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On the Heritage of Dmitry Ivanovich Mendeleyev

Dmitry Ivanovich Mendeleyev, too, was born in the wrong country at the crucially right time, and right there his difficulties began.

Being born in Tobolsk, Siberia, in 1834, was hardly fortunate since Siberia was considered outside the academic pale by the Czarist government, so his widowed mother took the bright lad to St. Petersburg, but his Siberian origins still barred him from the university, so he had to settle for the Pedagogic Institute. And all the time the world was critically missing his basic scientific work.

Other scientists had been groping in the general direction of Mendeleyev's great discovery: the periodic law, that showed that all known chemical elements could be arranged according to their increasing atomic weight that revealed a strict order of their properties. That enabled Mendeleyev to note gaps in the series, and *actually predict the properties they would reveal when they were discovered*. This led to an active search by chemists for the missing elements and the active prediction of their properties *before* they were found. Specifically, it recognized the transformation of one element into another, called radioactive decay, some twenty years before the conception of Mendeleyev's table.

That is precisely what our world is missing today – after the Japanese radiation disaster.

But let *The Toronto Star* (26/03, "Is Thorium the energy?" by Antonia Zerbisias) take over: "As Japan digs for its dead, copes with legions of homeless, and races to cool down its stricken reactors, the world is having a meltdown over nuclear power.

"And with climatic change bearing down on the planet, every one's wondering what the energy future will be.

"Coal's too dirty, hydro can't meet all our needs, power from wind and solar is intermittent, and oil? Well, the world just keeps going to war over that.

"Which is why the idea of thorium-based reactors has exploded into the nuclear debate.

"This radioactive metal is being increasingly touted as The Answer.

"'Here's a solution that's in front of us that can solve multiple problems,' says retired physicist and IT specialist Robert Hargraves. 'It can tackle global warming. To the extent that we can make fuel, we can reduce our dependency on the Mideast.'

"Brief chemistry refresher course: atomic number 90, symbol Th, just two atoms fewer than uranium, and four fewer that plutonium, shiny, silvery-white – and almost as common as dirt. The metal was discovered in 1828 and named Thor, the Norse god of thunder.

"Thorium's fans – nuclear scientists and engineers, chemists and physicists, even some environmentalists – are promoting it as the solution to most of the world's energy problems.

"They say that, among other things, a well-designed thorium-fueled plants beats the uranium-based system on all fronts.

"For one thing, there's enough thorium in the ground to power the world for a thousand years.

"According to the US Geological Survey, the United States has an estimated 440,000 tonnes, Australia and India about 300,000 tonnes each, and Canada about 100,000 tonnes.

"It's supposedly safer and produces much less waste. The waste it does produce loses

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Heritage *from page 1*

its radio toxicity in about 300 years, as opposed to hundreds of thousands for convention uranium waste.

"Plus, get this, it actually feeds on radioactive plutonium waste, one of the nastiest substances on Earth, as part of its power-generating process. That's important because the disposal of plutonium is probably the nuclear industry's most vexing problem.

"Although there are no thorium reactors currently in operation, they have worked in the past, in both the US and the former Soviet Union. Right now China and India are developing them.

"According to their proponents, liquid fluoride thorium reactors (LFTRTs) would be much smaller in scale than the nuclear plants in Pickering and Darlington, and would be resistant to what scientists refer to as proliferation – the manufacture of nuclear weapons.

"Interest in thorium has intensified so much that a previously esoteric website called Energy From Thorium (http://energyfromthorium.com) has been crashing. Its host and creator, Kirk Sorenson, an Alabama-based NASA veteran, nuclear technologist and aerospace engineer has had to apologize to his growing number of Facebook followers for server crashes.

"So besieged is he with requests for interviews about thorium – whose cult-like followers say a tonne of it produces as much energy as 200 tonnes of uranium or 3,000,000 tonnes of coal – that he emails his requests to the *Star* that can't talk before this story's deadline.

"But he does tell the forward-looking US magazine *Fast Company* that had Japan built LFTRTs or molten salt reactors (MSRs) with thorium instead of conventional uranium-based light water reactors, nobody would be looking at their Japanese-sourced foodstuffs suspiciously today.

"A major problem at Fukushina was that the tsunami knocked out the emergency power system that was supposed to pump water through the plant to keep it cool, Sorensen said.

"He says LFTRT designs automatically shut themselves down, even if emergency power is lost.

"Explains Ottawa-based physicist David Leblanc, whose company Ottawa Valley Research Associates is developing a new generation of MSRs: 'We have nothing to push the radioactive material out. We've got nothing that explodes. We've got no pressure. We've got no steam. We've got no water that could turn into hydrogen that could then explode.

"All of which helps explain why thorium has gone nuclear this month.

"Hargraves is author of the booklet *AIM High*, which attempts to demonstrate that not only can LFTRTs be cleaner and greener, they probably could be built on assembly lines, like Boeing airliners.

"'My motivation is years of frustration listening to people complain about high energy prices, or wars in the Mideast, our energy dependence and now global warming – and not taking action with an effective solution,' he says on the phone from his home in Hanover, Maine.

"Is there really no risk of meltdown with thorium?

"'Meltdown just doesn't happen,' insists Leblanc. 'It's just really hard for any of us to imagine any kind of danger to the public. It's really hard to imagine any mess getting beyond the plant gate.'

"'The dreams!' scoffs Norm Rubin, Energy Probe's director of nuclear research and senior policy analyst.

"'Thorium pitches are really just appeals for public spending,' he says. 'Thorium reactors are only one of a significant number of long-term dreams to plant soy beans in Antarctica with the help of nuclear sun lamps. There is almost no limit to the dreams you can have with an endless, too-cheap-to-meter sources of clean, benign, what-could-possibly-go wrong energy.'

"'Thorium doesn't eliminate the problems,' he contends. 'If the nuclear industry's problem was affording uranium, then switching to thorium might solve their problem. But…the fuel cost in today's reactors is a tiny function of the total cost…. Unless they solve the big problems, they've got a curiosity there instead of a practical solution.'

"But if, as proponents say, the thorium fuel cycle is so fantastic, why did the world go with uranium?

"Long story very short and simple: in the 1950s, in the Cold War-obsessed US, there was essentially a competition between uranium and thorium-based systems. It was determined that the former, used in a light water reactor, was the quickest and easiest way to power a nuclear submarine. The bonus was that the waste from the LWR process could be used to make bombs. So Washington went with uranium while an MSR experiment – at the Oak Ridge National Laboratory in Tennessee was mothballed.

"But it wasn't because the experiment was a bust. It ran incident-free for five years.

"Now India and China are pursuing thorium-based reactors.

"So what's stopping us now?

"'The downside is it's disruptive to the whole industry,' says Hargraves. 'It's going to cost $2 billion to build the first one and get it started. There is more engineering to be done.'

"To complicate matters, most nuclear engineers today have never learned about MSRs.

"But say thorium evangelists, industry inertia is very costly as well.

"'Yes, we know that wind and solar can provide electricity, but we also know it can't be the real solution,' says Leblanc. 'It's either nuclear or coal – and we've got a much better nuclear option to give people.'"

Poor Mendeleyev's ghost is still trying to get into a university in his native Russia!

William Krehm

Toronto Star Nudges the Bitter Truth of Our Times without Daring to Translate It into the Obvious Solution

The Toronto Star (2/10, "Jobs key to stability in Mideast" by David Olive) reports: "The driving force of revolutionary sentiment in the Middle East and North Africa is chronic youth employment.

"This is social upheaval we're witnessing, fueled by joblessness and a resulting lack of self-esteem. It is not the rise of a religious theocracy, as with the 1979 Iranian Revolution. Nor is it the assertion of nationalist pride in the former Warsaw Pact nations in the 1990s.

"Those are two misleading comparisons that get far too much attention.

"A more apt comparison would be to the English welfare reforms and US Progressive movement of the early 20th century, and the 1935 march on Ottawa by unemployed men from across Canada.

"Yes, police brutality in the 30-year regime of Egyptian President Hosni Mubarak has been very real. Operatives of Al Qaeda and other terrorist groups do wander freely in the failed state of Yemen. And suppression of basic freedoms and a chasm between rich and poor are indeed oppressive facts of everyday life in the Arab world.

"But the oft-cited rampant corruption of despotic leaders and their crony-ridden bureaucracies in Egypt, Tunisia, Jordan, Yemen, Syria and Sudan is actually less pronounced than in comparatively stable nations like Russia.

"Transparency International assigns the same ranking of low integrity in government – coming in at an abysmal 98th of 178 states measured – to Egypt as to Mexico. Canada came in 6th, Italy (67th), China (78th), and India (87th) don't win any prizes for superlative honesty in public administration, either. But their booming economies, with high rates of business formation and expansion, more readily absorb new entrants to the workforce.

"A clear-eyed *Economist* sees the unfolding events in Cairo, Tunis and Amman for what they are.

"Policy-makers would be well-advised going to promote job-intensive growth, even as they try to calculate the gigantic geopolitical consequences of the Egyptian earthquake.

"But this crisis is seldom framed that way, because resolving it on economic rather than geopolitical terms will be a longer project that makes a huge claim on the resources of affluent nations.

"Replacing a dictator or repressive junta will not cure unemployment rates for people under 30 that range from 25.4 percent in Egypt to 30.3 percent in Tunisia.

"'The protesters believe that the freedom of expression they are fighting for now will improve their chances in the job market,' Djavad Salehi-Isfahani, a professor of economics at Virginia Tech, told *Der Spiegel* recently. 'I am deeply worried that young Arabs will turn away from democracy as soon as they realize that you cannot eat free elections.'

"At 14%, Canada's youth unemployment rate is intolerably high. But 15- to 29-year-olds account for about one-third of the total population of Canada and other former G7 nations.

"In most Middle Eastern and North African nations, that figure averages 60 percent. In Jordan, about two-thirds of the population is under 30. Jordan's Queen Rania recently warned of a 'ticking time bomb' in the projected increase in unemployed youth in the Middle East. The region's number of jobless young people is expected to soar from a current 15 million to 100 million in just a decade's time.

"That's a number worth printing in bright red at the top of every foreign minister's daily to-do list. No one likes to think about the implications for regional stability of 100 million idle youth.

"Thanks to heavy investment in higher education than in most Arab and North African nations in past decades, the region's 20-somethings have high expectations of job fulfilment. And they've just shown their organizing ability in forcing the early retirement of despots in Tunisia, Egypt and Yemen.

"The factors behind this crisis include higher fertility rates than any region outside Africa (2.7 percent compared with Canada's 0.67 percent). That fecundity creates far more new workers than employers can absorb. And the region's universities have emphasized quantity over employability, graduating students ill-equipped to compete with skilled, low-paid workers in the global economy.

"State-planned economies remain the rule in an Arab world in which about 70 percent of the workforce is employed by government. Even before the current global recession, the region's fiscally fragile governments stopped taking on more than a fraction of the workforce entrants. And an underdeveloped private sector, hobbled by bureaucratic sclerosis and corruption, is of scant help in easing youth unemployment.

"'Educated youth have been in the vanguard of rebellions against authority certainly since the French Revolution and in some cases even earlier,' said Jack A. Goldstone, a sociologist at George Mason University School of Public Policy, in a recent Bloomberg *Business Week* interview.

"Parisians, Chicagoans and Torontonians recognize how toxic is the combination of youth and long-term unemployment. If nothing short of a revamped Marshall Plan is required to create viable economies in one of the world's most volatile regions, the price will be worth paying."

W.K.

Trials of Nunavit Should Be an Education for Ottawa

The Globe and Mail carries a many-paged article on Nunavut (2/04, "Death at the 64th Parallel"), that can very well be read as a sermon to Ottawa. But let us begin by defining what and where Nunavut might be.

We quote: "From an airplane's perch, each of Nunavut's 25 communities seems like a speck of contrast against a uniform landscape. Together, they hold a population the size of Moose Jaw's, spread across the land mass of 14 Britains, five Germanys or one Mexico – all without a single road connecting them.

"In 1999, that population and the Canadian government launched an experiment in forging this scattering of hamlets [including all of Baffin Land and a generous chunk of the north-western side of Hudson's Bay]. At midnight on April 1, Ottawa sliced the Northwest Territories in two, creating Nunavut ('Our Land') with the minus-45-degree night air framing the moon in a blue halo of ice crystals out of the Eastern 60%.

"The new territory would be 80 percent Inuit and the new government would have a mandate to protect their culture and lifestyle, in part by legislating that the ethnic bureaucracy mirror the makeup of the population.

"Some right-wing pundits bristled at the creation of a federally funded territory along ethnic lines, even branding it a variety of apartheid, but there was no going back, Nunavut's political fate was sealed. Its human fate was less certain…but the fledgling territorial governors (then convening in a high-school gym) proclaimed themselves uniquely qualified as locals to tackle them.

"'What we affirm today, with the stroke of a pen, is the end of a very long road,' said prime minister Jean Chrétien, who traveled to Iqualuit for the celebration. He meant that the path to Nunavut began at least in 1976, when a handful of Inuit dared submit a land claim to the federal government. In truth, its roots lay much deeper in the troubled history of contact between Inuit and the whites arriving from Europe.

"In Cape Dorset, *qallunaat* (white men) first came in significant numbers around 1903, bringing religion, then trading posts, then law enforcement and bureaucracy. The Hudson's Bay Company set up in 1913, soon drew hundreds of Inuit into the fur trade. But in 1949, when prices plummeted for white-fox furs, the most coveted pelts, so did Inuit fortunes.

"By the 1950s, RCMP officers at the sparse Cape Dorset settlement saw mass starvation setting in. People were eating dog food to stay alive. The Mounties radioed for a massive food airlift, and urged Inuit in far-flung camps to move to Cape Dorset, close to food and health care.

"It was then, in the words of Mary Simon, president of the advocacy organization Inuit Tapirit Kanatami, that 'the colonization process evolved to the point where our people expected things to be given to them.' Expectations grew and grew, on federal assurances that life would be better when this nomadic hunting people instead settled in one space.

"While the shift increased Inuit life expectancy from 35 in the early 1940s to 66 in the late 1980s, the transitional period sapped all manner of Inuit self-reliance, replacing it with shoddy government homes, abusive residential schools, and social-assistance cheques. Generations since have been raised to sentimentalize the past and expect little of the future, a recipe for the cultural disorientation and undirected anger that breed violence."

The Four Quandaries of Nunavit

"For Ottawa, the relocation tidied up the North, sweeping a scattered population into pockets suitable for social assistance, health care and all the other stuff of Canadian governance. It also helped to satisfy four distinct quandaries: a series of court decisions beginning in the 1950s that ruled Canada was responsible for the welfare of its aboriginal peoples; a long-standing policy of assimilating aboriginal culture; a burgeoning desire to open the North to mining; and the need to solidify Canada's international claim to Arctic sovereignty.

"Throughout the push into settlements, however, the federal government systematically excluded Inuit from decision-making roles. Their fates would be sealed in faraway offices, without consent or consultation.

"Finally, Inuit Tapirisat of Canada was formed in 1971 to lobby for Inuit rights. By 1976, it had submitted a land-claims proposal to the federal government demanding a vast tract of land and mineral rights under Inuit title, along with the creation of a new Inuit-dominated political entity called Nunavut.

"After 17 years of grinding negotiations, prime minister Brian Mulroney signed those tenets into law with the Nunavut Land Claims Agreement and the *Nunavut Act*. A few years later, Mr. Chrétien's signature made the territory official.

"About a year after its formation, Jim Bell, the conscientious editor-in-chief of the Nunatsiaq News (who is not an Inuk), wrote that Nunavut was a 'made-for-failure Territory' overburdened with bureaucracy, paralyzed by an inadequate budget, destined to be a political basket case into the foreseeable future….

"Part of the promise of Nunavut was that, once in control, the majority Inuit government would offer better government – that has not happened….

"That failure was evident at the home of Peter Ningeosiak, a neighbour of Mapalluk Adla in Cape Dorset. A bloody seal lay outside his bungalow, its whiskers dangling with icicles. Inside, the 73-year-old man sat at his kitchen table, leaning his right ear forward toward a radio blasting the CBC hourly news and looping his thumbs around a twine belt holding up ragged trousers.

"Mr. Ningeosiak was born in a remote hunting camp in a time when Inuit still relied on dogs for transportation and snow for shelter, and firmed up those hands over decades of hauling seal and slicing beluga muktuk.

"Today, his beaten-down government home houses nine to 11 relatives.

"In 2006, University of British Columbia social work professor Frank Tester surveyed 91 homes in Cape Dorset to glean the human toll of housing shortages and overcrowding. Some issues cited were obvious, such as cleanliness, privacy and sleep. Others were not. One in four brought up anger. About one in five said depression and violence. Dr. Tester said at times one woman a week was being removed to a shelter in Iqualuit.

"At Mr. Ningeosiak's house, his adult children sleep on two couches in the front room. His grandchildren sleep on the floor. When they wake up, they watch television and fight.

"'They argue, they shout, smash glass,' Mr. Ningeosiak said. 'The children get scared when there is violence. When we were out on the land, this didn't happen….'

"Iqualuit is Nunavut's boom town, its big smoke, its metropolis. The airport hums all night. Big banks, absent from other hamlets, line the main drag….

"And yet, here in Nunavut's bridge to modern Canada….

"But Iqaluit's boom – its population has doubled, to 7,250, since it officially became the capital in 1999 and professionals from all over the country started coming to seek high-paying government jobs…. Despite a mandate to fill 85 percent of government jobs by 2020 with Inuit, the rate has languished around 50 percent for a decade, because Nunavut's education system cannot produce enough qualified candidates.

"Ms. Redfern, the new mayor, is perhaps the most prominent critic of this broken system. 'We live in a chilly banana republic,' she said last year, a few weeks before she would become mayor.

"At the time, she was bemoaning her chances of ever holding public office in her home territory. Born in the North to an Inuit mother and a father who had immigrated from England, she went through grade school in Ottawa before going on to law school and becoming the first Inuk to clerk for the Supreme Court of Canada. She doesn't speak Inuktitut fluently, and her southern education is treated suspiciously up here.

"'I think it's the same in a lot of small places,' she said. 'It's an insular culture… and when you go away, you're not always trusted immediately upon your return.'

"This discourages some youth from seeking education away, even as dropout rates at home sit at 75 percent. Those who do graduate receive an education that falls well short of standards in the South. Thanks to an unofficial policy of 'social promotion' graduates can possess both a high-school diploma and functional illiteracy.

"And yet education is what Nunavut arguably need the most. Half the population is under 25, with a birth rate that leads the nation – a demographic crush of ignorance and incompetence that could hamstring the territory for decades."

Need I point out to our gentle readers that what Nunavut is afflicted with is an even more extreme case of a non-recognition of "human capital" – the most important lesson to come out of World War II. When the shooting and nuclear bombing did its job, Washington had sent many hundreds of economists to Japan and Germany to assess the damage of the war to foretell how long it would be before Japan and Germany could resume their roles as great trading nations. Sixteen years later one of these – Theodore Schultz of the University of Chicago, published an essay in which he lamented how he and his colleagues had been misled by emphasizing the physical destruction, while paying little heed to the detail that the human capital had come through the war basically intact. This consisted of the education, talent and skills accumulated not only through a lifetime, but far beyond. Britain is still receiving dividends in the investment local schools may have made in the schooling of youngsters like Billy Shakespeare, or Izzy Newton. For that human capital comes prepaid. And the children of educated parents tend to be healthier, and of educated parents easier to educate.

In the safeguarding of human capital we must include looking after the environment, as well as health that safeguards this public investment, and providing proper infrastructures for the multiplying city populations.

And once we start treating such crucial social investments as just debt, as our speculative banks would have it, we have parted ways with any semblance of serious accountancy.

Quite independently I had reached essentially the same conclusion by noting that in the modern world an increasing portion of social investment is made directly by governments and this results in a growing layer of social investment that is made by governments. This must not be confused with market inflation since it is not marketed, but invested directly by the government. I call it the "social lien" – since the resulting contribution to higher prices is in no way market-determined. In the 1950s and sixties I examined every possible aspect logical, mathematical, and social and sent the manuscript to the leading journals of economic theory. The French journal *Revue économique* bought the manuscript and published it in its May 1970 issue. Only later did I get to understand why. On its editorial board there was the leading sociologist of France, and two statisticians who had tested the rise of prices with the degree of market demand over supply and could find no cause-and-effect relationship. And at that point the postman delivered my manuscript which provided the answer to their puzzle. My essay was reviewed favorably in economic research journals throughout much of the – twice in the economic journal of Cambridge University. Its review in a Toronto paper was picked up by the late professor of Economics at Waterloo University, and as a result COMER was founded.

Its basic thesis buttressed by mathematical, logical and historical analysis, for years was discussed at sessions of the economic caucus of the House of Commons to which I participated, until our speculative megabanks got themselves in too great trouble.

As a simple example of how the simplest rules of elementary logic are ignored in official government policy, let me conclude with one of the most fundamental principles of logic: you cannot turn around a principle and deem it to remain valid. Example: if I shoot myself in the head, I fall dead. However, reversing that proposition must not be done; to wit: if I fall dead, it does not mean that I suicided. It could have been heart-failure or many, many other things.

However, when there is a shortage of supply to satisfy market, that is "inflation." But today interest rates are pushed up because prices are moving upward. But that is due not to a lack to a lack of supply, but to the fact more and more of the national product is not privately produced, but supplied as a public service by the various levels of government.

William Krehm

The ABC of Reform Politics

At a COMER Conference held in Toronto on May 29, 2004, I drew attention to a new phenomenon which, completely ignored by our governments is currently overwhelming alleged government controls of the economy. I quote: from my remarks at that conference (*Meltdown*, Vol. 4, page 104): "A new phenomenon must be recognized, identified by a 'structural economic historian,' Douglass North: all political regimes are based on compromises allowing an alliance of different economic forces. If for purely political interests, a regime indulges in too headlong a redistribution of the national revenues, it destroys these alliances and undermines economic stability. That happened in Canada in 1993, in what we might call the 'Mulroney syndrome,' that reduced the Progressive Conservative Party to a couple of parliamentary members. Britain had its 'Thatcher syndrome' that cut the Conservatives off at the knees. Still more drastically, Mexico in 1994 went through its 'Salinas syndrome' that brought back the period of rule by political assassination and just stopped short of bringing down the whole world financial system. Visibly something of this sort has happened with Paul Martin's soaring ambitions."

And that is what has unmasked the alleged "controls" to which our speculative banks have subjected the economy.

The reports that I am about to quote are all from *The Wall Street Journal* (22/03) the mouthpiece of official bankdom, if there ever was one. But control has been shifting to other areas of government and even the social domain. The effect is that what had been regarded valid is no longer so. A dazzling question mark is hoisted over up to now what has passed for "government controls" of unquestioned authenticity.

From the front page of the *WSJ* issue, we have this following excerpt that appeared under the mocking headline, "Heaven Cent: Citi Rally Duels Dividend" by Randall Smith.

"Don't forget us.

"That is the message from Citigroup Inc. Just three days after the Federal Reserve allowed six of the largest banks to begin boosting dividend payments for the first time since the financial crisis, Citi announced it too would raise its dividend by just a penny – or one-tenth of a penny to be more precise.

"The giant bank, which was in the penalty with regulators after requiring three separate rescues since 2008, found a way to pay a dividend that will only cost $29 million a quarter. The bank plans to do a 1-for-10 reverse stocks split that will cut the number of its shares outstanding from 29 million to 2.9 billion. Without the reverse split, the per-share dividend would have amounted to 0.1 cent.

"Despite this move, Citi stock fell seven cents a share or 1.5% to $4.43 in 4 pm composite trading on the New York Stock Exchange, on a day when the broader market surged. Most bank stocks had risen Friday when the size of other banks' dividends were unveiled.

"The new share count, effective May 9, will have the added benefit of taking the share price to the mid-$40 range and out of the single digits, often the realm of companies in financial distress.

"'They want to change their image and get rid of the penny stock image,' suggested James D. Rosenfeld, a finance professor at Emory University in Atlanta who has studied reverse splits. He found they typically underperform the market.

"Many companies execute reverse stock splits to avoid the threat of their shares being delisted by major which can occur if their shares stay below $1, Mr. Rosenfeld added. Some institutional investors 'will not purchase stocks for less than $5 a share,' he noted.

"The dividend will also help Citi attract investors at income-oriented mutual funds, some of which may be barred from buying stocks that don't pay a dividend. Analysts expect Citi to raise the dividend more substantially next year.

"But the reverse split is likely to have unintended consequences for financial markets. A high share price can discourage some individual investors who like to own large volumes of low-priced shares. Another downside: for short-sellers, who bet on a price decline, the stock has more room to fall.

"Citigroup stock has also become the favored plaything of high-frequency traders, who take advantage of the vast number of shares and share price to zip in and out of the stock. With fewer shares and a higher price, the chance to profit on the stock will be vastly diminished.

"Justin Schack, a market analyst at Rosenblatt Securities Inc., says the move could cut US stock-market volume by 5% and cut options and cut options trading, too.

"About 516 million shares of Citigroup were traded on a daily basis in the US on average, the most any US stock, according to Barclays Capital. Traders say options on low-priced stocks can offer more reward for less risk.

"Citi halted its dividend payments as it battled for survival in early 2009. Its share count ballooned from five billion in to 19 billion as it was forced to issue about $80 billion in new common stock to recapitalize after suffering huge losses on subprime mortgages.

"Other banks that didn't have the same brush with failure raised payouts more substantially last week after getting the OK from federal regulators. JPMorgan Chase & Co., for example, boosted the dividend by 20 cents a share, costing the bank an extra $796 million quarterly.

W.K.

Kristina Ferguson and Jacob Bunge contributed to this article.

Our Pseudo-pursuit of Crime

The Globe and Mail (9/04, "Unlocking the Crime Conundrum" by Ian Brown) diverts attention from issues that really threaten our nation's survival, by getting tough on crime, which is in far, far better control than our economy. We quote: "Should you ever decide to ask your fellow Canadians why they support getting tough on crime even though crime has been falling for 10 years, you will have the following conversation over and over again (all replies guaranteed verbatim).

"Nerdy interlocutor: Why do you want the government to get tough on crime when the crime rate's already down?

"Tough-on-crime citizen: But the violent crimes are going up.

"NI: Actually, they're not.

"TOCC: But the rapes, they're all unreported!

"NI: Unreported sexual assaults – at least according to the General Social Survey on Victimization, which is how Statistics Canada measures crimes that aren't reported to the police – haven't risen in years.

"TOCC: But the really violent criminals, they get out after two or three years.

"NI: That actually hardly ever happens. Canada has severe sentences, compared to much of the rest of the world. Has for a long time.

"TOCC: Okay, but thee judges let them out because they know there isn't any room in the jails.

"NI: Not the really violent guys, they don't [Pause]

"TOCC: Okay, maybe it's not so much in Canada. But people see these violent scenes, people getting beheaded with machetes in other countries. Maybe they think the country should stay the way it is.

"Lots of people labour under these assumptions, with good reason – not just the reasons you may think. Now a chance has come to sort things out. As of yesterday, crime is an election issue.

"Upholstering his arsenal of campaign points on Friday in Toronto, Prime Minister Stephen Harper promised Canadians that, in return for the small favour of a majority government, he'll gather up the last 11 crime bills the Conservatives tried to introduce, bundle them and put them through Parliament as an omnibus bill. He would take on organized crime, end house arrest, eliminate pardons, and more, all in his majority's first 100 days.

"Before that happens, a brief look at some of the moves the Harper government has already made might be in order. It was a crime bill, after all – Bill S-10, one roughly 60 pieces of crime legislation it has introduced in its time in office – that caused Mr. Harper's government to be found in contempt of Parliament. Another law-and-order bill, the *Truth in Sentencing Act*, passed last year, is lengthening sentences and filling jails so fast that it alone will double the cost of the federal and provincial penal system in five years to nearly $10 billion.

"While we're at it, we might want to ask ourselves why we seem to feel such a burning itch to be tougher on crime. The crime rate has been dropping for a decade, even though 44 percent of Canadians think crime rates have risen. The volume of crime reported to police is down 17 percent over the past 10 years. The crime-severity index, which measures the severity of reported crime, is 22 percent lower than it was in 1999. Violent crime is off 22 percent since 2000.

"But the conservatives want to put more people in jail, and 62 percent of Canadians believe longer sentences are the best way to reduce crime. In fact, as we'll see, lengthening sentences has no effect on crime rates. Yet many of us seem to want to be hard and unforgiving anyway. Why?"

Fear and Trembling

"To hear Mr. Harper tell it, when he insists the Conservatives have made Canada safe by putting 'real criminals behind bars,' you'd think we were all cowering in the corner. But in fact very few people are afraid they personally will be victims of crime.

"Statistics Canada's 2009 criminal victimization survey (of nearly 2,000 Canadians aged 15 and over) found that 93 percent of us feel 'somewhat' or 'very' safe from crime, a number that hasn't changed in five years.

"Ninety percent of us feel fine walking alone in the dark. Eighty-three percent aren't afraid to be at home alone at night. A quarter of the people surveyed actually reported being the victim of a crime in the previous 12 months (theft, most commonly), yet most of them still weren't afraid of criminals.

"But that's a dreary survey. To see what it means in the flesh – and blood – let me take you to booming Abbotsford, BC, an hour's drive west of Vancouver in the spread-eagled Fraser Valley.

"For two years running, in 2008 and 2009, this once-tiny farming town had the highest murder rate of any community over 100,000 people – 5.32 murders per 100,000 residents. A deeply religious town, (more than 80 churches). Abbotsford is also in the riding of former Reform Party MP Randy White, one of the original sheriffs on the law-and-order landscape.

"But Abbotsford straddles a long stretch of undefended border, and it's a Tunnel of Love for drug smuggling and gang activity. Pot, meth and E go south; coke, guns and freshly laundered cash come back. Some of Canada's most insouciant crime clans and gangs have operated here. Residents like to boast that back in the day, one in five houses in many parts of Abbotsford was a grow-op – a number the police don't deny. Eight of the nine murders that occurred in 2009 were gang-related. Somebody should write a TV series about the place. Yet if you imagine Abbotsford as a hideous bullet-pocked hole, you are very wrong. It's a pleasant, friendly, utterly middle-class, suburban city. The parking lots are stuffed with brand-new fully loaded $60,000 trucks. Herds of good-looking families roam the sidewalks. The city library is luxurious, bustling – only a brochure pinned to the message board advertising a 'support group for people grieving the loss of those who died by homicide' hints at the city's shadow.

"No one I meet professes to be alarmed by the city's criminals. In the food course of the local mall, an 89-year-old woman makes a few dubious remarks about seeing East Indians (heavily represented in this part of BC) in crime stories, but she says she is not concerned about her own safety. 'I just keep my head down and my nose clean.'

"Then I run into Bill and Pam, a couple who own and operate five long-haul semis. They earn upwards of half-a-million dollars a year for their trouble. Bill is in his 60s, and full of news: Three of his pals have just been sentenced to 60 years in the US for smuggling cannabis. (So it is not surprising that the couple asked me not to print their last name.)

"He's been offered the chance to do so many times, and has been tempted. But he likes his freedom too much. 'It is so easy to do, so easy to get away with. You can make $75,000 a trip…. He guesses the cops catch 10 percent of what crosses….

"One of the things you see a lot these days when professional criminologists talk about the Harper government is the Twitch – a combination eye-widening/brow-rub that expresses Total Professional Exasperation. At the moment the Twitch is being performed by Rosemary Gartner, a University of Toronto specialist who happens to be one of the world's experts on interpreting crime statistics, a notoriously swampy subject.

"Dr. Gartner explains how back in 1993, a parliamentary committee (dominated by Mulroney Conservatives, no less) counseled restraint in building jails and handing out sentences. 'And that was when crime was going up,' Dr. Gartner says. 'Here we are today, with crime going down, and the Harper people are increasing incarceration.' Eye-widen, brow-rub, head-shake, twitch.

"Mr. Harper and his parliamentary colleagues can throw as many people as they want into jail, and keep them there as long as they like. None of it will affect crime rates….

"Until recently, the rate at which Canada incarcerated prisoners had been restrained and steady since the 1890s – at between 80 and 110 adults per 100,000 people. The United States started out where we did, but since the 1980s has almost quadrupled its incarceration rate, to 760 prisoners per 100,000 people, the highest in the world (China runs a distant second)….

"So incarceration doesn't improve crime rates. Neither do the longer sentences.

"If it were true that jailing more criminals made society safer from crime, the US should have seen greater rates of decline in its crime than we have. But the fluctuation in the US homicide rates (the American one being consistently about four times ours) peaked in 1975 and both have declined ever since.

"So incarceration doesn't improve crime rates. Neither do the longer sentences Mr. Harper promises to push through, though there is some evidence they make inmates more likely to re-offend. Neither do the longer sentences Mr. Harper promises to push through. Neither do mandatory-minimum sentences, also in the works.

"Hackler of the University of Victoria thinks 'the strongest answer to crime rates is equality of income.' Countries such as Scandinavia and Japan where the ratio between CQEO pay and worker pay is smaller than here, have lower crime rates."

With that insight, Mr. Harper's preoccupation with higher prison rates is to empower speculative finance to handle the massive slashing of living standards that will ensue if he should be reelected with a sufficient majority to put through the economic program of his dreams.

"'Everybody wants to be safe,' University of Toronto criminologist Anthony Doob observes. 'And I think you cannot challenge that desire. And it's very comforting to think that Parliament can sit there with a dial and turn it down and automatically lower the crime rate.'

"But Parliament can't, and has long known it. 'Go back 50 years,' Dr. Doob says. 'There's report after report saying, "Let's prison with restraint." Again and again – at least 16 times between 1956 and 2003 – knowledgeable and brain-studded parliamentary committees have concluded that where sentences and jail time are concerned, 'preference should be given to the least restrictive alternative' (1982) because (1993) 'costly repressive measures…fail to deter crime.'"

From which we can safely conclude that political leaders of Mr. Harper's ilk are contemplating rolling back the participation of the producing classes, more drastically than has been attempted since the Great Depression.

W.K.

Combining the Mighty Power of Disclosure rather than Covering Up Hidden Illegitimate Profits

The techniques of uncovering hidden profit sources have reached virtuoso proportions in internet prying shops like Facebook. Rather than open up for subscribers the sources of hidden profit, they can be used just as well to disclose the roots of hidden theft.

What say if we brought in Facebook supporters to view a martyr of overzealous police from 75,000 members to over 440,000. For Facebook it was magnificent business, and what they were peddling on this occasion was the lack of any honest reason for the beating to death of one Khaled Saied.

In this age of wild profits and losses the markets have acquired almost unlimited powers and hungers – to the point that its operators are impartial to the moral virtues or crimes that they may be revealing. Facebook is a source of information pumping the maximum income it can generate in dispensing and spreading information.

Having learned from its activities in Egypt how profitable such services can and have become, COMER proposes retaining its services to uncover how our government and hence private revenues have been wrongly apportioned by ignoring legislation that are still on the books of the Canadian Government, but completely ignored, and instead cutting public services or transferring them to the provinces and municipalities who are not shareholders of the Bank of Canada.

What is involved is that COMER and other interested parties arrange with Facebook to provide the relevant details about the legitimate uses of the Ottawa government to make full use of the fact that Bank of Canada was nationalized in 1938 by buying out some 12,000 private shareholders at a good profit in depressed times. Surely that information could be marketed to sell for a profit – for that is its business brilliantly organized in this age of whirlpool profit-seeking.

Facebook's real profits will come from making available such information to whoever is prepared to pay for it – fair enough. It has the reputation for the trustworthiness of service accepted with confidence by governments and the business world in this profit-driven world.

The crucial information at issue will be the details of the nationalization of the Bank of Canada in 1938, and the services of government at a nominal handling fee – the money for services to our federal government coming back to it almost wholly as dividends, and to the provinces according to present schedules, the fees for which, however go to the federal government, but can be redistributed to the provinces and municipalities according to agreements between the levels of government involved.

With tongue in cheek, we could bring in Facebook's virtuoso techniques where traditional democratic government have failed so badly.

W.K.

Burying the Lessons of Our History Is No Way of Overcoming the World's Banking Mess

Once again *The New York Times* (8/04, "How Secrecy Undermines Audit Reform" by Floyd Norris) let some big, growling cats out of the bag: "For the auditing industry, the financial crisis was really not that bad.

"While nearly every other group involved in the banks, mortgage brokers, bond rating agencies, derivatives dealers – faced severe criticism and new legislation, auditors largely escaped unscathed.

"This week James R. Doty, the new chairman of the Public Accounting Oversight Board, let loose a blast at the job the profession had done.

"In a speech to the Council of Institutional Investors, Mr. Doty said the board had gone back and inspected the audits of many companies that later failed or were bailed out. 'In several cases – including audits involving substantial financial institutions – PCAOB inspection teams found audit failures that were of such significance that our inspectors concluded the firm had failed to support its option,' he said.

"But they were supposed to make sure the statements reflected the conditions at the time.

"In the wake of the financial crisis, no accounting issue has been more critical than the evaluation of financial assets. In some cases, they are now required to report the fair value – normally the market value – of securities they own. That is not easy for securities that rarely trade, and it was made all the harder by the complexity of some securities that Wall Street invented during the boom years. Banks claim, with some justification, that markets became unduly fearful, at the height of the crisis, and that market values fell too low.

"Investors and regulators could, if they chose, make allowances for depressed markets. But they need to be able to compare banks with one another, and to do that they need to have confidence that their financial statements are comparable.

"But the accounting oversight board does not think that has happened. In the board's report of its 2009 inspection of PriceWaterhouseCoopers, which concerns 2008 audits conducted at the height of the financial crisis, the board wrote that 'in four audits, due to deficiencies in its testing of fair values of investment securities and/or/derivatives, the firm failed to obtain sufficient competent evidential material to support its audit opinion.'

"It had similar complaints about each of the other members of the Big Four – KPMG, Ernst & Young, and Deloitte & Touche.

"Unfortunately for investors the board has not revealed the names of any of the clients involved.

"Nor do the auditors appear to have gotten everything right in later audits, at least in Mr. Doty's view.

"'Although the 2010 reporting cycle is not yet complete, so far PCAOB inspectors have continued to identify significant issues related to the valuation of complex financial instruments, among other areas,' he said, adding that the 'inspectors have also identified more issues than in prior years.'

"In 2002, when the auditing firms had been humiliated by audit failures, their efforts to prevent any regulation failed, but they won one crucial victory in the details of the *Sarbanes-Oxley* law. The oversight board must keep secret its most critical assessments of audits unless a firm fails to respond to the criticism. And the board's disciplinary actions remain secret until they are resolved by the board and the Securities and Exchange Commission has ruled out any appeal.

"It is as if the fact a man was suspected of robbing a bank had to be kept secret not only until after he was convicted but had failed appeal.

"That secrecy was justified as necessary to protect reputations that could be tarnished by charges that might later be disproved. In practice, board officials complain, it has led to stalling tactics by firms that figure they can avoid negative publicity indefinitely. The board has asked Congress to change the law, but that seems unlikely."

Evaluating Stocks that Rarely Trade

"To be fair, the accounting rules give the firms a difficult job in evaluating a bank's estimate of fair value of securities that rarely trade. Banks have some flexibility in determining how to make those estimates, and the auditor is supposed to satisfy itself that the methods used are reasonable.

"The board makes it clear in the publicly released sections of inspection reports that banks use varying methods.

"As a result, even if every audit were done properly, there would be no assurance that the results would be comparable.

"One reason the board exists is that investors were shocked by disclosures in the Enron scandal that local auditors for Arthur Andersen – the fifth member, now defunct, of what was then the Big Five – had felt free to ignore advice on accounting standards from the firm's technical experts, who worked in what is known in the industry as the national office.

"Other firms assured me at the time that nothing comparable could happen in their operations.

"But perhaps it can.

"In his speech, Mr. Doty quoted from two assurances given by auditors to clients, and discovered by board inspectors.

"One firm promised that the auditors on the scene would 'support the desired outcome where the audit team may be confronted with an issue that merits consultation with our national office.'

"At least that firm seemed to leave open the possibility that the national office would prevail. Another pitch for audit work went further. It promised, Mr. Doty said, that audit decisions would be made by the global engagement partner with no second guessing or national office reversals.

"Abraham Britoff, a longtime professor of accounting at Baruch College and a critic of misleading accounting practices, used to tell a joke about a chief executive interviewing prospective auditors, 'What is two plus two?'

"The winner, he said, responded, 'What number were you looking for?'

"Now it is board committees, not chief executives, who are supposed to hire auditors. But the fact that accounting firms thought such promises would help – and were willing to put the pitches in writing – is evidence that too little has changed since the accounting oversight board was established.

"One can hope most firms would never stoop that low to win business, and that most audit committees would summarily reject any firm that pursued such a course. But because board disciplinary action can remain secret for years, we have no way of knowing which firm or firms have partners willing to make such offers, or which companies accepted them."

However, what is involved is far more than a bit of auditing. At stake is our suppressed history, the laws of mathematics, logic, and elemental good faith.

By the time F.D. Roosevelt was inaugurated as president of the United States, 38% of the banks of the United States had closed their doors, and one of the first things he did was declare a bank holiday, which lasted a full month. During that time, Roosevelt entirely open-minded had listened to just about anybody on how the economy could be repaired, settled on two basic ideas: (1) the principle of what was to become the *Glass-Steagall* or *Bank Act* that forbade banks to acquire non-banking financial institutions. For when they did this they made a beeline for the cash reserves that such non-banking institutions held for their own businesses and used it to enhance the scope of their financial gambles. (2) The "statutory reserves" were brought in that provided an alternative to credit creation by the banks and to cool an overheated economy, could require the banks to transfer a portion of the deposits they took in into the federal treasury on which they received no interest. That would reduce the extent to which the banks could drive up interest rates by feeding an economic boom. beyond the economic resources.

It should be noted that Canada under PM Mackenzie King, did a thorough job of nationalizing the Bank of Canada, that had been set up a few years as a private bank on the advice of a committee brought over largely from Britain. Remarkably, Mackenzie King, a cautious politician by nature was to an extent pushed into doing so by a remarkable, originally self-taught workman who had been elected mayor of Vancouver and appointed national senator.

Today we make no use of that background though the laws enabling us to do so are still on our books. Yet it helped enormously in financing Canada's part of World War II and welcoming the flood of mostly penniless refugees from Europe after the war. Only under PM Brian Mulroney, completely subservient to Washington's wishes, did we abandon this promising background. That is a key asset that our country must be alerted about to get out of its present economic crisis.

Yet in the *Bank of Canada Act*, the nationalization of the Bank of Canada exists intact in its preamble, and in subsections (i) and (j) that allow the central banks to hold on a roll-over basis unspecified amounts of funded and generous amounts of unfunded debt of the federal or provincial governments or of any corporation guaranteed by either of these. The last provision would include municipalities backed by the guarantee of either of these senior governments.

In 1938, Bill 143 was passed by the House of Commons 'to assist municipalities in making self-liquidating improvements under the name of *Municipal Improvements*

On Applying the New Art of "Forensic Analysis" to What Pains Most

When you reach my age, it is no fun trying to remember history – our own even more than that of the ancient Greeks. I must cope with that, but I do need a bit of help in understanding why governments even before they are elected forgetting our, their, and the world's history. That is why I am not only excited about physicists, mathematicians and astronomers devising short cuts offered by what they call "forensic modeling" not only to detect what is happening in the world's nuclear reactors before they blow our world to smithereens, but to apply what they learn to induce our governments to play a bit fairer with the intelligent people they hold under their crooked thumbs.

However, let us introduce the new promising shortcut. "Forensic modeling" is the magic new time-saving method. It derives from the Latin for forum – where important trials were held, and hence refers to supreme laws. What its proponents have been up to is cutting out a lot of detail that gets buried because of sheer complexity, blindness, dishonesty, or whatever, and rectifying things by analyzing tell-tale bits of evidence that do get through. That seems to be working wonders in the secret and dangerous world of nuclear energy. Let us then, venture something similar in the no less dangerous world of politics and economics.

Our governments are unable to cope with the cost of people living too long, studying too much, congregating in too populous cities, and being too anxious to find good jobs, and raise healthy, well-educated families. So upsetting is that to those who want to restore the world where the economy was repeatedly run to collapse by the power of burying the records of their past failures that have led not only to two world wars, but to recurrent crises and corruption.

None of that would have been possible, if our powerful speculative banks had not wiped out the restrictions imposed on them to get the world our of the depressions that led to World Wars I and II.

A great deal of history had to be suppressed to lead the world into its recurrent mess. The most important of this was the eventual consequence of an initiative of the American government. At the end of hostilities, Washington sent to Japan and Germany hundreds of economists to study the wreckage of the war there, and predict how long before those two great defeated nations could become formidable rivals on world markets again. Some sixteen years later, one of these young economists wrote a paper asserting that he and his colleagues had missed the mark by concentrating on the physical destruction, but attributing no importance to the detail that the talented human population had come through the war almost intact.

His name was Ted Schultz and for a few years he was decorated for his stroke of genius in concluding that human capital – an investment that is always prepaid – is the most profitable investment a government can make.

For the past several decades his very name has been forgotten, and the growing heritage of education, health, environmental care, are treated as mere extravagances, instead of key capital investments. In doing so society has been deprived of even the most elementary meaningful accountancy. And with each passing year this becomes an ever more costly perversion. Here then is hoping that the innovation of forensic modeling designed to cope with atomic power problems, will lend the world aid when it is most needed in the accountancy of our government and society.

William Krehm

Assistance Act. Later when the Bank of Canada had been nationalized to serve *inter alia* the same purpose, that act was repealed. The columns for such loans to all levels of government are still to be found in the *Bank of Canada Review,* but they are like the empty pews of a deserted faith.

Our Buried History

Under the Progressive-Conservative government of Brian Mulroney, an extensive campaign was conducted in our universities and media to declare the Bank of Canada independent of the Government of Canada. Yet 12,000 shareholders of the Bank of Canada had been bought out with a profit after less than four years of ownership in the depths of the depression. The nation's ownership is attested in subsection 17(2) of the Act: "The capital shall be divided into one hundred thousand shares, of the par value of fifty dollars each, which shall be issued to the Minister to be held by the Minister on behalf of Her Majesty in right of Canada."

Nor is there the slightest doubt about who is supposed to run the show. That is covered in subsection 14(2): "If notwithstanding the consultations provided in subsection 1, there should emerge a difference of opinion between the Minister and the Bank concerning the monetary policy to be followed, the Minister may, after consultation with the Governor and with the approval of the Governor in Council, give to the Governor a written directive concerning monetary policy, in specific terms and applicable for a specified period, and the Bank shall comply with that directive."

However, despite this clarity under Brian Mulroney a sweeping campaign was launched in our universities and media, asserting the independence of our central bank from the government, because it was supposedly proved "scientifically" that independent central bankers are more "efficient." It was not specified at what. That gospel came from the Bank for International Settlements, a purely technical organization that had been set up in 1929 to handle the German reparation payments that the French insisted be syndicated into stronger currencies. The 1929 stock market crash interfered and the BIS lingered on to render some special services to the Nazi regime. In 1938 when the German troops occupied Prague, BIS almost tripped over itself in surrendering to them the gold reserve that had been entrusted to it by the Czechoslovak government.

That is why at Bretton Woods (1944) on the initiative of some governments-in-exile – Resolution 5 was adopted calling for the dissolution of BIS at the earliest possible moment. Because of that BIS cultivated a low profile – some of its offices in Basel were actually located over a pastry shop.

The peace had brought to power social-minded governments intent on honoring the commitments made to the men in the trenches. That meant that the comeback campaign of the banks to their powers of the 1920s had to be directed to an extent not only outside but against the governments in office. There was need of a semi-underground bunker to direct that campaign, and BIS filled the bill providentially. No elected member or any official of a government other than the officials of central banks was allowed to attend its sessions. The credo of "zero inflation" that drove interest rates in the US, and John Volcker in Canada into the twenty-percent range originated with BIS. Interest rates, of course, are the primary income and the gambling chips of speculative finance. Declaring the revenue and gambling chips of a potentially parasitic class the "blunt tool" for "licking inflation" tells you all you need know.

In response to such BIS directives, under the Mulroney government, it was actually proposed not only to insert the independence of the central bank from the government, but to put that and "zero inflation" into the constitution of the country. However, that proposal was turned down by the caucuses of all the three major parties – including that of the government party itself. Accordingly the government deemed it best to let sleeping dogs lie. And that is why we have a *Bank of Canada Act* that contradicts just about everything the Bank in real life does or says. It is a local oddity, that might attract tourists like a sort of fiscal Leaning Tower of Pisa, were it not kept in the dark.

It was another act, the *Bank Act*, that was amended in 1991 to put an end to the statutory reserves, a portion of the deposits that the banks took in from the public that they had to deposit with the Bank of Canada. These "statutory reserves" for checking and other short-term deposits amounted to anywhere from 8 to 12 percent and for longer-term deposits less. Since the central bank pays no interest on moneys left with it – a reflection of the fact that the ancestral monarch took no profit from gold and silver he coined until he launched them into the market by spending them. The government *spent* money into existence, rather than *lending* it into existence as they do today.

W. Krehm

Letter to the Editor

From the Windsor Star, April 8:

With the onset of the federal election the following information should be known by all candidates and taxpayers alike.

In 2009 Canadians paid $160 million per day ($58.7 billion for the year) in interest on federal, provincial and municipal debt.[1] These costs lead to higher taxes and fees, cut-backs in public services and deterioration of public infrastructure. Much of this debt service cost could be eliminated by greater use of the bank of Canada to finance government investments. Because the Bank is wholly owned by Canada all profits on its lending activity go to the government. This means that borrowing from the Bank by the government is almost costless. For years the government borrowed from the Bank of Canada and during that time, contrary to the fears raised by opponents of the idea, run-away inflation never occurred.

By 1975, federal net debt amounted to $19 billion.[2] Then the government began to shift more of its borrowing from the Bank of Canada to the private sector, especially chartered banks, insurance companies and other large corporations.[3] By March 31, 2010, the net debt had ballooned to $583 billion and interest bearing debt had reached $763 billion.[4]

The interest cost to taxpayers for the federal government's debt is currently a $29 billion drain on federal revenues. In addition, the use of the Bank of Canada to finance public debt would reduce the influence of large corporations on government policy decisions.

We should only vote for candidates who support the use of the Bank of Canada for the purposes described above.

Andre Marentette, Lakeshore

1. Canadian Economic Observer: Historical Statistical Supplement 2009/2010

2. Canada Year Book 1972-2001 Federal debt and interest payments

3. At March 31, 2010, taken together, these sectors held 75% of outstanding Government of Canada securities, chart 5 Debt Management Report 2009-2010.

4. Dept. of Finance, Debt Management Report 2009-2010, table 2.

What We're About

Until a century or so ago most thinking about the economy was done in terms of the labour theory of value. Directly or indirectly, the amount of labour that entered into production of a commodity was seen as what determined its value, and in the long run, its market price. As all theories must, it left a great deal unexplained. Even worse, it brought a lot of uncomfortable facts into too glaring focus – for example – that wages were still set by the barest minimum needed to keep body and soul together.

Long before Karl Marx and other radical thinkers defeated on the barricades of the revolutionary strife of 1848 found refuge in Britain and started holding open-air meetings almost in the backyard of Buckingham Palace, native Brits were drawing uncomfortable conclusions from the labour theory of value. At which point marginal theory made its providential appearance. It shifted the whole discussion from the sphere of production, where discussions were getting rough and unmannerly, to the market where the workers' contribution was *defined* by what they were paid. Couched in differential equations, the argument became "scientific," supposedly beyond questioning.

That left no other way of reasoning on economic matters than in terms of supply and demand. The social question, which had lain like a dead rat in the chalice of Victorian piety became "scientific," supposedly.

But it all rested on a misunderstanding. The new theory undertook to deduce conclusions about the real world *from mathematics* instead of *by mathematics.* And the differential equations of marginal theory became a status symbol that silenced importunate critics.

A little mathematics can be a dangerous acquisition; the antidote, however, is strictly homeopathic – still more and really relevant maths. For if maths teaches us anything, it is the endless variety of possible relationships.

"Time and time again this ritual of reshaping the world to obtain a manageable set of equations was torn to shreds by distinguished critics, but the practice has gone right on. But, of course, we are told that the doctrine is not supposed to have any relevance to the real world, and that it is not supposed to set norms. But there is in fact a note of Victorian hypocrisy about the way in which conventional theory protests that its conclusions are not normative, and then by a vocabulary loaded with normative implications smuggles in policy recommendations drawn from its doctrine.

"The established theory of the thirties held that the sharp drop of prices during the Depression would in itself trigger a flood of buying and bring about recovery – there were after all so many bargains around!

"Today our growing unemployment has been substantially initiated by governments to help bring prices into line. And when it fails to do so, the fault is once again placed on culprits sabotaging the balancing act of providence."

In the thirties the problem that preoccupied Keynes was finding sufficient demand to keep the economy going. He came up with the most whimsical work-making schemes to highlight his point that any economic activity – no matter what its intrinsic merit – would be helpful to start the stalled wheels of industry turning.

That is hardly our problem today. An advanced pluralism has taken over society – something that did not remotely exist in the thirties. At that time the state confined itself largely to its traditional administrative function plus a modest outlay on such items as education. Today in some advanced countries public spending has surpassed forty and even fifty percent of the Gross National Product.

On Bogus Universal Truths

Such statistics, however, understate the change. In Keynes's day the laws of the market had scarcely been challenged; its ethic – "you get what you pay for" – was still taken as a universal truth.

Today other ethics exist in symbiosis with that of the market. A growing part of the national income is allotted by redistribution principles – according to social need as determined by political process. Technological, demographic developments and the rapid urbanization of our cultures have called for costly infrastructures that only the state can provide. The state has also imposed standards of education, undreamt of in the thirties. As a result a ravening demand for capital has arisen without precedent in the history of the world.

We can hardly blame Keynes for having foreseen rather little of this. He rearranged his theory only enough to allow him to get on with the job he had set himself.

The so-called Neo-Keynesians produced a mathematical model that oscillated about equilibrium points set by the aggregate demand that the policy-makers pumped into the system.

But all this was a comedy of errors. To break out of the vicious circle of marginal theory, Keynes had improvised a labor theory of value; for the problem of adequate demand could not even be formulated in an idiom in which supply and demand by definition tended to be in balance at all times. He therefore shifted the argument to real terms and excluded the problem of price levels. Improperly understood, this device gave rise to Paul Samuelson's 45 degree line which marked out the locus of equivalence of aggregate supply and demand. A whole generation of economists have been trained to do their reasoning within this framework that simply by-passes the whole subject of price.

Blocked by marginal theory in his attempts to get at his problem, Keynes had resorted to an *ad hoc* means of reckoning – much as you might take off your boots and do you reckoning on your fingers and toes if your arithmetic had broken down. Under the circumstances that would be a shrewd if primitive thing to do. The point to remember, however, is that you must eventually put your boots on again. This the Neo-Keynesians forgot to do. Because Keynes had shunted out the whole price problem to deal with aggregate demand. that price stability would present no difficulty if only they balanced supply and demand. That brought back the whole baggage of a self-balancing economy.

A great deal of prejudgment can be built into the language we use. Ethnologists have found the vocabulary of primitive people have developed along functional lines: Eskimos will thus have scores of different words for snow to our one.

Today ours is a very different economy than it was forty years ago. Because of that it is almost inevitable that the economic terminology of that period should have become dysfunctional today. If we had a single word for table fork and pitch fork, we would find it less than helpful both for dining or for cleaning out the barn.

The term "inflation" is an instance of such semantic dysfunction. The word derives from *inflare* – "to blow up." Inevitably that sneaks in the inference that the phenomenon is reversible. That can no longer taken for granted today.

William Krehm

On Human Capital, a Concept Crucial for an Understanding of How Our Economy Operates

A half-century ago I wrote a long essay in which I analyzed the many other factors than the market that may explain a rise in the price level. A basic one was the ever growing investment in human capital made by our government, the increasing urbanization and high technological level of our economic processes, many of which are financed directly by the government. Rather than just a market phenomenon it reflects the growing amount of direct non market investment by our governments. I devised the term "social lien" to designate this other factor in our present price rise, that merely reflects the fact that more and more of our investment is carried out by the government in human capital. This, of course, not only covers health, education, but the environment, and adequate infrastructures for our rapidly urbanizing world.

I sent it to some 30 or so economic research publications, and it was purchased almost by return mail by *Revue économique* in France, and appeared as a 41-page article in its May, 1970, issue. It was reviewed most favorably twice in the economic journal of Cambridge University, and by another eight or so other technical journals. A review in the Toronto *Globe and Mail,* produced an immediate letter from John Hotson of the economic faculty at Waterloo University and led to the founding of COMER.

I lost no time in getting to know key members of the staff of *Revenue économique* in Paris, and learned why they had immediately responded to my submission. On its editorial board were not only the leading French economic historian of the day, but two statisticians who could find no trace of a relationship between the direction of the price level and the supply-demand factors.

And of course when my "social lien" explanation arrived, it solved their problem.

This opened up a rewarding relationship with a number of eminent French economists who were rethinking what had come to pass for economic science. Most outstanding was François Perroux, among whose many insights was his notion of the "dominant revenue": this is the revenue of the ruling sector whose degree of prosperity is taken as an index of the well-being of society at large. One of the first acts of COMER was to bring Perroux to Waterloo University where he addressed a near full assembly hall.

Little remains in present-day France and throughout the world of the seething investigations of that day.

In the United States some 38% of the US banks had closed their doors by the time President F.D. Roosevelt was inaugurated, in 1933. And one of his first acts as president was to shut down all banks, and they remained bolted until the new government had brought in a new *Bank Act* that forbade the banks from acquiring an interest in the other financial pillars: in that remote time stock markets, insurance and mortgage companies. The reason was that if that were allowed, the banks would lay hands on the reserves these non-banking firms required for their own business, and use them to gamble bigger if not better. That made possible the series of financial disasters of our housing bubble.

Clearly, the revision of the Canadian *Bank Act* (1991) brought about such a shift in the dominant revenue: it phased out the statutory reserves that banks had to redeposit with the central bank as a percentage of the deposits they took in from the public. For these statutory reserves had offered the central banks an alternative to readjusting the central banks' benchmark bank rate.

The Key Contribution of Douglass North

The work of Douglass North came a quarter of a century later. He was awarded a Nobel Prize for Economics in 1993. He noted that when an important shift in the distribution of the national income occurs, the old distribution of political power amongst stakeholders becomes outdated.

If it is not changed, military might is likely to be resorted to. The guillotine overworked in Paris during the Revolution was the bloodiest example. Close to it were the executions in Père Lachaise Cemetery after the French defeat by the Prussians in 1871, that sent a flock of political refugees into Britain, is another.

The re-scrambling of the power positions of social strata in Britain itself as a result of the refugee influx of defeated politicians from the continent was yet another. It was strong enough to confuse Karl Marx and his tidy theory that reflected the railway building of his youth sufficiently to hinder the completion of volumes 2 and 3 of Capital. These were left to Friedrich Engels to reassemble as well as he could where Marx himself had lost his too tidy bearings.

I summed up the dilemma that threatens to floor the world economy for the full count in the following open letter that COMER sent to the Governor of the Bank of Canada under date of February 6, 2006:

"Mr. David Dodge, Governor of the Bank of Canada

"Dear Mr. Governor:

"It was with great interest that I read the text of your address in Bridgetown, Barbados, on February 6.

"I note that you listed the 'tightness' of oil markets and the possibility of a further increase in oil prices as one of the two issues that concern you. Yet you go on to mention 'that in line with our base-case projection and our current assessment of risks, some modest further increase in the interest rate would be needed to keep aggregate supply and demand on target over the medium term. However, it is not on record that a higher interest rate has produced a single additional barrel of oil.

"Elsewhere in your talk you remark: 'Specifically, in terms of fiscal policy, there is a clear need for countries to focus on having a sustainable ratio of public debt to GDP.' But surely that depends on how you define 'debt.' You cannot be unaware that in 1999 the then Auditor General,

Letter to the Editor

William,

Thank you for such a great opportunity to reinforce my ideas and beliefs in monetary reform. You are a true Canadian hero and I was honoured to help me spread the word on human capital.

Thank you for your participation.

Together, we Can Save Canada.

Christopher Porter
Leader, Canadian Action Party

Denis Desautels, refused to give unconditional approval of two successive government balance sheets unless the then Finance Minister, Paul Martin, agreed to introduce 'accrual accountancy' also known as 'capital budgeting.' Under the prevailing 'current accountancy' when the federal government built or bought a building, a bridge, a highway, it was treated exactly like spending for floor wax in the buildings – it was written off in the year in which it was made and in subsequent years (beginning with year 2) carried on government books at a token dollar. That had an almost endless chain of unhelpful consequences. Even the attempt to balance books so badly kept led to more taxes being levied than warranted. It would show a misleading high budgetary deficit, the immediate consequence of which would be a lower rating and far higher interest being paid on the federal debt than warranted. Then, too, with buildings and other capital assets carried on the books at a token dollar, they could be privatized at a fraction of their real value, while the public would proceed to pay a second time in user fees what they had already paid for in taxes.

"Surely, until the books of the government have been redone to incorporate the principle of accrual accountancy, the Bank of Canada is as clueless as the rest of us, what the net debt – i.e., debt, less the properly depreciated value of government capital assets, might be. Also, what the ratio of debt to GDP, and what the GDP itself might really be. This would also make the higher interest rates brought in 'to lick inflation' over the past years a pure waste of the substance of our citizens for the benefit of speculative financial interests."

The "Cooked Books" of our Government

"During the negotiations between the then finance minister, Mr. Paul Martin, and the Auditor General, M. Desautels, M. Desautels even used the expression 'cooking the books' to describe the accountancy of the government. Once a compromise was reached, subsection 14(2) of the *Bank of Canada Act* provided that the Finance Minister, should the Governor of the Bank of Canada, not agree with reforming Bank of Canada policy in accordance with the effects of the change of the 'sustainable ratio of public debt to the GDP' that you mention as the guiding concern of the BoC, all the minister needed to do was to give the Bank of Canada governor 30 days of written notice of the change, and 'he shall comply.' We note that Mr. Paul Martin, Finance Minister at the time, apparently overlooked raising the issue with the Bank of Canada Governor, nor did the then Bank Governor, or his successor, do anything to bring Bank of Canada better in line with the agreement reached between the Finance Minister and the Auditor General.

"In view of this, Canadians would be at a loss to understand how at this late date you should be explaining in Bridgetown Bank of Canada policy that completely ignores the momentous decisions of both Washington in 1996 and Ottawa in 1999 to restructure the very notion of what a balanced budget might be.

"Another crucial point was omitted in your talk.

"In the 1960s an economic professor at the University of Chicago, Theodore Schultz, was awarded the Nobel Prize for Economics for his studies on the rapid recovery of Germany and Japan from the destruction of WWII. Twenty years earlier Schultz had been one of hundreds of young economists sent to those two countries by Washington to study how long it would take before they could emerge as formidable competitors of the US on world markets. In his writings sixteen years later Schultz concluded that he and his colleagues had been so wide of the mark in their prediction, because they had concentrated on the physical destruction and ignored that both those lands the highly educated and motivated work force had come through the war substantially intact.

I remember one of your predecessors as BoC Governor, Louis Rasminsky, telling me how proud he was to have brought Professor Schultz to Ottawa to explain his conclusion: human investment – education, skills, and hence the health and welfare of the work force – was the most productive investment that a nation could make. It is handed down, hardly depreciated, from generation to generation, since the children of educated, healthy parents tend to be more easily educated and healthy as well. The name of Theodore Schultz is practically unknown to economists today.

"This leads us to recognize the need for some further rethinking of what 'inflation' might really be. Almost forty years ago, it occurred to me. that a mixed economy, had need of a more inclusive, mixed price theory than that of the 'pure and perfect market.' The latter, of course, is based on the assumption of agents of such infinitesimally small size that nothing they do or do not do individually can affect price. However, the technological revolutions of the last half century require a highly educated work force, rapidly increasing urbanization, and an increasing amount of investment by the state to provide the infrastructures for both the private sector and society at large. A highly mixed price structure has developed to meet the needs of this evolving mixed economy. This consists of two distinct layers – a market-determined under-layer, and a non-market stratum that is not marketed and hence not priced but paid for by taxation. Not even economists moving from the countryside to New York City can expect their living costs to remain unchanged. The wonder is that they should expect just that when humanity makes a similar move.

"The confusion arose when economists – as a rule precariously grounded in mathematics which they use largely as war-paint – took for granted that propositions could be flipped over like pancakes. But any freshman in logic can set them straight on that one. Whereas it is true that when a man puts a loaded revolver to his temple and pulls the trigger, he falls dead, it cannot be concluded that when a man falls dead, it is because he has fired a loaded pistol held to his temple. Likewise, other things being equal, too much demand relative to commodity supply will cause the average price level to increase. But it does not necessarily follow that that every price rise is a consequence of 'too many dollars chasing too few goods' to quote the classic description of inflation. They may well be due to the increase of essential government infrastructure.

"But in their use of the differential calculus, economists assume that all actors are of such infinitesimal size that nothing they choose to do or leave undone can affect the price level.

"That is hardly a plausible model in this age.

"The Great Depression of the 1930s that led the world into WWII was brought on because the banks of the Western world had acquired control of the other financial pillars – the stock market, insurance and mortgage firms – and with that access to the pools of liquid cash that each of these maintained for its own industry. Once the banks took them over, they used them as a money-base to apply the bank multiplier – the amount of credit the banks created relying on their cash base to meet the claims of their depositors for the return of their cash. By the time Franklin Delano Roosevelt was inaugurated in 1933, 38% of the thousands of US banks had shut their doors, and one of the first acts of the new president was to declare a bank moratorium. In 1935 the new government brought in his *Bank Act*. One of its main provisions was that banks must not acquire an interest in any of the other three pillars of finance.

"Two main tools were provided by the Act for the central bank to manage the economy. If aggregate demand was too low to bring on reasonably full employment, the Federal Reserve could lower the benchmark interest rate for overnight loans between commercial banks. But since interest rates hit everything that moves or stands still in the economy, a more benign tool was provided as an alternative. Banks were required to deposit with the Fed – on an interest-free basis – a modest portion of the deposits they themselves took in from the public. This 'statutory reserve' of the banks when it was desired to cool an overheated economy, and thus reduce the leverage with which banks could expand their credit creation. Or it could be reduced when the central bank felt that there was too much unemployment. Within the existing constraints, these interest-free reserves parked with the central banks – the 'statutory reserves' – also provided a near interest-free fund for loans by the central bank to the government."

The Essence of Central Banking is Forgotten Today

"In countries like Canada, where the central bank was nationalized (in 1938) the interest paid on such loans returned substantially to the government as dividends. But even in the US, where the shareholders of the Fed – with the exception of the Fed of New York – are private banks, almost the same percentage of the Fed's profits found their way back to the government. For the banks had been chartered by the government to carry on the modern equivalent of the monarch's monopoly of coining precious metals (seigniorage) – creating credit only very partially backed by legal tender in its coffers.

"The war years and the first five years of the peace during which the American banks were on the strict regime imposed by the *Bank Act* of 1935, rehabilitated them. And with returning solvency came a yearning for the old fleshpots. Gradually they were deregulated, and they again acquired positions in other financial pillars, engaged in gambles and suffered staggering losses.

"But they had acquired the political clout to lobby successfully not only for a bailout, but for further deregulation. By 1988, the *Risk-Based Capital Requirements* guidelines drawn up on the initiative of the Bank for International Settlements, declared the debt of developed countries risk-free. They thus required no down payment for the banks to lend out money for ever riskier gambles. At the same time the statutory reserves that the banks had been required to put up with the central bank as a percentage of their deposits from the public were phased out, allowing the banks greater leverage in creating credit. And as a striking instance of the left hand of a key institution not knowing what the right hand was up to, the BIS declared that only zero inflation was acceptable and that was to be enforced by raising interest rates as high as necessary to do the job.

"What the BIS and the world's central banks overlooked was that as interest rates shot up on new bond issues, the bond hoards of the banks with lower coupons shed value. The resulting international banking crisis first hit Mexico in December 1994. Foreign money, enjoying the new freedom to cross frontiers brought on by NAFTA, fled the country. A $51 billion dollar standby fund arranged by President Clinton with the help of the IMF and Canada, but without backing from Congress prevented the Mexican disaster from spreading throughout the world. It did, however, contribute to the East Asian meltdown of 1997-8, and the Russian default on their debt.

"But the most positive result of that crisis was that Clinton's Secretary of the Treasury, Robert Rubin, saw at once – that the bail-out of the banks with 100%-leveraged government debt to replace their lost capital had put an end to the possibility of

Human Capital In Action

Ten years ago I was standing in the middle of an artificially made island in the province of Malaita of the Solomon Islands in the South Pacific. This island was over 1,000 years old and hand made by coral. Villagers swim down and break coral off the reefs to pile it together and form an island in the middle of the sea. The place is called Lau Lagoon and its history is filled with stories of head hunting, cannibalism, slave trading and colonialism. They moved to the sea to get away from the malaria on the land as well as the bush villagers, that have been their challengers of mutual resources for centuries.

The seven tribes of Lau are sea people and as such, developed a unique form of currency, dolphin teeth. The villagers are gifted with the ability to call dolphins, and bring thousands of dolphins to the shores each year to provide a strong protein source. Dolphin meat is rich and is blood red. As a sign of being able to provide for a family, men in waiting are required to gather 1,000 teeth as a bride price. This represents approximately 10 dolphins which can feed over 100 people. While I was sitting in this middle of the island, the Chief thanked me for coming stating "Not since the 1800s has the white man come to our shores, and after all this time here he is again." What a way to being a business presentation. I explained him my vision of the worth of live dolphins and over the span of 10 years the value of a dolphin increased from $20 to over $142,000 each.

During my stay there I witnessed an incredible event, the arrival of human capital. It was in the shape of a military intervention into the Country by Australia and New Zealand in partnership with other South Pacific island nations. The reasoning was given as peace officers. Yet I observed that their technology and education attributes of their homeland were used to harvest natural resources for an increase in production and well being for their home nations. From gold to tuna, their human capital was able to support thousands of their country men through employment and well being. This experience led me to understand the value and importance of human capital.

The realization of the power of human capital made me realize that the impoverished villagers needs and problems to join the 21st century, was much simpler than has been reported on. Simply what is needed was an investment in human capital through education and technology transfer, for the betterment of the country's citizens. An investment in human capital for the local population would truly ensure the wealth of the Solomon mines of tuna, gold, oil, diamonds and other precious materials of for the country's own survival.

Human capital in action benefits directly those that receive it as an investment. Make sure you invest in some today!

Christopher Porter
Leader, Canadian Action Party

sky-high interest rates 'to lick inflation.' Instead, accrual accountancy was brought into the federal government's books beginning in January 1996. That exercise, carried back several years retrieved 1.3 trillion dollars of assets for the balance sheet of the federal government. Though practically unmentioned in the media or in Congress, and appearing under the heading of 'Savings' in the Department of Commerce statistics, a wink and a nod conveyed its real significance to the bond-rating agencies. That brought down the interest rates on government debt and assured Clinton a second term. It also prolonged the Wall St. boom until the high-interest bust of 2000.

"But a heavy penalty goes with suppressing the salient facts of history. Today the Fed is pushing up interest rates again – at a time when what Washington needs least of all with its immense foreign debt is a stock market collapse. I trust that as Governor of the Bank of Canada you have been following the havoc of the stock market collapse, since you forgot about the historic if under-advertised introduction of accrual accountancy in the US as of January 1996, and in Canada in 1999.

"In your address in Barbados, the terms 'accepted rules,' the 'rules of the game,' 'playing by the rules' occur and recur like Wagnerian leitmotiv. Do you really believe, Mr. Governor, that what the survival of the mass of humanity abroad and at home depends upon is actually a game – such as cricket or polo used to be with the British upper class? Could it be that the Bridgetown setting lent itself to borrowed colonial reminiscences? However, one rule of a far sterner game was apparently forgotten.

When you bail out your deregulated banking system with risky, allegedly risk-free bonds, you simply cannot risk pushing up interest rates. Shifting tens of billions of government debt from the Bank of Canada, where it cost the government practically nothing, to the private banks where it costs more every time the central banks resume playing 'the game' is no way of conserving the desired ratio of government debt to GDP. We thought that Mr. Lamfalusy, the ill-fated manager of the Bank for International Settlements had learned that lesson. But must it be learned anew at staggering cost to society by every successive governor of our central bank?

Yours sincerely,

William Krehm,
Editor, Economic Reform

On Swaps and Crookedness

From the front page of *The Wall Street Journal* (22/03, "Deutsche Bank Awaits Verdict in Swaps Case. The Question Is, Were Its Clients Fairly Advised of Risks?" by David Crawford and Laura Stevens) we quote:

"Germany's highest court is expected to rule Tuesday on whether Deutsche Bank AG misled hundreds of municipal clients and small companies about the risks of interest rate swaps in a case that could lead to a cascade of judgments against the lender.

"At the heart of the case is whether Deutsche Bank appropriately advised clients of the risks of the complex financial derivatives transactions – as well as the bank's potential profits as seller of the swaps – as it marketed them as a way to save on interest-rate payments.

"Deutsche Bank has been sued in recent years by several dozen former clients that suffered losses after many of the interest-rate swap deals went sour, but this is the first lawsuit to reach Germany's Federal Court of Justice. A lawyer for the bank said in court that any high-school graduate could have been expected to understand the bank's disclosures regarding the risks.

"The verdict is expected to have repercussions across Germany's banking sector and underscores the role that courts, in addition to legislators, could play in forcing banks to offer more information regarding the risks.

"The ruling comes as Deutsche Bank is fighting to protect its reputation regarding its role in marketing complex financial instruments in which the bank itself often had a stake. In the US, it is one of several banks subpoenaed last year by the Securities and Exchange Commission, which is examining whether these banks made proper representations in marketing and trading pools of mortgage bonds called collateralized debt obligations.

"In that instance, many major Wall Street banks developed the financial instruments at the behest of players that made bets against the deals. The bearish bets paid off when the mortgage market crashed.

"The legal scrutiny the bank faces on both sides of the Atlantic represents a shift from its position in the immediate aftermath of the financial crisis. Then, it was largely admired by investors for navigating the crisis without having to accept government aid. The bank initially played an influential role in advising the German government throughout the 2008 banking crisis.

"But its negotiating and lobbying power in Germany have weakened since, in part because of the debate about whether it misled towns and community-owned utilities across the country as it pitched the interest-rate swap deals.

"During the oral arguments last month, the court's chief justice indicated he already had doubts Deutsche Bank properly advised the suing company on the risks, saying he believed the bank faced a potential conflict of interest in the sale.

"Though Deutsche Bank has won eight of 11 such cases already decided at the German state court level, the Federal Court of Justice's opinion will likely provide guidance to lower courts in deciding the 17 cases in lower courts.

"Another eight cases are before the high court. The ruling could also influence a case in Italy, where Deutsche Bank, JPMorgan Chase & Co., UBS AG, and Depfa Bank PLC are on trial over allegations they misled Milan officials about their potential profits from arranging an interest-rate swap deal for the city government.

"Deutsche Bank's financial exposure from losing the case before Germany's top court and other pending suits could be about €50 million ($70.8 million), according to a person familiar with the bank's estimates."

The Hidden Profits of Swaps

"But Deutsche Bank attorneys argue the real threat is in a verdict that would force banks to disclose fees and potential profit margins built into such swap deals. Such a requirement, a Deutsche Bank argued before the court last month, could trigger a 'second financial crisis' as customers could seek to reverse contracts on a range of transactions.

"The case to be decided Tuesday involves a derivative contract Deutsche Bank marketed in the early to mid-2000s as 'interest optimization.' In brochures and at hotel workshops, the bank told municipal managers and small company owners it would advise them in the process of buying derivatives to reduce interest payments. By 2005, Deutsche Bank had sold about 700 so-called spread-ladder swaps to German municipalities and medium-size businesses, according to court-records.

"In a spread-ladder swap, the client places a bet that long-term interest rates will increase while the short-term interest rates will decrease. The client pays a floating rate, and the bank bets against it, paying fixed interest rates. Clients enter into the deals in the hopes of making money or to try to lower their interest rates.

"In the case before the federal court, Ille Papier Service GMBH, a bathroom-supplies company in a small town near Frankfurt charged that Deutsche Bank gave it insufficient information about the risks when it advised the company on buying a spread-ladder swap in 2005. The company was trying to save on interest payments on loans, it said, and bought the swap on the expectation the spread would widen and make the company money. Instead, it lost more than €500,000 as interest rates moved against it.

"Deutsche Bank's attorney Reiner Hall, argued in court that Ille received a calculation and disclosure of all risks. 'Every high-school graduate is able to understand such a calculation formula,' he said. Ille has declined to comment while the case is under way.

"But attorneys representing plaintiffs in cases similar to Ille's argue Deutsche Bank stood to gain drastically through hidden fees every time a customer in vested in an interest-rate swap deal. Jochen Weck, an attorney representing Ille and other plaintiffs, estimated Deutsche Bank generated as much as €1.2 billion while its interest-rate swap clients lost an average €1 to €1.5 million on each deal.

"Deutsche Bank declined to comment on how much it earned or gained in revenue from the business.

"Another company Teamtechnik Maschinen und Anlagen Gmbh, a tool company in the town of Freiberg near Stuttgart, signed two such swap deals with Deutsche Bank, and ultimately paid the bank €1.3 million as its losses from them began to mount.

"A spokesman said the company's finance officer never understood the derivative contracts and acted solely on the advice of his Deutsche Bank adviser.

"'We were decades-old clients, but not anymore,' the spokesman added."

From the same issue of *The Wall Street Journal* (page C8, "A $20 Billion Hand Played by J.P. Morgan" by David Reilly) we quote: JPMorgan Chase is offering prospective clients 20 billion reasons to use its investment-banking services.

"That is the size of the one-year bridge loan the bank has committed to AT&T for its acquisition of Deutsche Telekom unit T-Mobile USA. It is the biggest financing J.P. Morgan has ever extended, and it came alongside a mandate to advise AT&T on the deal.

"Competitors would hard-pressed to do the same.

"Although J.P. Morgan plans to syndicate the loan, it didn't presell the deal. If it had trouble parceling out the financing, J.P. Morgan would be left holding the commitment and have to set aside capital for it, something few rivals have the heft for.

"In the past, this would have increased pressure on competitors to make sure they had the balance-sheet scale to do likewise. That happened early last decade. Investment banks ladled on leverage as commercial banks – newly freed from the *Glass-Steagall* act's split of commercial and investment banks – used their huge balance sheets to win advisory business.

"Fortunately, a similar arms race isn't as likely today. Regulators are more attuned to the dangers of leverage. Plus, there probably won't be many calls for bankers to put up $20 billion in one go. Still, J.P. Morgan has upped the ante. That increases the risk rival banks will take on bigger commitments for perhaps riskier credits to keep up. It also is a reminder the 'Volcker rule,' which prohibits certain investment activities by banks, was no substitute for *Glass-Steagall*.

"If the ability to rent out the balance sheet again gives some firms an edge, even-bigger banks will result. So much for post-crisis efforts to whittle banks down to a more-manageable size."■

An Affordable Housing Update from Libby Davies

Greetings,

I am forwarding to you, my NDP MP friends, a recent message sent to your colleague, Libby Davies, by Richard Priestman, one of Canada's most committed and persistent advocates of needed changes in monetary policy. As he has done many times before, Richard calls upon the NDP to campaign for a return to use of the Bank of Canada to bring public deficits and debts under control, and to provide adequate funding to meet urgent public needs. Especially important are the two attachments Richard sent, which are available here. One of these is a draft of a new resolution on monetary policy that we hope will be presented by your riding associations to the June NDP convention. But this resolution should not even be necessary. The other attachment is a similar resolution which the NDP approved at its convention in 1995.

If an election is called before this coming June's convention, the NDP already has a mandate from the 1995 resolution to promote urgently needed monetary policy change. And even if there is no election this Spring, the NDP should be calling now for this policy change! Currently, confronted by a movement developing in the US to make public deficits and debts occasions of extreme crisis enabling right-wing governors and legislators to destroy public sector unions and to undermine democracy ("disaster capitalism" as described by Naomi Klein in *The Shock Doctrine*), we in Canada need to pre-empt such an attack here by proclaiming loudly and clearly that such cuts are entirely unnecessary. Years have already been wasted. The option of using our Bank of Canada to manage our public debts, to make them obsolete, and to fund abundantly the whole range of public needs, should already have been made well known to Canadians by the NDP. But it is not too late to begin immediately to make this issue central for the next election, whether it comes sooner of later.

The Green Party of Canada passed at its convention last August a resolution similarly calling for monetary policy change. There is an opportunity now for the NDP and the GPC to make a joint announcement calling for the monetary policy changes they have supported at their conventions. This could be, and should be, the beginning of much-needed cooperation between these two Parties. As long as they continue to compete, they increase the likelihood of another Conservative victory, perhaps even a majority, with, as you know, devastating consequences for Canada.

The Committee on Monetary and Economic Reform (COMER) is initiating a campaign asking civil society organizations which work for public welfare to endorse a "Call for Renaissance of the Bank of Canada." This now appears conspicuously on the COMER website, www.comer.org, which gives the text of the "Call", and enables organizations to endorse it. We are now in the process of soliciting endorsements to the "Call," and hope to build up sufficient momentum so that you who are politicians holding office and planning to run again need not feel isolated when you speak out in favor of monetary policy change – an action that we fully expect will evoke fierce opposition. We would be happy to have you recommend to the many civil society organizations you know that they join in endorsing this "Call for Renaissance of the Bank of Canada."

It may be encouraging for you to know that movements for monetary reform are building in the US Congressman Dennis Kucinich has introduced the American *Monetary Act* in the House of Representatives; the US Green Party has passed a resolution supporting this legislation; calls for state-owned banks are building momentum (see articles by Ellen Brown on her website, www.webofdebt.com, and the website of the recently founded Public Banking Institute). Not since the Great Depression, when the Bank of Canada was established, has the need for a powerful campaign to bring monetary policy change been as urgent as it is now.

In solidarity,
George Crowell

13/3/11
Dear Libby,
Re: affordable housing

To paraphrase your question to the government:

When will the NDP stop dragging its feet and implement the resolution it adopted 15 years ago on a Balanced Monetary Policy? Using the Bank of Canada, as the resolution recommends, would reduce government deficits, provide funding for investment in public services and capital projects (such as affordable housing), and most importantly reduce undue influence of private financiers on government policy. I have attached a copy of the 1995 resolution along with a draft resolution on monetary policy in case you wish to pursue this. Should the NDP succeed in getting monetary policy changed as proposed there would be ample funds for housing.

In the mean time I hope you succeed in getting the National Housing Strategy Bill (C-304) adopted.

Richard Priestman,
Committee on Monetary and Economic Reform, Kingston Chapter

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A Reshuffle of Technical Matings is Reshaping What Our World Is About

The Wall Street Journal (05/01, "Microsoft Alliance with Intel Shows Age" by Nick Wingfield and Don Clark) provides some thumbnail sketches of ever more complex entanglements of our social existence: "The technology industry's most lucrative partnership – the long-running partnership – the long-running alliance between Microsoft Corp. and Intel Corp. – is coming to a day of reckoning.

"Sales of tablets, smart phones, and televisions using rival technologies are taking off, pushing the two technology giants to go their separate ways.

"The clearest sign that their interests are diverging: Microsoft on Wednesday is expected to unveil a future version of the company's flagship Windows operating system that runs on microprocessors designed by Intel rival ARM Holdings PLC, according to people familiar with its plans.

"Microsoft still plans to make versions of Windows that also run on Intel chips, but the company's ARM plans amount to a huge bet on a chip technology that has become the de facto standard for smart phones, tables and other mobile products.

"The marriage of Intel chip designs and Windows – what became known as the 'Wintel' alliance – has shaped the PC business since the early 1980s, defining the standard for which software developers created applications. But both companies have struggled to capitalize on newer growth markets."

Losing Out on Smart Phone Front

"While Windows still powers more than 90% of global personal computers, research firm Gartner says Microsoft software ran less than 3% of smart phones in the third quarter.

"The success of Apple Inc.'s iPad has driven a deeper wedge between Microsoft and Intel.

"The two companies, in collaboration with hardware makers, haven't been able to come up with any tablet products that match the performance, power efficiency and ease-of-use of the iPad, a worrying trend as the Apple device has come to nibble into mobile PC sales.

"Microsoft Chief Executive Steve Ballmer will kick off the Consumer Electronic Show in Las Vegas Wednesday. The new version of Windows Microsoft is expected to show off there will be better suited to touch-screen interfaces and the power limitations of tablets, people familiar with the matter said.

"Technology industry veterans say the move by Microsoft is a milestone in the slow decay of the Wintel alliance, 'I think it's a deep fracture,' said Jean-Louis Gassée, a venture capitalist and Silicon Valley executive.

"A Microsoft spokeswoman declined to comment. Bill Kircos, an Intel spokesman, said the relationship between the two companies is 'deep and strong.'

"'While we can't comment specifically on any future Windows plans, there is a tremendous business opportunity for both of us in the projected billions of devices, gadgets and machines going online in the next five years, above and beyond the more near-term tablet area,' Mr. Kircos said.

"Microsoft and Intel have been collaborating since before International Business Machines Corp. introduced its first PC in 1981, a machine that used Microsoft's DOS operating system and the Intel chip design known by the designation X86. The relationship became particularly lucrative after Windows software helped make PCs a mainstay in homes and companies. The vast majority of the more than 350 million PCs sold last year ran some form of Windows on X86 chips sold by Intel or Advanced Micro Devices Inc.

"The rise of smart phones – and more recently, tablets – has strained the relationship. A key reason people have long preferred Wintel-based PCs – compatibility with application programs for Windows – has so far not been an important selling point in the new mobile categories. Indeed, Apple and Google Inc. have had success in creating large markets for lightweight apps on smart phones and tablets – to the point that users don't seem to care much about Windows compatibility.

"At the same time, Intel's chips haven't been able to match the low-power consumption of chips based on designs licensed from ARM Holdings, which supply the processing power to the majority of mobile gadgets. Apple's iPad, for instance, has a 10-hour battery life and requires relatively little memory, attributes that are tough to match with Intel-powered designs, said Rick Whittington, an analyst of the research firm Techindicators.

"Microsoft has long made a version of Windows for mobile phones that run on ARM chips because of the power constraints of those devices, but not the flagship version that runs on PCs.

"Steve Perlman, chief executive of online game start-up OnLive Inc. and veteran of Microsoft and Apple, said Wintel technologies are 'so deeply embedded in the information-era economy' that they will exist for a long time, but that the existing products from the companies are missing out on big growth opportunities in the mobile business. 'The Wintel system is too heavy-weight to move into these new markets,' Mr. Perlman said.

"Intel has been trying to lower the power consumption of its chips, and has made progress in this area. Paul Otellini, Intel's chief executive, said at a conference in December the company's chips are being designed into more than 35 tablet PCs.

"Intel's effort to build up the software side of its business has also vexed Microsoft. In June 2009 Intel made a surprise $900 million bid to buy Microsoft rival Wind River Systems Inc., a company with an operating system for non-computer applications.

"More recently, Intel struck a deal to buy McAfee Inc., a maker of security software, for nearly $7.7 billion. Intel is jointly developing with Nokia Corp. an operating system for mobile devices based on Linux called Meego.

"Intel has also thumbed its nose at Microsoft by collaborating with Microsoft archrival Google on Google TV, a technology for running televisions and other living room devices that connect to the Internet. Intel also contributed software technologies to Chrome OS, a new operating system from Google that will compete with Windows in the netbook computer market."

In short, to wind up our reportage as we began it – with a reference to the orthodox Marxist that by the time the train arrives at the terminal, the passengers rather than descend with a blissful smile of contentment on their faces, they are ready for good market-inspired greed to tear each other apart.

Obviously, we must sneak in the concept of human capital that had been recognized as the most rewarding investment a government can make. That – prepaid in advance would have to look not only after the education, but the health, the environment, and adequate infrastructure to make life livable and productive in our multi-million-headed cities.

W.K.

The High Art of Evasion by Burying Accountancy

The Wall Street Journal (5/02, "How to Market to an Aging Boomer: Flattery, Subterfuge and Euphemism" by Ellen Byron) touches upon the deep human problems of our longer life-spans that have been made particularly painful because of the officially burgled incomes of the aging.

We quote: "When baby boomers call ADT Security Services Inc. with questions about medical-alert alarms, they get operators especially trained to be sensitive to their needs. Top of the list: don't remind them that they're aged.

"'Boomers are used to being independent, and they get agitated if you're talking too slowly, says Barry Primm, an ADT home-health team manager who trains new operators to speak quickly and get to the point with these callers. 'They just want to get it done, fast and business-like.'"

Business-like Wearing of Diapers

"The generation that sent diaper sales soaring in the 1960s, bought power suits in the 1980s and indulged in luxury cars in the 2000s is getting ready to retire: the older boomers turn 65 this year. To accommodate their best customers' needs, American companies are overhauling product lines, changing their marketing and redesigning store layouts.

"But there's a catch: Baby boomers, famously demanding and rebellious, don't want anyone suggesting they're old.

"'We don't do anything to remind boomers that they're getting older,' says Ken Romanzi, North America chief operating officer at Ocean Spray Cranberries Inc., which has targeted the health-conscious as its primary consumer base.

"Surreptitiously, companies are making typefaces larger, lowering store shelves to make them more accessible and avoiding yellows and blues in packaging – two colors that don't appear as sharply distinct to older eyes.

"Invesco Van Kampen Consulting, an arm of Invesco Ltd., suggests financial advisers offer coffee cups with handles instead of Styrofoam (easier to hold), use lamps instead of overhead lights (less glare), and turn off the television when clients visit (background noise hampers hearing), says Scott West, a managing director.

"Euphemisms are flourishing. ADT, owned by Tyco International Ltd., is marketing its medical-alert system to aging consumers as 'Companion Services.' Kimberly-Clark Corp.'s Depend brand, widely considered adult diapers in the past, has had a makeover in a new TV ad: 'Looks and fits like underwear. Protects like nothing else.'

"Bathroom-fixture maker Kohler Co. struggled to come up with a more palatable word for 'grab bar,' which boomers resist. It introduced the 'Belay' shower handrail – named for the rock-climbing technique – which blends subtly into the wall of a tiled shower. 'When you say, "we've got beautiful grab bars," [boomers] just say, "Naw," because they don't want to identify as needing that,' says Diana Schrage, senior interior designer at Kohler's design center.

"In the past, most big companies didn't specifically target senior citizens, since people over 65 traditionally spent less and resisted trying new products. But many marketers believe the baby-boom generation – born between 1946 and 1964 – will turn that conventional wisdom upside down.

"The 76 million boomers already account for an estimated half of total US consumer spending.

With longer life expectancy and lower savings rates than previous seniors, they are projected to spend an additional $50 billion over the next decade, according to market-research firm SymphonyIRI. Rather than passing on their wealth to future generations, they're expected to splurge mostly on themselves as they move household and pursue active lifestyles.

"'As a generation, they're large enough that they expect to be served uniquely as they age,' says Sean Seitzinger, an analyst formerly with SymphonyIRI. 'That's very different from the generations before them.'

"To be sure, companies catering to seniors face drawbacks. The recession whittled down many boomer nest eggs, requiring them to save more and rein in spending. By its very nature, an aging boomer demographic will shrink every year as the oldest members die.

"Nevertheless, the generation that drove the growth of hula hoops, bell bottoms and personal computers will continue to be an influential market as it ages.

"Companies are currently adjusting their approaches to new demands. Boomers are much more concerned with a product's appearance, for example, not just its utility. Kleenex recently redesigned its boxes to have fewer floral bouquets and more contemporary designs, photos and the latest hues. There is less difference in aesthetic taste between young people and boomers that there is between boomers and their elders, says Christine Mau, a design director at Kimberly-Clark, which owns Kleenex. 'If boomers were acting as their predecessors did, we wouldn't be as trend-forward as we are today,' says Ms. Mau.

"Carol Roberts, 65 years old, is a retired elementary school teacher in Leland, NC. But that doesn't mean she wants to behave like a 'senior citizen,' she says. She's using her retirement to travel and volunteer with schools and community groups. She lifts weights and does other frequent workouts to stay in shape.

"She also wants to stay fashionable. 'I don't want to look like in my teens or 20s, but I want to look current,' she says. 'To me, it's really important to look your best, and not just say "I'm over 65, therefore it doesn't matter what I look like."'

"To attract customers like Ms. Roberts, nuance is key.

"Kimberley-Clark spent two years overhauling its Depend brand, anticipating boomer would demand changes to the image and design of a line long considered too diaper-like and institutional. By 2020, Kimberly-Clark expects 45 million boomers will need incontinence products, up from 38 million currently.

"'Past generations were more accepting that they had a condition, and this was the product that they had to wear,' says Mark Cammarote, Depend's brand director. 'The boomers don't have that attitude. They demand more and expect more.'

"In an effort to modernize its designs, Depend has introduced gender-specific versions and briefs with fashionable prints that imitate regular underwear. Some Depend packaging is labeled 'underwear' and disguised to look like packs of cloth underwear, including transparent windows that show Depend under-garments folded just like regular briefs. The smaller packs hang on hooks instead of being stacked on shelves like diapers.

"'A lot of boomers have been downsizing into new homes, and when you move into new homes, you need to redecorate, which is a very good thing for us,' says Ellen Moreau, vice president of marketing for Sherwin-Williams Co.

"Sherwin-Williams, mindful of boomers' sensitivity about aging and not wanting to limit its customer base to one demographic, has subtly redesigned its 3,400 stores to make them more comfortable to older browsers. They now have more lighting and seating and serve coffee in most locations. Product displays feature less fine print, hence fewer squinting shoppers. The company believes the subtle changes will be appreciated by all age groups, including younger shoppers.

"That's how 63-year-old Lynn Donadio prefers it. 'Companies don't have to go to the highest mountain to shout out that something is made for a baby boomer,' says Ms. Donadio, a retired real-estate agent in Long Valley, NJ. 'They can go to the top of the hill and maybe whisper it.'

"After noticing older shoppers struggling to read cat-litter packaging, Arm & Hammer began sharpening the color contrast for the text and gradually increasing the font size, which is now about 20% bigger than it was five years ago.

W.K.

Meltdown Volume 5 is now available. See the Bookstore on page 5 for details.

Housing *from page 18*

Dear Friends,

As housing costs continue to rise, I know many people are struggling to access to affordable housing. I believe that accessible, affordable and safe housing is a fundamental human right and I continue to take action towards affordable housing in my community and communities across Canada. The National Housing Strategy Bill (C-304) which I put forward in Parliament last year is now in its final stages; the closest Canada has ever been to a National Housing Strategy.

I continue to press the Conservative government to support affordable housing initiatives, including support for affordable housing in their upcoming budget and support for a National Housing Strategy. I recently asked a question in Parliament on this issue (see below), which I wanted to share. Please do feel free to distribute to your networks.

Sincerely,
Libby Davies, MP,
Vancouver East

Excerpts from Hansard (March 3, 2011):

Ms. Libby Davies (Vancouver East, NDP):

Mr. Speaker, soon the dream of buying a house will be out of reach for middle-class Canadians.

In BC, the median price of a home is over $400,000, while the average family income is only $68,000.

Yet the Conservatives' only plan is to cut a billion dollars next year. These cuts also eliminate funds for social housing, aboriginal housing and seniors in need.

Why is this government cutting funds for housing when it is so desperately needed?

Mr. Ed Komarnicki (Parliamentary Secretary to the Minister of Human Resources and Skills Development and to the Minister of Labour, CPC):

Mr. Speaker, we did not cut funding to housing. In fact, under the economic action plan we had $2 billion for housing to ensure that there are houses built both for seniors and for those who are disabled. The New Democratic Party did not support those initiatives. In fact, it should be supporting initiatives like that.

Ms. Libby Davies (Vancouver East, NDP):

Mr. Speaker, maybe the parliamentary secretary should read his own government estimates because the bottom line is the Conservatives are not helping middle-class Canadians.

In Vancouver, the average price of a two-storey home is a million bucks. That is 10% higher than last year. Prices have also jumped close to 10% in Regina, Halifax and St. John's.

The housing crisis is real and it is hitting more and more people. When will this government stop dragging its feet and adopt the New Democrat's plan for a national housing strategy?■