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Getting Out of the Mouse Trap

From Herb Wiseman, a founding member of COMER, we have received an article, "Businesses Do Not Create Jobs" by David Johnson of Campaign for America's Future, with the comment "Brilliant. Read carefully."

We have, and there is much in it that is laudable. We quote:

Business do not create jobs. In fact, the way our economy is structured the incentive is for businesses to get rid of as many jobs as they can.

Demand Creates Jobs

A job is created when demand for goods or services is greater than the existing ability to provide them. When there is a demand, people will see the need and fill it. Either someone will start filling the demand alone, or form a new business to fill it or an existing provider of the good or service will add employees as needed. (Actually a job can be created by a business, a government, a non-profit organization or just a person doing the job, depending on the nature of the good or service that is required.)

So a demand creates a job. A person who sees that houses on a block need their lawns mowed might go door to door and say they will mow the lawn for $10. When houses start saying "Yes, I need my lawn mowed" a job has been created!

Demand also creates businesses. The person who is filling demand by mowing lawns for people might after a while have a regular circuit of houses that want their lawns mowed every week, and will buy a truck and a new mower and hire someone to help. A business is born!

Business Want to Kill Jobs, Not to Create Them

Many people wrongly think that businesses create jobs. They see that a job is usually at a business, so they think that therefore the business "created" the job. This thinking leads to wrongheaded ideas like the current one that giving tax cuts to businesses will create jobs, because businesses will have more money. But an efficiently-run Business will already have the right number of employees. When a business sees that more people are coming in the door (demand) than there are employees, they hire people to serve the customers. When a business sees that not enough people are coming in the door and employees are sitting around reading the newspaper, they lay people off.

Business Want Customers not Tax-cuts

Businesses have more incentives to eliminate jobs than to create them. Businesses in our economy exist to create profits, not jobs. This means the incentive for a business to create as few jobs as possible at the lowest possible cost. They also strive to reduce the number of people they employ by bringing in machines, outsourcing or finding other ways to reduce the payroll. This is called "cutting costs" which leads to higher profits. The same incentive also pushed the business to pay as little as possible when they do hire. (It also pushes businesses to cut worker safety protections, cut product quality, cut customer service, 'externalize' costs by polluting, etc.)

Government to the Rescue

This is where government comes in. Government is We, the people, working for that larger societal interest. In our current system – when it works – we use government to come up with ways to balance the effects of the profit motive – which pushes for fewer jobs at lower pay for us, and for the

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Mouse Trap *from page 1*

good of all the businesses. We, through our government, create and regulate the 'playing field' on which business operate. We set minimum wages, limits on working hours, worker safety rules and other rules designed to keep the balance between profit incentive and demand, and playing field level. (We also provide the infrastructure of roads, schools, courts etc. that is what makes our businesses competitive with businesses in other countries. The individual interest in paying less taxes for this has to be balanced with the larger interest that we all pay more for this, but that is another post, title, "Tax Cuts Are Theft.")

Corrupted

Obviously businesses in our system must be kept from having any ability whatsoever to influence government decision-making in any way, or the system breaks down. When businesses are able to influence government, they will influence government in ways that provide themselves – and only themselves – with more profits, meaning lower costs, meaning fewer jobs at worse pay and not protecting workers, the environment or other businesses. And, they will fight to keep their ability to influence government, using the resulting wealth gains to increase their power over the government which increases their wealth which increases their power over the government which increases their wealth which increases their power. over the government….

Unfortunately this is the system as it is today.

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Editor: Significantly, the historic sequence has not been from earlier governments groping to find better ways of serving society, but quite the contrary from a landowning aristocracy, to early forms of capitalism, and then to ever more ravenous forms of speculative banking. And instead of accepting the social responsibilities that Dave Johnson would assign them, they have sloughed off as much social responsibility as they possibly can. Much of our current deepening crisis stems from the political power of the trading classes having been replaced by that of speculative banking that must continue an accelerating growth and risk-taking to avoid collapse. Its tools are ever-higher interest rates that must match their risk-taking.

Much of this was learned during the Great Depression of the 1930s, but has been suppressed. One of the most important reforms needed was brought in under the *Glass-Steagall Act* under President F.D. Roosevelt in 1935, that forbade banks from acquiring interest in other "financial pillars" – in those far-off times these consisted of stock brokerages, insurance, and mortgage companies. The reader will note that these were three non-banking sectors taken over by the banks that were involved in the collateralized mortgage crisis that the American government brought on by disregarding and eventually repealing these restraints on speculative banking.

The lessons of the 1930s, the speculative bankers learned well and by the 1980s when the American banks were allowed to take over the Savings and Loans – in essence mortgage cooperatives – were well on the way to erasing even the memory of what had been learned by popular governments during the depression of the 1930s, the Second World War and the first quarter of a century of postwar prosperity. The current ever-deepening crisis was begun by the banks loading up to their eye-balls in precisely stock-brokerages, insurance, and mortgage speculation. To that, since then, you must add credit-cards, and much else.

A lot of other basic knowledge had to be suppressed, before the current ever more speculative crisis, repeatedly refinanced by our governments could take over.

For example, the most basic rules of logic, e.g., you cannot reverse a proposition and consider it still valid. If I hold a loaded revolver to my head and press the trigger I fall dead. But from that I cannot deduce that if I should I fall dead, I have suicided. It could be heart-failure, or any of many other causes.

Nevertheless, if prices rise governments and economists refer to the trouble as "inflation."

Yet in the May 1970 issue of the leading French economic journal of the day, *Revue économique*, I had a 41-page essay published developing the idea that prices can go up not necessarily because of an excess of demand over available supply – that is real inflation – but because more and more of our production is not marketed, but represents investment by governments in human capital. This must, of course, include health care, the preservation of the environment and providing adequate infrastructures to serve the enormously accelerating urbanization going on throughout the world.

My essay in *Revue économique* was reviewed most favorably in the Economic

Journal of Cambridge University in Britain with the reviewer praising the title I had given this factor in price rise that cannot be attributed to market forces – the "social lien". In the September and October issues of *ER* the essay can be found – as on the COMER website. However there is not a government in the world today that does not treat any price rise as "inflation" to be suppressed with further government subsidies to our gamboling bankers. To question that in almost any university today, would cost a brave economics professor his post – as happened to the late John Hotson, one of the leading co-founders of COMER.

Since we touch on the point in every issue of *ER*, I will only mention the other key bits of history that have been suppressed.

Ignoring society's prepaid investment in human capital and, indeed, treating it as "debt," deprives our government of any claim to a serious system of accounting. That threatens to become our ticket to the next atomic war. Preparing for that the leading governments of the world apparently *do* consider that an investment.

William Krehm

Learning to Avoid the Lessons of History

The devastating crisis of the 1930s led directly to the most productive period for understanding our economy and to the Second World War. The forces that had brought on both these disasters came out of the war with a determination that what the 1930s and the war had taught humanity had to be wiped out from human memory so that they might resume their speculative financial games more cunningly than up to 1929.

All this had been set up in a masterful way recounted in *The New York Times* (09/07, "Geithner Calls for Cooperation on Currency to Encourage a global Recovery" by Sewell Chan.

"Washington – Treasury Secretary Timothy F. Geithner warned on Wednesday that the necessary rebalancing of the economy was 'at risk of being undermined' by countries trying to prevent their currencies from rising in value.'

"Mr. Geithner in a speech at the Brookings Institution, said some of the world's biggest economies should 'focus on strengthening growth, rather than risking a premature shift to restraint' by cutting government spending too rapidly.

"His message – aimed at countries like China and Germany, but also an appeal for support from other economies – came as the International Monetary Fund predicted that the world economy would grow 4.2% next year down from the estimate of 4.8% for this year, but that a sharper global slowdown is unlikely."

At which point reality, as though in indignant response, tumbled down on his head.

"As finance officials from around the world gather here this weekend for the annual meetings of the International Monetary Fund and the World Bank, American officials are concerned that the degree of cooperation is eroding. In particular, the Obama administration is looking to the IMF to help bring about what months of negotiations have failed to achieve: greater exchange-rate flexibility by China.

"Instead of the 'competitive devaluation of the 1930s, which exacerbated the Depression, the world faces a threat of 'competitive non-appreciation,' Mr. Geithner said, citing a term coined by Edwin M. Truman, a former official at the Treasury and the Federal Reserve.

"That was a reference not only to China but also Japan and Brazil, which have taken steps recently to prevent their currencies from rising in value.

"'Over time, more and more countries face stronger pressure to lean against the market forces pushing up the value of their currencies,' Mr. Geithner said.

"'The collective impact of this behavior risks either causing inflation and asset bubbles in emerging economies or else depressing consumption growth and intensifying short-term distortions in favor of exports.'

"In his speech Mr. Geithner called the problem 'a damaging dynamic' and a collective problem that 'requires a collective approach to resolve.'

"Later, in a question-and-answer session, Mr. Geithner said that 'China will be less likely to move, to allow its currency to appreciate more rapidly, if it's not confident that other countries will move with it.'

"China did not appear to be in a mood to be flexible on Wednesday in Brussels, Premier Wen Jiabao criticized European Union leaders who have called for a stronger Chinese currency. 'Europe shouldn't join the choir,' he told a business conference, according to Bloomberg News. If the renminbi isn't stable, it will bring disaster to China and the world.' If China were to increase the renminbi by 20 to 40% as some people are calling for, many of our factories will shut down and society will be in turmoil.

Mr. Geithner's warnings were echoed, in critical respects, by the IMF, which released its latest World Economic Outlooks on Wednesday: "'The world economic recovery is proceeding,' the IMF chief economist, Olivier J. Blanchard, said at a new conference, 'But it is an unbalanced recovery, sluggish in advanced countries, much stronger in emerging and developing countries.'

"As many as 210 million people worldwide may be unemployed, an increase of more than 30 million since 2007, the report found. Three-fourths of the increase has been in the most-developed economies.

"In those advanced economies, growth is now projected at 2.7% for this year and 2.2% for next year – compared with 7.1% and 6.4% respectively, for emerging and developing economies.

"Developing Asia, which does not include Japan, South Korea and Taiwan, is expected again to lead the world in growth, with projected rates of 9.4% this year and 8.4% next.

"The fund left its growth projection for China – 10.5% this year and 9.8% next year the highest of any major economy – unchanged from July.

"The fund slightly revised downward its projection for the US, whose economy is projected to grow 2.6% this year and 2.3% next year. The euro area's economy is expected to expand 1.7% this year and 1.5% next year.

"The European projections were a slight uptick from July projections, largely on account of stronger than forecast growth in Germany, whose economy is expected to expand by 3.3% this year and 2% next year.

"The biggest economies need to carefully calibrate efforts to restrain government deficits and debts without derailing the recovery by cutting off fiscal support too sharply, Mr. Blanchard said."

Washington's Soothing Lullabies

"'If growth were to slow or even stop in advanced countries, emerging market countries would have a hard time decoupling,' he said, emphasizing the interconnectedness of the world economy. 'The need for the very design at this national level, and coordination at the global level, may be even more important today than at the peak of the crisis a year and a half ago.

"In his remarks at the Brookings Institution, Mr. Geithner suggested that the European debt crisis had caused an overreaction.

"'What happened in Europe in the spring was very damaging,' he said. The euro zone nations 'took a long time, far too long to agree to support their most heavily indebted members.' The result, he said was doubt about 'whether Europe had the will or the ability to stand behind their members' and 'an exaggerated shift' toward restraint in the healthier, bigger economies.

"Mr. Geithner said it was critical to distinguish countries like Greece, Ireland, Portugal and Spain, which he said 'had no choice but to move very, very aggressively' to cut spending from the US, which continues to enjoy very low interest rates for long-term borrowing, giving them more short-term room to maneuver.

"But he also conceded that it was imperative for Congress and the administration to reach agreement on long-term measures to reduce the American deficit and stabilize the nation's public debt level."

As Mr. Geithner laid out the situation, the world market was a green, well-kept garden, that needed only a bit more patience on the part of the Chinese gardener, and all would be fine.

Yet, on the previous day before Mr. Geithner was delivering these soothing lullabies, *The Wall Street Journal* (6/09, "Mortgage Market Sees Shift in Pain" by Robbie Whelan and Ruth Simon) carried dire news that revealed the US economy, and its government's awareness of the deep trouble they were in, that could hardly be set aright by anything that the Chinese did or failed to do. "The federal suspension of foreclosures by three of the largest mortgage-servicing companies in the US is expected to result in more pain for some investors, and less pain for others, in the already battered $2.9 trillion market for residential mortgage-backed securities.

"The sector has already seen massive losses and credit down-grades since mortgage defaults began to rise in late 2007. Moody's Investors Services says that losses between 2005 and 2007 will be in the hundreds of billions of dollars.

"In the past two weeks, three major loan-servicing companies, Bank of America Corp., JPMorgan Chase & Co.'s Chase Home Mortgage unit and Ally Financial Inc.'s GMAC Mortgage, put foreclosure sales and evictions on hold in the 33 US states where foreclosures are handled by the courts. The moves were in response to disclosures about widespread problems in the way these companies handled foreclosures, including the mishandling of crucial court documents.

"The companies say the problems are technical and they are reviewing their processes, which has the effect of delaying timeline and putting hundreds of thousands of foreclosures in limbo.

"The latest disclosures are yet another source of frustration for bond investors.

"'It's symptomatic of sloppy servicing

Now We Need Only Apply What the Cows Taught Humans

The Toronto Star (11/03, "Happy Holsteins milk it in high-tech luxury barn" by Alex Horkay) reports: "The Martin family's new $1 million barn keeps their milk cows comfy – their Holsteins nap on foam mattresses, enjoy regular pedicures and lean on an automated massage brush whenever they want. Chewing cud in bed is encouraged.

"Curtains raise and lower automatically over screen windows to regulate the amount of heat, light and wind blowing through their barn east of Elmira. Ceiling fans circulate the air and keep insects away.

"A computerized milking parlour milks the Holsteins and alerts the Martins when one of their cows is in heat or ill. There are regular vet visits, a nutritionist designs their rations and the youngest calves have jackets to wear if it gets cold.

"The cows even have their own washcloths, solar-heated water and regular laundry pickup.

"To Ralph Martin and his sons, Ryan and Phil, babying the herd is worth it. The cows repay their owners by producing more milk.

"Each of the 90 Holsteins on their farm produces about 30 litres of milk daily – some as much as 50 litres. The Martins hope that the new barn will boost their cows' average to 32 litres a day.

"'Give them all the benefits you can and we all win,' the elder Martin said.

"So many comforts might sound ridiculous, but the cows' luxuries are not up to human standards. The mattresses are a couple of soft foam under a layer of rubber covered in straw.

"The laundry is a washing machine for the individual cloths used to clean their udders. Hoof baths and trimming ensure that nothing gets embedded in the cows' feet.

"The result is happier cattle that live longer and produce much more milk than cows did 25 years ago.

"However, when the Martins' cows moved into their new digs in August, they weren't pleased. Cattle don't like change.

"'The first two nights in here the neighbors could hear them bawling,' said Ralph.

"And the first few days they were frightened by the milk parlour, but now the cows eagerly line up for their turn.

"Ryan believes most cattle operations will look like theirs in coming years as century-old barns, like his family's original one, are replaced.

"But it depends on the economy. 'We wouldn't be able to do this is interest rates were 15 percent,' Ralph Martin said.

"So what do the cows think after two months in their new barn? They only say that they're 'mooved,' 'but they do seem to love those back scratchers.'"

Want Milk?

"Ways to make your cow happier so she makes more milk:

"Moozart, anyone? An American boy's science project showed cows relaxed and produced more milk when listening to classical music instead of country or rock.

"A cow by any other name: a UK study involving 516 dairy farmers showed giving cows a name and some one-to-one attention meant 3 percent more milk.

"Let the cow push her own buttons: in Europe and now in North America, milking robots are becoming popular and cows get milked whenever they want.

"Chill out: ideal room temperature for a cow is 3°C. They can get heat stress at 22°C, so cooling tunnels help, a US study showed."

Can it be that our government cannot muster the wit, decency and courage to match our intelligent cow herds?

W.K.

and a lack of adherence to contract and property law, which we have seen over and over again in the last two years,' says Scott Simon, a managing director of Pacific Investment Management Co., or Pimo, a unit of Allianz SE. Other examples include the servicers' failure to put back loans that violate representations and warranties made by the sellers of these loans, he says.

"It isn't clear how significant the costs will be for investors and who ultimately will bear the burden. One big question is: How long will the foreclosure delays last? Another is: What further costs will be incurred in the meantime, as mortgage-servicing companies pay lawyers to refile foreclosures, maintain vacant houses and pay taxes and interest on the properties?

"The first question is important because the structure of residential mortgage-backed securities determines who gets paid first. When a house that has been packaged into a mortgage bond is liquidated at a foreclosure sale – the end of the foreclosure process – the holders of the junior, and riskiest parts of the bond, usually get wiped out.

"However, if a foreclosure is delayed, the servicer must keep making payments to all investors, even though the home loan itself is producing no revenue stream.

"The latest turn of events sets up a series of unusual circumstances where junior bondholders – typically at the bottom of the credit structure could actually end up better than expected. Senior bondholders, typically at the top, could end up worse than expected.

"'Thus is sort of an extraordinary situation,' said Debashish Chatterjee, a vice president for Moody's Investors Service who covers structured finance. By delaying foreclosures, it means the subordinate bondholders don't get written to for a much longer time, and they continue getting payments.

"'Ultimately, delays in the foreclosure process will shift cash flow that otherwise should have gone to the senior bondholders and send it to junior bondholders,' said Tom Deutsch, deputy executive director for the American Securitization Forum, an industry group.

"But that means less money available to make final payments to the senior debt holders, who were taking on less risk and received lower yields on their investment.

"Not surprisingly, senior debt holders want banks to foreclose faster to reduce expenses.

"'The ability to finish the foreclosure and get the loss mitigation units to liquidate the house the longer you have to wait on that in a market that's moving downward, the greater the loss severities are,' said Jack Scott, a former executive in the securitization units of Fannie Mae and Bank of America, who now buys highly rated mortgage bonds through his own company, Blackhawk Alpha LLC.

"Investors are looking for ways to recover any losses. Typically, a servicer such as HMAC or Chase Home Mortgage enters into agreements called pooling and servicing agreements with bondholders that spell out the servicers' obligations to manage the loans in the best interests of the investors, and provide for the servicers to be reimbursed by funds in trust for all costs related to litigation and extra processing or foreclosures.

"There are going to be significant costs in going through the process of revalidating the foreclosure documents, says Andrew Sandler, an attorney in Washington who represents mortgage companies. He said it isn't clear how the costs will be allocated.

"Servicing companies hope the reviews will be quick. At GMAC Financial Services, 'the vast majority of these affidavits will be resolved in the coming weeks and before the end of the year,' a spokeswoman said.

"A spokesman for JPMorgan Chase said the company's review is expected to take 'a few weeks.'"

W.K.

A Bizarre World Invites Bizarre Ideas

The New York Times (10/14, "A Push for Payments If Oil Exports Drop" by Jad Mouawad and Andrew C. Revkin) reports: "Saudi Arabia is trying to enlist other oil-producing countries to support a provocative idea: if wealthy countries reduce their oil consumption to combat global warming, they should pay compensation to oil producers.

"The oil-rich kingdom has pushed this position for years in earlier climate-treaty negotiations. While it had not succeeded its efforts sometimes delayed or disrupted discussions. The kingdom is once again gearing up to take a hard line on the issue at international negotiations scheduled for Copenhagen in December.

"The chief Saudi negotiator, Mohammad al-Sabban, described the position as a 'make or break' provision for the Saudis, as nations stake out their stance ahead of the global climate summit scheduled for the end of the year.

"'Assisting us as oil-exporting countries in achieving economic diversification is very crucial for us through foreign direct investments, technology transfer, insurance and funding,' Mr. Sabban said in an e-mail message.

"This Saudi position has emerged periodically as a source of dispute since the earliest global climate talks, in Rio de Janeiro in 1992. It is surfacing again as Saudi Arabia tries to build a coalition of producers to extract concessions in Copenhagen.

"Petroleum exporters have long used delaying tactics during climate talks. They view any attempt to reduce carbon emissions by developed countries as a menace to their economies.

"The original treaty meant to combat global warming, the 1992 United Nations Framework Convention on Climate Change contains provisions that in Saudi Arabia's view require such compensation.

"Mr. Sabban outlined his stance at climate talks in Bangkok this month.

"Environmental advocates denounced the idea, saying the Saudi stance hampered progress to assist poor nations that are already suffering from the impact of climate change, and that genuinely need financial assistance.

"'It is like the tobacco industry asking for compensation for lost revenues as part of a settlement to address the health risks of smoking,' said Jake Schmidt, the international climate policy director at the Natural Resources Defense Council. 'The worst aspect of this racket is that it has held up progress on supporting adaptation funding for the most vulnerable for years.'

"Saudi Arabia is highly dependent on oil exports, which account for most of the government's budget. Last year, when prices peaked, the kingdom's oil revenue swelled by 37%, to $281 billion, according to Jadwa Investment, a Saudi bank. That was more than four times the 2002 level.

"Saudi exports are expected to drop to $115 billion this year, after oil prices fell. American oil prices are hovering around $2.50 a gallon.

"The one-year swing in the kingdom's

revenues shows that oil prices are likely to be a bigger factor in Saudi Arabia's future than any restrictions on greenhouse gases, said David G. Victor, an energy expert at the University of California, San Diego.

"Mr. Victor dismissed the Saudi stance as a stunt, saying that the real threat for petroleum exporters came from improvements in fuel economy and rising mandates for alternative fuels in the transportation sector both of which would reduce the need for petroleum products.

"'Oil exporters have always, in my view, far overblown the near-term effects of carbon limits on the demand for their products,' Mr. Victor said.

"For the Saudis this may be a deal breaker, but the Saudis are not essential players. In some sense, one sign that a climate agreement is effective is that big hydrocarbon exporters hate it.

"A recent study by the International Energy Agency, which advises industrialized nations, found that the cumulative revenue of the Organization of the Petroleum Exporting Countries would drop by 16% from 2008 to 2030 if the world agreed to slash emissions.

"But with oil projected to average $100 a barrel, the energy agency estimated that OPEC members would still earn $23 trillion over that period.

"Mr. Sabban, however, cited an older study by Charles River, a consulting firm, which found that the losses in revenue would be $19 billion a year starting in 2011. The Copenhagen talks were a major point on the agenda of the last OPEC conference in Vienna last month.

"But not every oil-exporting country is falling into line with the Saudi position. Some have been trying a different approach that has earned the backing of environmental groups. For example, Ecuador, OPEC's newest member, said that it was willing to freeze oil exploration if it gets some financial rewards to doing so.

"The Saudi negotiator said that the compensation mechanism was an integral part of the global climate regime that has been in place since the 1990s and that was not up for renegotiation."

A point is being reached where alleged free trade merges into shameless swindle.

W.K.

RENEW TODAY!
(SEE PAGE 2)

A Jobless World Strengthens China's Hand

The New York Times (14/10, "People's Republic of Exports" by David Barboza) reports: "Shanghai – With the global recession making consumers and businesses more price-conscious, China is grabbing market-share from its export competitors, solidifying a dominance in world trade that many economists say could last long after any economic recovery.

"China's exports this year have already vaulted it past Germany to become the world's biggest exporter. Now those market gains are threatening to increase trade frictions with the US and Europe. The European Commission proposed on Tuesday to extend anti-dumping duties on Chinese, as well as on Vietnamese, shoe imports.

"China is winning a bigger piece of a shrinking pie. Although world trade declined this year because of the depression, consumers are demanding lower-priced goods and Beijing, determined to keep its export machine humming, is finding a way to deliver.

"The most striking gains have come in the US, where China has replaced Canada this year as the largest supplier of imports.

"In the first seven months of 2008, just under 15% of American imports came from China. Over the same period this year, 19% did. Meanwhile, Canada's share of American imports fell to 14.5% from nearly 17%.

"Besides increasing its share of many American markets, China is increasing the value of exports in absolute terms in some categories. In knit apparel, for instance, American imports from China jumped 10% through July of this year – while America's imports from Mexico, Honduras, Guatemala and El Salvador plunged 19 to 24% in each country, according to Global Trade Information Services.

"A similar tale is told about trade around the world from Japan to Italy.

"One reason is the ability of Chinese manufacturers to quickly slash prices by reducing wages and other costs in production zones that often rely on migrant workers. Factory managers here say American buyers are demanding they do just that.

"'The buyers are getting more and more tough in bargaining for lower prices, especially American buyers,' says Liao Yuan, the head of international trade at the Changrun Garment Company which is based in Southern China and exports jeans to Europe and the US. 'They offer $2.85 per pair of jeans for a package of a dozen, when the reasonable price is $7.'

"Because China produces a diversified portfolio of low-priced and essential items, analysts say the country's exports can hold up relatively well in a recession. Few other countries can match what has come to be called the 'China Price."

"'China has a huge advantage,' says Nicholas R. Lardy, and economist at the Peterson Institute of International Economics in Washington. 'They can adjust to market changes very rapidly. They have flexibility in their labor markets. And as consumers trade down the quality ladder, China can benefit.'

"The expiration of textile quotas in large parts of the world this year has also allowed China to increase its market penetration.

"But equally important are government policies that support this country's export sector – from Beijing keeping its currency weak against the dollar to its determination to subsidize exporters through tax credits and billions of dollars in low-interest loans from state-run banks."

China Takes a Ride on US Government "Stimulated" Exports

"The results have been impressive. All told, in the first half of 2009, China exported $521 billion worth of clothes, toys, electronics, grains and other commodities to the rest of the world.

"Though this represents a 22% decrease from the first half of 2008, it compares favorably to other major exporters. Germany exports have fallen 34% over the same period. Japanese exports were down 37% and American exports 24%, according to Global Trade Information Services.

"Trading powerhouses like Germany are suffering from weaker demand for heavy equipment, automobiles and luxury goods. But the value of exports from oil-producing countries, like Russia and Saudi Arabia, has fallen even more.

"One reason is that the price of oil has plummeted from last year's record highs. But since oil is priced in dollars and the value of the dollar has fallen markedly, so have the value of American imports from these countries – over 45% in the case of Russia's exports to the world.

"Meanwhile, American imports from Saudi Arabia have fallen 65%.

"China's market share gains are mostly at the expense of countries like Japan, Italy, Canada, Mexico and Central America – in industries that China has long sought to dominate.

"China's market share of furniture imports in the US has grown to 54%, from 50%, over last year, while furniture exports to the US from Canada and Italy have plunged 40% from as year ago. In Europe, Chinese textiles and apparel have gained market share in every major country, after the quota expiration in January. Not long ago, Italy's shoe imports were dominated by Romania; now China has a commanding share.

"Japan once relied on electronics shipments to the US, but every year for the past decade Japan has lost market share to China. This year is no different. In 1999, electronics goods from Japan made up 18% of America's electronics imports. Today that figure is down to 7%.

"Together, the gains are helping China maintain its large trade surplus with the rest of the world, reviving worries about global trade imbalances – and once again putting the spotlight on China's currency, the reminbi. Specialists note, however, that much of China's gains stem from the fact that it is increasingly assembling products whose components are made elsewhere, and re-exporting them.

"After letting its currency rise against the dollar, beginning in July 2005, China is once again pegging it closely to the dollar. As the dollar has fallen against other major currencies like the euro – about 15% since a year ago – Chinese imports have become more and more competitive.

"Now, European officials are clamoring for China to reduce its flood of exports and pressing for anti-dumping investigations.

"The International Monetary Fund is calling on China to rebalance its economy and allow its currency to appreciate against other major currencies.

"The US – which for years complained about China's weak currency and soaring trade imbalances – has largely been silent in recent months, analysts say, partly because Washington is trying to improve relations with Beijing at a time when it desperately needs China to purchase American debt.

"'Obama's interest is not to push China to appreciate the currency, but to get them to pay the bills,' Dong Tao, an economist at Credit Suisse says, referring to China's purchases of American debt.

"For its part, Beijing worries that raising the value of its currency could be catastrophic damaging exports and diluting the effect of the government's aggressive stimulus package.

"But the country's leaders are well aware of the need to shift the economy away from heavy dependence on exports and towards stronger domestic consumption. Indeed, China is eager to move up the value chain, by selling higher-priced goods like computer chips, aircraft and pharmaceuticals – all of which would bring better-paying jobs and healthier economic growth.

"Moreover, many economists say that as Chinese consumers become richer, they will buy more of their own goods. And as the dollar falls, it will make American exports more competitive globally, including in China. Those trends together could eventually help rebalance global trade – which became overly reliant on Americans buying cheap Chinese goods and China buying American debt. Right now, Beijing worries about growing trade frictions with its biggest trading partners, the European Union and the US, and the possibility of some countries initiating protectionist measures.

"Chinese exporters, meanwhile, fear that even as they gain market share the pressure to produce at low prices will hurt them and the quality of their products.

"Ms. Liao at the Changrun factory says many producers are essentially scavenging raw material.

"'Some even go to old factories to collect abandoned fabrics from old stock, so they can save two-thirds of the cost on raw materials,' she says. 'These fabrics,' she says, 'are in very bad shape. They won't wash, and easily wear out.'

"But the discounting period may last for a while with many economists forecasting a lengthy period of slow growth in Europe and the US.

"'China is going to get stronger,' Mr. Tao at Credit Suisse says. 'Its competitors are getting weaker in the downturn. And the Chinese state has helped bail out some industries, like the auto industry; so in the future some new industries may emerge as exporters.'"

Clearly, to hold its own against Chinese competition, the Western world must recognize investment in human capital as the most profitable a government can make, and thus strengthen our competitive powers at home and aboad.■

Like the Devil Himself Celebrating Halloween by Circulating a Dictionary of Reversed Meanings

The Wall Street Journal (11/11) suggests Halloween written big and nasty as though the Devil himself had taken over to mess up the most authoritative plans and forecasts.

An incomplete list of this screeching in chorus ("Spain's Bank Mergers Suddenly Drying Up" by Sara Schaefer Munoz): "Four months after Spain forced a wave of mergers aimed at stabilizing its regional savings banks, combining the institutions has slowed to a crawl because of labor disputes, compensation snarls and other problems.

"Last spring, the Bank of Spain forced a dozen shotgun weddings among the regional institutions known as *cajas,* to reduce the total number to 18 from 45. Cajas swept up in the deal-making ranged from tiny Caja Jaen in Southern Spain to giant La Caixa (the equivalent of Caja in Catalan, the language of Spain's economic capital Barcelona). La Caixa has more than 5000 branches across the country.

"But an initial burst of praise for the Spanish regulator in its scramble to triage part of a sector of the Spanish financial system imperiled by toxic real-estate loans has faded. Six of the 12 deals haven't been completed yet, including two that add up to 40% of the caja sector.

"And the cajas that have combined are making little progress on their bad loans, representing about half of the £180 billion ($248 billion) in delinquent or doubtful loans related to Spain's property and constructions sector.

"Caja Madrid, set to be Spain's largest new savings bank with a total €337 billion in assets, hasn't yet named an executive board. It took six months of negotiations for Cajastur to win finally approval from the four bodies involved in its merger with Caja de Ahorros Mediterraneo, including a threat to pull out of the deal because of job protection for the new president.

"CajaSur, which faced insolvency when it was seized by the Bank of Spain in May, still hasn't been fully taken over by stronger partner, Bilbao Bizkaia Kutxa, a lender for the Basque region.

"Talks have been slowed by calls from the caja's former governors, who are local politicians and Catholic priests, that they deserve about €20 million in compensation as founders of the 150-year-old caja.

"Frustrated officials at the Bank of Spain have urged some cajas to speed the process, according to a person familiar with the matter. Last month, Emilio Botin, chairman of Banco Santander, a global bank still tied to its home country, said the restructuring 'isn't going at the right speed.'

"A spokesman for the Bank of Spain said consolidation is progressing well, adding that it had been expected 'to take some time.'

"The fate of the caja mergers is important beyond Spain. Such financial institutions represent half of the financial sector in Spain, the fourth largest economy in the euro zone. Troubles at the cajas have provoked investor jitters and pushed up cost of funding for all banks.

"The worst-case scenario is that some of the combined cajas won't be integrated well enough to secure private investment – and will stumble as their troubles deepen.

"Many analysts say Spain is lagging behind the US and UK in efforts to clean up its banking system. After large aid infusions in 2008 and 2009, banks in the US and UK are generally back in the black, though governments still own stakes in some financial institutions such as Royal Bank of Scotland Group.

"Five cajas failed July's European bank 'stress' tests. The goal of consolidation was that stronger cajas would absorb weaker ones and shore up capital with the help from a special fund set up by the Bank of Spain. Another aim: strengthen and modernize opaque lenders, where the governance structure has included unions, local politicians, and the Catholic Church.

"Some progress, has been made. Banca Civica, a combination of three cajas, has been up and running for months and is set to receive a €450 million investment from US private-equity firm J.C. Flowers & Co.

"But other deals are being slowed by everything from clashing tax rules among Spain's different regions and by employees of Valencia-based Bancaja over its merger partner's effort to impose Thursday afternoon branch openings.

"'The mergers have been a way of putting together the accounts of different institutions,' said Jose Garcia Montalvo, chairman of economics and business at the Universitat Pompei Fabra in Barcelona. 'But it is mostly on paper.'

"Unions have been lobbying to keep jobs and develop attractive early-retirement packages, partly because the integration process will require a rollback in employment where the jobless rate already is 20%. Savings banks in Spain had 132,000 employees at the end of last year, up by 30,600 since 2000, according to Joaquin Maudos, an economics professor at the University of Valencia.

"'We are conscious they have to transform the sector, but we don't want them to do it in a way that is traumatic for the workers,' said Antonio Munoz, national secretary for the savings sector of Spain's General Workers' Union.

"Adding to the slowdown is the unique and relatively untested structure being used in some of the mergers. The structure, called an institutional protection plan, or 'cold merger' was set up to make the idea of merger more palatable to cajas from different regions. It allows them to maintain their branding and corporate governance.

"'These cold mergers were nothing more than a concept,' said David Franco, a partner in law firm Freshfields, Bruckhaus Deringer LLP in Madrid, who is advising on some of the details."

The Missing Bridge

"'We are writing the script.'"

What pops up as the missing bridge to rationality is serious accounting that would recognize human capital once again – as the most important lesson to come out of World War II. Briefly, that was the eventual result of the great investment made by Washington in sending hundreds upon hundreds of economists to Japan and Germany to determine how long it would take for those two great trading nations to be able to resume such roles again.

Sixteen years later, one of these, Ted Schultz of the University of Chicago, wrote that he and his colleagues had missed the proper conclusion because they had concentrated mostly on the physical destruction, and attributed little importance to the human resources had come out of the conflict almost intact.

From this – in a stroke of genius – he

concluded that investment in human capital, which must include expenditure on education, health, the environment, adequate infrastructures to serve our ever more rapid urbanization. must be recognized as prepaid investment – the most profitable a government can make. For a few years Schultz was feted and decorated, and then deliberately forgotten. Instead of treating human capital as an asset entirely prepaid, as an expense society cannot afford.

That is why the Devil below must be licking his lips in anticipation of the next atomic war. For that is already casting an ever-darker shadow on the world that permitted speculative banking broken loose again to deprive the world of the lessons our history and of anything that could be mistaken for serious accounting in the dark.

A world that has buried its own history is well embarked on suicide.

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You may ask what else could we expect from *The Wall Street Journal*, whose very name proclaims its attachment to the beliefs of speculative banking.

But we turn to *The New York Times* that in most respects sets the standards for excellent reporting. Yet, dependent on speculative banks for its continued existence – and on a Mexican speculator who took over the Mexican banking system after Washington, by imposing the North American Trade Agreement, had reduced it to virtual bankruptcy.

And to our horror this is what we find on the *Times* front page of 17/11 ("One Way to Trim the Deficit: Cultivate Growth" by David Leonhardt): "We look back on the late 1990s as a rare time when the federal government ran budget surpluses. We tend to forget that those surpluses came as a surprise to almost everybody.

"As late as 1998, the Congressional Budget Office was predicting a deficit for 1999. In fact, Washington ran its biggest surplus in five decades.

"What happened? Above all, economic growth. And that may be a big part of the answer to our economic problems.

"Yes, the government became more fiscally conservative in the 1990s. Both President George H.W. Bush (who doesn't get enough credit) and President Bill Clinton, working with Congress, raised taxes to attack the 1980s deficits.

"But those tax increases were the second most important reason for the surpluses that followed. The most important was the fact that the economy grew more rapidly than expected. The faster growth pushed up incomes and caused more tax revenues to flow into the Treasury.

"Today's looming deficits are almost surely too large to be closed exclusively with growth. The baby boom generation is too big, and the rise in Medicare costs continues to be too steep. Yet growth could still make an enormous difference.

"If the economy grew one half of a percentage point faster than forecast each year over the next two decades – no easy feat, to be fair – the country would have to do roughly 40 or 50 percent less deficit-cutting than it now appears, based on my reading of budget data from the economists Alan Auerbach and William Gale.

"To get a concrete sense for what this would mean, you can play around with the *Times'* online deficit puzzle. It asks you to find almost $1.4 trillion in annual spending cuts and tax increases by the year 2030. If growth were a half point faster than expected, the needed savings the savings would instead drop to less than $700 billion. That would mean fewer painful choices, be they tax increases or Medicare cuts.

"So arguably the single best way to cut the deficit is to make sure that any deficit-cutting plan does not cut economic growth. Ideally, it will lift growth.

"There are two main ways to do so. First, we shouldn't plunge ourselves back into another economic slump by raising taxes and cutting spending too quickly. President Franklin Roosevelt made that mistake in 1937, and this time (one hopes) the country won't be able to rely on war mobilization spending to undo the error.

"In the short term, we should spend more. 'Some politicians and economists present a false choice: reduce unemployment or stabilize the debt,' argues a new bipartisan deficit plan that will be released Wednesday, the second such plan to come out in the last week. As Alice Rivlin, a Democrat who oversaw the writing of the plan with Pete Domenici, a Republican, put it, 'We can do both. We can put money in people's pockets in the short run and trim government spending in the long run.'

"This task is not an easy one, because advocates and lobbyists inevitably claim that their idea, whatever it is. will help the larger economy. Just look at farm subsidies, a form of welfare for agribusiness that is supposedly crucial to the American economy. Or look at President George W. Bush's tax cuts, which, after being sold as an economic elixir, were followed by the slowest decade of growth before World War II.

"The two bipartisan deficit proposals that have come out over the last week each do a pretty good job, but not quite good enough, of focusing on economic growth. The most pro-growth part of both proposals – the Domenici-Rivlin plan and the one from Erskine Bowles and Alan Simpson – is their emphasis on tax reform.

"Today's tax code is a thicket of deductions, credits and loopholes that force people to change their behavior and waste time trying to avoid a tax bill. A tax code with fewer deductions and lower rates – which, to be clear, is not the same thing as a tax cut – would instead let businesses and households focus on being as productive as possible. The potential to make good money would drive more decisions, and the ability to qualify for a tax break would drive fewer.

"Beyond tax reform, both deficit plans mention the importance of making investments that will lead to future growth. In particular, the Bowles-Simpson plan calls for a gradual 15-cents-a-gallon increase in the federal gasoline tax to pay for highways, mass transit, and other projects. The plans also urge the government to prioritize education and science.

"These are among the best ways to promote growth. The United States created the world's most prosperous economy last century in large measure because it was the world's most educated country. It no longer is. Federal science dollars, meanwhile, led to the creation of the intercontinental railroad the airline industry, the personal computer, the internet and numerous medical break-throughs. Yet science funding is scheduled to decline as stimulus funding runs out.

"Unfortunately, the plans don't get more specific than saying that education and science are important. The only dedicated money for specific investments in either plan is the infrastructure fund financed by the gas tax. And, realistically, exhorting a future Congress to avoid wasteful spending and prioritize growth has about as much chance of success as exhorting it to find the political will to revamp Medicare.

"The two bipartisan deficit groups deserve a lot of credit for starting to move the debate beyond vagaries. There is one more step they can take, though; make sure we remember that cutting the deficit is not only about making cuts."

W.K.

Running the World and the Universe by Suppressing History and Accountancy

The New York Times (11/14, "OK. You Fix the Budget" by David Leonhardt) brings us to the doorstep of the world's problem, but no further. Could it be that – at a time when print publications must consider the bankers upon whose pleasure their continued existence depends? In the case of the great *New York Times*, there is a 14% outstanding loan from a Mexican banker who took over the Mexican banks rattled by Wall Street's attempt to unify North American banks, economies and all.

But let us consider the *Times* article for the excellent half-way analysis that it does achieve: "Imagine that Democrats and Republicans somehow came together and agreed on a grand bargain to cut the deficit.

"They decided to cut the pay of federal workers over the next several years, close military bases, reduce foreign aid, and eliminate earmarks, expand the payroll tax and cut Social Security benefits for high earners, as the chairman of bipartisan commission recommended last week.

"Democrats also accepted the plan from John Boehner, the presumptive House speaker, to make large cuts to social programs. Republicans accepted President Obama's proposal to let the Bush tax cuts expire on income above $200,000.

"If the two parties managed to do all this, how much of the country's long-term deficit would they eliminate? About one third of it.

"The looming federal deficits are so large that they are likely to occupy much of Washington's attention for years. Arguably, this new deficit obsession – what some are calling the Age of Austerity – began this month. The midterm elections ushered in a Republican House majority pledging to shrink government, and on Wednesday the leaders of the bipartisan panel released the outline of a deficit-cutting plan for members to debate.

"Like that panel, *The New York Times* has conducted its own analysis of the federal budget, but with a different final product. Rather than making recommendations, we are laying out a major menu of major options, so that readers can come up with their own plan. We have received help along the way from the deficit panel, from Congressional and White House aides and from liberal, conservative and centrist budget analysts. The deficit puzzles – on page 4 and on the *Times* Web site – are the result.

"The ultimate goal is to help you judge the deficit proposals that are now emerging. Do you think that they cut spending too much and should raise taxes more?… Are they too aggressive or too meek on military spending? How will they affect income inequality? How might they help or hinder economic growth?

"As a starting point, it is worth thinking about the deficit as being two different deficits. The first is the medium-term deficit, which was created by the Iraq and Afghanistan wars, the 2003 Medicare drug plan, the Bush tax cuts, the recession and the government's responses, like the stimulus.

"Assuming that the current policies are continued – for instance – that all the Bush tax cuts become permanent – the deficit in 2015 will be about $400 billion larger than the level that economists consider sustainable…. (Countries can run small deficits forever, because one year's economic growth effectively pays for the previous year's budget shortfall.)

"And $400 billion is a significant sum. It will be equal to more than 2 percent output in 2015 – half of the Pentagon's annual budget and more than half of Medicare's. Yet it is still much smaller, as a share of the economy, than the deficits that have hobbled Greece and Ireland.

"It is also smaller than the deficit this country ran from 1990 to 1994.

"The 2015 deficit does not have to be closed immediately' when the economy remains weak. The deficit panel's chairman, Erskine B. Bowles and Alan K. Simpson, called for a phased-in program of modestly higher taxes and cuts to social programs and the military. Some Conservatives have criticized that plan for raising taxes at all, and some liberals dislike its emphasis on spending cuts and eliminating middle-class tax breaks.

"However, it is closed, the medium-term deficit does not appear to pose a huge threat to the American economy. Maya MacGuineas of the New America Foundation points out that simply letting all of the Busch tax cuts expire, not just those benefitting the affluent, would nearly do the job.

"The long-term deficit is a wholly different beast. It comes from the projected growth of Medicare, Medicaid, and, to a lesser extent, Social Security. It is the result of baby boomers having paid far less in taxes than they will draw in benefits. 'The reason we find ourselves in this situation,' said Mr. Bowles, the former chief of staff for President Bill Clinton, 'is that we've made promises we can't keep….' By 2030, the needed deficit cut will equal about 5.5% of the annual economic output.

"By comparison, domestic discretionary spending – all of it, including Head Start, college financial aid, and FBI, medical research and airline safety – will add up to about 3 percent of economic output, according to Congressional Budget Office projections. Military spending will equal about 4 percent."

Must Debt Eat Us Out of Social Security?

"So the solution will have to revolve around tax increases and changes to health care and Social Security. And the country cannot wait until 2030 to implement most of the changes, notes Alan Auerbach, an economics professor at the University of California at Berkeley. If it did, the interest on the national debt could become crushingly large. Deficit cutting will probably be a regular part of politics for the next couple of decades.

"One obvious debate will be taxes versus spending. But relying exclusively on one would be extremely difficult. An approach based only on spending would mean deep cuts to programs that many Americans consider the essence of government. Medicare, Social Security and the military, among others. Closing the entire deficit through taxes would require enormous tax increases, mostly because Medicare spending is expected to continue growing much faster than income. To keep up, tax rates would have to keep rising….

"You could choose to raise taxes mainly on the rich, because their tax rates have fallen steeply over the last few decades while their pretax income has soared. Or, knowing that many of the rich have higher taxes than anyone else, you could start the exercise by saying goodbye to the Bush tax cuts on income below $250,000.

"No matter what you pick, keep in mind the potential effects on economic growth. Arguably, economic growth is the most important yardstick for any plan, because growth can do much to reduce the deficit, as it did after World War II and in the 1990s.

"That helps explain why many economists favor a version of tax reform that would lower marginal rates and close loopholes. Ordinary tax cuts have a mixed record on helping the economy; growth after the Bush tax cuts was mediocre, for example. But tax reform could save household and businesses from changing their behavior, often inefficiently, to qualify for tax breaks. The Bowles-Simpson plan suggest several reforms that would raise more tax revenue than today's code and help close the deficit.

"Of course, when economists say loopholes, they are including the deductions of home mortgage interest and other popular items. That's the problem with deficit cutting: it involves painful choices, like the ones you see here and the ones in the Bowles-Simpson plan that led to last week's outcries.

"The government has not yet resolved the deficit problem, the economist William Gale of the Brooking Institution says, because voters have not yet demanded it. They have rewarded politicians who say they are worried about the budget much more than politicians willing to make specific benefit cuts and tax increases. All of us would prefer generous benefits and low taxes.

"'Whatever the eventual solution is,' Mr. Gale said, 'it will probably be something that is not politically feasible now.'"

So we are back to strictly political considerations. And that bring us to the consequences of putting a key man of the old regime that brought the world into the seemingly hopelessness of the current policy

What to Do When Big Bubbles Burst?

Capitalism is beautiful. It is a system whereby owners of appreciating assets can sit on their hands and still increase their wealth. For example, for more than a decade, people could buy a house, and with real estate prices increasing faster than incomes in general, the house was worth more that they paid for it. Their wealth increased without any labor. Anticipation of still further increases in asset values fueled still more increases in real estate prices. This is the stuff of bubbles that the world has seen in its history ranging from the South Seas bubble, Mississippi land bubble, the tulip bubble, etc.

But, what happens when the bubble inevitably bursts? It does not take much. Just a little slackening in the rate of increase is enough to begin the reverse movement. Investors head for the exit, but the exits will always be overcrowded. Holders of assets find their wealth decreasing, again without any particular action on their part. Across the country, real estate has fallen by 20 percent, and in the hottest markets such as Florida, Arizona, California, and Nevada, the decline was 30 percent. Few can survive this kind of decline, neither home owners nor mortgage holders. Worst off are homeowners and investment firms that bought with immense leverage. When the market was going up, they profited hugely with very little money down, and when the market headed down, they suffered losses that few had the capital reserves to weather.

What can be done? Some don't want to even think about it – people and businesses must pay for their sins and excesses, even if it brings the whole economy to ruin, the foolish and the cautious as well. However, the Republican government decided it could not live with big banks going bankrupt and further loans and credit going to zero. So, they rescued the banks by buying some of their mortgages and by adding to the bank reserve accounts kept at the Federal Reserve. The result was that most of the big banks survived, but the little guys with mortgages on their houses greater than the present worth of their homes, suffered. Suffered enough to lash out at the party now in power, voting them out of office and putting in the very party that helped created the bubble in the first place.

What could have been done differently? When a commercial bank makes a loan such as to an individual wanting to buy a house, it creates money. Out of thin air, if you prefer colorful language. When the loan becomes non-performing, money is destroyed, again out of thin air. By law, a non-performing loan becomes a charge against the bank's own capital – its reserves, its building, etc. As already noted, to prevent the bank from bankruptcy and credit freeze, the Fed gave it reserves. There is another alternative that was never discussed. If declines in home values and broken mortgages is ultimately the result of a law, then the law could be changed.

The rule now causing such chaos serves a good purpose in normal times. It makes the banks consider extending credit without good assurance of repayment. It did not work. In the hubris of get rich quick, banks (and their customers) threw caution to the wind. In crisis times, sticking to the rule adds to the chaos. The law could be changed one time to get the economy out of its morass. If loans created money out of thin air, then the financial contracts can be voided in the same way (or at least greatly reduced) and the banks could start over doing what they normally do. This would have been an alternative to the Fed injecting huge amounts of cash into bank reserves. Moral hazard would be created in any case – the banks may act irresponsibly again if they believe that they are will be bailed out – whether bailed out by the Fed or by a change in the rule of non-performing loans being a charge against their capital. This is a problem we have to live with.

The average person does not understand what drove Bush's Republican Treasury Secretary, Paulson, to bail out the banks, so they are not grateful for something he can't understand. All they know is that a lot of money was thrown around and they did not see any of it. None of it helped them with their mortgage payments where the mortgage was larger than the depreciated value of their homes. So they are angry with the Democrats who happen to be in power when the pain peaked. When people are angry, they lash out at whatever they can see.

If the Treasury and the Fed had created money for a larger stimulus and mortgage relief, instead of bailing out the banks (when there was a better way to save them by a rule change), people and the economy would be a lot happier today. We are not the first society to destroy itself by clinging to obsolete institutions. The barriers to full employment are symbolic (in the air, if you will), but few economists or politicians are helping the public understand its options. Treating the problem as if it were a moral failure, as Paul Krugman has pointed out, may doom us to the Japanese experience of over a decade of negative and zero growth after a real estate boom so large it can't be accommodated with old thinking. Capitalism with its inevitable booms and busts can be saved without so much pain, but it will take bold rethinking of our institutions.

A. Allan Schmid

search. We refer, of course, to Timothy Geithner, with a pinnacle background both in the Federal Reserve and the federal Treasury, as President Obama's *cicerone,* dedicated to keeping those in power on the paths that led them into our devastating troubles.

That is a tremendous achievement in keeping our government stuck in the basic policies that brought the world into its ever more hopeless troubles.

It is appropriate that at this point we pause, hat in hand, to pay our tribute to just a couple of the many great leaders who warned against trying to change an economic regime without uprooting the social group running the show.

I choose Theodore Schultz, one of hundreds of young economists sent by Washington to Japan and Germany after the surrender of the Japanese and German governments, to study the war damage to predict how long it would take these smashed great trading nations to resume such roles. Years later Schultz published a study ("Investment in Human Capital" reproduced in Kiker, R.F. (1971), p. 14, Columbia: University of South Carolina Press) in which he concluded how wrong he and his colleagues had been, for having concentrated on the physical destruction, and attributed less importance to the fact that the human capital of these two former great trading powers had emerged almost intact. And from this in a stroke of genius he concluded that human capital is the most important investment a government can make. For this Schultz was feted and decorated, and then his memory completely suppressed.

At the moment, I regret to say, COMER is probably the only organization that keeps his heritage alive. It is perhaps the last defensive barrier between our world and the next and final atomic war – itself the technological product of misdirected human capital. Though it does have its roots in Socratic doctrine in ancient Greece and even further.

Another of the many who have delivered one version of the other of that great suppressed message that the world's stands in such desperate need of, is the late French economist François Perroux, from whose ever-fertile mind the concept of the "dominant revenue" arose. This holds that in every period the revenue of the class in power is taken to be a reliable index of the welfare of society as a whole. In our period that dominant revenue has been the speculative banker. That is what the role of Timothy Geithner is about. It should be addressed.

William Krehm

Portentous Regrouping among China's Neighbours

The New York Times (31/10, "China's Fast Rise Leads Neighbors to Join Forces" by Mark Landler, Jim Yardley and Michael Wines) carries a disturbing report: "Hanoi, Vietnam – China's military expansion and assertive trade policies have set off jitters across Asia, prompting many of its neighbors to rekindle old alliances and cultivate new ones to better defend their interests against the rising superpower.

"A whirl of deal-making and diplomacy, from Tokyo to New Delhi, is giving the United States an opportunity to reassert itself in a region where its eclipse by China has been viewed as inevitable.

"President Obama's trip to the region this week. his most extensive as president, will take him to the area's big democracies, India, Indonesia, South Korea, and Japan, skirting authoritarian China. Those countries and other neighbors, though with varying degrees of candor, have taken steps to blunt China's assertiveness in the region.

"Mr. Obama and Prime Minister Manmohan Singh of India are expected to sign a landmark deal for American military transport and are discussing the possible sale of jet fighters, which would make the Pentagon a major defense partner of India for the first time. Japan and India are courting Southeast Asian nations with trade agreements and talk of a 'circle of democracy.' Vietnam has a rapidly warming rapport with its old foe, the United States, in large part because its old friend, China, makes broad territorial claims in the South China Sea.

"The deals and alliances are not intended to contain China. But they suggest a palpable shift in the diplomatic landscape, on vivid display as leaders from 18 countries gathered this weekend in Hanoi's sleek glass-and-steel convention center, not far from Ho Chi Minh's mausoleum, for a meeting suffused by tensions between China and its neighbors.

"Most Asian countries, even as they argue that China will inevitably replace the United States as top regional power, have grown concerned at how quickly that shift is occurring, and what China the superpower may look like.

"China's big trading partners are complaining more loudly that it intervenes too aggressively to keep its currency undervalued. Its recent restrictions on exports of crucial rare earths minerals, first to Japan and than to the United States and Europe, raised the prospect that it may use its dominant positions in some industries as a political and political weapon.

"And its rapid naval expansion, combined with a more strident defense of its claims to disputed territories far off its shores, has persuaded Japan, South Korea, Vietnam and Singapore to reaffirm their enthusiasm for the American security umbrella.

"'The most common thing that Asian leaders have said to me in my travels over the last 20 months is, "Thank you, we're so glad that you are playing an active role in Asia again,"' Secretary of State Hillary Clinton said in Hawaii, opening a seven-country tour of Asia that includes a last-minute stop in China. Few of China's neighbors voice their concerns about the country publicly, but analysts and diplomats say they express wariness about the pace of China's military expansion and the stridency of its trade policies in private."

China — A Too Rapidly Emerging Superpower

"'Most of these countries have come to us and said, "We're really worried about China,"' said Kenneth G. Lieberthal, a China adviser in the administration of President Bill Clinton who is now at the Brookings Institution.

"The Obama administration has been quick to capitalize on China's missteps. Where officials used to speak of China as the Asian economic giant, they now speak of India and China as twin giants. And they make clear which one they believe has a closer affinity to the United States.

"'India and the United States have never mattered more to each other,' Mrs. Clinton said. 'As the world's two largest democracies, we are united by common interests and common values.'

"As Mr. Obama prepares to visit India first on this tour of Asian democracies, Mr. Singh, India's prime minister, will have just returned from his own grand tour – with both of them somewhat conspicuously, if at least partly coincidentally, circling China.

"None of this seems likely to lead to a cold war-style standoff. China is fully integrated into the global economy, and all its neighbors are eager to deepen their ties with it. China has fought no wars since a border skirmish with Vietnam three decades ago, and it often emphasizes that it has no intention of projecting power through the use of force. At the same time, fears that China has become more assertive as it has become richer are having real consequences around the region.

"India is promoting itself throughout the region as a counterweight to China; Japan is settling a dispute with the United States over a Marine air base; the Vietnamese are negotiating a deal to obtain civilian nuclear technology from the United States; and the Americans, who had largely ignored Asia as they waged wars in Iraq and Afghanistan, see an opportunity to come back in a big way.

"In July, for example, Mrs. Clinton reassured Vietnam, Indonesia, the Philippines and other countries by announcing that the United States would be willing to help resolve disputes between China and its neighbors of a string of important islands in the South China Sea.

"China's foreign minister, Yang Jiechi, reacted furiously, accusing the United States of plotting against it, according to people briefed on the meeting. Mr. Yang went on to note that China was a big country, while staring pointedly at the foreign minister of tiny Singapore.

"Undaunted, Mrs. Clinton repeated the American pledge on the South China Sea in Hanoi on Saturday.

"China's rise as an authoritarian power has also revived a sense that democracies should stick together. K. Subrahmanyam, an influential strategic analyst in India, noted that half the world's people now live in democracies and that of the world's six biggest powers, only China has not accepted democracy.

"'Today the problem is a rising China that is not democratic and is challenging for the No. 1 position in the world,' he said.

"Indeed, how to deal with China seems to be an abiding preoccupation of Asia's leaders these days. In Japan, Prime Minister Naoto Kan and Mr. Singh discussed China's booming economy, military expansion and increased assertiveness on territorial disputes.

"'Prime Minister Kan was keen to understand how India engages China,' India's foreign secretary, Nirupama Rao, told the traveling press pool. 'Our prime minister said it requires developing trust, close engagement and a lot of patience.'

"Japan has just weathered a fierce war of words with China over its detention of a Chinese captain who vessel collided with two Japanese patrol boats near disputed islands. India has watched nervously as China has started building ports in Sri Lanka and Pakistan, extending rail ties towards the border of Nepal and otherwise seeking to expand its footprint in South Asia.

W.K.

Brits Lying Down to What's Being Ladled Out

The Toronto Star (15/11, "Britain cleggs its way to destruction" by Heather Mallick), is responding to what is being forced down their throats in the best British manner: "'Tory scum' shouted 50,000 young people as they roared through the streets of London last Thursday. They knew they couldn't let the new Conservative coalition government price them out of a university education. There was nothing to do but riot.

"And with that, the British got their bulldog back. The French had never lost theirs, and it was hard to see them battle the relatively mild hardships Nicolas Sarkozy is proposing while Brits sat mumbling 'Oi be drinkin' zoider' as they were told street lights would be turned off this winter and hospitalization for violently insane be made voluntary. But I'm feeling stabby,' the patient says, quietly.

"It has been appalling watching the smug Tories – David Cameron's face looks like a peeled hard-boiled egg – twinned Nick Clegg, the Liberal Democrat boy/leader. On riot day, Clegg was exposed in the House of Commons as the assistant bully who'll mop up bloodstains for the leader as he poses at the Seoul G20.

"It was a relatively polite riot, given that the police genuinely didn't expect the students to show up at Tory headquarters – I do wonder why – and the plate glass windows folded like fabric and protesters raced through the building. The police were unable to stomp the kids, strip them naked, shackle them and deny them food and toilets, as the Toronto police freely did during the G20 demonstrations. It was terrific stuff.

"There's another demonstration coming up soon. May it be a lively prolonged thing. The long-term poor don't have a lot to lose, but the students were facing a smash-up.

"Meanwhile in the House of Commons, Labour's leader, the redoubtable Harriet Harman, delivered such a sustained kicking to Clegg in Prime Minister's Question Time that he crumpled before the cameras. (Question Time is an ordeal. Tony Blair said it used to make him physically sick with fear.)

"This would never happen in Ottawa Why not? Discuss. Pre-election, Clegg, with no hope of victory, swore he'd vote against tuition fees. Now as Cameron's little coalition handbag, he's for them.

"They are so high that modest students won't be able to pay them back until they're in their 50s. Harman taunted him in words every student would understand. 'We all know what it's like, you're at Freshers Week (first week in class), you meet up with a dodgy bloke and do things you regret.' It was such a perfect assessment of student life and Clegg's unholy union that even Tory MPs roared.

"*Guardian* columnist Charlie Brooker says governments throughout the world are watching and yearning for their own Clegg, a handy disappointment sponge for alienated voters. 'It's only a matter of time before 'Clegg' enters the dictionary as a noun meaning 'agonized, doe-eyed apologist.' Clegg will spend the rest of his political career, which may well be six weeks, clegging himself into a faint, and then querying the meaning of the word 'faint.' He's the kind of politician, Brooker writes, who'd send the Chilean miners back underground if he thought there was a vote in it, and then clegg that they're better off really.

"What you're seeing in Britain right now is a giant social experiment. Okay, not experiment. Cameron is shoving a hot stick into an ant farm to see what happens when he cuts spending by 25 percent. Most Brits are out of work for a reason. The kind of jobs that 'put food on your family' don't exist there. It's not like the US where poor whites do indeed have the option of picking lettuce for a living.

"Watch Britain closely for the next year. That level of social chaos planned by Cameron, confidently rooted and watered in the thick loam of centuries of landed rich, is going to be replicated in any country with a hard-right method. It's up to you to decide if you can take it."

And in Canada, picking lettuce is hardly an option in a rapidly urbanizing land of many million-headed cities.

W.K.

Far Out to Sea Having Destroyed Maps and Compass

The New York Times ("More China Bank Reserves May Counter Fed's Easing" by Keith Bradsher) recounts a dreadfully fractured tale: "Hong Kong – China's central bank unexpectedly announced on Friday night that it would require commercial banks to set aside a bit more money. It was the second move by Beijing this month and the clearest sign yet that China means to counter the Federal Reserve's monetary easing in the United States.

"Commercial banks were ordered to transfer an additional 0.5 percent of their assets by November 29 to very low-yielding accounts at the central bank, the People's Bank of China. The central bank relies mainly on these reserves for the renminbi to buy about $1 billion a day worth of dollars, euros and other currencies – purchases that prevent the renminbi from appreciating.

"Beijing, which has largely resisted United States pressure to let the renminbi rise, has argued that the Federal Reserve's recent easy-money actions are a de facto devaluation of the dollar.

"The central bank ordered commercial banks to increase their reserves after many news reports that Ben S. Bernanke, the Federal Reserve chairman, would criticize China on Friday for its currency policies. But the Chinese central bank issued its new regulation before Mr. Bernanke actually spoke in Frankfort.

"The bank did not mention the Federal Reserve in the one-sentence announcement, which described the move as undertaken 'to strengthen liquidity management and appropriately control money and credit.'

"But economists were quick to point out that the Chinese central bank had chosen a policy stance particularly well suited to holding down the value of the renminbi against the dollar, at a time when the Federal Reserve was trying to increase the supply of dollars by buying longer-denominated Treasuries" [i.e., bonds].

"Qu Hongbin, the co-head of Asian economic research at HSBC, wrote in a research note on Friday evening that higher reserve requirements for commercial banks showed that the People's Bank was 'prepared to do whatever it takes to fend off the impact' of the Fed's monetary policies.

"Most western economists, and even some Chinese economists, had been predicting that the Chinese central bank would raise interest rates instead of raising reserve requirements.

"Higher interest rates would help cool activity in a Chinese economy that may be overheating. Consumer prices rose 4.4 percent in the 12 months through October, and broadly measured money supply is up 54 percent in the last two years.

"Higher interest rates would also reward depositors, many of whom are elder Chinese. And higher rates would increase costs for borrowers, particularly the state-owned enterprises that account for up to 90 percent of the borrowing in China because of their political clout."

A Stuggle to Hold Value Down

"But raising interest rates would also make it even more attractive for international investors to buy renminbi and invest them in China, which would very likely lead to a strong renminbi. The Chinese government is already struggling to continue holding down the value of the renminbi; its relative weakness against the dollar has been crucial in China's emergence as the world's largest exporter.

"China's large trade surpluses have created millions of jobs in China, although critics point out that this has been at the expense of employment in its trading partners.

"China is also moving rapidly into the manufacture of telecommunications equipment, cars, solar panels and other sophisticated goods in which it competes directly with the United States instead of with emerging economies. That has made it even more important for Chinese companies to have a competitive advantage from a weak currency, and the resulting lower prices of their exports, as they establish footholds in the American markets.

"To battle inflation, the People's Bank is already trying to limit incoming investments by people and companies that want to buy Chinese stocks, bonds and real estate. The commerce ministry said this week that it was also tightening scrutiny of incoming investments in new factories and other big projects.

"The central bank already requires commercial banks to part with 17.5 percent of their deposits at the central bank. The new order means that requirement will rise to 18 percent on November 29. Two Goldman Sachs economists, Helen Quiao and Yu Song, predicted that China might raise the reserve requirement again by the end of this year so as to further limit lending and control inflation."

The Chinese may not realize it, or are being very tactful, but in this they are applying one of the great United States innovations under Roosevelt – the statutory reserves that required banks during a boom to deposit with the Fed part of their liquid capital on which they earned no interest. By increasing the amount of the statutory reserves, they are left with less liquid capital that could go to drive up interest rates. By increasing the statutory reserves during a boom and lowering them during a depression, the statutory reserves acted through the availability of capital of the banks rather than through interest rates. The statutory reserves fell out of American use and memory, and ever higher interest rates as the ultimate remedy took over. The Chinese may be tactful, in not crediting the American example – long since abandoned by Washington. But the fact is that they are making skillful use of a technique developed by the Americans who have since forgotten about it.

"In China, the renminbi from commercial banks' compulsory deposits have been the central banks' main source of money in buying $2.65 trillion worth of foreign reserves. Raising the reserve requirement ratio not only gives the central bank more renminbi with which to buy dollars but also leaves the commercial banks with fewer to lend, which may help to cool speculation in real estate and commodities."

Finally, in our review of wisdom once acquired at no slight cost, we must mention the long principle recognized by economists and sociologists but more recently buried: when a basic change in the distribution of a nation's capital occurs, a new political and even military regime must replace the old one, if the new distribution of the national income is to endure. In Mexico, and other lands of Latin America, Africa and Asia, this was more often than not accompanied by the physical elimination of those who oversaw the former wealth distribution.

For Obama to have chosen as his advisor a prominent head in turn both of the old regime in the central bank and the Treasury is perhaps the greatest shocker that belies his promise of a better world.

W.K.

Debt-Ridden at His Death at Age 35, Mozart Erupts into Our Suppressed Debate on the Key Importance of Human Capital

The New York Times (29/11, "Scholar Has Theory on Mozart the Debtor" by Daniel J. Wakin) transmits the long suppressed importance of human capital for society's survival. We quote: "The documents of Mozart's life – letters, memoirs of friends, portraits, bureaucratic files – have long been scrutinized at a microscopic level. So when the name was discovered two decades ago in a Viennese archive from 1791, it caused a stir.

"The archive showed that an aristocratic friend and fellow Freemason, Prince Karl Lichnowsky, had sued Mozart over a debt and won a judgment of 1,435 florins and 32 kreutzer in Austrian currency of the time (nearly twice Mozart's yearly income) weeks before the composer died.

"The entry was a mystery. No other information about the judgment has come to light, though scholars have generally assumed that it concerned a loan connected with a trip the two men made to Berlin.

"Now a Mozart scholar, Peter Hoyt, has come up with a theory that the judgment stemmed from a loan of 1,000 thalers in Prussian currency made on May 2, 1789, the day the prince and his coach departed Berlin without Mozart, leaving him in need of money for his own transportation.

"If true, the conclusion could add depth and texture to our understanding of Mozart's anxieties over financial problems at the end of his life and of his reception during one of his last journeys. 'It gives us a concrete picture of the misery level that Mozart lived with in the final two and a half years of his life,' Mr. Hoyt said in a recent interview. He said he hoped the theory would narrow the focus for other scholars to find documents connected to the loan.

"Mozart expressed financial desperation in letters of the time, and scholars have long sought to interpret their tone. Was he being deliberately theatrical? Did they reflect some other anguish?

"'Without your help, the honor, peace of mind, and perhaps the life itself of your friend and brother Mason will perish,' Mozart wrote to another Freemason, Michael Puchberg, in July 1789. The research, Mr. Hoyt said, 'ratchets up our understanding of how desperate his letters really were.'

"Mr. Hoyt reached his conclusion by calculating backward from the sum mentioned in the archive, taking into account 100 florins that Mozart had given Lichnowsky as emergency pocket money when the prince was running low. His calculations were off by a kreutzer: 'less than a cup of coffee,' he said.

"Mr. Hoyt is an assistant professor of music history at the University of South Carolina and serves as program annotator and lecturer for the Mostly Mozart Festival in New York. He outlined his findings at a meeting of the American Musicological Society in early November.

"The Mozart theory 'cleans up the picture,' said Bruce Alan Brown, a professor musicology at the University of Southern California. 'It tells us something not just about the state of his finances,' he added, 'but about the manner in which he got along with the high aristocracy,' the main patrons of Viennese music at the time.

"Mr. Hoyt acknowledged that he had to make assumptions to arrive at the 1,000 thaler figure and the date of May 1789, among them that the rate of interest was 4 percent instead of the more usual 5 percent, and that the conversion rate was one mentioned by Mozart in a letter to his wife. No other set of variables produces such a round number in Prussian currency or such a date. Mozart was not likely to have borrowed from Lichnowsky before the hastily arranged trip because the prince was paying for the journey.

"Lichnowsky, obligated to spend time in Berlin because of his holdings and military position in Prussia, invited Mozart along. They left Vienna on April 8 and made stops in Dresden Leipzig, Potsdam and Berlin before Lichnowsky split off to return to Leipzig. Mozart made his way back to Vienna on June 4. It was his last extended trip abroad after a lifetime of journeying.

"The trip was not much of a success musically. Mozart wrote little music in connection with it. Nor does the tour appear to have been a financial success, and Mr. Hoyt's research, he said, helps nail down that it was indeed something of a bust.

"That conclusion centers on a single phrase in a letter Mozart wrote to his wife from Berlin naming another Prussian currency, the Friedrick d'or: '100 Friedrichs d'or are not 900 florins but 700 florins – at least is what they tell me here.

"Some musicologists have argued that the reference was to money given Mozart by the king of Prussia, Friedrick Wilhelm II, or perhaps an attempt by Mozart to paint a falsely rosy picture for his wife. Mr. Hoyt suggests that the conversion rate (once the Friedrichs d'or are converted to thalers) produces the 1,000 thaler figure, supporting the idea that things were going badly.

"The issue has a bearing on Mozart's relationship with his wife, Constanze. 'Questioning Mozart's truthfulness to Constanze in this particular case in turn raises questions of his honesty towards her in general,' Mr. Hoyt wrote in a scholarly paper, 'and many biographers of the composer move directly from an account of the Berlin trip to conjectures about the fidelity of one or both spouses.' By inference, a financially honest Mozart might mean a maritally faithful Mozart.

"The judgment against Mozart called for the garnisheeing of half of his salary. It appears that Lichnowsky did not press Mozart's widow for payment after his death."

The shadow of final destruction Hoyt puts together fits perfectly into the far better-known version of his reactions to the stranger who appeared from nowhere with the order for his Requiem.

The unique case of priceless human capital represented by Mozart's sunny genius should at least have allowed him to straighten out his matrimonial difficulties as most mortals do.

Imagine what Mozart would have created to enrich the world had he been permitted to live until, say, the age of sixty!

Doesn't this carry an important message for those who persist in treating investment in human capital as mere debt.

W.K.

THANK YOU FOR YOUR SUPPORT!

On the Perils of Running the World in Reverse Gear

The Wall Street Journal (10/30, "Big Banks Told Not to 'Fix' a Fraud "by Robbie Whelan provides a model which needs only be applied to society to get us out of ever more overwhelming crises. We quote: "Ohio's attorney general threw a wrench into the banking industry's push to quickly restart foreclosures by fixing faulty paperwork, and pressed them to modify mortgage loans."

But to make that possible, society would have to put in charge of the rectification, not a high former official of the power group that designed the trouble. In the case of the Obama regime, that would be replacing Mr. Timothy F. Geithner, who served as a high official of the previous regime.

A variety of great economists and sociologists made the point that when you have a basic alteration in the distribution wealth in a country, you must change the high officials who run the show. Failing that, you will find the new economic regime being sabotaged to revert control back to the previous regime.

To cite only two of the many authorities who have made the point, the late great French economist François Perroux formulated his theory of the "dominant revenue." It runs approximately so: with ever change in the redistribution of wealth a new "dominant revenue" arises. This presents the enhanced incomes of the new group in economic power, as an index of the welfare of society as a whole.

The American sociologist, Douglas North, made much the same point:

Unless you replace those who were in charge of the previous regime, they will sabotage the new economic order. In many countries this was achieved by wiping out those previously in charge of government physically, as happened in Mexico and many other Latin American lands. It can be done with a clean cut-off of their political power. That was also the function of the guillotine in the French Revolution.

Failing that, the old regime will take over again.

President Obama's failure to take seriously changing those in charge of the executive apparatus while proposing to change society, doomed his high reform projects to sabotage by his own advisers.

And with this said. we can proceed with the *WSJ's* reports on the latest perfectly predictable frustrations for lack of a clean change in the leadership of his bureaucratic hierarchy.

"Ohio's attorney general threw a wrench into the banking industry's push to quickly restart foreclosures by fixing faulty paperwork, and pressed them to modify mortgage loans.

"In two letters released Friday, Attorney General Richard Cordray criticized a number of banks and loan servicing companies, including Wells Fargo & Co., Ally Financial Inc.'s GMAC Mortgage, and JPMorgan Chase & Co. Mr. Cordray said the banks are trying to paper over fraud committed in foreclosures with temporary fixes that don't address underlying problems in the banks' practices.

"It is not enough for a party that submitted false court documents to merely replace those documents. Wells Fargo and any other banks are simply not allowed a 'do-over,' he wrote in the letter to Wells. The other letter was sent to Ohio judges, who were asked to notify Mr. Cordray when banks file substitute affidavits.

"He demanded that the banks vacate any court order or motion that was based on improper paperwork. In an interview Friday, Mr. Cordray said the banks would 'be well-served to work out a settlement with the borrowers to modify the loans and work out payments.'"

Enter the Age of the Robo-signer

"Mr. Cordray's letters come as several banks say they have reviewed their foreclosure procedures and are resuming evictions. But his insistence that they go beyond replacing affidavits by employees who have been labeled 'robo-signers' – who didn't adequately review underlying foreclosure documentation. That threatens to upend banks' efforts to resolve their foreclosure problems.

"Mr. Cordray's strategy provides clues as to the goals of a 50-state probe announced two weeks ago. Led by Iowa Attorney General Tom Miller, the effort was joined by top law-enforcement officers from all 50 states in response to reports of widespread errors in foreclosure filings and allegations of robo-signing.

"The banks are committing fraud on the court, essentially perjury, and then saying 'You caught me! Here's some different evidence and use that instead,' Mr. Cordray said in an interview Friday. 'I know a lot of judges are not going to take kindly to that.'

"Bank of America declined to comment. A Wells Fargo spokeswoman said Friday the company intends to cooperate with Mr. Cordray's enquiries and doesn't 'believe that any of these instances led to foreclosures which should not have otherwise occurred.' She added that Wells Fargo has 'chosen to submit supplemental affidavits out of an abundance of caution.'

"Tom Kelly, a JPMorgan spokesman, said the company is still reviewing foreclosure documents for mistakes and hasn't refiled any new or replacement affidavits. Gina Proia, a spokeswoman for GMAC, said her company is 'not proceeding with foreclosure sales in Ohio or any state using a defective affidavit.'

"The aims of the 50-state probe were initially unclear. Some attorneys general, however, made reference to a 2008 settlement in which the Bank of America agreed to a $8.4 billion loan modification program after its Countrywide Financial unit was probed for predatory lending practices.

"Mr. Cordray declined to discuss the 50-state investigation or the conversations he has had with other attorneys general about the matter. Mr. Cordray, a Democrat, faces a Republican challenger for his office in Tuesday's general election.

"Wells Fargo Chief Financial Officer Howard Atkins said in an October 20 television interview that he is 'confident with our policies and controls' related to foreclosures and that 'the persons at Wells who signs a foreclosure file is the same person as the person who reviews the file and 'it is not always done that way in the industry.'

"But on October 28, Wells announced it was resubmitting affidavits for 55,000 pending foreclosures, suggesting that some of the paperwork might be flawed. In March, a Wells Fargo employee names Xee Moua said in a sworn deposition in a Florida foreclosure case that she signed between 300 and 500 foreclosure documents a day, without reviewing the numbers on the loan files for accuracy.

"Asked if she verified the appropriate information, she said, 'That's not part of my job description.'"

W.K.

Let's Proclaim Human Capital as What It Is, Society's Most Important Investment — Not Debt

It is no time for trade unions to be bashful.

I refer to the fine article on poverty of Jim Stanford, economist with the Canadian Auto Workers union in *The Globe and Mail* (8/12). I quote: "Governments are still reeling from recession-induced deficits, but now their attention is turning to another fiscal elephant marching into the room: the coming renegotiation of federal-provincial transfer payments. The Canada Health Transfer (CHT) expires in 2014, and must be extended soon. Finance Minister Jim Flaherty plans to clamp down on transfer to reduce his own deficit. But that just passes the buck to the provinces, whose fiscal position is even worse" – for the simple reason that they were already dumped upon some years ago.

Stanford goes on: "As this debate heats up, there's a new piece of knowledge that should be considered carefully as finance ministers arm-wrestle. Since the CHT was implemented in 2004, researchers around the world have established a whole new field of scientific knowledge regarding the social determinants of health.

"There is now hard medical evidence that a person's economic status `and social participation directly affects their physical health. And that, in turn, affects the cost of health care. This is not vague, bleeding-heart sentimentalism; it is hard scientific proof.

"For concrete physiological reasons, human health suffers when people are subjected to prolonged hardship, stress and disparity. The physiology of this connection involves many body systems, including the impact of stress and unhappiness on metabolism, hormone production, circulatory function and other systems.

"This research is well-established in medical journals, was popularized by British epidemiologist Richard Wilkinson in his best seller *The Spirit Level,* and was further affirmed by the World Health Organization in a recent expert commission.

"What does all this mean for health-care finance? It means that addressing the underlying social problems that scientists now know cause so much ill health, can help to rein in health costs.

"Governments must therefore be holistic in their programming and budgeting, instead of obsessing on reducing one budget line without regard to how that may affect other expenses,

"Diabetes, for example, is an illness with especially strong links to poverty and inequality. Incredibly, poverty is a greater risk factor in diabetes than diet or exercise. Canadians with average incomes of $30,000 are at least twice as likely to contract diabetes as those with incomes over $80,000. Poverty thus drives up the overall incidence of diabetes – and health costs in the process.

"Researchers estimate that one in 10 hospital admissions in Canada are due to diabetes and its complications; the Canadian Diabetes Association tallies total direct health costs at over $1 billion per year.

"Ironically, however, while Medicare shells out billions to treat diabetes among the poorest Canadians to the same average experienced in the populations as a whole, we penny-pinch when it comes to supporting poor people so they don't get it in the first place. Ottawa denied employment insurance to most of Canada's unemployed; meanwhile the provinces underfund social assistance (even programs with direct health impacts, like Ontario's special diet allowance).

"Governments then bicker over who should shoulder the burden of health cost, much of which results from the poverty and ghettoization that their own policies caused. Worse yet, many patients are poor and can't afford the substantial expenses associated with diabetes (including medication and supplies); this often lands them with expensive complications. Penny-pinching in one fiscal envelope contributes directly to ballooning costs in another.

"If we reduced the incidence of diabetes among the poorest Canadians to the same average experienced in the population as a whole, we'd cut overall incidence by about 15 percent.

"More ambitiously, countries with very low poverty rates (like Sweden and Norway) suffer less than half as much diabetes as Canada.

"We could therefore cut diabetes costs in half (savings $7 billion per year in health costs) if we matched their social performance. Exactly the same math applies to many other socially determined diseases, such as hypertension, digestive maladies and mental health.

"So a holistic strategy to improve the living conditions of Canadians would not just produce a stronger and more inclusive society. It would pay off in more manageable health-care costs. That would give finance ministers, as well as social planning officials, something to smile about."

In fact, what Jim Stanford outlines in the field of public health, extends equally well to education, care of the environment, the provision of adequate infrastructure in to serve our exploding urban population. It adds up in fact to an appreciation of such budgeting to be not running up debt, but recognizing it as human capital already repaid, earning a further return.

We could continue the logical pattern unfolded by Mr. Stanford, to just about every aspect of human existence, and in the process restoring what we have been pick-pocketed of, by the speculative banking interest.

All this also has a bearing the one industry for which funds being readily found for the final gamble once all else has failed – atomic armament.

Some years ago, Mr. Stanford was good enough to invite me to a conference of his organization, and listened to what I had to say on human well-being as the most profitable of all possible investments. From the article of his just quoted, he has moved significantly since then with the urgencies of our times. It will help considerably to bring back into the public domain again the wisdom of several different schools of reformers during the great Depression of the 1930s.

Trade unionists could not but be interested in the achievements of a factory worker in Vancouver J. McGeer who developed a way out of Depression of the 1930s, by nationalizing the Bank of Canada, and elected to Parliament persuaded the PM of the day, Mackenzie King, to nationalize the Bank of Canada, that had been founded as a private bank. Today that has been erased from the public memory, but it is till on our law books,

If COMER can be of help in spreading his present view of society, he can count on us – on a strictly non-political basis.

William Krehm

The Expensive Confusion Arising from Treating Prepaid Investment in Human Capital as Debt

We have told and retold how the most important lesson to come out of World War II has been expunged.

Immediately after the Axis surrender, Washington sent to Japan and Germany hundreds of economists to predict how long it would be before these defeated great trading nations could resume that role. Some sixteen years later, one of these, Theodore Schultz, explained how badly he and his colleagues had erred. This he attributed to their concentrating on the physical destruction, while assigning little importance to the detail that human capital – in education, and hence in health, the environment and the ever more costly infrastructures of a rapidly urbanizing world – had been disregarded. For a few years, Schultz was feted, decorated, and then pushed into oblivion.

As a result our society treats that most productive of all investments as a debt rather than as the most valuable of assets. Hence we are running our economies without anything that could be mistaken for accountancy.

The resulting costs do not stop there. No sooner do I start researching or writing than my phone rings, not once but twice: unemployed parties who are trying to survive by soliciting advertisements or business, and when you leave what you had been working on to answer such calls, your efficiency is undercut.

But this negative contribution to society's productivity by no means stops at our modest level.

I quote from *The Wall Street Journal* (11/26, "Price Hikes Put UK Libraries in a Bind" by Paul Sonne): "London – Deborah Shorley, the head librarian at the UK's Imperial College, London, is worried about balancing her books. She says her budget has been capped, just as publishers stand to increase the price of her library's journal subscriptions 3% to 6%.

"'It's a complete mismatch,' said Ms. Shorley. who says her libraries spend over £4 million ($6.31 million) on research resources, most of them related to the sciences. The big publishers haven't comprehended the new reality among UK libraries. 'They don't seem to understand that we just don't have the money,' she said.

"British research libraries, including Ms. Shorley's, on Thursday called for publishers to 'acknowledge the reality of current budgets,' and exercise 'restraint' in pricing. If the prices on subscription packages don't come down, the trade group Research Libraries UK warned, librarians 'will be forced to cancel significant numbers of subscriptions which will fatally compromise the UK's capacity for research.'"

Surely, no Devil could have dreamt up anything so destructive.

When Scientists Can't Afford the Literatire of Their Specialty

But back to the *WSJ*: "Publishers, however, suggest they are playing fair. 'The recent public statements from librarians are almost certainly motivated by real concerns about the current and future state of funding for libraries as the effects of the recession continue to be felt around the world,' said a spokeswoman for publisher John Wiley & Sons Inc., which publishes the *American Journal of Transplantation* and the *Journal of Avian Biology*. 'It is also true that public statements can be effective bargaining tools,' she added.

"A spokesman for Reed Elsevier PLC's unit Elsevier, which publishes *The Lancet* and the *Annals of Nuclear Energy*, said Elsevier is providing incentives for libraries to move to electronic-only subscriptions to reduce costs. Elsevier is committed to helping strapped UK libraries, he said. 'These are very difficult times, and we will work with them.'

"The concern among British librarians comes as the model for scholarly-journal pricing is under pressure. Many big educational institutions buy huge packages of journals, in both print and digital versions, under bulk pricing deals that are steadily ratcheted up over time. With flat or declining budgets, some institutions are now looking for ways to save money without seriously curtailing access for students and researchers.

"The objection from Research Libraries UK on Thursday came a day after thousands of students across Britain protested hikes in university tuition that have been suggested as part of PM David Cameron's spending cuts. Two weeks ago, students stormed the London headquarters of Mr. Cameron's Conservative Party to protest the tuition rises.

"The UK has planned a 40% reduction in government funding for higher education from 2011 to 2015, and has proposed to fill the gap by raising student tuition fees. Unlike the US, where big endowments and expensive tuition fees support universities and their research libraries, the UK has a less developed tradition of alumni-giving and relatively cheap tuition subsidized by the government.

"The situation could pose a challenge to publishing companies. 'You can't assume that you are going to raise your prices faster than the budget of your customers forever,' said Claudio Aspesi, senior media analyst at Sanford C. Bernstein & Co. 'One day or another, this was going to be a problem,' Mr. Aspesi estimates that subscription packages prices typically rise higher than inflation in a normal year, at around 4.5% to 5.5%….

"UK universities spend about £200 million each year material with scholarly content, and spending increased 4% per year on average from 2004 to 2008, according to data from UK library group SCONUL, tabulated by Reed Elsevier.

"Though the UK faces some of the harshest cuts to higher education, libraries in other countries have voiced concerns too.

"A group of more than 30 librarians from China's top universities issued a strongly worded public letter to major scientific, technical, and medical publishers in early September, decrying some publishers for proposing yearly price increases of 14%, after having raised prices 10% each year for the past three years. In the US, the University of California Digital Libraries threatened to boycott Nature Publishing Group in June after a pricing row; the two sides later reached a compromise."

And yet scientific literature is as vital to the modern work, as mother's milk is to a new-born babe. It teaches even more than the unending resources of mathematics, and opens up ever-ongoing resources of the human mind.

The New York Times (27/11, "Master of Math, From Old Babylon" by Edward Rothstein) provides us with a useful example: "If the cost of digging a trench is 9 gin, and the trench has a length of 5 ninda and is one-half ninda deep, and if a worker's daily load of earth costs 10 gin to move, and his daily wages are 6 se of silver, then how wide is the canal?"

Pause to compare this recognition of the multiple interrelated measurements with the contemporary castrated mathematics that practically all economists in government or universities dare allow themselves, if they want to keep their posts. If market-demand is greater than can be satisfied with available supply that is real inflation. However propositions cannot be assumed to remain valid when turned around. Example: if I shoot myself in the head, I fall dead. That is suicide. But you cannot deduce from that, that if I fall dead, it was suicide. It could have been heart-failure or many other factors. Propositions cannot be turned around and still remain valid. What is notable about the mathematics of Old Babylon of four thousand years ago, is they were keenly aware of the multiple independent factors that can enter into the cost of digging a trench. let alone running the world-wide economy of today.

In May 1970 the then leading theoretical journal in France published a lengthy essay of mine on the fact that non-marketed government services cannot be attributed to a shortage of supply to satisfy demand, but rather to the fact that more and more essential services in our society are provided by government on a non-marketed basis. In a detailed study of some of these I reached the conclusion that an increasing amount of our price rise is due to the growth of essential government services that are not sold or marketed but provided directly to society by the government. This I called the "social lien," and traced different examples up mountain and down dale. The essay had been purchased by the leading French theoretical economic journal of the day, because on its board sat not only the leading French sociologist, but two statisticians who had tried explaining price level increases by market supply and demand, and found that there was no direct relationship. And at that point the postman brought my essay and it was published at once. It was reviewed most favorably at length in the *Economic Journal* of Cambridge University in Britain, and in about eight other economic publications. throughout the world. It led for a close relationship with the French school of economists headed by the late François Perroux to our mutual advantage.

But we are still not through with what the economists of Babylon can teach our governments and universities.

We Must Learn from Babylonia

Returning to the *NYT* article: "A better question: if you were a tutor of Babylonian scribes some 4,000 years ago, holding a clay tablet on which this problem was incised with cuneiform indentations – the very table that can now be seen with 12 others from that Middle Eastern civilization at the Institute for the Study of the Ancient World – what could be taken for granted, and what would you need to explain to your students? In what way did you think about measures of time and space? How did you calculate? Did you believe numbers had an abstract existence, each with its own properties?

"And how would you have figured out the width of that canal (which, the tablet tells us, is one-and-a half ninda)?

"Spend some time at this modest yet thoroughly intriguing exhibition, 'Before Pythagoras: The Culture of Old Babylonian Mathematics,' and you begin to realize that the answer can be far more cryptic than these tablets were before great scholars like Otto E. Neugebauer began to decipher them during the first half of the 20th century.

"The Institute, part of New York University, has gathered together a remarkable selection of Old Babylonian tablets from the collections of three universities – Columbia, Yale and the University of Pennsylvania – that cover a wide mathematical range. Made between 1900 and 1700 BC, they include student exercises, word problems and calculation tables, as well as more abstract demonstrations. Under the curatorship of Alexander Jones, a professor of NYU, and Christine Proust, a historian of mathematics, the tablets are used to give a quick survey of Babylonian mathematical enterprise, while also paying tribute to Neugebauer. This Austrian-born scholar spent the first half of his career teaching at Brown University and almost single-handedly created a new discipline of study through his analysis of these neglected sources.

"Only about 950 mathematically oriented tablets survived two millenniums of Babylonian history, and since their discovery, debate has raged over what they show us about that lost world.

"Every major history of Western mathematics written during the 70 years has at least started to take Babylonians into account. Generally, their systems have been seen as precursors to the theoretical flowering of Greek mathematics, out of which our own mathematical approaches have grown.

"But Neugebauer, and then his many students and rivals, also showed how sophisticated Babylonian mathematics was and how many similarities existed to later Western systems – if, that is, you counted using 60 fingers (as we often seem to, thanks to the Babylonians, when dealing with second and minutes and in, in part, even when measuring angles).

"Examining the surviving tablets, including one multiplication table on display here, scholars decoded the bird's feet of Babylonian numerals, showing that the Babylonians used the same symbol to represent different numerical values. (The same digit for us has the same value if it is in the 1's, 10's, or in the 100's column; the Babylonians could use the same sign, depending on context, to represent a 1 or a 60 or a 3600.)

"The most famous tablets here – one showing a square with two diagonals, and another known as Pimpton 322, containing a table of numerical symbols – suggest that the Babylonians knew at least some of the consequences of the theorem that now bears the name of the Greek mathematician Pythagoras, who lived some 1,500 years after these works were chiseled.

"But did the Babylonians conceive of it as a 'theorem' – a timeless truth subject to proof based on accepted principles? Or was it thought of as a property of areas of land that were mapped out by surveyors? Or, as one scholar recently wrote, was Plimpton 322 'a teacher's catalogue of parameters' for calculation? Or something else completely?

"Aside from the fact that the analysis of these tablets is relatively recent, one of the problems if that much of their context is hypothetical, because of the almost haphazard way in which early modern explorers pulled these artifacts out the layered rubble of ancient mounds of detritus. In a fascinating book, *Mathematics in Ancient Iraq: A Social History* (Princeton), Eleanor Robson even suggests that many tablets like these of the second millennium BC, 'were essentially ephemera, created to aid and demonstrate recall, destined almost immediately for the recycling bin."

"But as Ms. Robson also points out, these tablets' word problems about digging and construction, their use in teaching record keeping and calculation, and their implicit affirmation of the important of scribes and teachers, also reveal a highly organized bureaucratic society, 'an ordered urban state with god, king and scribe at its center….'

"It might have helped, too, if the show suggested the kinds of debates that have arisen about the status of Babylonian mathematics, which, in many ways parallel larger debates about Western and non-Western cultures. In this case those debates become all the more charged because of the geographical region involved….

"But for an outsider surveying these objects and the history, the response is at once awe at the ancient minds that created such powerful systems for understanding and ordering experience, and still more, amazement at the mathematical world that later developed and went so much further: explicitly turning individual examples into theorems, earthly practices into abstract principles and outlining methods for understanding that are still being applied."

And then, holding our heads in dismay at our own governments and universities, that after daftly cutting down the allowable variables for running a supposedly globalized world riven with wars and misery to the two reversible variables of supply and demand. What a humiliating case of suicide for a once proud civilization!

William Krehm

One-way Traffic Distributing Society's Assets

We have documented at some length the way in which social services are being curtailed. One example was that forensic patients have been kept in prisons when their need was essential psychiatric and social care.

Were this respected, it would follow that with the economic recovery induced by vast inputs of Federal credit to the banks, the process of slashing social services would automatically be reversed. That would be the litmus test to prove that slashing of vital social services was sincerely under duress temporaryly. But nothing of that sort has been happening, or is in the cards to happen.

On the point we quote *The Globe and Mail* (2/12, "Big Five tapped Fed for funds" by Joanna Slater) that informs us: "Canada's major banks were among the numerous financial institutions across the globe which accessed funding from the US Federal Reserve as part of its efforts to stave off economic collapse.

"Among the thousands of transactions revealed by the Fed on Wednesday were a number involving Canadian banks, which took advantage of one program to borrow roughly $111 billion (US) through their operations in the US. Obliged to disclose the information under a new financial-reform law, the Fed provided an unprecedented look Wednesday inside a host of programs it used starting in 2007 to shore up a tottering US banking system.

"The records show in stark terms how the Fed acted as a lender of last resort to a variety of players in the US and beyond, providing low-cost loans and other sources of funding in a desperate effort to get financial markets functioning again.

"Five Canadian banks – Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, and Toronto-Dominion Bank – tapped into Fed loans through their US units.

"The five banks all borrowed money through a program known as the Term Action Facility, which was created in late 2007 so banks could access Fed funding without the stigma attached to its traditional avenue for lending known as the discount window.

"Canada was far from the only country whose institutions tapped programs. Banks from Japan, Germany, South Korea, Israel, and Brazil also utilized the loans, which the Fed said were given to institutions in 'generally sound financial condition.'

"In exchange for the loans, the banks posted a broad range of collateral, from US Treasury bonds to commercial real estate loans to mortgage-backed securities. All the loans made under the program were repaid in full, with interest, the Fed noted, and it wrapped up the facility in the spring of this year. Canadian banks said the moves to seek loans from the Fed were dictated by strategy and not by necessity.

"RBC accessed funding from the Fed 'purely for business reasons – better pricing and collateral rules – and because they were the best deal for our shareholders at the time,' said Gilliam McArdie, a bank spokesman. 'Our access to funding remained very strong throughout the entire crisis.

"Mr. McArdie later added a clarification, noting that banks were generally encouraged to take these facilities by the Fed to help kick-start lending in the economy."

All of which high-lights the basic fact that this vast undertaking was to bring the economy back to the state of affairs that had led to the 1928 crash, and once again to the financial disaster that the organization of the North American Free Trade Alliance (NAFTA) led to. But completely expunged has been the recognition that human capital is not a debt but "the best investment a government can make." That which had inspired the Canadian government to finance its Second World War far more successfully than the US and Britain had theirs, It also made possible the welcoming of mostly penniless immigrants from Europe – I and my late wife were in charge of the Canadian branch of the International Rescue Committee after WWII. I can tell you with a knowledge of the facts that much of the funds to finance the operation of bringing over mostly penniless refugees from postwar Europe came from US donors, but American visas as were not available, where Canadian visas were enthusiastically.

Now the American funding of our banks is not given to preserve the institutions that made Canada a highly democratic land, but increasingly brought us back – reinforced if anything – to the hegemony of the speculative banks that caused the present crash.

Many economists and sociologists have developed the view that when the distribution of the national income is basically restructured, political power, peacefully or violently, will change hands. Leaving politicians of the earlier economic regime in the saddle, must bring on either violent or political change but, failing that, the partisans of the replaced regimes will undermine the power of the new dominant class. Today, the leadership in bringing back the regime of speculative banking has struck out, and the US Fed is largely personified in this operation by Timothy F. Geithner, a stalwart both from the Fed and the Treasury, as President Obama's chief adviser is himself a towering guarantee that even if the economy should experience a bit of recovery it will be on the backs of and not in any improved lot for the bulk of our populations. And hence will not last long. That leaves the final gambol – atomic war. And there has been no budget cutting for atomic weapons.

The recovery being planned will not extend far beyond the highly leveraged banks and the armament interests. But even the once recognized key investment – being treated as "debt: rather than as the best investment a government can make – is simply not part of the game. That exposes society to the ultimate disaster – the annihilation of civilization as we were experiencing it.

William Krehm