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Washington Catches Up with Antics of Its Key Free-swinging Bank

A bit late in the costly game, but better late than never, the Securities Exchange Commission has charged Goldman Sachs, the mightiest of US banks, that practically designed the financial meltdown to maximize its profits, with fraud.

The news came to us from an Associated Press dispatch carried by *The Toronto Star* (17/4), "Goldman Sachs facing fraud charges" by Marcy Gordon: "Washington – The US government has accused Goldman Sachs & Co. of defrauding investors by failing to disclose conflicts of interest in subprime investments it sold as the housing market was collapsing.

"The Securities and Exchange Commission said in a civil complaint Friday that Goldman failed to disclose that one of its clients helped create – and then bet against – subprime mortgage securities that Goldman sold to other investors.

"'Two European banks that bought the mortgage securities then lost nearly $1 billion (US),' the SEC said. The agency is seeking to recoup profits reaped on the deal.

"Goldman Sachs denied the allegations. In a statement, it called the SEC's allegations 'completely unfounded in law and fact' and said it will contest them.

"The civil complaint comes as legislators seek to crack down on Wall Street practices that helped cause the financial crisis.

"Among proposals Congress is weighing are tougher rules for complex investments like those involved in the alleged Goldman fraud. The Goldman client implicated in the fraud is one of the world's hedge funds, Paulson & Co.

"The SEC said it paid Goldman $15 million in 2007 to put together an investment offering…tied to some mortgage-related securities the hedge fund viewed as likely to decline in value.

"Separately, Paulson took out a form of insurance that allowed it to make a huge profit when those securities became nearly worthless.

"Goldman Sachs shares plummeted after the SEC announcement and closed down $23.57 (US) or just under 13% at $160.70 in a fall-off that also caused shares of other companies to sink. The Dow Jones industrial average finished $125.91 points lower at 11,108.66. The Toronto stock market was also down sharply, off 140.86 points at 12,070.66.

"The civil lawsuit filed by the SEC in Manhattan was the US government's most significant legal action related to the mortgage meltdown that ignited the financial crisis and helped plunge the US and much of the rest of the world into recession. The SEC's enforcement chief said the agency is investigating a broad range of practices related to the crisis.

"The agency also charged a Goldman vice-president, Fabrice Tourre, 31, who it said, was mainly responsible for devising the deal and marketing the securities. The SEC said he is now executive director of Goldman Sachs International in London. Tourre, the SEC said, boasted to a friend that he was able to put such deals together, as the mortgage was unraveling in early 2007.

"In an email to a friend, he described himself as the fabulous Fab standing in the middle of all these complex, highly leveraged, exotic trades he created without necessarily understanding all of the implications of those monstrosities!

"The SEC is seeking unspecified fines and restitution from Goldman Sachs and Tourre.

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Antics *from page 1*

"Asked why the SEC did not also pursue a case against Paulson, enforcement director Robert Khuzami said, 'It was Goldman that made the representations to investors. Paulson did not.'

"Paulson & Co. is run by John Paulson who reaped billions by betting against the mortgage market to heavily influence which mortgage to include in an investment portfolio, while telling other investors that the securities were selected by an independent, objective third party, Khuzami said in a statement."

Our readers will be left, as are we, with the conclusion that Paulson & Co. have purchased immunity on that count by providing evidence against his former colleagues.

However, be that as it may, the SEC deserves our applause for however long it took to seek out the details of Goldman's villainy peddling subprime collateralized debt to clients while making heavy bets through insurance that the investors they counseled for a first good profit, would lose their shirts to them as they bet heavily through insurance to assure that the value of the same shares would collapse.

A key vehicle of the financial villainy that has brought the world economy to its current crisis consists of the use of derivative techniques.

That deal in rates of growth driven to unlimited powers to bring into the prevailing economic theory naively and ever seeking to maximize profits on a "pure and perfect market." In fact, at the very time that the SEC has taken its laudable if belated initiative, the stock markets of New York, Toronto, and other major financial centers, having lost much of their conventional business, are investing heavily in split-second trading facilities made possible by new technologies that pick up trading information from the

Internet trading, seek out interesting patterns and formulate ways of betting against them often without even owning the stocks involved.

What is even worse, is that much of this activity by-passes the established stock markets and in no way requires ownership of the stocks. More than that, the access that these split-second trading centers will for a consideration sell to whoever will pay for the information even the proportion of buy and sell orders before they are even executed, so that they can direct their private gambles from such information culled in advance. That is why those engaging in this latest twist, choose their offices close to more conventional trading center to be able to intercept details in trading patterns, analyze them for useful patterns of other investors' intentions and move to a quick profit from that purloined advance knowledge.

Clearly what has resulted from these high-tech developments requires something far more alert and elaborate than SEC's response to date provides.

Most important is a knowledge of the history. What we learned to make good use of from the years of the Great Depression, we have been systematically deprived of since the mid-1970s.

Canada had nationalized its central bank, the Bank of Canada, that had been established as a private institution in 1935. It did so by buying out some 12,000 shareholders at a good profit. That permitted Canada to finance its part in WW II more inexpensively than either the US or Britain, and then go on to absorb hundreds and hundreds of thousands of mostly penniless immigrants to achieve a rate of prosperity unknown before.

These are days of ever-higher technology. Let us, however, start with technology at its lowest possible level: the rules of logic. You cannot turn around a relationship as though it were a pancake, and assume that the inverse is as valid as the original. If I shoot myself in the head, I fall dead. However, the inversion of that relationship is not necessarily true, If I fall dead, it is no proof that I killed myself. It could have been heart-failure or any of a thousand other causes.

Yet that first rule of logic is being violated every day by our government and in the economic courses being taught at most universities.

If prices rise, it might indeed to be due to real inflation, i.e., there is more demand for goods than can be supplied. But prices can rise for quite different reasons.

I looked into that important relationships in the 1960s and came to the conclusion that though an excess of demand over supply – which is real "inflation" will tend to drive up prices, the converse may have nothing whatsoever to do with a shortage of goods to satisfy demand. It could be due to quite other causes: the rapid urbanization going on in almost every country of the world which requires every costlier infrastructures, the more elaborate technology that calls for more education for most workers.

I first became aware of the vital difference between the first and the latter cases of rising prices, and sent out the manuscript to some 30 economic publications throughout the world. It was purchased and published in the leading journal on economic theory at the time, *La Revue Économique*, and published over 70 pages in its May, 1970, issue. In it I used the term "social lien" to denote higher prices due to structural causes rather than a lack of supply to satisfy market demand. It was reviewed most favorably in at least eight economic publications including twice in the Economic Review of Cambridge University in Britain. In one of these, the author was particularly drawn to my title for the new factor that I recognized to designate the very different rise in prices due to greater costs for infrastructures provided by the government rather than marketed – the social lien.

But today we are back to identifying any increase in the price level with "inflation" and have chosen to ignore the possible structural social factors as responsible. One, of course, is the rapid urbanization in almost every part of the world especially where population has been increasing. These require both far more physical and social infrastructure than used to be the case.

Elsewhere in this issue I deal with the background where the double-entry accountancy had been brought from Muslim lands as early as the 14th century, and made possible the flourishing of the Venetian Republic due in large part to its ability to trade with the Muslim world. It also made possible the financing of the costly long-term investment in search of safer routes to the Far East, and led to the discovery of the Americas. I will not repeat myself. However, what is significant is the resistance of the ruling classes to recognize alternative explanation to "inflation" as a cause of higher price level.

Either it was dismissed as an "externality" to be disregarded, or described as "benign" inflation. And yet it should be evident that the ever greater importance of infrastructures, makes the capital investment by our governments ever more important.

Since I deal with that resistance in some detail elsewhere in this issue, I will not burden my readers with a repetition of it here.

However, if we recapture even the extent of the recognition of structural factors in our price rise, whether due to the growing extent of our government's investment in human capital, or its investment in human capital, we would recognize that such investment is not a mere debt, but a valuable capital investment without which our society could not function.

Add to this a return to the proper use of the Bank of Canada to finance the capital investments of government, and the crisis would be over.

Unfortunately, whenever there is a basic shift in the social group in the saddle, the principles of good government – not excluding its accounting principles – when such actually exist must change. If the personnel who ran the earlier shows remain in positions of power you can bet the government's bottom dollar that the reorganization of the government's accountancy and hence tax policies will be blocked. That is why the Obama government in tethered to a previous high government official is a sign of craven surrender.

We refer our readers to the further contents of this issue to grasp why our government, like that of the US, has some heavy lifting still to be done.

W.K.

Flattening the Nose of Society's Future

The Wall Street Journal (5/4, "Bank of Mom and Dad Shuts Amid White-Collar Struggle" by Mary Pilon recounts a melancholy tale: "Fairfield, Conn. – When Maurice Johnson was laid off a year ago from his six-figure salary as managing director at GE Capital, it wasn't his future that he was worried about.

"It was his children's.

"The family income of the Johnsons is a fifth of what it used to be. And the children are about to feel the pain. Mr. Johnson's two oldest are attending his alma mater, John Hopkins University, at an annual cost of $50,000 apiece. And his youngest daughter, 15 years old, recently began her own college search. Mr. Johnson isn't sure whether he'll be able to help her go to college, or even get the older kids to graduation.

"Mr. Johnson who watched his own father struggle as an engineer without a college degree, was determined to do better for his own children.

"'We saved like crazy from the minute they were born,' he says, 'Then it all fell to pieces.'

"Many families like the Johnsons – upper-middle-class professionals – are suddenly downwardly mobile. For years they used rising family wealth to help foot the bill for college, down-payments for houses and start-up cash for children's careers. But pay cuts, layoffs and decade long flat lining of the stock market mean many families can no longer help their children.

"'It's almost a double whammy,' says Ann Huff Stevens, an economics professor at the University of California at Davis… 'And there's a direct effect because the kids themselves are earning less.'

"In general, highly trained and educated workers are faring better than those without degrees in this labor market. The unemployment rate for college graduated is 5%, compared with 9.7% overall. In general the employment picture is improving, with employers adding 162,000 jobs in March, the biggest gain in three years.

"Even so, the average length of unemployment, 31 weeks, is at its highest level since 1948. There were a total of 2.3 million unemployed college graduates in March 2007, 1.45 million more than in March, 2007, with heave layoffs in white-collar sectors such as finance.

"In the long run, the drop in parental aid could make young adults as more financially resilient generation, like children of the Great Depression. But for now, economists worry that without parental cash, young adults may put off entering the housing market, settling into career paths and having families.

"'Now, no longer do parents have the money to help their children out, but banks will no longer lend to home buyers without income to support repayment,' says Cheryl Russell, a demographer and author of *Americans and their Homes: Demographics of Homeownership*.

"The rate of home ownership among people ages 25 to 29 fell to 37.7% last year, from a peak of 42% in 2006, according to the US Census, Home ownership for those under 25 fell to 23.3% from 26% in 2005, the lowest rate for any age group.

"Indeed, the bank of Mom and Dad is closing at a time when young couples are having trouble borrowing from traditional lenders. Some 22% of young people between the ages of 18 and 34 said they've been turned down for a mortgage, loan or credit in the past year, according to a February survey from Findlaw.com, a legal marketing and information site. That's double the percentage of any other age group in its survey.

"As a result, many young people are now moving home to save on rent. About 21% of young adults say they've either moved in with a friend or relative, or had a friend or relative move in with them because of the economy according to a study from the Pew Research Center."

Moving Home to Save Rent

"In past recessions women would re-enter the work force to help prop up household income, says Katherine Newman a Princeton University sociology professor. But now, more women are working and themselves experiencing layoffs. Before the 1990 recession 57.4% of American women worked, and in the next two years, some 1.1 million more entered the work force. Today, it's the reverse. On the eve of the latest downturn in 2007, 59.3% were working, and 2.6 million more women were unemployed….

"Many parents who were set to retire are now delaying to compensate for battered retirement accounts, leaving even fewer openings for younger workers to fill. There are an additional 500,000 workers over the age of 65 in the work force now compared with 2007.

"'We may have well given up on the idea that our kids will do better than us,' said Diane Hayes, an executive recruiter with Bank of America. Before her December layoff she had bought a 'dream house' for her family, which includes her three teenage daughters with disabilities, two with autism and one with Down syndrome. The 3.600-square-feet house in Orlando, Fla., had a pool in back that could be used for therapy and custom-designed rooms to accommodate five people into adulthood. 'The pool was the only place we could all be together and enjoy ourselves,' Mrs. Hayes says.

"Her husband continues working as a writer, but without his six-figure income, the family was forced to sell the home in November. The Hayes had a $650,000 mortgagee and sold the house for $375,000. Their lender forgave the difference as part of the sale. But the family still has loans outstanding for $50,000.

"They've since moved to a 1,200-square-foot, two-bedroom house nearby that they are renting for $1,200 a month. All three girls share one bedroom with bunk beds.

"The family had to cut the four different specialized summer camps that each child attended, at a cost of $1,600 a week. And they've been forced to eat into a nest egg designed to support the girls as adults.

"'With kids with disabilities, there's no cheap way out,' Mrs. Hayes says.

"Last month, Mrs. Hayes found some temporary work as a recruiter. There are no benefits and her brother has pitched in to help with day care.

"In other families the gaps have become glaring between siblings. Ten years ago, when Patricia Bennett earned more than $100,000 a year selling risk-management software on Wall Street, she paid $30,000 in cash for her now 28-year-old son's freshman year at Morehouse College in Atlanta with little hassle.

"After being laid off in April 2000 now makes $9.75 an hour as a part-time cashier at Williams-Sonoma, in addition to doing volunteer hospice care. In January, she received a foreclosure notice on her home in Monroe, NY. Her youngest son is a sophomore at Lafayette College and will have to drop out next year unless he obtains more scholarships and loans.

"Last year, Lafayette increased financial aid by 8.5% and cut its operating budget by 5% to prevent students from leaving for financial reasons.

"Ms. Bennett's husband, William, was unemployed as a salesman for two years before he started selling cars on commission. Before they became eligible for health insurance with Mr. Martin's new job, the family went without it for months at a time so they could contribute around $1,000 for pocket expenses and bus tickets for their son to visit at home.

"Many parent are less able to help their children after graduation as well….

"Johns Hopkins last year added $2 million in financial aid just to accommodate the surge of additional requests for its 5,000 undergrads. Some 61% of higher education institutions reported a 10% increase or more in financial-aid applications since the previous year, according to the National Association Administrators. More than a million applications were filed during the beginning of 2000 of 2008, with an increase of 16.3% among dependent students.

"'We had folks who never needed aid before and now they have one or two parents unemployed,' says Vincent Amoroso, the school's director of student financial services. And these are folks who used to make $100,000 or $200,000 a year who are coming to see us."

"Parents are reckoning that their savings at best can buy their children a couple of years at college. And weddings are quite out of question. 'They're going to have to elope.'

When Mr. Maurice Johnson – with whom the *WSJ* article began – sums up the experience as 'emasculating.' 'I continue looking for work and crunch numbers of the new household-budget reality. I know, I know – cry me a river and then build a bridge and get over it? Right? Still, there was a set of expectations we established, consciously or not, and they are not being met any more.'"

And yet there was a simple way out of this nightmare that has engulfed the world – simple double-entry accountancy. Evolved in the Muslim world it kept in check the lethal sin of lenders collecting interest when they have not shared the risks of an enterprise they are financing. It was brought back to Europe by the Templar Crusading Order. That was a momentous event that made possible the financing of the daring voyages to the legendary Far East that led both to the discovery of the Americas and the passage around the Cape of Good Hope. It also helped finance the wars that led to the consolidation of national states in Europe where for the most part only tiny feudal principalities had existed. Its principles disclose and hence made possible handling long-term transactions. They are entered twice. On the one side, the amount of the investment whether in cash or credit. That is "amortized" (from the Latin "to the death"), i.e., to its extinction according to preset schedule. On the other side of the ledger the current worth of the investment is entered, it is "depreciated" (from the Latin "de pretio"). Accordingly, at a glance it becomes clear how the investment is faring.

Accrual accountancy was introduced into US federal accounting for physical investments of the federal government in 1996 by President Clinton. This brought the economy under some control after the increasingly deregulated banks had pretty will disposed of the *Glass-Steagall* legislation that forbade commercial banks acquiring interest in the "other financial pillars" – at the time stock brokerages, insurance and mortgage companies. The attentive reader will note that had that legislation not been ignored, the subprime mortgage package unloaded by banks like hot-cross buns could not have occurred.

What remains to be done is to apply double-entry accounting in dealing with the government investments in human capital – which we deal with in another article in this issue. That was recognized as the most important investment a government can make.

William Krehm

For a Proper Treatment of Public Investment in Human Capital

From Price in a Mixed Economy, Our Record of Disaster *by William Krehm, Toronto: Thornwood Publications, 1975.*

Today most of us are likely to deplore the runaway growth of public spending and taxation; nevertheless, in the next breath we are just as likely to advance our own proposals for additional public services. If our sympathies lie right of center these will probably of the para-productive or state sort – more highways, bigger and better army, beating the Russians to Mars. On the other hand, if our bias is to the left, our schemes will involve conservationist or post-productive, services, or will concern the public sector, e.g., public housing. At bottom, however, the much-brandished ideal of a reduced budget is a stick to beat our opponent with rather than a seriously considered goal. Nor can this be put down entirely to the way of politicians with a promise: it runs through the utterances of many economists as well.

At the root of the confusion surrounding public expenditure is the very format of our economic thinking. We are given to taking public spending as something that can be fitted to happenings in the private sector. To a degree, as we have seen, this stems from marginalist theory; in part it results from our having carried over with Keynes' anti-cyclical theory many notions from the world of the 1930s. At the same time, the functions of the public sector were so secondary that Keynes could disport his wit, spiked with his almost total lack of historical sense, dreaming up whimsical projects to achieve a desired volume of state spending.

"For example, ancient Egypt was doubly fortunate, and doubtless owed to this its fabled wealth, in that it possessed *two* activities, namely pyramid-building as well as the search for precious metals, the fruits of which, because they could not serve the needs of man by being consumed, did not stale with abundance. The Middle Ages built cathedrals and sang dirges. Two pyramids, two masses for the dead are twice as good as one, but not so two railways from London to York. Thus, we are so sensible, having schooled ourselves to so close a semblance of prudent financiers, taking careful thought before we added to the 'financial' burdens of posterity by building them houses to live in, that we have no such easy escape from the sufferings of unemployment."

Even when the link between taxation and rising prices is recognized, it is usually accompanied by strictures on the need for "stabilizing or reducing public spending."

The public sector, however, will go right on growing in both absolute and relative terms. We must learn to understand and live with this root phenomenon of our times, and to design policies to temper the disturbing influence.

The timing of government expenditure cannot be decided entirely on the basis of their influence upon price stability, though that, of course, is one consideration. Economists, governments and the public must come to realize that higher price levels due to the social lien are part of the cost of public services, but that such services may still be socially advisable. Decisions such as that will have to be based on three considerations: their desirability, their direct. monetary cost, and their likely effect upon the price level *by way of the social lien.*

Different Time Rates in the Results of Public Investments

Some of the differences in the effects of various types of public expenditures on price are due merely to time lags. Thus, though pre-productive outlays make momentous contributions to the output of the economy, these usually appear only many years after they have been incurred. When that increased production does come through, it will help keep down the specific burden of the social lien on price. Until then such expenditures add to the numerator of the *Taxation/Output* proportion of the price sector.

We have, in short, all the features of a capital investment – except, of course – that it does not take place in the private sector. Yet, because of that, such capital outlay in the public sector is frequently not treated as such. Instead, it is covered out of current revenue. When that happens, it distorts the true economic picture. In the light of the social lien, we can see at once that this must add materially to the incidence of social lien on the price structure. Only the astigmatism of market theory could have obscured such an obvious point.

Sweden was a pioneer in attempting to do something about correcting this distortion of public accounts. Ursula K, Hicks, *Public Finance* (London, 1947) p. 370, writes: "The Swedish Double Budget is an attempt to regard the public sector…as a firm, business, concern. Accordingly, the account is divided into a 'Current Budget' corresponding to the profit and loss account of a firm, and a Capital Budget, which is parallel to the capital account of a firm. The Swedish government was led to adopt this particular method as a direct consequence of their experience in the depression of 1930-2. Having most earnestly attempted to put into operation an anti-slump policy for the public sector, they realized acutely the force of 'fiscal perversity' of public authorities.… It will be seen that imputing a value to public capital assets is an ingenious method of circumventing the chronic deflationary tendency of public authorities, who under the old system financed long-term investment, e.g., schools, roads hospitals, from current revenue, but because no value was put on them in the accounts, insisted on raising taxes in a slump to cover current expenditures."

Note the expression "imputing a value to public capital assets" and the description "ingenious method" for what to anyone without blockages of conventional theory would seem the most obvious common sense.

Provided that we give due recognition to capital formation in the public sector, a budget that concentrates upon para-productive rather than on core-state expenditure will tend to lessen the impact of the social lien on price. The spectacular record of economic growth of the three major powers defeated in World War II can be seen as a homily on this point. The restrictions placed on their rearmament by the victors contributed in significant part to this performance. Thus West German defense spending in 1968 amounted to 3.66% of its GNP compared with 9.05 for the US In Japan the ratio of military spending to total government expenditure was 39.5% in 1940 and 5.5% twenty years later.

In the US open-market operations have become the main lever of monetary policy, thus committing the state to acting on *aggregate demand*; in Japan the virtual absence of an impersonal capital market and of widely held government debt precluded this. Not only did the Bank of Japan step in to create the necessary credit, but it apportioned it selectively. Innovation and export industries were greatly favored, and to them interest rates were kept low. At the same time the general interest rate was maintained high enough to protect the foreign exchange position.

Such growth policy kept broadening the tax base and thus restrained the social-lien ingredient in price. Between 1951 and 1959 the average growth of the GNP was 8.3% compared to 2.8 in the US. In 1968 the growth rate touched an incredible 14.4% Long before this, American economists were urging a drastic stepping up of tax and interest rates to choke off "excess demand." Cannily, the Japanese disregarded this advice.

Kenneth E. Boulding has written of the very contrary policies in the US. There core state functions have gained ominously in bulk and proportion.

The rise of the war industry has been far and away the greatest internal change in American society in the last generation. In the 1930s it was scarcely one per cent of the gross national product. Today it is between 9% and 10%, and if the Vietnam War continues to escalate, it will most certainly go beyond 10%. This exceeds by whole orders of magnitude any other change in the system. The only other proportional change in the last generation which anywhere approaches it is the decline in agriculture. Furthermore, from the point of view of growth and development, the 10% of the GNP absorbed by the war industry greatly understates its impact.

Seymour Melman has estimated that some 60% of the total research and development effort is channeled into the space-military operation. Melman's claim is that the technological development of the civilian sector of the economy has been severely and adversely affected by this absorption of what might be called the the growth resource by the space-military complex (Seymour Melman, *Our Depleted Society,* New York, 1965). It is one of the astonishing facts of our time that there has been no comprehensive economic study of the distribution and impact of technological change in detail over the economy as a whole. The main instances that Melman cites of depletion and relative stagnation in our society (for example, in railroad, shipping, machine-tools, civilian electronics, and in education and health – the list is frighteningly large) are of course, selective, and can be offset to some extent by reports of spectacular technical change in other selected cases, e.g., due to automation.

The increased scale of government expenditure of every sort has blurred the pattern of the trade cycle in our economy. One of the weaknesses of economic theory today flows from its failure to rethink the whole matter of anti-cyclical policy from the perspective of the social lien and other structural changes. There is merit in an anti-cyclical course when our problems are really of cyclical nature. Today, however, our major woes no longer come from the cycle, although our thinking tends to be locked in its idiom. The workings of the social lien are non-cyclical; they have their roots in the mounting demands being made on the public sector. Quite apart from conscious anti-cyclical policy of the state, this gradient and the responses it triggers throughout the economy tend to flatten out the troughs of the cycle and to accentuate its upward thrusts.

Government policy in the US and elsewhere has been trying to impose a cyclical pattern on an economy that has largely outgrown it. Shutting their eyes to the changes of structures, they have attempted to knock down prices where there *is* no excess of demand, and where the price trend can be temporarily reversed, if at all, only by precipitating panic and liquidation.

Some Lessons of Quantum Theory

For a century now economists have drawn generously from the prestige attaching to mathematic techniques in the natural sciences. Thus they can hardly expect to be spared a closer comparison of their methods with those of physicists in our time. I will limit myself to quantum theory because the problems they have mastered do have some suggestive parallels with those that hold economists at bay.

Quantum theory was developed in answer to a series of experiments that rocked the assumptions of Newtonian physics. At the beginning of this century it was becoming clear that electromagnetic energy, which classical theory took to be transmitted in waves, actually behave, in some respects, like discrete corpuscles.

J.J. Thomson's experiments had revealed a dense, positively charged nucleus in the atom with electrons that he pictured as revolving round it in orbit.[1] But by electromagnetic theory an electrically charged particle subjected to the circulations of circular motion should give off radiation, and because of the resulting energy loss, should fall into the nucleus.

Instead of labeling this a "paradox" or "special case" of a more general law, as economists have been known to do under like circumstances, physicists over the next two decades took a deep and searching look at their "general law."

In 1913, Niels Bohr postulated that there were specific, stable orbits in which the electron might move without emitting radiation. Only when it passed from one of these orbits to another did radiation occur. The frequency of such radiation was related to the difference in *e* energy levels by a multiplier *h*. This was a universal constant that Max Planck had found -27 in his heat radiation at the turn of the century 6.55 x 10 erg seconds.[2]

Einstein's work on the photo-electric effect showed that electromagnetic energy was transmitted as well as emitted and absorbed in discrete packets.[3] All this led to the renewal of certain aspects of a long-abandoned theory that once enjoyed a considerable following: the corpuscular theory of light. This had been rejected because Newton's experimental work had seemed to disprove it.

Up to a certain point in the development of light theory there is nothing to choose between the corpuscular and wave theories. In an unconfined and homogenous medium, light and other electromagnetic rays are propagated in a rectilineal way: those normal to the wave-front maintains their direction unchanged. In this respect the corpuscular and wave models are perfectly interchangeable. Important differences crop up only when the light passes through a narrow space, a space of the same order as the wave length of the light. Then diffraction phenomena occur. Instead of a single normal to the wave front, and entire cone of directions results; thus, there is no longer any such a thing as a true trajectory as is required by a corpuscle. Moreover, interference phenomena turn up. The light waves originating from the scattered ray that meet again after covering different paths will be in or out of phase. In one instance they will cancel out. It was such experimental data that led to the internment of the corpuscular theory of light. In the 20th century, however, a series of findings pointed to the corpuscular behavior of what had taken to be simple electromagnetic waves.

In 1925, Louis de Broglie suggested both a wave and a particle could be attributed to the electron. Starting out from Bohr's idea of discrete atomic orbits each with energy levels that were a multiple of *h*, de Broglie suggested a wave length for electrons equal to h/p where *p* is the momentum of the electron.

In 1927, on the heels of the de Broglie

hypothesis came the sensational experiment of C.J. Davisson and L.H. Germer that showed that in fact electrons were diffracted by nickel crystals just as though they were waves of length suggested by de Broglie.[4]

At this point I will let one of the creators of modern quantum theory take over the tale – an epic whose implications for the methodology of thought in any field are hardly less important than its results in physics. From Werner Heisenberg's recently published account, we can capture the depth of the quandary that physicists found themselves in 1926 – and the intellectual courage that showed them way out of it.[5]

We may note in passing that the crucial rethinking of the basic notions of physics started out in "literary" and even philosophical form. It would never have occurred to the creators of modern physics, who had a better notion of what mathematics were really about, to raise objections against "literary" theories that one so often hears from "mathematical economists." Only when some promising conceptual model had been framed did these physicists reach for suitable mathematical tools to articulate it.

In general, scientific progress calls for no more than the absorption and elaboration of new ideas – and this is a call that most scientists are happy to heed.

In 1926, E. Schroedinger, carrying forward de Broglie's idea, had formulated the energy equation that serves as the basis of modern quantum theory. Heisenberg reconstructs the discussions that he had with Schroeding and Bohr shortly after this.

Schroedinger: "Surely you realize that the whole idea of quantum jumps is bound to end in nonsense, You claim first of all that if an atom is in a stationary state, the electron revolves periodically but does not emit light, when, according to Maxwell's theory, it must. Next the electron is said to jump from one orbit to the next and so to emit radiation. Is this jump supposed to be gradual or sudden? If it is gradual the orbital frequency and energy of the electron must change gradually as well. But in that case, how do you explain the persistence of fine spectral lines? On the other hand, if the jump is sudden, Einstein's idea of light quanta will admittedly lead us to the right wave number, but then we must ask ourselves how precisely the electron behaves during the jump. Why does it not emit a continuous spectrum as electromagnetic demands? And what laws govern its motion during the jump? In other words, the whole idea of quantum jump is a sheer fantasy."

Bohr: "What you say is absolutely correct. But it does not prove that there are no quantum jumps. It only proves that we cannot imagine them, that the representational concepts with which we describe events in daily life and experiments in classical physics are inadequate when it comes to describing quantum jumps.

"…We in Copenhagen felt convinced at the end of Schroedinger's visit that we were on the right track, though we realized how difficult it would be to convince even leading physicists that they must abandon all attempts to construct perceptual models of atomic processes/g physicists."

End Notes

1. Anderson, Elmer C. (1971). *Modern Physics & Quantum Mechanics,* p. 73. Philadelphia: Saunders.
2. Anderson, p. 83.
3. Anderson, p. 55.
4. Anderson, p. 122.
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Is The Sky Falling?

The present world wide financial crisis has only just begun. There must be fundamental change in finance, which is the creation of money and its allocation. Our US supply of money is created almost entirely by private banks lending it into existence to be spent buying and selling. The process begins when a private commercial bank makes a loan, it extends credit. The bank literally prints new money by writing an amount into a depositor's account. It is a bookkeeping action, no cash (legal tender), is involved. The bank then "balances" its books by writing a debt into another account – two simultaneous bookkeeping acts not involving cash.

New money now exists as a deposit in a borrowers account. It is usually spent by writing a paper check which is deposited in somebody else's bank account – no cash need be touched. The paper check could be cashed at the issuing bank or another bank converting the new money just created by a bank into Federal Reserve Notes issued by the Fed, the Central Bank of the USA.

There is very little legal tender in circulation but the Fed stands ready to make good on the money private banks create. In return the Fed supervises and sets limits on the creation of new money by private commercial banks. The Fed is the US Central Bank and can create new Federal Reserve Notes by printing them much as private banks create new money by a bookkeeping entry. There is no limit on how much money the Fed can create as there is on private banks creating money. The Fed is a unique invention: it is a private bank with federal government power to create money. The US Treasury is the actual printer of Federal Reserve Notes which the Fed distributes. The Fed is the US Treasury's bank as well as the "bank of all banks" to private commercial banks. Thus the curious situation of the US Treasury borrowing money from its bank, a private bank, to fund the budgets approved by Congress.

The Treasury borrows money from the Fed indirectly by first selling bonds to the public which can then convert bonds into cash by selling them to the Fed. The Treasury prints the US legal tender but does not spend it directly. It must first sell bonds which become the US National Debt and pay interest forever on its own money! It matters not whether the bonds are owned by the public or the Fed, the Treasury must still pay interest on its debt. The US National debt backs the money in commercial use which is nearly all created ("printed") by private banks. As the US economy grows so too the legal tender supporting it must increase. From 1900 to 2009 the US National Debt increased from $2 billion to some $12 trillion at an average growth rate of 8% a year! There were two sudden jumps of about 6x to finance WW I and WW II.

The National Debt plays an important role in the US Economy. It is a source of secure interest income to its owners. It is widely accepted as collateral. It can always be converted into legal tender by selling it to the Fed. During the Clinton Presidency with balanced federal budgets (no deficits) the business community became concerned by a shortage of new Treasury bonds and suggested the Fed should start buying high grade corporation bonds like General Motors. If the US Government spent money without borrowing it there would be severe shock to the world of finance. A National Debt is necessary to support private banking. We are hostage to a traditional bookkeeping system of finance.

R.W. Zimmerer
Colorado, USA

Farewell, Private Medical Practices

For greater efficiency in this soullessly incorporated world, medical practices are becoming incorporated companies. *The New York Times* (26/03, "More Doctors Giving Up Private Clinics" by Gardiner Harris) reports: "Washington: – A quiet revolution is transforming how medical care is delivered in this country, and it has very little to do with the sweeping health care legislation that President Obama just signed into law.

"But it could have a big impact on that law's chances of success.

"Traditionally, American medicine has been largely a cottage industry. Most doctors cared for patients in small, privately owned clinics – sometimes in rooms adjoining their homes.

"But an increasing share of young physicians, burdened by medical school debts and seeking regular hours, are deciding against opening private practices. Instead, they are accepting salaries at hospitals and health systems. And a growing number of older doctors – facing rising costs and fearing that they will not be able to recruit junior partners – are selling their practices and moving into salaried jobs, too.

"As recently as 2005, more than two-thirds of medical practices were physician-owned – a share that had been relatively constant for many years, the Medical Group Management Association says. But within three years, that share dropped below 50%, and analysts say the slide has continued.

"For patients, the transformation in medicine is a mixed blessing is a mixed blessing. Ideally, bigger health organizations can provide better, more coordinated care. But the intimacy of long-standing doctor-patient relationships may be going the way of the house call.

"And for all the vaunted efficiencies of health care organizations, there are signs that the trend toward them is actually is actually a big factor in the rising cost of private health insurance. In much of the country, health systems are known by another name: monopolies.

"With these systems, private insurers often have little negotiating power in setting rates – and the Congressional health care legislation makes little provision for altering this dynamic. If anything, the legislation contains provisions – including efforts to combine payments for certain kinds of medical care – that may further speed the decline of the private-practice doctor and the growth of Big Medicine.

"The trend away from small private practices is driven by growing concern over medical errors and changes in government payments to doctors. But an even bigger push may be coming from electronic health records. The computerized systems are expensive and time-consuming for doctors, and their substantial benefits to patient safety, quality of care and systems efficiency accrue almost entirely to large organizations, not small ones. The economic stimulus plan Congress passed early last year included $20 billion to spur the introduction of electronic health records.

"For older doctors, the changes away from private practice can be wrenching, and they are often puzzled by younger doctors' embrace of salaried positions."

Will the Valuable Personal Bond between Healer and Healed Survive?

"'When I was young, you didn't blink an eye at being on call all the time, going to the hospital, being up all night,' said Dr. Gordon Hughes, chairman of the board of trustees for the Indiana State Medical Association. 'But the young people coming out of training now don't want to do much call and want the risk of buying into a practice, but they still want a good lifestyle and a big salary. You can't have it both ways.' In many ways, patients benefit from higher quality and better coordinated care, as doctors from various fields joining a single organization. In such systems, patient records can pass seamlessly from doctor to specialist to hospital, helping avoid the kind of dangerous slip-ups that cost the lives of an estimated 100,000 people in this country each year.

"And yet, the decline of private practices may put an end to the kind of enduring and intimate relationships between patients and doctors that have long defined medicine. A patient who chooses a doctor in private practice is more likely to see the same doctor during each office visit than a patient who chooses a doctor employed by a health system.

"The changes have increasingly put the public and private provision of health care at odds. In the Medicare and Medicaid program, the government sets most prices related to hospitalization and doctor visits. And so organized health systems are seen as a way to increase quality and lower costs, in part because salaried doctors may order fewer procedures than those in private practice.

"But in the private-insurance setting, where big hospitals and health-care chains have more clout in setting rates, the push for quality may put health insurance out of reach for much of the middle class.

"There are political consequences, too, As doctors move from being employers to employees, their politics often take a leftward turn. This helps explain why the American Medical Association – long opposed to health care reforms – gave at least a tepid endorsement to President Obama's overhaul effort.

"Gordon H. Smith, executive vice president of the Maine Medical Association said that his organization had changed from being a chamber of commerce to being like a union.

"Dr. Michael Mirro of Fort Waynem Ind., is among those caught in the tide. A 61-year-old cardiologist, he began his career like so many of his peers in a small private practice with two other cardiologists. They gradually added doctors until, by last year, they had 22 cardiologists, thinking theirs one of the largest private clinics in Indiana.

"'But in December,' Dr. Mirro said, 'That's expensive.' As insurance rates rose and coverage weakened, patients were forced to pay out of their pockets an increasing portion of Dr. Mirro's bills. When the economy soured, many stopped trying.

"'In the last year, the share of our patients from whom we could not hope to collect any money rose to about 30%,' Dr. Mirro said. Dr. Mirro and his partners had been thinking of selling for years. But they made the decision after the Centers for Medicare and Medicaid Services decided last year to cut reimbursements to cardiologists by 27 to 40 percent, dependent on the type of practice. The Medicare savings in cardiology are to be used to pay more to primary care doctors, widely seen as under great financial strain.

"In the wake of the government decision, cardiologist practices across the country began selling out to health systems or hospitals. Dr. Jack Lewin, chief executive of the American College of Cardiology, estimated that the share of cardiologists working in private practice had dropped by half in the past year.

"'And the remainder of those left are looking to move in that direction,' Dr. Lewin said. 'This is all happening without reform passing.'

"The process feeds on itself because doctors who remain in private practice worry that as their peers sell out, their own options become more limited and the prices for their practices fall.

"Many of Dr. Mirro's patients noticed little differences. Parkview let the doctors remain in the building and allowed them to continue hiring their own staff.

"Mimi Strong, an 89-year-old heart failure patient, said everything was the same when she visited recently.

"But it matters to Dr. Mirro. 'We wouldn't go back,' he said, now that we have seen the value of improved patient care and improved communication with primary care physicians.

"A key reason, Mr. Packnett, president of Parkview and Dr. Mirro's new boss, is that many doctors have decided that the challenges of running their own businesses are simply too great.

"Now, they get to refocus on practicing medicine,' Mr. Packnett said."

In medicine, too, technology and social structures are reshaping norms.

W.K.

Moving Day In World-saving

The New York Times (04/1, "No Short Cuts When Military Moves a War" by Stephen Farrell and Elisabeth Bumiller) was left gasping for superlatives: "Joint Base Balad, Iraq – Early this year a 'fob in a box' – military slang for 80 shipping containers with all the tents, showers and construction materials to set up a remote forward operating base – was put on trucks here for the trip from one war to another.

"Left over and never used in Iraq, the fob rumbled north to Turkey, east through Georgia and Azerbaijan, by ship across the Caspian Sea to Kazakhstan, then south on the old Soviet rail lines of Uzbekistan into Afghanistan. There – the end of a seven-nation, 2,300-mile, two-and-a-half-month odyssey – it was assembled just weeks ago as home for several hundred of the thousands of American forces entering the country.

"In trying to speed 30,000 reinforcements into Afghanistan while reducing American forces in Iraq by 50,000, American commanders are orchestrating one of the largest movements of troops and materiel since WW II. Military officials say this transporting so many people and billions of dollars of equipment, weapons, housing, fuel and food in and out of both countries between now and an August deadline is as critical and difficult as what is occurring on the battlefield.

"Military officials, who called the start of the five-month logistics operation 'March Madness,' say it is like trying to squeeze a basketball through a narrow pipe, particularly the supply route through the Khyber Pass linking Pakistan and Afghanistan.

"So many convoys loaded with American Supplies came under insurgent attack in Pakistan last year that the US military now tags each truck with a GPS device and keeps 24-hour watch by video feed at a military base in the US.

"Last year the Taliban blew up a bridge temporarily suspending the convoys.

"'Hannibal trying to move over the Alps had a tremendous logistics burden, but it was nothing like the complexity we are dealing with now,' said Lt. Gen. William G. Webster, the commander of the US Third Army. He spoke at a military base in the Kuwaiti desert before a vast sandscape upon which were armored trucks that had been driven out of Iraq and were waiting to be junked, sent home or taken to Kabul, Afghanistan.

"The general is not moving elephants, but the scale and intricacy of the operation are staggering. The military says there are 3.1 million pieces of equipment in Iraq, from tanks to coffee makers, two-thirds of which are to leave the country. Of that, about half will go to Afghanistan, where there are already severe strains on the system.

"Overcrowding at Bagram Air Base, the military's main flight hub in Afghanistan, is so severe that beds are at a premium and troops are jammed into tents erected alongside runways.

"Cargo planes, bombers, jet fighters, helicopters and drones are stacked up in the skies, waiting to land.

"All lethal supplies – weapons, armored trucks, eight-wheeled Stryker troop carriers – come in by air to avoid attacks, but everything else goes by sea and land. The standard route from Iraq to Afghanistan is south from Baghdad and down through Kuwait, by ship through the Persian Gulf and the Strait of Hormuz to Karachi, Pakistan, then overland once again. The 'fob in a box' went on an experimental and potentially less expensive journey through Central Asia, opened up last year for supplies going to Afghanistan from Europe and the US as an alternative to the risky trip through Pakistan.

"Both routes circle Iran, by far the most direct way to get from Baghdad to Kabul, but off limits because of the country's hostile relationship with the US. 'These are the cards that we're dealt,' said Gen. Duncan J. McNabb, who oversees all military logistics as the US Transportation Command at Scott Air Force Base, Ill."

The Cards We are Dealt

"Non-lethal supplies flowing into Afghanistan include cement, lumber, blast barriers, septic tanks and rubberized matting, all to expand space at airfields and double, to 40, the number of forward operating bases in a country that has an infrastructure closer to the 14th century than the 21st.

"Gen. David H. Petraeus of the US Central Command in another grand historical parallel, recently called the construction under way 'the largest building boom in Afghanistan since Alexander built Kandahar,' a reference to the conqueror of Afghanistan in the fourth century BC.

"Food shipments alone are enough to feed an army. The Defense Logistics Agency, which provides meals for 415,000 troops, contractors and American civilians each day in both wards, shopped 1.1 million frozen hamburger patties in March alone compared with 663,000 burgers in March 2009. The agency also supplies 27 million gallons of fuel to the forces in Afghanistan this month, compared with 15 million gallons a year ago.

"Commanders say that their chief worry is that the equipment will not arrived in sync with the troops. Their biggest enemy, they say, is the short time between now and August, the deadline set in separate plans for each war.

"Early last year, President Obama and military commanders agreed on as withdrawal plant replace US forces in Iraq to 50,000 by August 31 (97,000 US troops currently are there), with all American forces out by 2011. Late last year, Mr. Obama pushed commanders to speed up the infusion of new troops into Afghanistan – military planners had originally said it would take 18 months – so that 30,000 new troops would get there by August. So far, about 6,000 of those reinforcements have arrived. Once they all get there, there will be close to 100,000 US troops in Afghanistan.

"There is a great sense of urgency in getting in and getting effective,' said Vice Adm. Alan S. Thompson. The director of the Defense Logistics Agency.

"The administration is concerned about showing results quickly. There are obvious strains, he said, but 'I think it's doable.'

"In the meantime, General McNabb, in yet another reference to Alexander the Great, said that when he took over the transportation command in 2008, Defense Secretary Robert M. Gates reminded him of the well-known attributed to the famous conqueror: 'My logisticians are a humorless lot: they known if my campaign fails they are the first ones I will slay.'

"Mr. Gates had his own words of advice. 'Hey, it's a tough job, but better figure it out,' General McNabb said."

Actually, the assorted generals in charge of the operation and ever ready to quote the tactics of the earlier conquerors of Afghanistan even those preceding Alexander the Great, have missed the ultimate lesson that these offer our trundling armies today – their wisdom in fleeing the booby-trap while escape was still possible. That is particularly not smart on their part because it was the Americans who had set that very booby-trap for the Russians when they were lingering on a little too long. The end-result: a major contribution to the collapse of Stalin's empire.

A little research in some of the dust-covered back shelves of university libraries is where President Obama and the his high military staff should be doing their research.

But how about saving the world and the dominant position of the US in it?

The answer to that basic question is by facing squarely and openly what history as a whole can teach us. Never, ever, in highly selective cuts to hide rather than reveal history's crucial truths.

That would include wholly as dearly bought knowledge to be treasured how Canada licked the Great Depression. How we financed our part in World War II more brilliantly than either the US or the UK, and equipped Canada to absorb an immense immigration from war-torn Europe, finance government investments through its own Bank of Canada. This was nationalized in 1938 by buying out 12,000 private shareholders for a good profit after a four-year holding. That stroke of genius, due essentially to a high-school drop-out mayor of Vancouver who nagged the Prime Minister Canada to finance its part in World War II indirectly through its own central bank at a near-zero interest rates.

RENEW TODAY!
(SEE PAGE 2)

Avoid selective cuts of history to promote special interests like the plague. Slicing history as butcheries do cattle and then display special cuts on hooks, will promote special interests but get society into trouble. And that is where we are at the moment.

At the most basic level economic policy of the world today is based on the logical illiteracy of not distinguishing between a proposition and its flipped-over version. An illustration of what this signifies and can only hide basic relationships rather than clarifying. Example: if I hold a loaded pistol to my head and pull the trigger, I fall dead. But from that you cannot claim that the turned around version is true: if I fall dead, it does not mean that I have necessarily killed myself. It could have been heart failure.

By 1960, on the basis of a life-long interest in mathematics and economic theory and practice, I had reached the conclusion that if prices go up due to available demand that is real "inflation." However, that proposition cannot be flipped around like a pastry-cook does a pancake, and remain valid. Prices may go up for very different reasons than a lack of supply to fill demand. It could be due to the rapid urbanization of the world, to the vastly greater necessary investment in physical and social infrastructures. Nobody moving from a town of 20,000 to New York City is fool enough to expect that his living costs will stay unchanged. How then is it possible to expect that it can or will when humanity itself is making just such a move? When I went to school anyone who graduated from primary school was considered educated. Today, increasingly, a doctorate is required for many positions and posts. In the 1960s, I concluded that one must distinguish between the marketed portion of production and the portion that reflects the increasing role of government investments in both physical infrastructures and in human capital that is not determined by the market.

This non-market-determined factor in our price level I decided to call the *social lien.*

Another of the President's Political Gambles

Once you sign off the use of history, centuries of economic debates, and costly research on the importance of human capital that emerged from the Second World Wall, political gambles not alike the one on banks and their astronomical profits takes over.

Thus the same *New York Times* issue already quoted on hedge fund profits, carries an article on deep-water drilling, "Risk Is Clear In Drilling; Payoff Isn't" by John M. Broder and Clifford Kraus: "Washington – In proposing a major expansion of offshore oil and gas developments, President Obama set out to fashion a carefully balanced plan that would attract bipartisan aid for climate and energy legislation while increasing production of domestic oil.

"It is not clear that the plan announced Wednesday will manage to achieve that.

"While the oil industry, business groups, and some Republicans offered muted support for the proposal, most environmental groups denounced it. And the senators whose support Mr. Obama is courting for highly contentious climate and energy legislation to be introduced in the coming weeks gave decidedly mixed reactions. For every senator who praised it as at least a partial answer to the nation's energy needs, another raised alarms about befouled beaches and continued dependence on fossil fuels.

"Even Mr. Obama sounded somewhat torn in announcing a drilling plan that would open large tracts of the Atlantic coast, the eastern Gulf of Mexico and Arctic waters off Alaska to oil exploration and eventual drilling.

"'This is not a decision I've made lightly,' he said as he stood at Andrew's Air Force in Maryland on Wednesday near an Air Force fighter converted to burn renewable biofuels.

"'There will be those who strongly disagree with this decision, including those who say we should not open new areas to drilling,' Mr. Obama said. But what I want to emphasize is that this announcement is part of a broader strategy that will move us from an economy that runs on fossil fuels and foreign oil to one that relies more on homegrown fuels and clean energy.

"Mr. Obama's plan, delicately pieced together by the Interior Department with White House input, carved out a large coastal buffer zone in the eastern gulf to mollify Senator Bill Nelson, Democrat of Florida, an opponent of drilling there. It also included continued access to the oil fields off the North slope of Alaska to win the support of Alaska Senator Mark Begich, a Democrat and Lisa Murkowski, a Republican.

"Most New England officials, including Maine's two Republican Senators, Olympia Snowe and Susan Collins, are considered swing votes on energy legislation. They strongly oppose offshore drilling, and North Atlantic was exempted. And because there is almost no support for drilling and there is little recoverable oil off the Pacific Coast, the whole area was declared off limits, said Ken Salazar, the interior secretary.

"But by opening the mid-Atlantic region from Delaware south to Central Florida, for oil exploration, Mr. Obama angered New Jersey's two Democratic senators, Frank Lautenberg and Robert Menendez, who have been generally supportive of Mr. Obama's push for climate legislation.

"Mr. Menendez issued a strong statement Wednesday, saying, 'I have let the administration know that if they do not protect New Jersey from the effects of coastal drilling in the climate change bill, then my vote is in question.'

"Mr. Begich of Alaska is among those undecided on climate legislation, waiting to see what would be done on offshore oil drilling, among other issues. He supports exploration in the Arctic under appropriate safeguards. He said the Obama plan was helpful, but not enough to win his support….

"If the political capital to be gained from the proposal seemed uncertain, so did the potential for vast supplies to reduce dependence on foreign imports.

"Oil company executives and geologists expressed guarded enthusiasm for the president's initiative. But experts said it was impossible to know how much oil and gas the new tracts contain, in part because some existing data is based on 30-year-old studies.

"Even at the high end of government estimates, the new production, if and when it occurs, will displace only a small fraction of the oil and gas the country now imports and consumes….

"The American Petroleum Institute, using the high end of government estimates, hopes that the opening of the areas on the Atlantic and eastern gulf alone would make available more than four billion barrels of oil and more than 30 trillion cubic feet of

Human Relationships are Reshaping in Response to New Social Technologies

The Wall Street Journal (31/10/09, "The New Art of Alimony" by Jennifer Levitz) brings to the fore a more complicated and ever-evolving state of residual marital responsibilities than might have been originally foreseen: "Paul and Theresa Taylor were married for 17 years. He was an engineer for Boston's public-works department, while she worked in accounting at a publishing company. They had three children, a weekend cottage on the bay and a house in the suburbs, on a leafy street called Cranberry Lane. In 1992, when they got divorced, the split was amicable. She got the family home. Both agreed 'to waive any right to past, present or future alimony.'

"But recently, more than two decades after the divorce, Ms. Taylor, 64, told a Massachusetts judge that she had no job, retirement savings or health insurance. Earlier this year, the judge ordered Mr. Taylor, now 68 and remarried, to pay $400 per week to support his ex-wife."

Clearly this reflects a whole, new and hardly foreseeable shifting background not only of our management or mismanagement of the economy, and the basic power of changing technologies to effect human relationships that calls shrilly for much basic rethinking not only of the relationship between society and its new technologies, but on the impact of the impact of economic mismanagement on basic human relationships.

There is no simple way of separating the effects of economic policy mismanagement from the most basic social human relationships.

However, let us, return to the Taylor experience: "'This is insane,' Mr. Taylor says, adding that the payments cut his after-tax pension by more than one-third. 'Someone can just com back 25 years later and say, 'My life just went down the toilet, and you're doing good – so now I want some of your money.'

"The nature of marriage has changed dramatically over the decades. Women now make up almost half of the American work force. But alimony, a concept enshrined in ancient law, has remained remarkably constant. Now, the idea that a husband should continue to support his wife forever, even after the demise of their marriage – long a bedrock divorce law – is being called into question. Pressures are mounting to change a practice that some see as outdated and unfair."

However, such basic changes have to be placed in the context of the new and unnecessary incoherence of economic policies, that ignore the new basic social strains from the militant aggressions of world bankers. The result is a cloudburst of unforeseen inconsistencies that must add to our blundering policy improvisations, unless the very apparatus of what was once coherent social policies and the principles on which they were founded are again cleared.

With restrictions on speculative banking that had been put in place in the wake of the great Depression of the 1930s, the extent of the collapse of individual livelihoods today would have been substantially restricted. And the courts would not have to improvise responsibilities arising from long-outlived relationships decades after they had been considered outlived. That is being changed and the revival of long seemingly outlived relationships are being revived, more because of the failure of society's ability to handle its affairs, than any convincing revival of responsibilities of long outlived relationships. At the very time that women are gaining for themselves greater economic independence, they and their former spouses are made responsible for what essentially is the breakdown in society's abilities to handle its affairs.

It is impossible to adjust to society's ever greater technological changes without keeping track of what had already been learned about managing our social responses to technological change. Throwing society's responses back to hastily improvised emergency responses is bound to create major inconsistencies and further social strains.

W.K.

natural gas – enough to fuel more than 2.4 million cars and heat eight million households for 60 years….

"But T. Boone Pickens, the billionaire Texas oilman who has been a practicing geologist for 50 years said, 'I've seen some optimistic reserve estimates for offshore US and I am not sure they will hold up.'

"In the last 15 years, the industry has made swift strides in new methods to acquire and analyze seismic data in waters that were impossible to reach when geologists last studied the areas. Current seismic and drilling information cover only a tiny fraction of the area that would be opened for drilling, especially along the Atlantic coast. 'We don't have a good understanding of what the true potential is,' said Bobby Ryan, Chevron's vice president for global exploration.…"

W.K.

UPS with More Wisdom than US Government Treats Driver Training as a Key Capital Investment

The Wall Street Journal (4/06, "UPS Thinks Outside the Box on Driver Training" by Jennifer Lefitz) has an important message that, were it heeded, might help President Obama really save the world.

"Landover, MD – Vexed that 30% of driver candidates flunk its traditional training, United Parcel Services Inc. is moving beyond the classroom to ready its rookies for the road.

"In the place of books and lectures are videogames, a contraption that stimulates walking on ice and an obstacle course around an artificial village.

"Based on the results so far, the world's largest package delivery company is convinced that 20-somethings – the bulk of UPS driver recruits – respond best to high-tech instruction and a chance to hone skills.

"Driver training is crucial for Atlanta-based UPS, which employs 99,000 US drivers and says it will need to hire 25,000 over the next five years to replace retiring Baby Boomers.

"Candidates vying for a driver's job, which pays an average of $74,000 annually, now spend one week at Integrad, an 11,500-square-foot, low-slung brick UPS training center 10 miles outside of Washington, DC. There they move from one station to another practicing the company's '340 methods' prescribed by UPS industrial engineers to save seconds and improve safety in every task from lifting and loading boxes to selecting a package from a shelf in the truck.

"They play a video game that places them in the driver's seat and has them identify obstacles. They progress from computer simulations to 'Clarksville,' a village of miniature houses and faux businesses inside a warehouse. Where they drive a real truck and must successfully execute five deliveries in 19 minutes.

"So far, the new methods, designed by UPS and researchers from Virginia Tech, are proving successful, UPS says. Of the 1,629 trainees who have completed Integrad since it began as an experiment in 2007, only 10% have failed the training program, which takes a total of six weeks overall and includes 30 days driving a truck in the real world. UPS is known for promoting within, and many driver candidates began as UPS package handlers or other employees.

"By getting out of the traditional classroom and using technology and hands-on learning, 'we've enhanced the probability of success of these new drivers,' says Allen Hill, UPS's senior vice president of human resources. A second Integrad will open in the Chicago area in the summer, and the training methods will eventually go company-wide, he says.

"As Nick Byrnes, a 23-year-old with a buzz-cut and black Ray-ban sunglasses, drove through Clarksville, a UPS instructor tossed a football in his path. Mr. Byrnes hit the brakes. But then when he hopped out to deliver a package, instructor Mike Keys sneaked an orange traffic cone in front of the truck.

"Mr. Byrnes hopped back in and started up. 'Stop! Stop!', yelled Mr. Keys. He picked up the cone. 'This is a kid who was playing football around your vehicle.' The lesson stuck: at the next stop, he checked for cones.

"UPS isn't the only company using new training tools. Food company Sodexo Inc. has recruited chefs through Second Life virtual job fairs and Cisco Systems has taught programming techniques through videograms. Fedex Corp. Says it, too, has moved towards more hands-on learning, although it adds the change wasn't prompted by a high failure rate among trainees.

"On a recent day, UPS students at Integrad moved through 'kinetic learning' modules. In one corner, they practiced loading and unloading packages from a UPS truck with clear sides, timed by instructors.

"UPS allows 15.5 seconds to park a truck and retrieve one package from the cargo, which is arranged in order of delivery.

"Over at the 'slip and fall' machine, an instructor greased a tiled runway in preparation for a regular drill: students must carry a 10-pound box the down the surface – while wearing shoes with no real tread. Luckily they wore a safety harness, as most flail around like drunken ice skaters until they are taught to stand straight and take slow baby steps.

"In another corner, Rich Gossman, at 37 the oldest in the group, was slumped at a video-game that tests recruits' ability to find sales leads for UPS, something today's drivers are expected to do. The game puts his avatar in rooms where he has to identify competitors' packages.

"Mr. Gossman, a married father, works overnight at a UPS warehouse, unloading packages for $12.50 an hour.

"'This has been the most stressful week of my life,' he said But as he played the game Mr. Gossman got a pat on the back from UPS supervisor, Peggy Emmart. 'I saw you identify that competitor package,' she said.

"'I saw that FedEx package and went, click, let's get 'em,' said Mr. Gossman.

"Trainees must pay attention to detail and appearance. Students whose brown uniforms aren't properly ironed lose points for their teams, as does any trainee caught without his keys. UPS requires drivers to wear keys on their ring fingers to avoid wasting time searching for them."

In this effort there is a lesson for our governments. If UPS spends and recoups the capital invested in training its drivers, it is much more than mere spending.

Surely UPS could invite President Obama and key Washington policy-makers to sit in on the UPS effort, and consult UPS on how they, too, can carry such investments educating and looking after the well-being of citizens as an investment rather than just an inflationary expense.

William Krehm

The Intertwining of Humans with Their Technology

That is a very embracing subject, and properly handled would lead us to some very important conclusions. *The New York Times* (29/03, "North Koreans Use Cellphones to Bare Secrets" by Choe Sang-Hun) reports: "Seoul, South Korea – North Korea, one of the world's most impenetrable nations, is facing a new threat: networks of its own citizens feeding information about life there to South Korea and its Western allies.

"The networks are the creation of a handful of North Korean defectors and South Korean human rights activists using cell phones to pierce North Korea's near-total news blackout. To build the networkers, recruiters slip into China to woo the few North Koreans allowed to travel there, provide cell phones to smuggle across the border, then post informers' phoned and texted reports on Web sites.

"Recruiters spend months coaxing potential informants, all the while evading agents from the North and the Chinese police bent on stopping their work. Exposure could lead to imprisonment – or death.

"The result has been a news free-for-all, a jumble of sometimes confirmed but often contradictory reports…. The websites were the first to report the outrage of North Koreans over a drastic currency devaluation late last year. Other articles have been more prosaic, covering topics like whether North Koreans keep pets and their complaints about the price of rice.

"But the fact that such news is leaking out at all is something of a revolution for a brutally efficient gulag state….

"'In an information vacuum like North Korea, any tidbit – even rumor – is helpful,' said Nicholas Eberstadt, a scholar at the American Enterprise Institute who has chronicled the country's woes for decades.

"'You weren't able to get such information,' he said of reports on the currency crisis. 'It was fascinating to see the pushback from the lower levels' of North Korean society.'

"The steady leak of 'heard-in Korea' news is factoring into swirling debates about the possibility of a government collapse, something American presidents since Harry S. Truman have wished for.

"The news spirited out is not likely to answer the questions about the North's nuclear program or leadership succession. There is no evidence so far that these sources have any access, or particular insight, into the North Korean leadership or military elite.

"The informers themselves remain of limited use to American and South Korean spymasters, in part because the North has no broad cell phone network, making it easier for the authorities to eavesdrop on calls and harder for handlers to direct operatives in real time…."

North Korea's Ambiguous Information Links with South Korea

"Still, the Web sites appear to have inflicted damage. North Korea's spy agencies, which almost never admit to weaknesses, recently warned that South Korea's 'plot to overthrow our system, employing all manners and means of spying, is spreading deeply inland.' They vowed retaliation, especially against 'human trash' an apparent reference to the North Koreans who betrayed their leaders' code of silence out of principle or for pay.

"The informers' networks are part of broader changes in intelligence gathering rooted in the North's weaknesses. The first breakthrough came in the 1990s, when famine stoked by a break-down in the socialist rationing system drove defectors out of the country and into the arms of South Korean and American intelligence. The famine also led North Korea to allow traders to cross into China to bring home food, leaving them vulnerable to foreign agents, the news media and most recently, the defectors and activists intent on forcing change in the North.

"The first of their Web sites opened five years ago; there are now five. At least three of the sites receive some financing from the United States Congress through the National Endowment for Democracy.

"The Web reports have been eye-opening for South Koreans, providing a rare glimpse of the Hermit Kingdom untainted by their government's biases, whether the anti-Communists who present the North in the worst light or liberals who gloss over bad news for fear of jeopardizing chances of detente.

"Even in the days of the Iron Curtain, North Korea was one of the world's most closed societies. There were Western embassies where spies could pose as diplomats. And with citizens deputized to watch one another for suspicious activities, stranger could not escape notice for long.

"Of the 8,400 agents South Korea sent over the border between the end of the Korean war in 1953 and 1994, just 2,200, or about 1 in 4, made it home. Some defected, according to former agents, but many were killed.

"As recently as 2008, when the North's leader, Kim Jong-il, reportedly had a stroke, it was long-distance sleuthing rather than on-the-ground spying that broke the news. South Korean agents intercepted a government e-mail message containing his brain scans, according to the monthly *Chosun* magazine.

"The Web sites have not uncovered news that delicate, although the implications of their reports on the currency crisis, later confirmed by South Korean government officials, were far-reaching. They said that the North was requiring people to exchange old banknotes for new ones at a rate of 100 to 1, as well as limiting the amount of old money that could swapped. That suggested that officials in the North were cracking down on the few glimmers of private enterprise that they had tolerated, dashing hopes that the country might follow China's lead of at least opening its economy anytime soon.

"Still, the Web sites are plagued with challenges. The cell phones work on China's cellular networks, so they operate only within several miles of the Chinese border. Because North Koreans cannot travel freely in their country, the Web sites are forced to depend mostly on people living near China.

"Beyond that, Ha Tae-Keung, who runs of the Web sites, says that some sources are prone to exaggerate, possibly in the hopes of earning the bonuses he offers for scoops. He and other Web site operators, meanwhile, are vulnerable to 'information brokers' in the North who sell fake news.

"But Mr. Ha said that the quality of the information was improving as Web sites hired more defectors who left government jobs and remained in touch with former colleagues, often by cell phone. 'These officials provide news because they feel uncertain about the future of their regime and want to have a link with the outside world,' he said, 'or because of their friendship with the defectors working for us or because of money.'

"While such contacts would have been unimaginable 20 years ago, one thing has not changed: the danger."

"Mr. Mun of the Daily NK Web site says his informers engage in a constant game of cat and mouse with the authorities. The

North Korean government can monitor cell phone calls, but tracing them is harder, so the police rove the countryside in jeeps equipped with tracking devices.

"The informants call him once a week; they never give their names and they hide the phones far from their homes.

"Despite these precautions, they are sometimes caught. Early this month, Mr. Ha's Web site reported that an arms factory worker was found with a cell phone and confessed to feeding information to South Korea. A source said the informant was later executed by firing squad, in public."

Comparing Our Record with the North Koreans Utilizing Information Technology

Let us leave North Korea and its web sites hugging the Chinese borders and compare the use that the North Koreans of whatever loyalty make of the primitive string of Web sites with our own in North America. How do we compare with the North Koreans in taking advantage of our technological political and economic resources?

There is certainly no reason for holding our heads high. Despite the magnificent, one would almost say the excessively equipped internet that can be reached by a variety of competing techniques across the globe, is our record of keeping track of what we learned generations ago any better than that of the wretched folk in North Korea?

Hardly. It would be a tough and humiliating task explaining to a North Korean our record in this respect.

The heavy lifting was in fact done throughout much of the world in the decade of the 1930s 80 years ago. Just about everything needed to have prevented and to leave behind the ever-deepening current mess was achieved in the 1930s. At the time the financial speculation of our banks and brokerages had been allowed to take over and for a decade our factories stood idle, while willing workers suffered the ultimate humiliation of not being able to support their families. But economists, and even governments and ordinary citizens wracked their brains to explain the paradox of a world equipped technically to make possible well-nurtured lives had run off the rails to become a ditched wreckage.

And no country ran up a better record than Canada. Canada – along with even more agrarian New Zealand – were the first countries to bring in central banks owned by the central government, and thus able to finance government capital expenditures without borrowing from private banks. That was a timely enough move since the gambling banks had become unable to face their depositors. So dire necessity in collaboration with learned economists in universities such as Maynard Keynes at Cambridge concluded that banks who could no longer balance their books could hardly balance the economy. In those troubled, hungry times, the freedom to conduct such searching in parliament, in our universities and press was ultimate test of what was a democracy and what was not. It was, too, in certain countries such as Germany and Italy a time when military solutions were sought.

Today the distinction between the two camps – those who seek a peaceful restructuring of our society and those who choose a high-tech military solution is increasingly blurred. It is enough to note that the relative economic strength of contemporary Germany was helped by the peace terms at the end of the last world war that prohibited Germany from ever seriously rearming. By far the ultimate high-spender on armament today is the United States. It is also the source of much of the deregulated speculative banking that brought on the current crisis.

And yet it was also the US that led to the most important lesson to come out of the Second World War. As soon as it ended, Washington dispatched hundreds of economists to Germany and Japan to study the war damage to predict how long it would take for those two great trading nations to regain that position. Some 18 years later one of these, Theodore Schultz of the University of Chicago, concluded that he and his colleagues had come up with the wrong answer because they had concentrated on the physical destruction and ignored that the skilled work force had come through struggle largely intact. From that oversight, he concluded that human capital is the most productive is the most productive investment a government can make. For that Schultz was decorated and widely feted. But before long he was completely forgotten. Apart from COMER, nobody today utters his name. Yet his great conclusion is all that is needed to resolve our ever deepening crisis.

The talk in official circles throughout the world is stubbornly about "inflation" and its perils. But here there is not a mistake, but a gross blockage of our reasoning. You cannot flap a relationship around as a pastry-cook does a pancake and expect it to remain valid. Example: if I shoot myself in the head, I will fall dead. Turn that proposition around. If I fall dead, that does not prove that I have suicided. It could have been from heart-failure or any of many other causes. Nevertheless that elemental principle of logic is ignored by official economists and practically all academic economists who have not been given forced retirement.

This results in such arrant nonsense that it can only have arisen in a hasty, crucial division of the spoils. Nobody moving from a town of 20 thousand to New York expects that his cost of living will remain unchanged. How, then, can economists and statesmen expect that when society is making a similar move. The number of cities of five million throughout the world today are almost beyond numbering. Toronto in a half century has changed from a city of some 500,000 to five million. A city of 5 million requires a subway for transportation, police, hospitals, cultural institutions to function.

It is highly unusual, moreover, especially when the matter has been specifically brought to their attention, for any literate person, let alone academics to go on using the same expression for the exact opposite relationships, above all when that bit of logical sabotage has been brought to their attention.

It happens as well that in its review of my 70-page essay in *La Revue Économique* of Paris (May, 1970), the Cambridge economic review in Britain singled out the terminology "social lien" for praise. But that is precisely what forces on the policy front have chosen to suppress in the omnibus term "inflation." That omnibus, however, has a flat tire, that, however, will contribute rather than postpone the arrival of the next world war.

It is not the least threatening aspect of the stranglehold that our universities which do have departments dealing with every major social and physical discipline have yielded to the pressure to cleanse not only the economics department but isolate it from all other faculties. For without the criticism of other disciplines there is no way in which the barbaric subordination of the economic faculties can be subjected to a serious appraisal. It is high time that the universities introduced their economics faculties to the historical philosophical, sociological and all other faculties to at least clear up the grosser gaffs that have taken over there.

If we do not, we of the advanced countries will continue in a position where we can only envy the difficulties of the North Koreans in tapping the tidings of what may be afoot in their own homeland from fragmentary reports from the Chinese internet.

William Krehm

As Though Stabbed in the Heart with an Icicle

That emerged from *The Toronto Star's* "The Big Freeze" headline on the Ontario government's budget by Robert Benzie (26/03). The most grisly part of the performance was that the provincial government in its pronouncement and the labor organizations and leftish political parties have been so thoroughly brain-washed that even they couldn't muster a reference to the social rights and obligations still on our law books.

Essentially the provincial government was caught between the Federal government that toddles to follow official line imposed by speculative banking in the US. The municipalities have been left to face the brunt of the stricken social services resulting from the Ottawa's sell-out. No voice in our legislatures chose to endanger their supposed political sophistication by referring to anything as dated as our ownership of the Bank of Canada and the lack of anything that could be mistaken for serious federal accountancy.

Caught between the Federal government, directly responsible for keeping in the good graces of those in power in Washington, and the municipalities, which are left to deal with the broken lives of the jobless, the provincial governments literally tried speaking out of both sides of their mouths with mediocre success.

Returning to *The Toronto Star:* "One million public service workers will have their wages frozen as the Ontario government digs itself out of a record deficit, Finance Minister Dwight Duncan says.

"Duncan announced more spending on social programs in Thursday's budget, but warned that the civil servants who deliver them cannot expect pay raises.

"'All of us who are paid with public tax dollars have a role to play here. We're all in this together,' Duncan told the Legislature.

"The surprise move dominated a budget that includes $310 million for new spaces in universities and colleges this September as part of a rush to boost the rate of Ontarians with post-secondary education to 70% from 62%.

"While existing union contracts for nurses, teachers, and bureaucrats will be honored, future bargaining will be constrained by an edict from Queen's Park.

"Duncan announced earlier this week that the deficit is $21.3 billion and is projected to fall next year to $19.7 billion.

"But with shortfall forecast until 2017-18, Duncan said Liberals had little choice but to move on public sector wages.

"Ontario's debt – already at $134.5 billion – will balloon by $110.2 billion over the next eight years.

"Canadian Union of Public Employees Ontario president Fred Hahn warned that would 'lay all the groundwork for labor unrest in the broader public sector.'

"'This budget is kind of like a wolf in sheep's clothing,' said Hahn.

"Premier Dalton McGuinty's de factor wage freeze – which could last beyond 2014 – affects 1.06 million Ontarians in the 'broader public sector,' or about 16% of the workforce.

"That includes 710,000 unionized and 350,000 managers and other non-bargaining workers. Some workers, though, may be able to receive hikes within existing salary categories.

"Looming legislation will override existing employment agreements for non-union employees – and unionized workers will be expected to follow suit when their deals expire. They are being urged to sign two-year contracts next time around.

"Noting half of government spending goes towards payroll, Duncan emphasized he could have been more heavy-handed.

"'We will not propose mandatory days off,' the treasurer said, rejecting so-called 'Dalton Days' involving unpaid furloughs. 'That is why we will honor existing agreements.'

"The move effects more than 750 different contracts that expire as early as next Wednesday. And include those with the Ontario Public Service Employees (OPSEU) ending December 31, 2012, and teachers as of August 31, 2012.

"The Liberals dodge a political headache, as most of the major labor accords – such as one with Ontario doctors – wrap up after October 2011 provincial election.

"However, a new arrangement must be reached with Ontario nurses by March 31, 2011 and agreements with many employees at universities and colleges end of this year and next.

"Once those deals expire, Duncan warned of 'significant steps to control expenses' on wages which would save $750 million by next year. 'We will not fund any increases in overall compensation as those agreements get renegotiated. That's an important point to bear in mind,' he says, signalling restraint to universities, school boards, and hospitals as they enter labor talks.

"'We expect our transfer partners to bargain responsibly so that, together, we can do our part to protect schools and hospitals.'

"Progressive Conservative Leader Tim Hudak, who has been pushing for an even more sweeping wage freeze and the reopening of union contracts, said the Liberals did not go far enough.

"'It's a bit like the captain of the Titanic saying we just have to worry about the tip of the iceberg,' said Hudak, insisting McGuinty 'lacks the backbone' to make tough choices."

However, there are far better reasons for comparing the identification of both the complete readiness of both the Obama government and their Conservative critics to identify any price rise today with "inflation" to the captain of the Titanic scanning the heavens rather than the waters for icebergs. Had our governments not surrendered control of money and credit creation to the banks, and not buried just about everything relevant to the proper use of our central bank during the Great Depression, in the financing of World War II and the first three decades of the reconstruction, our governments would not be so confused today about what the banks must never be allowed to do. For example, to acquire interests in the non-banking financial pillars such as stock brokerages, insurance and mortgage companies (as set forth in the *Glass-Steagall* law under Roosevelt in 1935). Had that law, still on the books but wholly disregarded until its repeal in the late 1999 been kept alive, the present crisis could never have arisen.

The resulting devastation of the ability of all major political players to deal with the deepening economic crisis can be summed up as follows:

(a) Bring to the fore all the vast suppressed literature on money and its creation. In this the some of the greatest pioneers were American (beginning with Benjamin Franklin), before and during the American Revolution. We must turn to the British, who learned that anyone with a record of being a conscientious debtor will achieve a far better credit rating than someone who has no record at all as a borrower. That was the secret of Great Britain that more than all else enabled her to defeat Napoleon, and remain the world financial center right until World War I, thriving on her "consols" that never fell due.

(b) Bring to light again what was passingly as the most valuable lesson to have come out of World War II – the recognition of human capital as the most productive investment a government can make. This conclusion emerged from Washington after WW II sending hundreds of American economists to Germany and Japan to study the war damage and predict how long it would take these powers to become powerful traders once again.

Sixteen years later, one of these economists, Theodore Schultz of Chicago, published a book saying it was remarkable how wrong he and his colleagues had been in their forecasts. And this he attributed to their having concentrated on the physical destruction suffered, but overlooking the key importance of their human capital that came through the war essentially intact. From this he concluded that investment in human capital was the most profitable investment a government could make. For a few years Schultz was celebrated, decorated, and then utterly forgotten.

It also helped the recovery of Japan and Germany that the peace treaties with them severely limited what their government could spend on rearmament. Obviously that would be highly relevant to reviving the economies of our over-armed victors of World War II.

I had reached conclusions that reinforced the conclusions of Schultz and were picked up by a remarkable group of French economists and historians. From my studies and business experience in a world where urbanization and technological revolutions were taking over, I had concluded that prices may go up for at least one of two very different causes. It could be because available supply of a given commodity had been outstripped by its market demand. That was real, "no kidding" inflation.

Propositions, however, cannot be flapped over like pancakes. If I shoot myself in the head, I fall dead. But from that one cannot conclude that if I fall dead, I have suicided. It could have been heart-failure or many other causes. Confusing the two cannot help us understand our economy. Very early after the war, from my studies in economic history and my observations of the world of business both as a journalist and a modest practitioner, I reached a conclusion that I judged crucial – in an age of constantly accelerating technological renewal, rapid urbanization, population explosion, prices may go up for reasons having nothing whatsoever to do with a lack of available supply over demand. Nobody contemplating moving from a town of, say, 20,000 to New York City is fool enough to expect his living costs to stay the same. How then can we expect that when humanity is making just that sort of move?

One of the Many Useful Concepts

One of the many useful concepts to come out of the fertile brain of the late French economist François Perroux was that of the "dominant revenue" that explains much about the blind alley into which President Obama and other word leaders have led the world. He held that in every period those in the economic saddle single out the revenue of their class as an adequate index of the welfare of society as a whole. And when that reigning economic class gives way to another, the dominant revenue changes.

Thus the land-owning class in Britain during and after the Napoleonic wars pushed up ground rents in the countryside and the large cities so that food prices soared high. But then in the 1830s James Watt's steam-driven machines replaced human muscle as power-source in Britain's factories. And with that the dominant revenue shifted to the factory owners who sought to make the most of their monopoly of steam power. Their dominant revenue required free trade to reduce survival wages in the factories even more drastically. And to counter the protectionism of the American and German industrialists who clamored for high tariffs against the British monopoly of steam power of the day.

But the most dramatic instance of the "dominant revenue" concept of Perroux occurred around 1870, when the very concept of economic value changed drastically. Up to then most of the great economists in both Britain and Europe adhered to some version of the "average labour" needed to explain the value of products.

So long as the British worker was illiterate he could not grasp what economists were discussing. But by the mid-1800s workers had learned how to read – first through philanthropic and eventually due to the spread of public schools. Moreover, barricades were thrown up in the late 1840s throughout much Europe, and the defeated socialist leaders from Northern Europe and anarchists from southern Europe – including Karl Marx and his family – started pouring into England. Before long Marx's tragic gifted daughter Eleanor and others of his family were organizing open air meetings in Hyde Park almost within earshot of Buckingham Palace. The revolutionary implications of any theory attributing the value of commodities to the amount of labor, average or whatever, had thus become a dangerous risk.

Hence around 1870 quite independently in several European capitals marginal price theory was formulated that deduced market value of goods not from the amount of labor involved in their production but by the degree of their buyers' enjoyment in consuming them. That solved a lot of awkward problems. For example, it claimed to do away with any possible unemployment problem as an illusion. Allegedly unemployed workers had simply compared their enjoyment of leisure in their parlors with the pleasure of working at the wages offered.

Such a theory opened unlimited portals to speculative market activities and has come to define the ultimate wisdom of official policy. Critically minded historians, economists and sociologists have noted that when economic power changes hands from one social group to another, the reigning political group too, undergoes change, whether by violent means or peacefully. That is why it leads nowhere but to assured ever deeper disasters ahead for President Obama to choose key officials for his supposed epoch-making reforms from key members of the political and economic group that led the world into its ever deepening troubles.

It just can't be done and guarantees economic and military disasters ahead. That is why we have need of the suppressed history of how the world finally came out of the Great Depression of the 1930s and, in the developed countries, built a prosperous world.

William Krehm

Key Concept of Structural Price Rise

Hence, it became clear that we must make the ever more urgent distinction between inflation and this utterly distinct *structural price rise.* I decided to call the non-inflationary price rise a "structural price" rise due to the greater investments by governments in physical and human capital. This effect I call the "social lien."

I was astounded that so obvious a basic fact of our world situation should have escaped official attention. So I wrote a detailed article and sent it to some 30 economic journals throughout the world. I had studied mathematics in my two years at university, when the Depression overtook me and I did not complete my Maths and Physics course. But I did continue my studies centering on the economic mess on my own. My manuscript was purchased by what at the time was the leading French economic journal, *La Revue Économique* in its May 1970 issue, as a 70-page article.

It was only when I got to know the state of French economic thinking that I understood why the French economic journal had responded so quickly and generously to my manuscript. Two distinguished economists on its board specializing in statistical research had checked the relationship between the supply-demand factor over long periods and found that price rises did not coincide in time with insufficient supply, but must be due to another "unidentified causes." My manuscript had arrived at the proper address at the right time.

My essay published in France was very favorably reviewed in a half dozen or so European economic publications. When a book offer of a leading French economics publisher followed I spent a year writing a book and without a contract, sent the book to them. The imposed limits of economic research, were undergoing rapid change. Nevertheless I published the book in English myself and it was well received in at least a half dozen European economics journals, as well as a good assortment in the Americas. In the *Economic Journal* of the University of Cambridge, P.M. Deane wrote: "An unusual book…. He is imaginative and well-read, over a wider range of past and present economic theory than the conventionally trained economist, and has some powerful arguments to deploy. He is particularly persuasive about the need to base policy on what he calls a pluralistic notion of price…. This is not an easy book to read but it has insights that make the effort worthwhile."

My essay in *La Revue Économique* had been reviewed very favorably in the same publication with particular praise given to my expression the "social lien" to describe the non-market factor in determining our price levels. Today that distinction has been suppressed.

And this happens at the very time when there is a crying need to distinguish between higher prices due to an excess of market demand and higher prices because of basic physical and social infrastructure that only the government can provide.

It is most unusual, and the equivalent of a social fire alarm to use the same expression for quite different factors, that are in fact incompatible with each other. That is driving our society to an inevitable doom.

We quote from the same article of the *Star*: "While NDP Leader Andrea Horwath accused the government of balancing the budget on the backs of workers, her criticism was muted. 'Everyone recognizes that times are tough,' said Horwath, sounding nonplussed that 'a lot of the six-figure salaries' at hospitals and Crown corporations would be frozen.

"But OPSEU President Warren (Smokey) Thomas said: 'It's difficult for workers to swallow some of this stuff when you have seen bankers and investment houses…going back to multi-million bonuses after just being bailed out.'

"Sid Ryan, president of the Ontario Federation of Labour, said the budget is just an 'opening salvo' by a government demanding some restraint in the public sector. Municipal workers, including police officers, firefighters and garbage collectors, will not be affected.

"Symbolically, a one-year wage freeze for MPPs will be renewed for the next two years. Salaries will also be frozen for two years for political aides and Legislative Assembly staff.

"The size of the Ontario public service will remain at 68,645 workers for now, but be reduced by 5% through attrition and other measures by March 31, 2012.

"Despite the end of recession late last year, Queen's Park is being forced to act, in part because unemployment will remain high. It's expected to stabilize at 9.1 before dropping to 6.8% by 2013."

The contradiction between the slashing of employment, underway and envisaged, and the recovery sums up the fraud that has come to be mistaken for economic analysis. For when it describes the present crisis as "inflation," it is like a guerrilla who has put camouflage to allow him to slip into the enemy camp to cut throats.

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"Belt-tightening will also derail expansion of public transit projects to save $4 billion over five years, involving the TTC's planned Light Rail Transit (LRT) lines for Eglinton and Finch avenues and expansion of Scarborough rapid transit, a decision that a furious Toronto Mayor David Miller called 'disgraceful'….

"As first disclosed by the *Star* on Wednesday, there is a $63.5 million rescue plan to save 8,500 subsidized daycare spaces that had been threatened by the end of the federal spending.

"The Liberals, however, will scrap the special diet allowance to help welfare recipients with medical conditions….

"No provincial assets are being sold off – yet – though the government will continue to explore its options for Crown agencies such as the Liquor Control Board of Ontario, Ontario Power Generation, Hydro One, and the Ontario Lottery and Gaming Corp."

That will be Give-Away time. Unless the government accounts recognize human capital investment for what it is, the resulting distortion of costs and values would – were it practiced in the private sector – get the perpetrator a prison sentence.

We must recognize human investment by government as prepaid investment. Money spent on education, health and social security is not only prepaid – otherwise it would not have entered the books even as debits, but it is more than prepaid. Its expenditure is itself to a large degree a further investment. The children of educated parents are easier to educate, healthier. The money spent by English municipalities to educate a Billie Shakespeare, or of Izzy Newton are still bringing in revenue to Great Britain.

Trade unionists, the NDP and the Greens should stop being so concerned with making a good impression on the wrong people. As for our universities, that have cleaned their economics staff of just about every dissenting voice, they all do have mathematics, physics and other scientific faculties. We should insist that they introduce these faculties to their economics department to check whether calling two quite opposite phenomena by the same name – higher prices due to a supply shortage and higher prices because of greater investment by governments in physical and human capital, can be justified by anything that can pass for science. Obviously, such a practice has taken over because it makes government accounting incoherent and fosters the corrupt speculation that is pushing our civilization to its doom.

William Krehm

Russia's Arms Industry Defanged?

The New York Times (13/03, "As its Military Industry Withers Russia looks to Buy Arms Abroad" by Andrew E. Kramer) recounts a complex tale that has rattled the power position of our super-powers: "Moscow – Ask a Russian what the country makes well, and the answer, more often than not, will be the Kalashnikov rifle. Russian-made cars may be rickety, its passenger airplanes such fuel-guzzlers that even the country's flag carrier, Aeroflot, has switched to a mostly Western fleet. But Russians could always point with pride to the fearsome reputation of their weapons – the Kalashnikov and the MIG and Sukhoi fighter jets.

"Indeed, until recently, Russia's military exports were second in volume only to the US. But in today's Russia, the $40 billion military equipment industry is withering alongside civilian manufacturing.

"Once-legendary Russian weapons are suffering embarrassing quality-control problems. Algeria, for example, recently returned a shipment of MIG jets because of defects.

"An aircraft carrier refurbishment for India is four years late and hundreds of millions of dollars over budget.

"In perhaps the most poignant sign of trouble, Russia's own military is now voting with its rubles: Moscow is in talks with France to buy four French amphibious assault ships. If a deal is struck, it would be Russia's most significant acquisition of foreign weapons since World War II.

"The purchase of Mistral-class ships would be 'the most salient example of the deficiencies in the Russian defense industry,' said Dmitri Trenin, a military analyst at the Carnegie Moscow Center, a policy research organization.

"Outside Russia, the potential deal has led to geopolitical hand-wringing. Critics say France is selling out its Eastern European NATO allies.

"Yet opposition to the deal has been nearly as fierce inside Russia – by supporters of the weapons industry.

"Even as military manufacturing shrank to 4.28% of gross domestic product last year, down from 20% under communism, Russia's armed forces relied on domestic producers for nearly every screw and bullet in the arsenal. Self-sufficiency in military manufacturing was a 'sacred cow' of national security, Mr. Trenin said.

"'Have we forgotten how to make military hardware?' a Communist Party deputy, Svetliana Savitskaya [asked] Wednesday at a hearing in the Russian Parliament about the potential purchase. 'And if we do not have certain secrets that other countries know, what is out military-technological service for?'

"Many experts say the decline began with the end of the Soviet Union. When Russia became capitalist, they say, so did its military industry. Like so much Russian industry, it was privatized haphazardly. For example, factories and the engineering departments that designed what these factories made were sold separately.

"Over time, this had a deleterious effect on quality. Big companies that inherited contracts with China, India and the Middle East made profits on older designs and legacy parts, but had little to upgrade."

Different motivations and factors reached the point of non-coherence.

"The end of generous Soviet military budgets, too, caused assembly lines to creak to a halt at tank and airplane factories."

Russia Catches the "Dutch Disease"

"More recently, the sector suffered from an insidious economic problem known as the 'Dutch Disease' – when an increase in revenue from natural resources (oil and natural gas in Russia's case) pushes up [the value of] a country's currency, that makes exports more expensive on world markets.

"This has whittled away at the competitiveness of Russian weapon merchants abroad. The ruble appreciated through most of the decade, before tumbling in the financial crisis. But it is gaining again. The ruble has risen almost 16% against the dollar in the last 12 months alone.

"Other problems have beset Russian military contractors. Many engineers have emigrated, leaving a work force that is near retirement.

"Even with these troubles, some companies have succeeded and gone public, listing their shares on the Russian Trading System stock exchange. United Aircraft, the umbrella company for the makers of the MIG and Sukhoi fighter jets, has a market capitalization of more than $2 billion, according to Marina Alekseyenkova, an industrial analyst at Renaissance Capital, a Moscow investment bank.

"The question is, will Moscow buy from

these relatively successful companies? So far, domestic military spending has been spread across the entire gamut of Russian military suppliers to maintain the illusion of Russian self-sufficiency. This has meant spending money on hopeless losers, like Russian walkie-talkie makers.

"Abroad, Russia's share of arms sales plummeted with the onset of the financial crisis in 2008, according to a Congressional Research Service report on the international arms trade released in September.

"Russia sold $3.5 billion worth of weaponry globally that year, down from $10.8 billion in 2007. That was well behind the US, whose companies sold $32.8 billion worth of weapons – 68% of the total global arms business that year.

"In the developing world, where Russia surpassed even the US in military exports in 2004 and 2006, its market share collapsed. Over all, developing-world sales were flat in 2008, but Russia's share tumbled, from 25.2% of all deals in 2007 to 7.8% in 2008, the latest year for which figures were available.

"Russia's traditional customers in Asia and the Middle East held off on new purchases with the onset of the global recession.

"Russian experts have said that the Congressional figures underestimated Russian sales.

"Rosoboronexport, the state weapons exporting monopoly, said $15 billion in new contracts were signed in 2009.

"Meanwhile, the result of Russia's foreign military purchases could actually be positive, leading to a streamlined industry, said Aleksandr Golts, a deputy editor of the Yezhednevny Zhurnal newspaper and a commentator on the military. The policy within the industry seems to be one of trying to modernize by accumulating foreign technology – much as Russia tried with the integration of foreign assembly plants into its auto industry.

"On the civilian side of its production, Sukhoi is in partnership with the Italian aerospace giant Finmeccanica to build the Russian Regional jet. Boeing is advising on design and marketing.

"During a visit to India last week by Prime Minister Vladimir V. Putin, Russian aerospace executives said they were in talks with India to develop an export version of Russia's first stealth fighter, the Sukhoi T-50. On Friday the Indian military signed a $1.5 billion deal to buy 29 carrier-based versions of the MIG-29, the jet rejected by Algeria.

"Still, struggling to hold onto its export customers, Russia cannot afford to continue investing in the current panoply of domestically produced weaponry, Mr. Trenin of Carnegie said. As the Mistral carrier talks show, Russia has no choice but to become both a buyer and a seller.

"'Russia, like Germany or any other country, will be competing and collaborating in the global arms bazaar,' he said."■

Important Things First

That critical word "important" can be the hidden slayer. When certain politicians utter it, it can wipe out attainments of our society that may reach back to Socrates in Ancient Greece and were finally won by countless civil wars.

Thus in *The Globe and Mail* (29/03, "Burgeoning prison budgets spared the axe" by Bill Curry) we read: "Ottawa – The Conservative government is planning a 27 per-cent hike in its prison budget over the next three years, even as Canadian crime rates are falling and virtually every other federal department is being forced to shed staff and cut costs as Ottawa moves to balance its books.

"The detailed spending plans – which have gone unreported until now – are outlined in two boxes of documents tabled in Parliament last Thursday, in which every department must outline their spending, staffing and policy plans for the next three years. The documents reveal that Corrections Canada in contrast to cuts in most other departments – plans to fill 4,000 new positions over the period and its overall budget will rise 27% to $3.1 billion by the 2012-13 fiscal year.

"This spike in spending is clearly linked in one of the government reports to the Conservatives' suite of law-and-order crime bills, which legislate longer prison sentences for a range of offences and limit the opportunities for parole.

"The government's planning for the consequences of these tougher sentences comes as recent data shows many cash-strapped US states are going in the opposite direction – easing high incarceration rates in a bid to save money. Even with this new spending, Ottawa warns the extra burden may put staff and inmates in harm's way.

"'The risk is that longer periods of time in federal custody will put additional pressures on an aging physical infrastructure and increase risks to the safety and security of staff and offenders,' warns a report prepared by Corrections Canada and signed by Public Safety Minister Vic Toews.

"The Conservative push comes despite declining crime rates in Canada, but amid polls showing the popularity of tough-on-crime measures.

"On an average day last year, Corrections Canada was responsible for 13,287 federally incarcerated offenders and 8,726 offenders in the community. These numbers are expected to increase, but the report does not say by how much. In contrast, in the US – where incarceration rates have risen by a startling 705% over the last four decades – several states are now undoing measures that restrict access to parole and require longer incarceration periods, partly due to budget pressures created by the economic downturn.

"As a result, the number of state prisoners in the US dropped last year for the first time in nearly 40 years, according to a survey of detention data released this month by the Pew center on the States. California has reduced the number of convicts returning to incarceration by changing parole violation rules, while Michigan has reduced its inmate population by 6,000 by waiving some measures requiring convicts to serve 100% of their sentence in prison.

"However, the number of federally incarcerated inmates continues to climb in the US.

"Mr. Toews told *The Globe and Mail* on Friday that he was not aware of developments in the US but defended the planned Correctional Service Canada budget increase.

"'Security is obviously an important issue for this government and we're moving on that file,' he said. While the release of the Corrections budget comes more than three weeks after the 2010 budget, officials say that much of the work on the report was completed before the budget's announcement that departmental spending would be frozen at 2010-11 levels as part of the government's effort to erase the deficit.

"The reports to Parliament largely appear to reflect that edict, as most departments project declines in spending and staffing over the coming years."

Why then are offences punished by imprisonment, even if due to the lack of public resources, the high cost of incarceration might impose an early application of the planned parole and may not have been contemplated in the original legislation?

Is it not then very much in place for us to sneak into the discussion of this crisis in our justice system with this most relevant question: What would a just punishment be for those responsible for blocking the use of legislation still on our law books that could have spared our country the humiliation of turning their backs on legislation still on our law books, on our successful way of financing our part in the Second World War, catching up with the neglected infrastructures, of a decade of the deepest depression up to then experienced, to have received a huge penniless immigration from war-torn Europe, given it employment, educated its children in their new languages to a high degree, provided the infrastructures that in a few decades converted Canada from essentially a dilapidated farming country to a highly urban industrial land.

Should we not be seeking legal measures – not necessarily leading to imprisonment with or without improvised parole for those who have robbed us of our great history and the achievements of generations of reformers?

Without a knowledge of its own history a nation becomes blind.

William Krehm

Eliminating Risk by Suppressing What had been Learned at Staggering Cost

The New York Times (1/04, "Hedge Fund Pay Roars Back" by Nelson D. Schwartz and Louise Story") brings us what seems to be mistaken, that the world has left the economic crisis behind us: "The Lazarus-like recovery of the nation's big banks did not benefit just the bankers – it also created huge paydays for hedge fund managers, including a record $4 billion. Gain in 2009 for one bold investor who bet big on the financial sector.

"The manager, David Tepper, wagered that the government would not let the big banks fail, even as other investors fled financial shares amid fears that banks would collapse or be nationalized.

"'We bet on the country's revival,' Mr. Tepper, who describes his trading technique as a mix of deep analysis and common sense in an interview.

"Mr. Tepper's country is very different with the one that is shutting down schools and planning interest-rate increases that will cause further thousands to remain jobless and lose their homes.

"That strategy handed Mr. Tepper, a plain-spoken Pittsburgh native who first made his name at Goldman Sachs, the top spot on the annual ranking of top earning in the hedge fund industry by *AR: Absolute Return + Alpha* magazine which comes out Thursday. His investors [in the fund] did not do badly either.

"The runner-up in the ranking was George Soros, the Hungarian émigré who has become better known in recent years for supporting Democratic candidates and making political headline than for picking stocks. His fund, Quantum Endowment, grew 29% in 2009, earning Mr. Soros $3.3 billion in fees and investment gains.

"Hedge funds – the elite, lightly regulated investment vehicles open to a restricted range of investors – enjoyed a winning streak during the buyout boom that preceded the financial crisis of 2008. Then the bottom fell out of the industry, handing even top hedge funds double-digit percentage losses.

"At the time, some market experts questioned whether the industry could continue to charge hefty fees – a manager typically receives a substantial portion of the fund's annual appreciation – for such uneven performance.

"But in a startling comeback, top hedge fund managers rode the 2009 market rally to record gains, with the highest-paid earning a collective $25.3 billion, according to the survey, beating the old 2007 high by a wide margin. The minimum individual payment on the list was $350 million in 2009, a sign of how richly compensated top hedge fund management have remained despite public outrage over the pay packages at big banks and brokerage firms.

"Even so, big gains were not a constant among hedge funds last year. Many struggled to show gains, signaling as widening gulf between winners and losers, industry experts said. 'These guys are the exceptions. You're talking about the top people at top firms.'

"The earning figures reflect *AR* magazine's estimation of each money manager's portion of fees as well as the increased value of his personal stake in his fund. For many of the top 25, the big personal gains in 2009 came after steep losses in 2008.

"Undaunted by that drop – and by the bankruptcy and liquidation of Lehman Brothers – Mr. Tepper loaded up on the preferred shares and bonds of the big banks in the late 2008 and early 2009, correctly assuming that the government would not permit bigger institutions to fail."

Basically they were betting that the big banks would stay in control of the government, and that the government would continue to ignore all that had been learned during the Great Depression under Roosevelt, and in Canada from the nationalization of the Bank of Canada in 1938, the ban placed under Roosevelt through the *Glass-Steagall* law of 1935 that forbade banks to acquire interests in other "financial pillars" like brokerages, insurance and mortgage companies, since the banks would use the cash reserves needed for their own businesses as base bank capital for the creation of their own money. This they would lend to the government who for some three decades after the war has borrowed from their own nationalized central banks what they need for such social and infrastructure investment at near-zero cost. The statutory reserves which had been brought in Canada requiring the banks to deposit with the central bank a portion of their capital on which they received no interest, provided, if the market became too overheated an alternative to just raising interest rates which hit anything that moves in the economy. That too suited the deregulated banks for high interest rates that knock out entire sectors of the economy make possible for the mightiest banks to pick up depression bargains and then run up record profits as the economy recovered. Without the bust of the economy alternating with the boom the pattern would not fly.

And to maintain this lucrative boom-bust shake-out-and still bigger boom required burying our history centuries of economic scholarship, the abandonment of elementary logic. Who needs logic, history, serious instead of phony mathematical analysis if you maintain control of the entire boodle – with its boom-bust boom patterns?

W.K.