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Canadian Sovereignty and the Bank of Canada

Speech by John H. Hotson, Professor of Economics, University of Waterloo, Emeritus, and Executive Director, COMER, on October 15, 1994, to the Council of Canadians Annual General Meeting: "Setting the Citizens' Agenda: A Vision for Canada – Alternatives that work"

My message today can be put in a nutshell by quoting the following from the *Minutes of Proceedings and Evidence respecting the Bank of Canada, Committee on Banking and Commerce, 1939*, Government Printing Bureau, Ottawa. Graham Towers, the first, and the best, Governor of the Bank of Canada, is answering the questions of Committee members.

Q: "Will you tell me why a government with power to create money should give that power away to a private monopoly, and then borrow that which Parliament can create itself, back at interest, to the point of national bankruptcy?"

Towers: "If Parliament wants to change the form of operating the banking system, then certainly that is within the power of Parliament" (p. 394).

At one point the questioning turned to the impending war.

Q: "You have agreed that banks do create money. So as far as war is concerned, there will be no difficulty in raising the means of financing whatever the requirements may be?"

Towers: "The limit of the possibilities depends on men and materials."

Q: "So where we have an abundance of men and materials, you have no difficulty, under our present banking system, in putting forth the medium of exchange that is necessary to put the men and materials to work?"

Towers: "That is right."

Again putting it into a nutshell, I am

here to invite participants in the Council of Canadians to join in a movement to return the Bank of Canada to its days of glory. We call the movement the Sovereignty Loan Plan. In its first 15 years, under the able Governorship of Graham Towers, the Bank of Canada financed the end of the Great Depression, Canada's participation in World War Two, and our post-war industrialization. It did all this by creating up to 80 per cent of the transactions money – usually called M1 – added to the money supply and it did so at interest rates which ranged from 0.37% to 2.5%.

The prevalent ideas today are that inflation and deficits are the two greatest problems which face Canadians, that high interest rates can cure inflation while boosting savings, and deficits can be eliminated by tax hikes and expenditure cuts. These ideas are sadly mistaken. They ignore everything that matters to understand how Canada and the world got out of the Great Depression and what we must do to get out of this one.

The world did not end the Great Depression by "balancing government budgets." It did not "save" its way out of the 10

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Bank of Canada *from page 1*

year slump. The near zero interest rates of the late 1930s, though helpful, could not induce sufficient private borrowing and spending to restore prosperity. The private banking system either would not or could not loan enough new money into existence to end the depression.

The depression ended only when governments all over the world “drafted” their central banks, forcing them to create a flood of new money to finance massive government deficits at near zero interest rates. These massive deficits – over of 25% of GNP for several years – resulted in a great rise in private incomes and a great reduction in private debts. It was this creative use of the powers of the central bank which financed Canada becoming an industrial power and ushered in some thirty five years of the greatest growth and the highest employment levels in the history of capitalism, indeed, in the history of the world.

Tragically, the flood of new money that ended the last depression was created to finance World War Two, not the peaceful public works which could at any time from 1929 onward have ended the depression without a war. The same is true today. We are in this depression because the high interest rate policies of central banks have only made matters worse. Canada will not get out of this depression until the government directs the Bank of Canada to adopt some version of the policies which financed World War Two. Then basic reforms of banking and money creation must be enacted if we are to avoid yet another boom/bust cycle. That is the message I hope to get across today.

As I see it, the governments of Canada have broken three fundamental financial rules. These rules are:

1. No sovereign government should ever, under any circumstances, borrow any money from any private bank.

Banks create the money they lend, If new money is needed for governments to spend, the central bank, our Bank of Canada, which the government owns can produce that money at near zero cost to the government and the taxpayer.

2. No Canadian, provincial, or local government should borrow foreign money when there is excessive unemployment here.

Foreign money can only be spent on imports and to pay on foreign debts. When US dollars, or Japanese Yen, are exchanged for Canadian money this bids up our for-

eign exchange rate boosting our imports still further while shrinking our exports. It is a mistake to attract foreign funds by higher interest rates here than elsewhere. Instead deficits should be financed internally and largely through the central bank.

3. Governments, like businesses, should distinguish between “capital” and “current” expenditures, and when it is prudent to do so, finance capital improvements with money the government has created for itself.

No one criticizes a business firm for adding to its debts to add to its earning assets. Our governments, federal, provincial and local have massive capital investments, and need to make more if Canada is to prosper. However, the federal government does not have a capital budget and counts both borrowing for new buildings and for paper clips as “deficit finance.”

I am a co-founder and executive director of the Committee on Monetary and Economic Reform, or COMER. I am also an advisor to the Sovereignty organization in the US, and Canadians for Constitutional Money (CFCM) headed by André Marentette of Windsor, who will be addressing you this afternoon. COMER is an international organization of over 200 economists and non-economists. We are united by the realization that the fractional reserve banking system, which creates money as a debt and destroys money when the debt is repaid, is an unsustainable system. We must reform banking if we are to create a sustainable economy. COMER is a forum to discuss possible reforms and to empower would-be reformers to promote their solutions.

Why is the present financial system unsustainable? I quote from COMER’s Statement of Purpose: “...With present institutions, prosperity, growth and ecological viability are not sustainable in the long run because of the excessive growth of debt and interest on debt. Throughout the last century, at least, the following pattern has manifested itself: real output only grows in years in which aggregate demand grows, demand only grows when money supply grows, the money supply only grows when debt grows, The longer output, demand, money supply and debt grow the higher the rate of interest becomes and the more excessive the growth of interest and debt.”

To illustrate this point with Canadian statistics: from 1962 to 1993 real GDP little more than tripled, but money, or current dollar GDP increased 16-fold. But total debt increased more than 25-fold and

interest on debt increased some 40-fold. Moreover, it was not government debts which increased most rapidly (up some 21-fold) but financial institutions (33-fold) and households (29-fold). Business debt was up about 20-fold.

Bad monetary policy and bad monetary institutions have caused the depression crisis which now grips the world. But every crisis is also an opportunity. A most promising solution and action plan to end the depression has developed out of COMER's deliberations. This is the Sovereignty Loan Petition created by Mr. Ken Bohnsach of Freeport Illinois. The petition reads as follows: To promote the general welfare: we, the people, petition Congress to make interest-free loans of United States Treasury money to tax-supported bodies for capital projects and to reduce interest-bearing debt.

The Sovereignty loan petition has gathered an extremely impressive level of support in the US. As of now 1,860 tax supported bodies from cities as large as Buffalo, New York, St. Louis, Mo., Cleveland, Ohio, and Lansing, Mich., down to local school boards have passed resolutions supportive of the Sovereignty Plan, as has the House and Senate of the State of Michigan. The US Conference of Mayors representing 1,050 cities and towns where 80 million Americans live, has unanimously endorsed Sovereignty as has the Community Bankers' Association of Illinois, representing over 500 small banks. In Canada we started later but already 10 tax-supported bodies in British Columbia and Ontario have passed the Sovereignty resolution and the Federation of Canadian Municipalities and the Association of Municipalities of Ontario are currently studying it.

Nor is interest in and support for this plan confined to the US and Canada. This Plan was an issue in last year's election in New Zealand, and had it not been for at last minute fourth party entry, might well be government policy there today. Not coincidentally, New Zealand was the only democratic country on earth to end its Great Depression before World War Two began. It did so by directing its new Reserve Bank to create money and to lend it at 1% interest to local government bodies for roads and housing and to modernize its export industries.

Becoming an island full of employment in an ocean of depression quickly caused a new problem: New Zealand started importing more than its exports could pay for. So its policy of living up to its means

domestically had to be supplemented with exchange controls to keep from living beyond its means internationally. These policies were used successfully right up until the oil shocks of the 1970s.

For decades NZ had the highest level of employment on earth – there were years where there were 55, or 400, registered unemployed in a nation of 3.5 million, and one of the world's highest standards of living. It was the abandonment of these successful policies which led to New Zealand's current sorry state with some 300,000 unemployed and foreign debts of \$70 billion dollars, not welfare state spending as the *Readers' Digest* and CTV's *W5* program would have Canadians believe.

If time would permit I'd love to regale you concerning my own adventures in two trips to New Zealand and one to Australia promoting Sovereignty. Australia also abandoned the policy of internal finance of government borrowing at the central bank at 1% interest in the 1970s, and now likewise suffers exploding foreign debt, massive unemployment and foreign take-over of its economy. These "new right" policies have been a disaster to these countries, as they have been for Canada.

We hesitate to call the Canadian organization to promote this plan "sovereignty" for obvious reasons having to do with Quebec separatism. That is a pity since Canada's own Mackenzie King said it all, "*Without Government creation of money, talk of Sovereignty and Democracy is futile.*" André Marentette chose the name, "Canadians for Constitutional Money." This name has the virtue of making the fundamental point: a sovereign government reserves to itself the constitutional power to create legal money. Government of Canada money is the only legal money, or "legal tender" – just as it states on every Bank of Canada Note.

The money created by private-bank loans is not "legal tender." It is only a promise to pay legal tender. But, the Bank of Canada in recent years has created so little "legal tender" and it has allowed the banking system to create so many "funny money" claims on legal tender that the whole system has become top heavy, illiquid, and so confused that we now have five different definitions of "the money supply and new ones are being proposed every year.

The *Bank of Canada Act* states that among the "Business and Powers of the Bank" is the power to finance budget deficits of the Federal Government of up to one third of its estimated revenue, and to do the same for

any province for deficits up to one-fourth of estimated revenues. The exact wording of the most important clauses on this are:

18. (1) The Bank may...

(c) buy and sell securities issued or guaranteed by Canada or any province;

(i) make loans or advances for periods not exceeding six months to the Government of Canada or the government of any province on the pledge or hypothecation of readily marketable securities issued or guaranteed by Canada or any province.

(j) make loans to the Government of Canada or the government of any province, but such loans outstanding at any one time shall not, in the case of the Government of Canada, exceed one-third of the estimated revenue of such government for its fiscal year, and shall not in the case of any provincial government exceed one-fourth of such government's estimated revenue for its fiscal year; and such funds shall be repaid before the end of the first quarter after the end of the fiscal year of such government.

By wise use of its powers from the day it opened its doors in 1935 through the end of the war in 1945, the Bank of Canada created almost 80% of the new money needed to end the depression and win the war, if we define "money" narrowly as M1, and 37% of the new money if we define "money" most broadly as M3.

Thus much of the money created for the war was "legal tender" – or "monetary base" – plus chequing, or transactions accounts, not the high interest "near monies" which so predominate today. (The monetary base rose from \$259,3 million in 1935 to \$2,017 million in 1945, or by \$1,757.7 million; while M1 rose from 741.5 million to \$2,956 million and M3 rose from \$2,715 million to \$7,380 million.)

What a contrast to the most recent period! In 1945 Bank of Canada's base money was 68% of M1 and 27% of M3. By 1993 it was still 56% of M1, but only 7% of M3, as M1 had fallen from 40% of M3 to a mere 12% of M3. It is because of the liquidity shortage which the Bank has caused that interest rates have risen from their near zero level in 1945 to their 1980s peak of over 20% before falling to their present 6-8% range.

There is room for the Bank to create a considerable amount of money while neither "crowding out" nor "over-heating" the private economy. If, in the recovery, private sector borrowing from the chartered banks starts to expand too rapidly, the Bank can curb this by transferring government de-

posits to itself. It should also be empowered to raise member bank reserve requirements sufficiently to check their powers of money creation.

The Sovereignty proposal calls on the Minister of Finance, the Honourable Paul Martin, to direct the *Bank of Canada Act*, Section 18, to make interest-free, or near interest-free, loans to the provinces and local governments for various infrastructure projects. The suggested volume of such loans is \$30 billion to be disbursed over four years, thus \$7.5 billion a year on the average. This would roughly double the balance sheet of the Bank of Canada from some \$27 billion to 57 billion.

There is ample precedent for such a rapid growth of the Monetary Base (MB) in Canada. As Figure 1 indicates, MB doubled in

4 years from 1935 to 1938 facilitating Real GNP (Q) doubling by 1942. Moreover, MB doubled again in 4 years from 1938 to 1942 and again in 3 years from 1942 to 1945. Thus in 1945 the Bank of Canada had created eight times as much money as in 1938. Furthermore, a similar period of rapid growth of MB occurred between 1968 and 1978; MB doubled between 1968 and 1973, and again between 1973 and 1978. However, at the rate of growth under the monetarist-tight-money policies imposed about 1978 it will take about 20 years to have doubled the Bank of Canada's balance sheet again.

There is also ample precedent for the near zero interest rates on government borrowing called for by Sovereignty. During World War Two, while the Federal Govern-

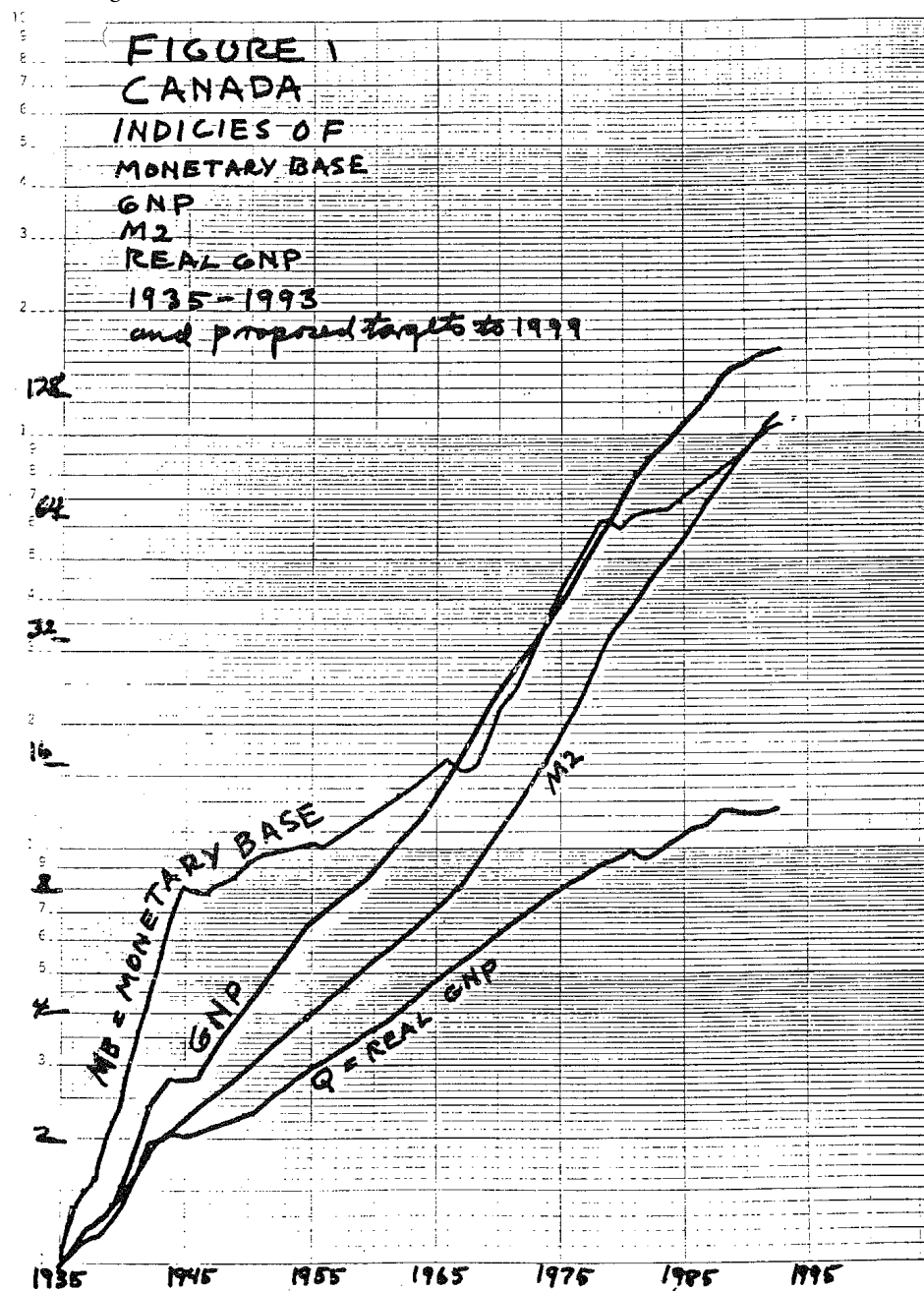
ment was running deficits of more than 25% of GNP, the Bank of Canada kept short run interest rates in the 0.36% to 0.5% range even the war bonds sold to the public yielded only 3%.

Figure 1 is of further interest. The near correspondence between the rate of growth of GNP and M2 is notable, as is a similar parallelism between the growth rates of MB and Q. Thus, in the post war years 1946 to 1966 MB doubled and Q doubled from 1943 to 1962. Furthermore, the slowdown in the growth of MB after 1978 is quickly duplicated by Q, but not by GNP nor M2. These observations are wholly in accord with the contention that the Bank of Canada's restraint policies reduce real GNP, not money GNP, and are therefore inflationary (or if you prefer, stagflationary) not anti-inflationary as the Bank claims.

However, the years 1968 to 1978 during which MB, GNP and M2 increased at much the same pace was the period when the Bank's monetarist-tight money views – that money determined money things, i.e., money GNP, not real things (real GNP) became dogma.

Figure 2 takes a closer look at the four series set forth in Figure I. Here the series are rebased on 1978 and plotted until 1993, with extensions showing the possible effect of the Sovereignty Loan Plan until the end of the century. Note the close "tracking" between M2 and GNP and MB and Q until about 1989 and their growing divergent trends in the most recent years. In an evident attempt to fight the depression, the Bank stepped up the pace of MB creation from 1990 to 1991 with little if any effect on the pace of Q and a small and lagged effect on GNP and M2.

The extension to the year 2000 in Figure 2 is based on the following assumptions: after a slow expansion of all four series in 1994 (the dotted lines) Paul Martin orders the Bank to create \$7.5 billion each year from 1995 through 1998 to be lent to junior governments at near zero interest – junior governments in return agree to cease foreign borrowing. The recovery plan also has the following elements: a "super AIB" wage-price social contract abrogating any existing wage contracts calling for wage increases greater than productivity gains, coupled with guidelines limiting wage gains to 2% per annum; abolishment of the GST coupled with enactment of a Financial Transactions Tax calibrated to produce equal revenue; and a decision to limit M2 growth to 6% in 1995, 7% in 1996 and



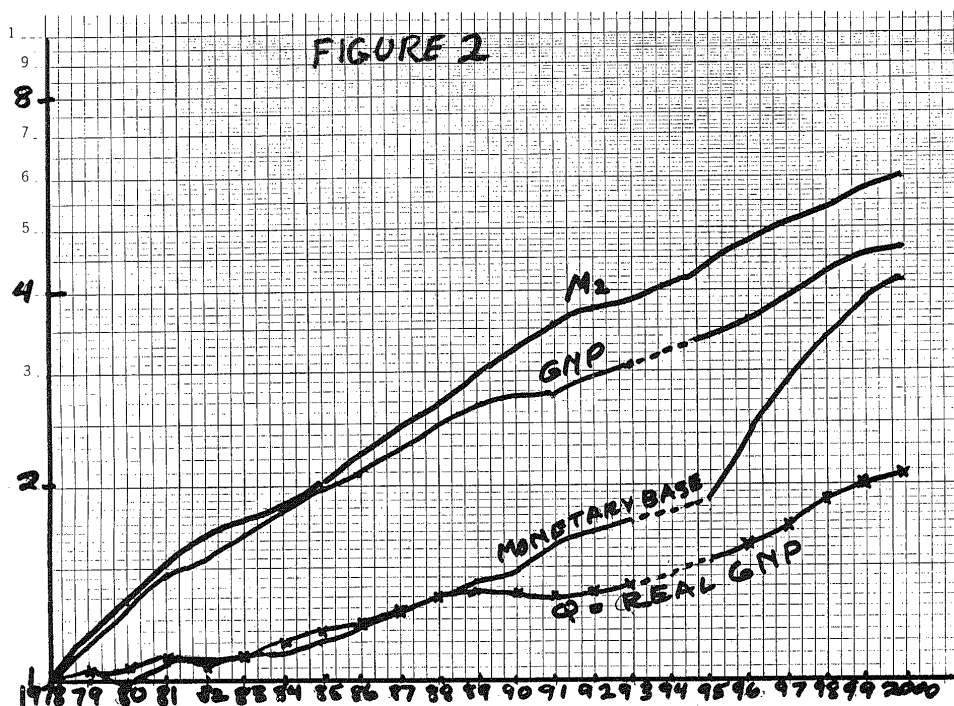
8% in 1997 and 1998, then 6% in 1999 as, presumably Canada approaches “reasonably full employment.”

Finally, it is assumed that the private banks are directed to cease creating money for speculation, leverage buyouts and junk-bond financed take-overs. I assume that with such policies M2 and GNP will grow at the same pace during this period, with real GNP increasing somewhat slower until the incomes controls take hold.

Table 1 sets forth the figures for monetary growth from 1990 through 2000 on these assumptions. The figures for 1990 through 1993 are the actual numbers, 1994 is a “reasonable approximation” and those for 1995 forward are the “Sovereignty Projection.” Note that in 1990 the Bank increased MB by 10.4% – \$2.3 billion (or 6.3 million a day), but only by 3.1% – \$789 million (or only \$2.2 million a day) in 1992. This sounds like a lot of money until one considers that the private banks of Canada added \$18.9 billion (or 51.8 million a day) to the money supply (“M2”) in 1990, but only \$8.62 billion (or only \$23.6 million a day) in depressed 1992. Under the Sovereignty Loan Plan in 1995 MB increases by \$7.5 billion (\$20.5 million a day) or 26.3% and then tapers off as a percentage as the same absolute amount of \$7.5 billion is injected annually.

Note also that M2 growth in this expansion never exceeds its percentage growth of 1990. For this to happen it is merely necessary for the Bank of Canada to transfer sufficient government funds out of the chartered banks to limit the expansion of M2 to this pace. It would also be desirable to re-impose fractional cash reserve requirements and permit the Bank to raise them month by month should that be necessary to prevent “overheating.”

The last column of Table 1, showing the amount of money created by the chartered banks (>M2 – > MB) is of particular interest. In 1990 the chartered banks added \$18.9 billion to M2, but only \$8.62 in depressed 1992. Only in the first year of the Sovereignty program, when a target of 6% growth of M2 limits them to produce only \$12.36 billion does the new policy constrain the private banks to any great extent and in the subsequent years they are free to “print money” to a degree, but not a rate, not seen since the 1980s “semi-boom.” So the idea that this enhanced role for the Bank of Canada is adverse to the interests of the banking community is as contrary to the facts as it is to the idea that it must be



“wildly inflationary.”

The Sovereignty Plan enables bad loans now on bankers’ books to become good loans as many hundreds of thousands of Canadians go back to work. Far from increasing government deficits it shrinks them at every level as tax receipts rise and transfers fall.

I have made no attempt to quantify the effects of this faster pace of base money creation on interest rates and the unemploy-

ment level. As junior governments cut their borrowings in the municipal bond market and step up debt repayments this works to cut interest rates. However, the higher level of activity, together with a lessened dependence on foreign borrowing work in the opposite direction. On balance I would hope that interest rates would fall further, reducing or eliminating the premium over US rates.

Real life doubtless would be less smooth

Table 1: Money Creation in Canada, 1990-1993, actual; 1994 assumed; 1995-2000, Sovereignty Loan proposal. MB = Monetary Base, M2 = Usual definition, > = change in, %> = percentage change. All dollar figures are in billions of Canadian dollars.

Year	>MB	MB	%>MB	%>M2	>M2	M2	>M2->MB
1990	\$2.312	\$22.17	10.4	8.4	\$21.23	\$251.3	\$18.9
1991	1.105	24.48	4.5	4.6	12.64	272.49	11.54
1992	0.789	25.59	3.1	3.3	9.41	285.14	8.62
1993	1.125	26.38	4.3	6.0	17.67	294.55	16.55
1994	1.2	27.50	4.4	6.0	18.73	312.23	17.53
1995	7.5	28.70	26.3	6.0	19.86	330.96	12.36
1996	7.5	36.20	20.7	7.0	24.56	350.82	17.06
1997	7.5	43.70	17.2	8.0	30.03	375.38	22.53
1998	7.5	51.20	14.6	8.0	32.43	405.50	24.93
1999	2.348	58.70	4.0	6.0	26.27	437.84	23.92
2000		61.00				464.10	

than in my model projection. Thus it is probable that the first year would find MB growing less than \$7.5 billion. Whether that would enable the chartered banks to lend more, or less, M2 into existence is anyone's guess. This "scenario" is intended to be more than an exploration of the possibilities and I would not defend any of the numbers to anyone's death, least of all my own.

Table 2 sets forth the projections used from 1994 through 200 for Real GNP (Q) and Money GNP. The pace of M2 expansion is assumed to be the same as that of money GNP.

In dollar terms the year 2000 GNP projected is \$1,102.9 billions, a gain of \$346.5 Billion from 1994. In real terms the gain is \$195.3 billion in "1981 dollars," but over \$300 billion in 1991 dollars because of greatly lessened inflation.

John Biddell, FCA, and COMER board member, in his newly published book, *A Self-Reliant Future for Canada*, proposes that Canada adopt an interesting variant of the Sovereignty Loan plan. By his proposal the Federal government would have the Bank of Canada assume, and eventually retire, the present debts of the provinces and in the future finance their deficits at nominal interest rates.

Not only would this free the provinces from their financial strait-jacket, it would give our presently alienated western provinces as well as Quebec a powerful incentive to remain in Confederation.

Would the return to full employment be inflationary? Not if it were properly handled. I agree with Jack Biddell, who was Ontario's representative on the Federal Anti-Inflation Board and Chairman of Ontario's Inflation Restraint Board, that inflation should be handled by intelligent incomes policies, not by counterproductive interest hikes.

No legislation is necessary to enact the

Table 2: The Canadian economy in 1994 with Sovereignty Projection to 2000 for Percentage increase in Real GNP (%>Q), Q Index (1978 = 100), Percentage increase in money GNP (%>GNP) and GNP Index

Year	%>Q	Q Index	%>GNP	GNP Index
1994	4%	146	6%	321
1995	4%	151	6%	340
1996	6%	160	7%	364
1997	8%	173	8%	393
1998	8%	187	8%	424
1999	6%	198	6%	450
2000	4%	206	4%	468

Sovereignty Loan Program in Canada. "All" that is necessary is to convince two men: Jean Chrétien and Paul Martin, the Minister of Finance. Under the provisions of Section 14 of the *Bank of Canada Act* all Paul Martin need do is to issue written instructions to the Governor of the Bank to carry out this policy and the rest is mere detail.

I am proud to be a Rotarian. I don't know whether John Crow is a member of Rotary or not, though he addressed our Kitchener Rotary Club once. Nor do I know whether Paul Martin, or Gordon Thiessen are Rotarians. In Rotary we are supposed to measure what we think, say or do by Rotary's Four Way Test:

1. Is it the "truth"?
2. Is it "fair" to all concerned?
3. Will it build "good will" and "better friendships"?
4. Will it be "beneficial" to all concerned?

Recent government and Bank of Canada policies do not meet any part of Rotary's Four-Way Test. Their arguments – that there is no alternative, that the only way to stop inflation is to have a perpetual depression – is not the "truth". Their policies are not "fair" to all concerned – not "fair" to unemployed, not "fair" to those who lose their business, not "fair" in that interest income has increased far more rapidly than all other forms of income.

These policies will not build "good will" and "better fellowship". Indeed, they are tearing Canada apart. They are not "beneficial" to all concerned. The latest estimate is that the unemployment these policies cause cost Canadians \$100 billion a year – with government and business, not the unemployed, the biggest losers, at least in dollar terms.

The Sovereignty Loan Plan meets the Four-Way Test – all of it. I look for increasing support from Rotarians as our campaign on behalf of Sovereignty Canada goes forward. I urge all Canadians, and all Ontarians, as residents of the most powerful province in Confederation, to join us in this effort which will succeed only if the politicians know that this is what the people want. Exercise your individual Sovereignty by demanding that the federal government use its Constitutional power and direct the Bank of Canada to create meaningful sums of money and to lend these sums interest free or at its wartime 0.37% to 1%, to provinces and local governments to pay for the new infrastructure programs – such as Toronto's new subway extension, and the

new schools, sewerage treatment plants, etc., needed to end this depression while dealing with our educational and environmental deficits.

Let us close with a return to the question and answer period between the Committee on Banking and Commerce and Graham Towers back in 1939. Towers has just agreed that all the wartime finance necessary can easily be raised.

Q: "Well then, why is it, where we have a problem of internal deterioration, that we cannot use the same techniques?"

Towers: "Yes, I agree with that." (p. 649).

Q: "Would you admit that anything desirable can be made financially possible?"

Towers: "Certainly." (p. 771).

Thank you for your attention and interest. ■

Federal Court Hears Bank of Canada Application

By Connie Fogal

Re: BoC court application on December 5, 2012, by the government to strike out our challenge on the use of the Bank of Canada as intended by statute.

This application by the government heard on December 5 was not dealing with the merits of our case, but rather just with whether or not we had a right to be heard at all by the court and to bring forward the challenge.

However, in the process much of the substance of the case was referenced, which made the arguments exciting to hear.

The courtroom was not big enough to seat the numbers of the public who wanted in. There were as many people outside the courtroom as inside. This did impress the judge who thanked the public for being there taking an interest in these matters.

Rocco Galati, our lawyer, was brilliant and thorough in his presentation. He seemed to answer every question by the judge with great persuasion.

The public reacted to the representation with an electric excitement, a satisfaction that this case was coming across as one of international as well as national historical import.

The Court has reserved judgement on whether or not we have the right to proceed. A decision will likely be rendered within weeks. ■

Profit as the Root of All-Evil: The Devil is in the Details

By W. Robert Needham

The Centrality of this Diagram

Figure 1 focuses on [p,q] and in that sense ought to be the central focus of all micro-economics or *price-theory* courses. It starts with *truth* and is consistent with the *truth-start-up* contained in Table 1 (re-printed from the *COMER Journal*, Vol. 24:9, September 2012). In fact this diagram is rarely if ever discussed simply because it does not conform to *a priori theory*.

It is based on fact – specifically on what all businessmen have said or would say happens to their AC, or cost per unit, when output is increased. And it is based on the knowledge that we have had since at least as far back as Adam Smith that sellers markup above costs to establish the price at which they will offer their wares for sale. There is no *a priori* assumption set up to establish *truth*. In fact we have only a framework for digging into the truth of each industry’s methods of operations.

Pushing Q to higher levels to boost profits requires the ability to realize those sales in the face of competition from other producers and sellers.

And from the view of consumers of the products offered they have very little choice; indeed they have to adapt themselves to the menus offered.

Commentary: Profit is the Root of All Evil — Keynes, Marx, Schumpeter, and McLuhan:

Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone (John Maynard Keynes).

“The point of view is eternal, and will last at least as long as the universities survive the advancing corrosion of industrialism [capitalism]” (Burdett, p. 261).

“The history of slavery is inseparable from the history of empire [the system]: it is contradictory to celebrate the latter [capitalism] while claiming to condemn the former” (Gopal, 2007).

The declining Average Cost, AC, curve depicted above is perhaps the simplest and the most revealing that economists have in their kit bags. While the curve gives an appearance of fixity it is in fact just a starting

point for a discussion of the evolutionary realities we all face. This is because technological change is constantly erasing successive cost curves.¹ Perhaps all that can be said with certainty is that the production of larger volumes of output is associated with lower per unit costs than are smaller volumes of output. Thus the declining Average Cost, AC, curve. This alone is enough to spur mergers that are meant to reduce competition and bring a greater sense of

market security in the uncertainties faced by surviving firms.

This evolutionary reality connects to Karl Marx (Riazanov), Joseph Alois Schumpeter (1962, Chapter VII: The Process of Creative Destruction), and Marshall McLuhan (1964). Not surprisingly their concerns are but illustrations connected to a long line of political economists.²

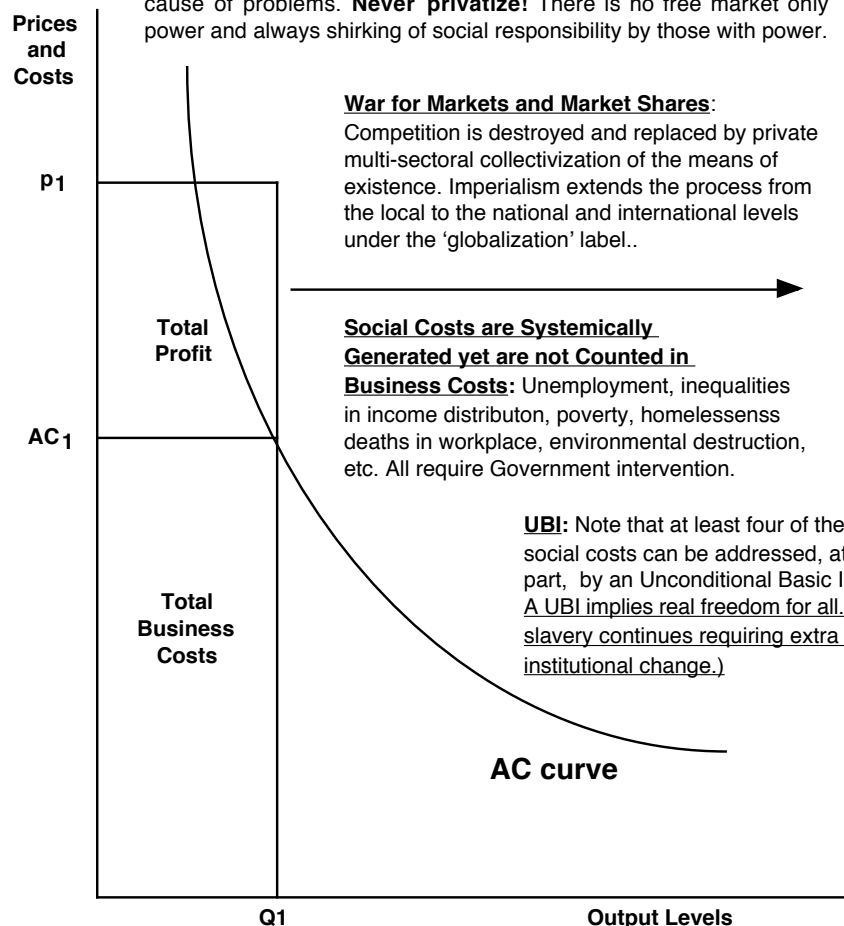
Marx, for example, was concerned with the inventions that revolutionized industry and gave England the so-called Industrial Revolution.

“A series of inventions, one after another, radically changed the technique of the weaving and spinning trades. We shall not enumerate all the inventions. Suffice it

Figure 1: Profit as the Root of All-Evil: The Devil is in the Details

Technological Changes: constantly wash across as ‘mediums with messages.’ Increases in production makes scarcity of commodities disappear. The real problem is distribution and assuring that each person shares in the benefits of technological change.

Capitalism as Fascism: “Fascism should more appropriately be called corporatism because it is a merger of state and corporate power.” Private enterprise capitalism in control of the state is the root cause of problems. **Never privatize!** There is no free market only power and always shirking of social responsibility by those with power.



Profit = $(p - AC_1)Q$; price is set and administered to markets; demand determines supply; since each price contains some *i* (interest), people are debt slaves from cradle to grave.

Commentary: Marx, Schumpeter and McLuhan. *Washing across waves of creative destruction is the medium and the message.*

to say that in about the eighties, both spinning and weaving looms were invented. In 1785, Watt's perfected steam-engine was invented. It enabled the manufactories to be established in cities instead of being restricted to the banks of rivers to obtain water power. This in its turn created favourable conditions for the centralization and concentration of production. After the introduction of the steam engine, attempts to utilize steam as motive power were being made in many branches of industry. But

progress was not as rapid as is sometimes claimed in books. The period from 1760 to 1830 is designated as the period of the great Industrial Revolution" (Riazanov).

"Capitalist production, therefore, develops technology, and the combining together of various processes into a social whole, only by sapping the original sources of all wealth – the soil and the labourer."

"The product of mental labor – science – always stands far below its value, because the labor-time necessary to reproduce it has

no relation at all to the labor-time required for its original production."

Similarly concerned, Schumpeter coined the words *the perennial gale of creative destruction* and said:

"...Since we are dealing with an organic process, analysis of what happens in any particular part of it – say, in an individual concern or industry – may indeed clarify details of mechanism but is inconclusive beyond that. Every piece of business strategy acquires its true significance only against the

Table 1: The Political Economy Approach, the Major Components and Concepts of Social Systems Analysis and Three Social Systems: Capitalism, Etatism and Social Democracy

(© W. Robert Needham, 2006)

"The ultimate problem of production is the production of human beings. To this end the production of goods is intermedi-

ate and auxiliary. It is by this standard that the present system stands condemned... Machinery and technological improvement are means, but again are not the end...the means have to be implemented

by a social-economic system that establishes and uses the means for the production of free human beings associated with one another on terms of equality."

— John Dewey

The Political Economy Approach Has 3-Tasks	The Moral Society's Opening Assertion	Capitalism/Private Collectivization (hierarchical values) (a)	Etatism/State Collectivization (hierarchical values)	Social Democracy (participatory values) (b)
Critique Alternative Praxis	Each person is able to become all that she/he is capable of being. This has the effective content that the individual self-realizes within community	Unconstrained Liberty Inequality Competition	Constrained Liberty Inequality Forced Fraternity	Morally Constrained Liberty (see col. 2) Equality Cooperation (community mindfulness)
3-D Analysis	The Moral Imperative or Constraint	Evaluation of Capitalism	Evaluation of Etatism	Evaluation of Social Democracy
Horizontal/ Competition Vertical/Hierarchy Depth/Real Time	Self Realization without doing injustice to others and this implies	Immoral Inefficient Unfair Undemocratic	Immoral Inefficient Unfair Undemocratic	Moral Efficient Fair Democratic
3-Evaluative Criterion	3-Goals	3-Results	3-Results	3-Results
Efficiency (Technical & Social) Fairness Democracy	Entitlements Obligations Empowerment	Private Monopoly Instability Alienation <i>There is no free market; there is a responsibility gap; measure Gross Domestic Cost</i>	State Monopoly Instability Alienation	Social Ownership Stability Socialized Involvement

Notes

(a). On Capitalism and what is wrong, see Reich, Charles A. (1995). *Opposing the System*. New York: Crown Publishers, Inc.; Glasbeek, Harry (2002). *Wealth by Stealth: Corporate Crime, Corporate Law, and the Perversion of Democracy*. Toronto: Between the Lines.

(b). On Social Democracy, see Crick, Bernard (March 1984). *Socialist Values and Time*, (SVT) Fabian Tract No. 495. London: The Fabian Society. Crick provides an insightful look into the theory and practice of democratic socialism and, as well, liberalism and conservatism and an appreciation of capitalism and etatism (state

collectivization). Crick cites Orwell's review of Hayek's *Road to Serfdom*: "Capitalism leads to dole queues, the scramble for markets and war. Collectivization leads to concentration camps, leader worship and war. There is no way out, unless a planned economy can somehow be combined with freedom of the intellect..." SVT, 4.

background of that process and within the situation created by it. It must be seen in its role in *the perennial gale of creative destruction*; it cannot be understood irrespective of it or, in fact, on the hypothesis that there is a perennial lull” (Schumpeter, 1962, pp. 83-84, emphasis added).

“The opening up of new markets and the organizational development from the craft shop and factory to such concerns as US Steel illustrate the process of industrial mutation that incessantly revolutionizes the economic structure from within, *incessantly destroying the old one, incessantly creating a new one*” (Schumpeter, 1962, pp. 82-83).

“...The impact of new things – new technologies for instance – on the existing structure of an industry considerably reduces the long-run scope and importance of practices that aim, through restricting output, at conserving established positions and at maximizing the profits accruing from them. We must now recognize the further fact that restrictive practices of this kind, as far as they are effective, acquire a new significance in the perennial gale of creative destruction, a significance which they would not have in a stationary state or in a state of slow and balanced growth” (Schumpeter, 1962, p. 87).

Consistently, Schumpeter was also concerned that mainstream economists ignored reality in favour of marginalist mathematical games that led nowhere but did serve to marginalize economics. He argued:

“But economists who, *ex visu* of a point of time, look for example at the behavior of an oligopolist industry – an industry which consists of a few big firms – and observe the well-known moves and countermoves within it that seem to aim at nothing but high prices and restrictions of output are making precisely that hypothesis. They accept the data of the momentary situation as if there were no past or future to it and think that they have understood what there is to understand if they interpret the behavior of those firms by means of the principle of maximizing profits with reference to those data. The usual theorist’s paper and the usual government commission’s report practically never try to see that behavior, on the one hand, as a result of a piece of past history and, on the other hand, as an attempt to deal with a situation that is sure to change presently – as an attempt by those firms to keep on their feet, on ground that is slipping away from under them. In other words, the problem that is usually being visualized is how capitalism administers existing struc-

tures, whereas *the relevant problem is how it creates and destroys them. As long as this is not recognized, the investigator does a meaningless job. As soon as it is recognized, his outlook on capitalist practice and its social results changes considerably*” (Schumpeter, 1962, p. 83).

And pointedly:

“The first thing to go is the traditional conception of the *modus operandi* of competition. Economists are at long last emerging from the stage in which price competition was all they saw. [It is not clear that mainstream economics has emerged in the sense of their continued adherence to the marginalist apparatus.]³ As soon as quality competition and sales effort are admitted into the sacred precincts of theory, the price variable is ousted from its dominant position. However, it is still competition within a rigid pattern of invariant conditions, methods of production and forms of industrial organization in particular, that practically monopolize attention. *But in capitalist reality as distinguished from its textbook picture, it is not that kind of competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance) – competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives.* This kind of competition is as much more effective than the other as a bombardment is in comparison with forcing a door, and [p. 85] so much more important that it becomes a matter of comparative indifference whether competition in the ordinary sense functions more or less promptly; *the powerful lever that in the long run expands output and brings down prices [as with, for example, the Apple Macintosh computer] is in any case made of other stuff*” (Schumpeter, 1962, pp. 84–85, emphasis added).

McLuhan:

The term *global village* has been popularized as has *global pillage*. The terms have become part of the rhetoric associated with control by capitalist corporate enterprise (Glasbeek, 2002). The terms *global pillage* and *global factory* emphasize the exploitation of people that is involved at all levels. The term *global village* seems to have been coined by Marshall McLuhan but note his stress.

“The subplot [of *War and Peace in the Global Village*] is the effect of the computer. The main plot is that every new technology creates a new environment that alters

the perceptual life of the entire population. Since violence is the inevitable means of quest for identity when the old image, private or corporate, is smudged by the new technology, war is automatic as a means of recovering identity” (Molinari, 1987, p. 348, emphasis added).

“Thus we have the meaning of “the medium is the message:” We can know the nature and characteristics of anything we conceive or create (medium) by virtue of the changes – often unnoticed and non-obvious changes – that they effect (message.) McLuhan warns us that we are often distracted by the content of a medium (which, in almost all cases, is another distinct medium in itself.) He writes, “it is only too typical that the “content” of any medium blinds us to the character of the medium” (McLuhan, 1964, p. 9). And it is the character of the medium that is its potency or effect – its message. In other words, “This is merely to say that the personal and social consequences of any medium – that is, of any extension of ourselves – result from the new scale that is introduced into our affairs by each extension of ourselves, or by any new technology” (Federman).

In the *Letters of Marshall McLuhan* (Molinari, 1987, appended footnote 2, p. 348), the editors suggest that peace in the global village will come about through adjustment to pain caused by new media and new technologies and the pain inflicted by illuminating them, which is also implicit in the action of technology.

In writing to Hubert Humphrey, (dated 671228) McLuhan remarked:

“Today in our global village, created by instant communications, all backward countries are threats to all developed countries. Like the Negro and the teen-ager in our own country, they get turned on by the new electric age. They never had an industrial age or a 19th century. They start with the latest, electric information. The electric environment is totally involving. It is not an environment of consumers. That is why World War III is also a depression, whereas World War II had been a struggle to get out of a depression. All backward countries are “communist.” They have never known social or political individualism. The Orient is entirely tribal and family oriented. Russian communism was similarly oriented for the benefit of a tribal people. They are still tribal. To regard the global encirclement of the USA by backward communities presenting a communist threat to the USA is a very confusing affair. It represents a state of mind

at least as confused as the Kaiser in 1914. It also ignores the fact that electric technology is totally tribalizing the USA” (Molinaro, 1987, pp. 349-350).⁴

“The medium is the message. This is merely to say that the personal and social consequences of any medium – that is, of any extension of ourselves – result from the new scale that is introduced into our affairs by each extension of ourselves, or by any new technology” (McLuhan, 1964).

“The modern European of the Christian era is not yet a slave by right of birth. But he is now bred into a slave-society that he cannot understand, define or even recognize, for *industrialism [capitalism] establishes a state of slavery more corrupting than any previously known in the world because the master is not a man but a system, and the whip an invisible machine. With this it is impossible to enter into any but inhuman relations, and in such an inversion of humanity all the instincts become perverted at their source.* The institutions that have nominally survived this revolution in human affairs are allowed to survive but on condition of subservience and impotency. Religion becomes hated because it may never be practiced, only preached, and is approved most when preached in such a way as to fill alert listeners with contempt or indifference.... The necessity of work and the necessity of a permanent body of unemployed are inculcated in the same breath” (Burdett, 1925, pp. 268-269, and the italicized cited in Molinaro, 1987, p. 75).

“Such economists as Robert Theobald, W.W. Rostow, and John Kenneth Gaibraith have been explaining for years how it is that “classical economics” cannot explain change or growth. And the paradox of mechanization is that although it is itself the cause of maximal growth and change, the principle of mechanization excludes the very possibility of growth or the understanding of change. For mechanization is achieved by fragmentation of any process and by putting the fragmented parts into a series. Yet, as David Hume showed in the eighteenth century, there is no principle of causality in a mere sequence. That one thing follows another accounts for nothing. Nothing follows from following, except change. *So the greatest of all reversals occurred with electricity, that ended sequence by making things instant. With instant speed the causes of things began to emerge to awareness again, as they had not done with things in sequence and in concatenation accordingly. Instead of asking which came first, the chicken or the egg, it suddenly*

seemed that a chicken was an egg’s idea for getting more eggs” (McLuhan, 1964, p. 12).

Some Accounting – Technical Garage Mechanics

Hidden behind AC are social and technological control relationships that assist in drawing income and wealth towards those with power and taking income, power and wealth away from the weaker members of society.

The price, p , is set and administered to markets by firms. The setting of price and what is covered by price also assist those with power to take income and power away from weaker members of society. This, systematically, perpetuates the inferior position of the weak.

To illustrate the level of output to be produced is Q_1 . The vertical projection above Q_1 crosses the AC curve; on the vertical axis this is shown as AC_1 . The vertical projection above Q_1 extends to and ends at a point, which, on the vertical axis, is labeled p_1 .

Profit is “pie,” Π . Profit per unit is, Π/Q_1 , that is $(p_1 - AC_1)$. In other words total profit is: $\Pi = TR - TC = (p_1 - AC_1) \cdot Q_1$.

Profit per unit is a net markup that falls out after the fact for all firms. AC is determined by the average fixed and average variable costs of production. Fixed costs are the important component and they determine that the AC curve declines throughout. Variable costs may be put aside as determined much like the costs of producing cakes: 10 cakes costs 10 times the costs of a single cake – so average variable costs are the price of a single cake.

The prices are administered to customers by firms or their selling agents or their networks of dealers according to the modes of operation each uses. As a rough check ask whether the many prices you have to pay each day or week are administered to you by the various dealers you shop with. Do you fit yourself to the menus made available?

We do not need to know whether formulas were used in calculating each p . Indeed, formulas may not have been used at all. There is no set of equations that can necessarily be asserted as determining any p . In the end you have to find out by research without using *a priori* assumptions.

To increase profit to higher levels than Π , all that seems necessary is to expand from Q_1 , (and associated sales) to successive levels above Q_1 . The attempted expansion of sales by each firm bumps into each firm’s competitors. In the bump and grind there are eventually winners and losers. Thus the

gale of destruction following, for example, in the wake of the creation of new products and processes.

The mode of operation of each firm will determine success or failure. Each firm tries to create a demand for what it produces and sells. Each tries to differentiate its products from others and tries to convince consumers that they are selling, as it might be said, the best thing since “sliced bread.” Part of the competitive processes may involve firms and dealers keeping consumers ignorant of the character of the bill of goods they are being sold. Ignorance is bliss and keeping consumers “blissful” may be vital in certain circumstances. In the more recent period of the modern world, product complexity and an attractive *telemarketeering* voice located somewhere on earth, but in any case at the other end of the line, assists in keeping consumers ignorant and helps to get consumers to buy into the bill of goods offered.

The important point is that a firm increases its market share by beating competitors. Any number of devices have been used including mergers and takeovers. Some may be noisy and disruptive others peaceful with barely a ripple heard. There is a never-ending competitive war.

For the successful firms emerging from the ongoing competitive wars the profit rectangle grows as Q_1 shifts ever to the right to say, Q_2 , Q_3 , etc. Thus economic strength and power begets power and greater and greater control over markets for some while other firms drop out. The ongoing *process results in a private collectivization of the means of existence* at home and abroad. This collectivization is a well-known outcome in all private enterprise sectors.

But the word collectivization recalls for some the forced collectivization of agriculture in Russia under Joseph Stalin. His collectivization of land into state hands meant the murder of many thousands of Russian peasants. Private collectivization implies the elimination of farms and farm labour forces, and is a process supported by the state under the guise of addressing problems the *market has forced on farmers*. Because *collective* implies social and socialist, it is a fact muted by alternative words such as *consolidation of operations, growing industrial concentration, or the increased concentration and ownership of industry in fewer and fewer hands*.

Above all in our modern world collectivization may be muted to avoid facing the now well-known fact that *private collectivization of the means of existence or corporatism is Fascism* (Saul, 1996).

“It was actually Italian philosopher Giovanni Gentile who wrote the entry in the *Encyclopedia Italiana* that said: “Fascism should more appropriately be called corporatism because it is a merger of state and corporate power.” Mussolini, however, affixed his name to the entry, and claimed credit for it.”⁵

It may also be muted for purposes of avoiding the argument that a socializing state is not violating rights! Thus “...the socializing state is not violating rights, or even overriding them in the interests of something more important, but righting wrongs; it is rectifying violations of rights, violations inherent in the structure of private property.”⁶ In other words at what point does a state recognize that private concentration is collectivization with the implication that one can and should cut through the mess and make it a social concentration from which, and within which, all might share more equitably and democratically.

But the violations of rights, inherent in the structure of private property, has deeper social illustrations that touch everyone on a daily basis without anyone knowing. Note Burdett and McLuhan above: “...*industrialism [capitalism] establishes a state of slavery more corrupting than any previously known in the world because the master is not a man but a system, and the whip an invisible machine. With this it is impossible to enter into any but inhuman relations, and in such an inversion of humanity all the instincts become perverted at their source*” (Burdett, 1925, p. 268).

The private control of credit is the modern form of slavery (attributed to Upton Sinclair).

“...every price we pay includes a certain amount of interest. The exact proportion varies according to the labour versus capital costs of the goods and services we buy. On the average we pay about 50% interest in all the prices of our goods and services. In medieval times, people paid ‘the tenth’ of their income or produce to the feudal landlord. In this respect, they were better off than we are nowadays, where one half of each DM or Dollar goes to serve people who own capital” (Kennedy, *Why Do We Need...*).

This issue can be raised for all private concentrations of power and wealth. The most conspicuous cases that cry out for rectification through social ownership and social control are insurance companies and private or commercial banks (Kennedy & Kennedy, 1995). These are institutions that are allowed to prey on the weaknesses and life vulnerabilities of citizens. With or with-

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out concentration or private collectivization their profit rectangles increase each year.

One perhaps first confronts the processes of collectivization in the issue of the disappearance of the family farm and its replacement by corporate agriculture. Technological changes boost agricultural productivity and allow the number of farms and the size of the farm labour force to be reduced. Concomitantly as the farm market declines in size the producers of farm machinery and equipment, farm suppliers, fall in number. There was a day when farm machinery was produced in local blacksmith shops. Now days, one is hard pressed to find a functioning smithy. The annual sales of farm machinery can now be produced by a few very large and powerful manufacturers. So again concentration of production or collectivization.

And the process goes on inter-sectorally and internationally and it seems to be acceded to by governments either unaware of, or unconcerned by what is happening. Indeed government may be co-opted by private enterprise to assist the growth of their power and control.

End Notes

1. Major phases in technological evolution are provided in *Technological Phases in the Development of Capitalism Fordism, Sloanism and Taylorism and Post-Fordism*.

2. This triad, therefore, is not a limiting list. A review of *The Essentials of Capitalism through Definitions: From Adam Smith to the Present Day* in <http://arts.uwaterloo.ca/~rneedham/needhdata/CapitalismsEssentialsREV4290307.pdf> will show the consistency of their concerns with the historical lineage in political economy.

3. But note that in the diagram above marginalism is gone and forgotten. A notion of marginal cost is built into and is the same thing as average variable costs, which varies directly with output. The emphasis is on the bottom line of profit per unit and total sales. Economic power, based on size, technology, and knowledge causes evolutionary reality to constantly wash over and bombard so that any start up notion of an average cost curve is immediately *slipping away from under them*. For their own security of

existence firms by one means or another bring about a reduction in their own number (Marx argued capitalism would destroy itself as capitalist would eat capitalist until they became so big they could not compete www.woopidoo.com/business_quotes/capitalism-quotes.htm) and an increase in the size of those that remain. Technological changes, based on knowledge advances in computers and computer software have brought significant reduction in product prices (examine the price reduction on Apple Macs from the “Fat Mac” of 1986 to the mini-Mac of 2006. Examine too the quality improvements and multiple tasks that can be accomplished in micro-seconds. And Apple has new technology products.

4. “The great error of nearly all studies of war...has been to consider war as an episode in foreign policies, when it is an act of interior politics...” (Simone Weil). Weil’s words make globalization’s wars matters of interior politics for all of us. Thus WWII is a war of the US against the rest of the world.

5. As the 1983 *American Heritage Dictionary* noted, fascism is: “A system of government that exercises a dictatorship of the extreme right, typically through the merging of state and business leadership, together with belligerent nationalism” (Hartmann). (The US dictionary definition has gotten somewhat squishier since then, as all the larger dictionary companies have been bought up by multinational corporations.)

6. “...The socialist objection of justice to the market economy is that it allows private ownership of means of existence which no one has the right to own privately, and therefore rests upon an unjust foundation” (Cohen, 1981, p. 13).

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Cerberus in Talks on Supervalu Deal Options

By Sharon Terlep, *The Wall Street Journal*, December 3, 2012

Cerberus Capital Management LP, working on an acquisition of Supervalu Inc., has indicated it is willing to pursue multiple options for the troubled grocer, including a deal to buy Supervalu's entire business and another to purchase its Albertsons stores, a person familiar with the matter said.

Over the weekend, involved parties were actively negotiating, the person said, though it wasn't clear if a deal would be reached.

In recent weeks, Cerberus and Supervalu have been in talks mainly over an acquisition of the entire company for a deal that could be valued at around \$5 billion, a person familiar with the matter has said. But the Albertsons option has come to figure more prominently in discussions, the person said, as other potential bidders expressed interest in pieces of Supervalu and after Cerberus and banks disagreed over financing terms.

Cerberus and its partners in the potential deal, a group of real-estate firms, have sought financing from banks and planned to invest equity of about \$800 million for a deal for the whole company. That amount is in flux as they weigh which of Supervalu's various assets Cerberus will ultimately bid for.

Banks, who consider the unprofitable chain to be a high-risk investment, at one

point pressed Cerberus and its partners to put up closer to \$1.3 billion, some people familiar with the matter said. Negotiations have continued with the banks.

Cerberus hasn't presented Supervalu with a formal bid, one of the people said.

Eden Prairie, Minn.-based Supervalu, parent company to chains such as Shaw's in New England, Jewel-Osco in Chicago and Shop 'n Save in St. Louis, put itself up for sale this summer amid growing losses and discounts to customers that had yet to drive up sales.

A Supervalu spokesman referred to a statement the company first put out in July, which said it "continues to be in active discussion with several parties."

Much of Supervalu's appeal to Cerberus and its partners lies in its Albertsons chain. In 2006, a Cerberus-led group acquired more than 650 underperforming Albertsons stores as part of a larger deal to dismantle that grocer, Albertsons Inc. In the broader deal, Supervalu acquired more than 1,100 Albertsons grocery stores. Meanwhile, the company now known as CVS Caremark Corp. paid about \$4 billion for Albertsons pharmacies, stores that have since been renamed.

Cerberus, with a long history of turning around troubled businesses, would like to

reunite the Albertsons chain, combining its business, Albertsons's LLC, with Supervalu's stores, according to a person familiar with the matter.

If the parties can't reach a deal, Supervalu is expected to begin entertaining offers from other potential bidders, one of the people said. Buyout shop KKR & Co. has eyed Supervalu's Save-A-Lot banner and its 1,300-plus discount stores.

But Supervalu prefers the Cerberus offer of taking over the entire company, a person familiar with that thinking said.

It is possible Supervalu would opt to scrap a sale altogether if the Cerberus buyout falls through. Supervalu, which has ample liquidity, has put together a multiyear turnaround plan it could employ if a sale doesn't happen and is weighing whether that would be preferable to a piecemeal sale, the person said.

Analysts, however, have said a turnaround won't be easy given the company's \$6 billion debt load, pension obligations and declining margins.



Our Comment. The trick pursued would seem to be pushing the ultimate profit from shoving the final payment into the blinking future. What takes a lethal beating is the ultimate settling of accounts. *W.K.*

Society in the Age of the Maya

Collections in the Regional Anthropological Museum of the Palacio Mérida, Mexico. A temporary exposition at the Museo del Oro at Bogota, DC, October 27, 2011 to February 12, 2012. Taken from La sociedad y el tiempo Maya translated by William Krehm.

Preface

By Alfonso de María y Campos, Director General of INAH

Accustomed as we are to measure time from our own perspective, we are prone to interpret the temporal dimension as a single-voice variable having a measurement of the identical consistency and direction for all civilizations. Not only does our scientific spirit play a part in this prejudices that accepts its units of measurement as being universal but also the very paradigm in which our civilization is based of which the scientific illustration is simply one aspect.

The West has chosen for its basis a cosmic vision of Judeo-Christian origins, in which time is part of a sacred allegory. Even though our profane world is loaded with the tempo of physics or of biology – its general direction rests upon an act of creation, impelled by God and its final decisions adjusts accounts to such divine creation. There is a time arrow with a beginning. Time is final and at the end of time, we are left with the eternity of God.

Quite the opposite, in the case of Mesoamerican civilization, time itself is cyclical reality. Agrarian time, cosmic time and the time of the governing dynasties form part of a cycle that will have completed rigorous stages, and of which the final one is but the very beginning, just as the governing dynasties is simply the familiar winter lending its nest to a renewed spring, which must emerge once again. In short time is circular, and once and forever must return to sacred trodden pathways to perform again and again the infinite domination to obey the laws of nature and power.

This contradiction latent in such an experience caused the spirit of the Mayas that it led to an artistic tradition most sophisticated in the history of humanity.

At all these dates, we can detect voices that misinterpreted the Mayan calendar from a Western key assumption that a cycle is the end of the time dominance, when that would simply be a contradiction of the very perspective Mesoamericana. Such a sim-

plification merits no more than a marginal note within the memory of the accident itself. More interesting, more revealing is the delighted emergence of a race of people who have themselves benefited from a remittive sequence of recollection.

Presentation

By José Darí Uribe Escobar, General Manager of the Bank of the Republic

The temporary exposition Hall of the Gold Museum of the Bank of the Republic in Bogota has again surprised its visitors with extraordinary samples, as much of our cultural athermal reserve, as one of the outstanding reserves in the world.

The society and the Mayan season maintains this high level of exposition now offered one of the societies most complex examples of pyramids.

The Society and the Mayan time maintain this high level for all the objects now offered concerning one of the most complex constraints on this continent more used as columns (Atlas), vases glyphs (ornamental charnel or fluting, usually vertical from *glyph*, to carve) astronomy and mathematics, similarly to the objects of the Gold Museum. Those of this exposition bear witness to the endless possibilities of human beings and their societies.

All Columbianos, without distinction, feel ourselves one of the outstanding elements of our identity and background. The objects of the Gold Museum, collected over 70 years by the Bank of the Republic, have preserved and exhibited at home and abroad, what we have constructed. And in the pre-Spanish epoch a solid support of our identity, and a reference in the past of our present diversity.

By feeding our curiosity about new different cultures to discover new cultures, and new styles of existence we have recognized ourselves increasingly as citizens of the world.

I thank the National Council for the Culture and Art of Mexico, the National Institute of History and Anthropology and the Regional Palace Cantón of Mérida for preserving and appreciating this inheritance for the benefit of all and for gaining a means of living with and within history.

Cultures of Mesoamerica

The Mayans, a culture with more than

three thousand years of history which today remains among a large population, they stand out on the stage of the pre-Hispanic America. The ancient Maya built a strong socio-political organization and an active economy, created cooked cosmologies and achieved important developments in astronomy, calendars, writing, mathematics, architecture and other arts.

For more than one century the archaeology has tried to understand how these aspects were interwoven. Through nearly hundred archaeological objects of the hereditary collections of Mexico, this exhibition invites to explore and learn about some of the most significant aspects of the Mayan society where its knowledge and creativity are revealed to us.

For thousands of years a part of Central and North America, Mexico, Belize, Guatemala, Honduras, Nicaragua and El Salvador was inhabited by distinct cultures which had common traits such as monumental stone architecture, the use of calendars, ball games, and the cultivation of corn. Archeologists call this territory Mesoamerica: about some six thousand years ago hunters and gatherers who began to cultivate avocado, pumpkin, chilies and amaranth flowers that do not readily wither. Much later they domesticated corn and by 6000 BC took over the concept of agriculture.

From the beginning of the production of ceramics to the conquest by Europeans, great civilizations flourished and decayed in Mesoamerica. Archeology divides these periods reclassical, Classical and Postclassical. The dates of these periods differ from culture to culture.

During the Preclassic (2500 BC to 250 after Christ) the Olmec civilization had its climax. The Classical (250 to 1100 AD). It was the height of the Mayan culture and the development of powerful States as of Teotihuacán took place. More military States, such as the Toltec and Aztec, characterized the period Postclassical (1100 AD to 1519 AD) that ends with the aggression of the conquerors.

The Mayan Today

Although the great temples and pyramids of their ancestors dating back almost two millennia, the Mayan culture is still vital in the case of one of the most numerous indigenous societies of America; more than four million Mayas preserved traditions with deep historical roots to which new elements have been integrated during the past 500 years. It is divided into nine ethnic

groups that inhabit almost the same areas of their ancestors and pre-Hispanic ancestors and speak around 30 languages.

The Mayan World

The Mayan culture, originated in groups coming from the isthmus of Tehuantepec, was consolidated by 1500 BC over a large territory: the peninsula of Yucatan, Guatemala, Belize and parts of Honduras and El Salvador.

The Mayan territory offered a great ecological and climatic diversity. There were forests and mountains in the low plains, to the north of the peninsula more forests high in the central region and the temperate forests in the higher areas of the mountains of Chiapas and Guatemala. As the geography, the Maya were not a homogeneous society: there were contrasts between the groups that inhabited the different regions but they were linked by the language, religion and the myths of origin.

During the Preclassic (1500 BC to 300 AD) the Mayan developed writing and calendars, also the megalithic constructions were initiated. At the end of the period the society became more complex and stratified, arose the City-States and with them the first estelas.

The classic Maya (300 AD to 1000 AD) was characterized by the introduction of the dynastic succession, by the manifestation of power in art and long-distance trade. At the beginning of the period, Tikal was erected as the most important city-state. On a political map in perpetual change, States acquired and lost control of secondary centers and the constant wars received major political and ritual relevancy. After the Tikal fall there arose other political centers such as Caracol, Calakmul, Palenque and Copán.

During the Postclassic period (1000 AD to 1519 AD) intense wars caused deterioration and abandonment of the cities in the center of the Maya territory, while northward flourished others like Chichén Itzá, with a marked Toltec influence, and later Mayapán. The religious cult changed and domestic shrines appeared; writing, mathematics and astronomy were also transformed.

By the time the European conquistadors arrived to the coasts of Yucatán in 1517, under the command of Francisco Hernández de Córdoba, the Maya region was divided into small rival states. The conquest lasted until 1697 but until the beginning of the 20th century the Maya continued to resist the domination. Today the Mayan culture

remains active and its language is spoken by more than four million people.

The Mayan Cosmos

Religion was the axis of life among the ancient Maya, a devout people who conceived the world from the surrounding nature. Plants and animals populating alike their religion and their daily life and could be part of a deity, ruler, mythical tale, constellation or prophecy, or all at once. The link of each who with plants and animals indicating their role in society. Time, sacred space, living beings and people were part of a hierarchical unit.

The Ceiba was the tree of the world and the support of the cosmos. Its trunk was the road to heaven, Kan, which was sustained by its branches. Its roots were leading to the underworld, the kingdom of Xibalbá, saturated with caverns and natural wells. In codices and stone inscriptions the tree is surrounded by animals, gods and rulers. The Ceiba, were a link sacred between the people and their deities.

The Gods

The Mayan believed in an infinity of deities and supernatural beings. Kin, the sun and one of the main deities, was responsible for four sacred directions or points of the compass and for the center, where the human beings were living; its daily movement was allowed to take into account the time.

Chaak was the creator of the rain and Bolon Tzacab, the patron of the lineages rulers, war and human sacrifice. Yum Kaax, from which come human beings in the fifth creation, was the god of corn. There were also Ah Puch, the god of death, Ixtab, the female deity of suicide, and the moon, called Ixchel, the god of motherhood and fertility, textiles and paint, almost always accompanied by a rabbit.

Kin, the Sun

The word kin means day, time and sun, Kin is the creator of life and to have been dedicated the major rituals, sacrifices and offerings from the pre-Hispanic past until the present. Its human representation carries a pendant that indicates the five sacred directions or cardinal points: east, west, north, south and center.

The Kingdom of the Ceiba

The Ceiba communicated the sacred directions: the heavens, the Earth plane and the underworld. She was surrounded by people, animals and supernatural beings, located according to their hierarchy in the east, west, north or south. The center, the

most important position, was exclusive of the rulers and priests, the intermediaries of the cosmos.

The Sacred Directions

The symbol that identified with Kin, the Sun, pointed out the main points of the solar route. It was common among the Maya of the classic period, not only in their homes, temples and palaces, but also in their everyday objects.

Inhabitants and Colors of the Directions

The four corners of the Kin glyph representing the Bacab, four brothers who held up the sky: Hobnil South, of yellow colour; Cantzicnal East, red; Zaccimi North, white; and Hosanek the West, which was associated with the black. The Center was the blue-green, the color of jade, water, the sprout of the corn and other valuable materials.

The Pillars of the World

In some Mesoamerican constructions roofs were supported by human sculptures that were used as columns. The roof of Mayan buildings symbolized the celestial vault, the poles were the pillars that held and foundations, the door to the netherworld.

The Gods who Reside in the Heavens

The gods who inhabited the Maya heavens had a multiple nature: could appear as humans, animals, or stars. Itzamana, God of day and night, could present itself as an elderly toothless, a bird, or the Sun. He was the creator of writing, calendar, and knowledge.

The skies were also inhabited, among others, by Kukulcán, the plumed serpent, and Xaman Ek, the polar star that guarded the merchants, associated with Ek Chuah, the god of Coco. Some were represented as descending to the earthly plane, such as the god of the bees.

The Kingdom of Xibalbá

Xibalba is the underground Kingdom leading to the caverns presided over by Ah Puch, god of death to accompany sinister beings like Ahalpuch and Ahalcaná, the brothers, producers of pus and bile or Quixic and Patan, who choked men in their own blood. It was not a place where the dead might want to linger, the dead could return to the living and intervene in their affairs.

Chaak, the Lord of the Rain

Chaak was god of the rain. With his servants he inhabited the caverns and empty tombs beneath the earth, and when was called upon, filled his pitchers with water and rose to the clouds to empty them. This god was both appreciated and feared. He watered the crops, but also brought on floods and disasters.

Death

For the Mayas death was part of life. People lost their lives in war and because of natural causes, but also in sacrifices or by losing a ball game, as a result of which the skull of one of the losers served as a trophy. In Chichén Itzá, such heads of losers were on display on the Wall of the Skulls.

Sacred Animals in the Zodiac

The animals were not only living creatures and food of the Mayans, but also spirits of the universe. His will was expressed through the night stars and the Earth its presence and its magical properties decided meat. In his honour were made human sacrifices, or were sacrificed to ward off bad omens.

The Mayan zodiac constellations represent animals of the fauna of the Yucatan peninsula: the Scorpion, crocodile, turtle, snake, frogs and birds. These animals also populate the mythical stories of the pre-Hispanic codices, ritual, and current oral tradition.

Constellations of Scorpion, Turtle and Bird

The constellation of Scorpion which coincides with the Greek Zodiac, was associated with times of hunting. Of the turtle, double to our constellation of Orion, influenced the rise to power of rulers and priests. The birds are represented in the constellation of Gemini.

The Crocodile that Burdens the Earth

The crocodile was associated with nadir, opposite to heaven: the earth rested on his back and he was their watchdog. The serpent, Kan was milky way and the Pleiades the rattlesnake's tail; their presence indicated good times for cultivation and harvesting.

Invoking the Rain

The frogs interceded between humans and the God Chaak. Croaking invoked the caverns from rain-laden clouds. They are represented in the water tanks of Mayan settlements.

Messengers of the Gods

The birds were the sacred bond between heaven and earth. Through them the priests sent the pleas of humans to the gods. Each species had different attributes: the hummingbird was associated in the warriors; the herons indicated the harvest season; the swallows were messengers to the underworld, and the parrots alerted to the dangers to human and Gods.

The Jaguar, Guardian of Wisdom and Knowledge

The jaguar, known as Balam, was a great symbol of power. In addition to protecting the jungle and forests, the Gods entrusted the save knowledge and transmit it to humans. Sometimes the sun transformed into jaguar to travel to the world of the dead.

Gods and Rulers

Mayan rulers were intimately linked to the gods and they exercised their will on Earth. They were descended from deities and their mission was to achieve divinity. In Mayan art gods and rulers often appear together.

Rulers adjusted time to match social, religious and political events with astronomical events to achieve their goals. The time was flexible and the leaders were not dealing that the events of its government were coinciding with the calendar of neighboring kingdoms.

The Ruling and the Court

The Court that accompanied the leaders consisted of family, priests, soldiers and merchants. While closer was the person of the descendants of the gods, immortality was closer.

Social Hierarchies

The Mayan society was strongly stratified, with rulers to the head followed by the priestly and administrative class. Underneath were traders and warriors, who could accumulate power and resources. Continued small merchants, peasants, craftsmen and the rest of the population. On the lower level were the slaves, war captives used for heavy work or sacrifices.

The Costumes of the Elite

In sculpture and painting, the Maya elite stands out for its costumes and especially by the head ornaments ranging from simple tied and bows to the more complex head-dresses. With a wooden pin they claimed elaborate representations of flora and fauna of various materials and colours.

The Lords Jaguar

The jaguar embodied the characteristics to demonstrate strength among the warriors and religious power among the rulers. To dress itself in jaguar skin was meaning to appropriate of its powers. The figure of the jaguar as symbol of power appears in thrones and images in actual enclosures and in stones sculptures.

The Offering of Sacrifice

Human sacrifices were common practice in the Mayan cities. The heart of children and adults was extracted, generally prisoners, they were spoiled by a spear. The slaves were thrown to the natural well to appease

the Chaac anger.

In the plate that Chac Mol supports, a common figure in some cultures of Mesoamerica, deposited human organs as offerings. This messenger to the gods was the essence of the offense and sacrifices.

Mayan Writing

Before the Mayans, diverse cultures of Mesoamerica developed writing, but these were those who brought her to their greater degree of complexity. Maya writing is a logo-syllabic, i.e., that combines signs which represent morphemes or whole words with phonetic signs representing syllables. Consists of the glyphs inspired by natural elements, which are usually read in pairs from left to right and top to bottom. Glyphs could have different meanings depending on the context in which they were used, so the phonetic signs helped to know how to read a word.

Writing represented the Mayan languages Chol and Yucatec, but with it you could write almost any other language of the region.

The Artists Write

The Mayan scribes combined the arts of the painting and the writing in complex compositions that made clear their mastery of the history, the politics and the religion. His legacy kept mostly in mural painting and polychrome ceramics of the classic period.

They belonged to a single class of artisans associated with the nobility and they could even be priests or rulers. Not only did they dominated the art of writing, which was jealously kept from the rest of society, but also measured the time. They were entrusted with both the practical aspects such as the mystics of writing and the calendar.

The Name of the Ruler Khan Balam

In the 16th century the bishop of Yucatan, Diego de Landa, believed the Mayan glyphs were an alphabet, further complicating its serious decryption problem until the twentieth century, when researchers discovered its character logo-syllabic character and that affixes were consisting of a main sign and of signs. The affix of the left is read first, then the top and finally the main sign.

The Deciphering of the Writing

The habitual use of Maya writing disappeared with the classical period and for the arrival of the Spaniards there were very few Maya who knew reading and writing. Since the 16th century many attempts to decipher it, were made until in the 1970s, thanks to the knowledge that was developing from

the calendar, the key was discovered he(she) gives birth he(she) will read.

Time and Calendars

One of the features of the Mesoamerican cultures was the calendar system. During the classic period the Mayans used primarily two types of calendar: sacred one, which regulated the life of ritual and ceremonial, called Tzolkin of 260 days, and another civilian aimed at everyday affairs, called the Haab of 365 days.

Both ran concurrently and composing the calendar wheel, whose cycle lasted 52 years before restarting.

The Tzolkin combined 13 numbers and 20 days to complete a cycle of 260 days, when he returned to appear the initial combination. The Haab was in 18 months of 20 days each, over a further period of 5 days to complete the 365 days of the solar cycle; the five extra days were considered to be harmful. A date was then composed of a number and one day in the sacred calendar and a number and a month in the civil calendar. For example, the starting date for the 52 year cycle of the calendar wheel was 1-Inix, 1-Pohp.

The Numbering System

The Mayans used numbers mainly to measure time and organize your calendar. The numeration system was vigesimal, that is to say with sets of 20 like base. The numbers from 0 to 19 were represented with points (units) and stripes (five units). The zero was necessary since the system was positional: the value of each number changes depending on position indicates where there are no units. The Mayans were the first to use zero in America. See Figures 1 and 2.

The Long Account

The long count was used to tell time from a start date. This great timeline Mayan recorded important events such as birth,

rise to power and death of its rulers; battles and conquests among the City-States, and the beginning and end of the eras. The deciphering of this system, used only by the Olmec and the Maya, has allowed researchers to reconstruct much of its history.

The long account was counting (telling) the time in days that were grouped into sets called uinal, tun, katun and baktun. 13 baktuns constituted an era of 5,125 years. With the long account very big periods could be calculated, what was done very rarely. The Mayans integrated this way to tell time with the sacred and civil calendars, which shows a vision of the world which combined the concepts of linear and cyclic time.

The Mayans had located the start date of the fifth era at 13.0.0.0.0, 4-Ahau 8 Cumku, as it appears in the C of Quiriguá Stela. This date corresponds in our Gregorian calendar to 13th of August 3114 BC. On this day located in a mythical past, the fifth era began and the human and the courts successfully created, of corn dough.

The Place of Venus

Together with the Sun and the Moon, Venus was one of the most important celestial bodies in astronomical observations. The Mayans gave several names: *noh ek*, big star; *chac ek*, red star; *sastal ek*, bright star, and *xux ek*, wasp star. From their movement they planned wars and predicted times of abundance.

Observers of the Sky

The Mayan priests deeply knew of the defects and through the movement they could not only predict eclipses, the cycles of Venus and other celestial events, but also predicted the fate of individuals and society.

Time Monitoring

The priests in turn were the guardians of time, since the astronomical knowledge allowed them to organize the calendar and

regular cycles and daily rituals. This knowledge came from the direct observation of the sky and the alignment of the temples and palaces.

The Dresden Códice

The Dresden codex is an agreement of astronomy where they demonstrated the domain the Mayan had of the mathematics to calculate the movement of the stars.

[Editor: This would appear to have duplicated from even added in its own particular way the miracle of classical Greece.]

Astronomy and Architecture

During the Classical period, the architecture of temples and palaces served to the observation of the heavens. Buildings are lined to record the movement of the Sun, Moon, and Venus from a location specific and so calculating the solstices and equinoxes, determine the cycles of the seasons and predict eclipses.

The buildings were generally of limestone and covered with stucco, crowned with masks and crests which made them visible from afar. The stepped pyramids maintained temples that revealed the movement of the stars through lights and shadows.

At the Temple of Kukulcán, Chichén Itza, Yucatan, Mexico, the serpentine effect of light and shade on the northeastern staircase, known as the descent of Kukulcan, shows the spring and autumn equinoxes.

The temple of the seven dolls in Dzibilchaltun, Yucatan, Mexico, the passage of the Sun through the door of the temple recorded the spring and autumn equinoxes.

At the building of the Snail in Chichen Itza, Yucatan, Mexico, the windows of the tower are aligned with the sunset on the day of the equinox.

The alignment of the different temples with the output of the sun would have allowed the Mayans to recognize the solstices and equinoxes. Uaxactun, Guatemala.

Omen and Prophecies

Among the main functions of the Mayan priests was making prophecies to determine if a time was auspicious or not to carry out certain activities. Omens related to events astronomy, natural disasters or mythical events of the future related to the lineage of their rulers. To make their prophecies, the priests were looking at the past, since for the cyclical way of telling the time they were thinking that the facts usually recurred from one cycle to other.

Stela 6 from Tortuguero, Tabasco, Mexico, speaks of December 22, 2012, and refers

Figure 1:
Numbers from 1 to 19

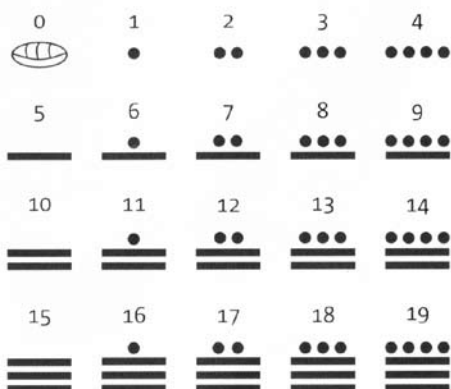
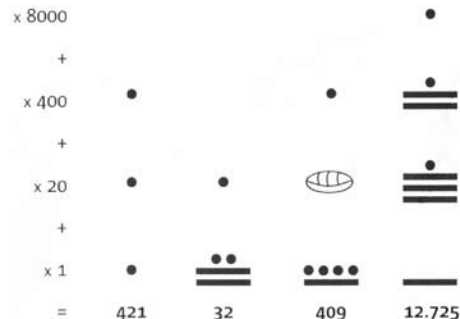


Figure 2: Table to write numbers bigger than 19



The value of symbols changes depending on the position. Read vertically, they had up to four levels to write large amounts.

to the final day of the fifth era in which we are: "the 13th Baktun will end in 4-Ahau 3 Kankin.... It will happen. It will be the descent of Bolon Yocte...to the...." The stele is broken and missing the end of the prophecy about this god associated with the underworld, death and war.

Other steles mention events that will occur much later, as in the inscriptions of the Temple at Palenque, where there is a reference to the year 4772 AD.

The end of the fifth era will be the start of a new 5,125 years in the long account of the Mayan calendar.

Glossary

Cenote. Word derived from the Yucatecan Tsonoot, cave with water in it. This is a natural depression in land, flooded with subterranean waters.

Códice. Ancient manuscript books, elaborated before the invention of the printing press. The Mayan codices are groups of pages made in kopo tree bark (*Ficus cotinifolia*) and dated to the classic and Postclassic periods. As they dealt with religious matters, most were burned by the Spaniards. The best known today are the codices Dresden, Madrid and Paris, names of the cities where they are preserved.

Equinox. From the latin *aequus*, equal, and *nox*, night. It takes place twice a year, 20th or 21st March and 22 or 23 September, when the day has the same duration of the night over the world due to the fact that the sun reaches its zenith (cenit) in the plane of the earth's equator and its light falls equally on both hemispheres.

Estela. The Maya stelae are monoliths of the classical period carved with glyphs and figures of the emblems of the dynasties of the city-states and narrations of important events such as wars and the rise to power and fall from power of its governments.

Glifs. Greek meaning "cut." It is the graphic representation of a component of a spoken language.

Morfema. The minimal unit of grammatical significance. *Casas*, for example, is composed of two morphemes, *casa* and *s*, which indicates the plural.

Solsticio. From the Latin *sol* and *statum*, that is the quiet sun. This takes place, due to the inclination of the axis of the Earth to the plane of its orbit, the Sun reaches the cenith in the Tropic of Cancer, around June 21, or the Tropic of Capricorn, towards the 22nd of December. This determines the longest and shortest day of the year.

To be continued.

Don't Forget about the Successes of the UNRWA

By Batoul Abuharb and Cherie Fathy, The Huffington Post, November 15, 2012

Take a second to picture the United Nations Relief and Works Agency (UNRWA). Is it a positive picture? A negative one? Is it even something you know at all? For most Americans, UNRWA either flies totally under the radar or it falls under the nebulous category of the Israel-Palestine issue.

UNRWA is the United Nations organization responsible for providing assistance, protection, and advocacy for Palestine refugees who lost their homes or their livelihood as a result of the 1948 conflict and the descendants of those original refugees. The number of refugees now totals over 5 million refugees. For many of them, UNRWA provides their sole access to health care, education, and financial relief services.

The organization recently made headlines when US Senator Mark Kirk (R-IL) publicly challenged the organization last May. Senator Kirk introduced a bill that called for redefining Palestinian refugees. This new definition could lead to *excluding descendants* of the original Palestine refugees, as the senator sees that refugee status cannot be passed on. This would drastically reduce the number of refugees down to the original 750,000 that were originally displaced back in 1948. Not only does this directly challenge the Palestinian narrative of the "right of return," but it would also likely affect funding of the organization. The bill passed the Senate Appropriations Committee and was approved to be voted on in the House and Senate in May 2012.

Like Senator Kirk, we believe that it is incredibly important that American tax dollars continue to go to effective and efficient programs. We also agree that it is equally important to continue to work towards a solution to the Palestine refugee issue. However, unlike the senator, our work and personal experience with UNRWA has also made us realize that the organization should actually enter the public discourse for a much more positive reason. UNRWA has been tremendously successful in promoting the economic development of Palestine refugees by following through with the Millennium Development Goals (MDGs). Their work on improving maternal and child health has been exceptionally notable.

UNRWA and the MDGs. In 1950, when UNRWA was first created, the infant mortality rate (IMR) for Palestine refugees stood at a staggering *160 deaths* per thousand live births. In 2005-06 that rate dropped to *21.8 deaths*. In today's standards, that puts UNRWA around 89/90th in the rankings of IMR (where Afghanistan is No. 1 with 121.63 deaths and Monaco is No. 223 with 1.80 deaths). An article published in 2004 by the Center for Research on Population and Health in Lebanon actually found that Palestine refugees have a "clear advantage" in comparison to their non-refugee counterparts when it comes to mortality rates. UNRWA must be doing something right.

The organization manages to run a unique primary health care system that provides free, continuous care to refugees. The high-quality, long-term health care it provides surpasses what is available in most developing nations. Even with its limited resources and the ever-growing patient population, UNRWA provides continuous prenatal care for over 100,000 pregnant women every year. Their checkups for expectant mothers begin in the first trimester. These early screenings allow clinicians to identify complications early on and also provide mothers with the prenatal vitamins and dietary counseling necessary for a healthy pregnancy. By the end of their pregnancy, refugee women have received on average 7.4 prenatal visits. To put this in perspective, the MDG baseline is four visits.

UNRWA has also succeeded at providing a comfortable environment for couples to discuss family planning options with a medical provider. More than 137,000 couples are enrolled in the clinics for these services and studies have shown that the use of modern contraceptives is actually on the rise. This could have a significant impact on regions like the Gaza Strip where fertility rates are especially high (women living in Gaza on average have about five children). UNRWA provides these women with family planning counseling when they come in for their child's first vaccination appointment.

In 2009, UNRWA provided healthcare services for over *300,000* children under the age of 36 months. Their vaccination program covers close to *100 percent* of its

Continued on page 20

EU Nations Aim to Close Web Company Tax Loopholes

By Sam Schechner and Ainsley Thomson,
The Wall Street Journal, December 3, 2012

Europe's biggest economies are teaming up to try to wring more taxes out of the world's biggest Internet companies.

Ministers from the UK, Germany and France have begun meeting in recent weeks to discuss how to stop big multinational companies from using legal loopholes to shift European profits to low-tax countries, government officials say. The talks are taking place as Europe tries to plug budget deficits amid a spreading recession.

Caught in the crosshairs: firms like Google Inc., Amazon.com Inc., Microsoft Corp. and Facebook Inc. The companies rack up tens of billions of euros in yearly sales in Europe but pay comparatively little tax in many countries because of arrangements that they and many tax experts say are legal.

This week the European Union's tax commissioner plans to unveil his own list of recommendations to curb the use of tax havens and other common methods of reducing corporate taxes.

The tax talks are likely to stoke debate over the role of national borders in an increasingly virtual world. They could also challenge some of the underpinnings of the current European tax system as it is used by businesses.

Government officials say they are discussing long-term changes in international tax standards, as well as new interpretations of where economic activity takes place under existing laws, in an effort to limit legal techniques sometimes dubbed "tax shifting" or "profit stripping."

Last Friday, finance ministers from France, Germany and the UK pledged €150,000 (\$194,000) each to speed work on a set of tax proposals due in February from the Organization for Economic Cooperation and Development. In early December, the European Union's tax commissioner plans to unveil his own list of recommendations to curb the use of tax havens and other common methods of reducing corporate taxes.

"The problem is that our legal system hasn't kept up with the virtual economy," a French government official said. "It's a problem for all of Europe, something all of

Europe must work on."

One major issue under discussion: The European Union was set up to be a single market, but it includes countries with varying tax rules and rates.

Many Internet companies, for instance, have established headquarters and get the bulk of their European revenue in Ireland. But unlike some other countries, Ireland doesn't have legislation aimed at limiting companies from shifting their profits to very-low tax jurisdictions, like Bermuda, according to business-services firm Deloitte LLP. That allows Ireland to tap some profits it wouldn't otherwise have access to, while the bulk ends up offshore.

Ireland has defended its tax system. "There's no question of Ireland making any changes to its corporate tax system," a spokesman from Ireland's Department of Finance says.

In several countries, tax investigations are heating up. In Italy, tax authorities are investigating income Google potentially generates there to see if any of it should be considered taxable. Tax police have so far identified "signs of undeclared revenue of more than €240 million," a government official said in a written response Wednesday to questions from an Italian lawmaker.

In France, meanwhile, local tax authorities argue that Internet companies are actually conducting more business there than they declare, according to people familiar with the inquiries. The French tax authorities have investigated Google, Amazon, Microsoft and Facebook in recent months, one of these people said.

The French tax authority declined to name any companies under investigation. The Internet firms have said their structures are legal.

"The problem is that our legal system hasn't kept up with the virtual economy," a French government official said.

Google, for instance, had nearly 300 employees in France at the end of 2011, including representatives who worked with large French advertisers, according to corporate filings. But local staffers are intermediaries who do marketing and promotion, not sales, the company said. Customers buy ads from Google Ireland Ltd., the company's European headquarters, which itself simply

pays Google France fees through a marketing agreement.

Microsoft has a similar arrangement through an Irish headquarters that handles software sales, an executive said in testimony in a French senate hearing earlier this year.

For its part, Amazon directs its European sales through its headquarters in Luxembourg, where sales taxes are lower, and then pays affiliates in different countries to fulfill orders, a company representative told a British Parliament hearing earlier this month. The result is that Amazon had £2.9 billion in net sales from the website amazon.co.uk, Amazon said in a letter to Parliament, but its UK company had 2011 revenue of only £208 million and it paid £1.9 million in tax, according to financial filings.

Google said in an emailed statement that it "complies with tax law in every country in which the company operates and with European laws." Amazon had no comment, but it said in a securities filing last month that it plans to "vigorously dispute" a \$252 million tax bill it has received from French authorities.

Facebook said in an emailed statement that it "takes its tax obligations very seriously," adding, "We comply with French tax laws" and work in all territories "to ensure compliance with local laws."

Microsoft declined to comment, but a Microsoft France executive told a French Senate hearing earlier this year that the company's structure is legal and touted Microsoft's contribution to France's economy.

Behind the disputes is the changing nature of the global economy. Digital goods and services can be beamed from one country to another in an instant. But the virtual nature of these goods and payments can make it easier for companies to take advantage of the fractured international tax

Letter to the Editor

(Translated from French.)

Good day,

I just discovered your site and, more importantly, the cause you are defending. You have no idea how much I agree with the ideas that you put forward. Do you plan a French version of your site, limited at first – COMER's actions and positions.

Thank you for your attention and I wish you an excellent day.

Robert Mailbot

Editor: At present, there are no plans to offer portions of the website in French, but the time has come to remedy that key absence.

system, for instance by classifying activities in high-tax countries as marketing expenses rather than actual sales, which are said to have taken place far away.

Even if Europe can manage to cooperate on new tax rules – and that’s a very big if – there are major risks. Adapting international tax rules may help high-tax areas like Europe grab a bigger portion of international companies’ revenue. But new rules could also

discourage big companies from expanding in areas that adopt the standards, effectively reducing the revenue the governments hope to tap.

“The worst thing would be to have knee-jerk reactions,” said Heather Self, the tax director at law firm Pinsent Masons. She added that criticism of multinational firms’ tax arrangements has often been ill-informed. “If all you do is drive the business out of Europe

and into the Far East, you haven’t actually created any value,” she said.



Our Comment. The scam should be clear enough. If the profit taken on the deal is wafted elsewhere in time and space, the economic system becomes largely a fiction. That evades any real basis for a serious distribution of real profits domestically. *W.K.*

Aid Falls Short As Cold Menaces Syrian Refugees: Foreign Donations Lag

By Neil MacFarquhar, The New York Times, November 25, 2012

Mdoukha, Lebanon – The winds spilling down off snow-covered Mount Hermon, bearing the first nip of winter, rattled the broken windows of an abandoned elementary school here where Syrian refugees are huddled in this Bekaa Valley hamlet.

Hundreds of thousands of Syrians displaced by the war, many of them stumbling out of Syria during the summer wearing little more than T-shirts and flip-flops, now face the onslaught of winter with inadequate shelter, senior government officials and aid organizations say. “It will be winter outside and winter inside,” said Mohamed Khair al-Oraiby, a burly 27-year-old who fled here over the summer with his wife and two infants. “We already wake up early because it is so cold.”

With temperatures already plunging to zero overnight in the hills framing this valley, the humanitarian crisis facing millions of displaced Syrians is deepening. More than a million people in need of aid remain out of reach of international relief efforts, the United Nations says.

The inability of international aid groups to cope with the crisis, which has mushroomed in recent months, is partly a question of access to war zones.

More than 400,000 people have fled Syria, and 1.2 million have been driven from their homes within the country, according to the United Nations refugee agency. Some 2.5 million people need humanitarian assistance, and the number keeps climbing. The United Nations said it had reached only one million of them.

But efforts have also been hampered by lack of resources. The United Nations is seeking some \$487 million for refugees across the region, of which about 35 percent has been collected.

“The capacity of the international donor community to support the crisis is not happening at the same speed at which the crisis is unfolding,” said Panos Moumtzis, the regional coordinator for the Office of the United Nations High Commissioner for Refugees.

Neighboring countries coping with the influx are developing their own plans: Jordan is seeking about \$700 million, and Turkey, which has spent \$400 million of its own money on state-of-the-art camps with three hot meals daily, is also now seeking aid.

Inside Syria, conditions are even worse. The distribution of aid is plagued by problems of access, security and a lack of organizations to carry out the work, according to aid officials.

Most deploy from Damascus, where fighting has been so fierce in recent weeks that aid workers have occasionally been instructed not to leave their houses. Some areas have fallen under the sway of shadowy jihadist forces that eye Western aid organizations as espionage networks.

In November, the International Committee of the Red Cross finally negotiated brief access to the old city of Homs with the fundamentalist militia that controls it. The locals jeered the relief workers for taking more than four months to reach them.

“We’ve been besieged for months,” yelled a man wearing camouflage fatigues in a video of the visit posted on YouTube, giving the thumbs-down sign. “Now it occurs to you to come? We don’t want you, we don’t want your food, and we don’t want anything from you.”

At least 20 areas within Syria are unreachable because of fighting, aid officials said. Vast swaths of countryside are also inaccessible, including much of the north, because the roads from Damascus are too dangerous.

Families in provincial Idlib report reverting to old methods to survive. In some Villages lacking electricity for months, for example, residents have built wood-fired ovens in their backyards, and daylight now sets the rhythm of their lives. They sleep soon after sunset and rise at dawn.

Relief planning is difficult because numbers are elusive and communication is haphazard. In the long-embattled city of Homs, for example, the United Nations listed 223,000 people as receiving monthly food rations, which it used as the number of people in need. But when a fighting lull enabled the Syrian Red Crescent to take a survey, 492,000 people sought assistance.

The Syrian government has allowed only eight foreign aid organizations to operate; all were already working in Syria before the uprising started in March 2011, helping Iraqi refugees. Seven employees of the Syrian Red Crescent have been killed.

The largest aid donors are the United States, at \$8.5 million, and Britain, at \$7.8 million. The wealthy Arab gulf states have contributed little via the United Nations system, with the exception of Kuwait, which has contributed \$1 million.

Now the cold is adding another layer of need. Middle Eastern winters can be bitter, with snow in some areas and chilly winds slamming across the deserts.

Since only about 35 percent of the \$70 million budget for winterization has been funded, only the most vulnerable third of the population will get help, Mr. Moumtzis said. Or as one senior diplomat put it, the refugees will be fed, “but not generously,” and they will be clothed, but “they will be cold.”

Efforts at triage are readily evident. In the Bekaa Valley, 10 to 15 families arrive daily, United Nations officials said, and 75 percent are women and children.

“Can we get those other 150 houses moving? Because the terrible winter temperatures are here!” pleaded Ahmed Fledy, the deputy mayor of the northern Bekaa Valley town of Ersal, to an aid worker entering his office.

The town of about 27,000 people, 12 miles from Syria, has absorbed more than 10,000 refugees. Some are housed 10 and more to a room in 250 drafty cinder-block dwellings with no windows or doors. Clinics are reporting a sudden rise in problems like skin diseases spreading by having too many people living together with poor hygiene.

A shortage of donated blankets meant distributing just three or four per family, not the goal of one per person. Qatar donated heating stoves, but enough for only about half the refugee families. Fuel is a question mark.

Three schools have absorbed 300 Syrian children, but 2,600 more want in, Mr. Fledy said.

Unique to Lebanon, most refugees have been housed in private homes, and are scattered among some 500 towns, said Ninette Kelley, the United Nations refugee representative in Lebanon. Lebanon banned tent

camp. The official explanation was that it wanted to avoid repeating the experience of Palestinian refugees in 1948; 12 camps built for them have become permanent cities, filled with up to 250,000 stateless people.

But the other key reason was that Syria's allies in the Lebanese government wanted to avoid such visible symbols of the violence that Syria was raining on its own people “The government called them guests, as if they were here to enjoy the parks and nightclubs,” said Khaled Daher, a Parliament member opposed to Syria.

But with 128,000 Syrian refugees in Lebanon, the government has reached a consensus that it is a humanitarian issue. Officials hope the worst is over, but they are bracing for the day that serious fighting erupts in Damascus, the capital.

On the first day of extensive violence in Damascus last July, 18,000 people crossed into Lebanon in one day.

But there are mounting concerns in Syria's neighboring states about just how many thousands more people they can absorb, and for how long.

“There is a growing concern about secu-

rity and political stability,” Mr. Mourtzis said. Syria's neighbors have so far kept their borders open, he noted, but they are beginning to ask, “Where do we draw the line, because this could affect our own stability?”

Our Comment

The essence of the matter has to do with how we can turn around the basic equations of the acquisitive economy, while leaving our society able to cope with the resulting burdens financing the social disarray.

Both the quest and its frustrated fulfillment harken back to the disregard of the great legacy of ancient Greece. Though increasingly disregarded in our official world, the greatest of the legacies was that of the students of Socrates, who wrote nothing. He merely “asked questions.” But these were of such cutting edge that they opened up universal worlds to search for relative answers in the skies and on the earth and in every conceivable direction. For the answers to all key questions were in constant flux.

Note well this weakness has its drastic effects on our governments' supposed accountability, reducing it to a fraud. *W.K.*

UNRWA from page 17

population. Their program eradicated the presence of malaria in the Jordan Valley and, as a whole, contributed to a tremendous decline in mortality rates from preventable diseases in the camps. This is an incredible accomplishment especially in places like the Gaza Strip where vaccination shortages can last anywhere from days to months. Political problems between opposing Palestinian parties frequently hold up vaccines at the borders, but UNRWA still manages to successfully immunize the population in Gaza.

How UNRWA Lines Up with Global Economic Development. Professor Jeffery Sachs, who directs the Millennium Project, argues that the world can eliminate

extreme poverty through “carefully planned” development aid. Sachs argues that Western countries have pushed developing countries to privatize their systems and charge user fees to cover costs even though Western health systems “guarantee” universal access.

For people already living in extreme poverty, tacking on healthcare expenses is inconceivable. Adding user fees to essential services like preventative care and vaccinations forces families to prioritize necessities like food and housing over health care. UNRWA's health program enables refugees to tackle their medical issues before they become too expensive or too difficult to manage.

Considering that universal preventive primary care has always been an option

for Palestine refugees, could UNRWA be playing in a different ball game? Could UNRWA essentially be following Sachs' model of a health system that promotes economic development? Investments in their primary healthcare system may pay off in higher work productivity because of a healthier adult population and an increased likelihood that illness will not keep Palestinian youth out of school. Moreover, according to UNRWA, focusing on preventive services has cut down costs and increased the number of refugees they can serve.

Moving Forward. UNRWA has experienced tremendous success in improving maternal health and reducing child mortality. They have enabled mothers to take ownership of their health and when they have children. Their children also have access to regular medical care. But, this doesn't mean that the story ends here.

UNRWA has provided us with a great foundation that we can learn from when it comes to community development. Instead of threatening to withdraw funding, we can build upon UNRWA's model and introduce even more effective programs and technologies. We should effectively monitor and evaluate these programs in order to track their successes and push those successes in reaching all of the Millennium Development Goals even further.■