by 2011.

"For now, these borrowers are getting little help from lenders – no surprise – or from the government. Indeed, the Obama administration's loan modification program has more or less allowed banks that own second mortgages on troubled borrowers' homes to continue to press for full repayment of these obligations.

"When it comes to writing down principal amounts on mortgages, the government has pressured those holding the first mortgages more than institutions holding the second mortgages. Never mind that the second liens are worthless and should be written down to zero.

"This see-no-evil approach to second mortgages is part of an overall denial on the part of policy-makers, politicians, bankers and regulators that has prolonged the agony of this crisis. Owning up to reality about what loans are worth is rough medicine to take, but denying that problems exist only puts off the inevitable.

"The challenge for Mr. Obama is that he has thrown oodles of taxpayer money at these problems and still the employment rate stands at 9.7%.

"The fact is, to save the world from economic collapse we have transferred the liabilities of the private sector to the public. And not every country has the money to service or repay that debt.

"'We are in a post-bubble credit collapse and there is going to be periods of calm and stormy weather. Investors will have to navigate through the volatility,' Mr. Rosenberg said. 'Unfortunately, I think we are still in the early stages. The next recession will happen more quickly than people think.'"

William Krehm

Obama *from page 1*

from what was not even marketed but paid for by taxation. These are not inflation and it is impossible to run society in our mixed economy by trying to flatten prices.

I coined the title "social lien" to cover this quite distinct factor from higher prices due to an excess of market demand over market supply. The innovation and particularly the terminology was hailed by the economic publication of Cambridge University in Britain and many other prestigious academic publications. But today economics publications, the press, academic courses throughout much of the world have been slavishly adjusted to bring back the deregulation and globalization model that is currently causing major troubles in the European Union.

Unless we address this institutionalized logical boner without delay the world is in first-class trouble. All this stirred up desperate false solutions that are leading the world towards another globalized war. And with our unstinted progress in the technologies of destruction, that could lead to the annihilation of civilization as we know it.

This requires that we focus the attention of concerned citizens throughout the world on the suppressed writings of two very great economists, once highly celebrated, today utterly ignored. One of these was Theodore Schultz, who was one of many hundred economists sent by Washington to Japan and Germany at the end of World War II to examine how long it would take those former powerful world traders to resume their prowess in that field. Sixteen years later Schultz published a book in which he declared it remarkable how wide of the mark their conclusion had been. This he attributed to their having concentrated entirely on the physical destruction in the war and ignored the fact that society's investment in human capital of those former great trading powers had come through the war largely intact. For that Schultz was feted, decorated and after a very few years entirely disposed of in the amnesiac binge in which governments engaged to clear the field for the ever heightened gambling by over-empowered speculative banks.

W.K.