

COMER

\$3.95

Vol. 22, No. 1 • JANUARY 2010

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The Crisis of Print Publications is Leading to Some Soul-searching in Unaccustomed Places

The 14/12 issue of *The Wall Street Journal* ("Fixing Global Finance" by Alan Murray) writes: "More than a year has passed since an unprecedented crisis pushed the world financial system to the brink. Yet plans to rebuild that system on more stable footings still remain embryonic. Differences among regulators, businesses and governments have slowed reform plans. And hefty bank profits, fed by easy credit and government aid, have drained the sense of urgency.

"To re-energize overhaul efforts, *The Wall Street Journal* last week gathered 80 top financiers at a lodge south of London for its second Future of Finance Initiative. The group which includes bank executives, hedge fund operators, money managers, policy makers and academics, deliberated on the most important steps moving forward.

"Their recommendations acknowledge the need for a stronger role for government regulators. At the top of their list was a call for increasing the capital that financial institutions must hold, with higher requirements for institutions posing greater risks to the system. Second on the list was a call for the Financial Stability Board to impose toughened regulatory standards across nations.

"The financiers, however, shied away from other, more intrusive government actions. They rejected a proposal requiring institutions to get regulatory approval before selling innovative new products. They steered clear of proposals that would force institutions deemed 'too big to fail' to divest certain businesses. And they dodged the explosive issue of compensation.

"That led one ex-regulator, former Federal Reserve Board Chairman Paul Volcker, to chastise the group for not going far enough. 'Wake up, gentlemen,' he said.

'Your response is inadequate.'

"But the prevailing sentiment of the largely private-sector gathering was that, while strengthened regulation is clearly needed, there is also a significant risk of overreaction. As hedge-fund manager and philanthropist George Soros warned, 'Markets fail, but regulators fail as well.'

"This report includes the group's 20 recommendations for action, as well as highlights of the meeting's discussions. Given the considerable knowledge and expertise of those involved, it should shed light on the path to a healthy and stable future for global finance."

And there follows under the heading "A Call to Action" 20 items adopted under the heading "Future of Finance Initiative" with the explanation, "Participants in *The Wall Street Journal's* Future of Finance Initiative were divided into four groups, each looking at a specific aspect of the future of finance:

"1. How to deal with financial institutions deemed too big to fail.

"2. How national regulatory authorities can effectively oversee global institutions.

"3. How to deal with financial institutions at the regulatory frontier that act like banks but aren't regulated as banks.

"4. How to address complex innovative products, like credit-default swaps and collateralized debt obligations.

"Each group came up with their top five priorities for how to rebuild the financial system. All the participants in the initiative then convened and voted on the order of priority."

Of the 20 recommendations, particular interest attaches to item 11, which reads: "Regulators Adopt Priorities. Global regula-

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Economic Reform (ER)
(ISSN 1187–080X) is published monthly
by COMER Publications
27 Sherbourne Street North, Suite 1
Toronto, Ontario M4W 2T3 Canada
Tel: 416-924-3964, Fax: 416-466-5827
Email: comerpub@rogers.com
Website: www.comer.org

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LAYOUT
Tony Koch (comer@pagecraft.org)
Pagecraft Computer Services

PRINTING AND DISTRIBUTION
Watt Solutions Inc., London

Printed in Canada on recycled paper.



Print from page 1

tors over the next 18 months should achieve agreement on the adoption of accounting standards set by the International Financial Reporting Standards and appropriate capital and liquidity standards.”

Elsewhere in this issue we track down the crucial importance for the development of medieval Europe from its lethargic backwardness connected with its lack of monetary media and the importance of the double-entry or “accrual” accountancy brought back from Muslim lands by the Templar Crusader Order. The essence of accrual accountancy is that every transaction is entered twice. Once was for the cost of the investment in money or credit – this was amortized (“to the death” in Latin) or over the likely usefulness of the investment (paid off according to a preset schedule). The investment in its turn was *depreciated* (from the Latin *de pretio*) which was reduced over the likely usefulness of the investment. The value of the system was that it enabled investors to tell at a glance how the investment was faring. This made possible the lengthy exploratory voyages that led both to the discovery of the Americas and of the sea route to southern and Eastern Asia.

It was the basis of the great commercial successes of the Venetian Republic that rather than burning its Jews and Muslims, traded with them – always respecting the Mahometan injunction that interest could be charged only if the lender shared the risk of the enterprise. Less successfully, it made possible financing of the wars that created modern nations from the small feudal principalities throughout Europe resulting in the ruin of several banks in Italy and elsewhere.

Item 11 of the *Wall Street Journal's* “Future of Finance Initiative” betrays the cluelessness of both the *WSJ* and economic officialdom of what is amiss with our economy. Elsewhere, *Economic Reform* has emphasized the importance of the balancing policy devised during the depth of the Great Depression of the 1930s. By the time F.D. Roosevelt was inaugurated some 38% of the banks in the land had shut their doors, and the others were in the process of following suit, had Roosevelt not declared a moratorium the was renewed for a full month during which no bank functioned. When those that could opened their doors again a month later, the *Glass-Steagall* law had been brought in prohibiting a commercial bank from acquiring an interest in any of the non-banking “financial pillars.”

The reason was good enough. If they had been allowed to, the banks would have laid hands on the non-banking funds that these non-banking companies kept for their own businesses – stock brokerages, insurance, and mortgages – using them as basis for the banks’ own money creation. And that in fact is what happened in the 1980s when the *Glass-Steagall* law was still on the books but increasingly disregarded. This led to the banks going from one non-bank financial institution to another erecting a virtual skyscraper that could only move upward never down as the banks gaggled on their acquisition of savings and loans, creating a virtual skyscraper of money creation with elevators that could only move upward at ever swifter speed, never downward, for once they did so the entire game and the rickety structure of bank-money creation it threw up would collapse. Collapse it did in any case with crushing effect for the economy. COMER kept track of the ratio of credit to legal tender base, until in the last year of the millennium it had reached some 490 to one, and I realized that to keep the figure down to 490 I had to strip the ATM’s and the tellers’ cash registers, leaving the banks non-functional. So I gave up my tracking.

And meanwhile Mexico in particular, but also the United States and Canada suffered tremendous financial crises that threatened to bring down the world financial system with them. As a result Washington, the International Monetary Fund and Canada put together the largest stand-by fund every put together to prevent a world monetary crash: \$51 billion US. The money did not have to be used, but in Mexico – a most nationalistic country – 85% of its banks passed into foreign hands.

Shaken by the experience the Clinton government was driven to a stronger remedy. Up to that point while private corporations and tax-payers were taxed under some approximation of double-entry (or accrual accountancy) the governments in Washington and Ottawa had no equivalent in their own books. Both national governments amortized their own investments over the likely usefulness of the physical assets that it served to finance, but the value of the investment itself had been written off in a single year. This had a double effect: it resulted in a deficit that was not really there, but served to drive up interest rates. It also permitted assets carried on the government books at a token dollar to be sold to deserving parties at a tiny portion of their value “to reduce the debt.” Until President Clinton, shaken by

the experience, brought in accrual accountability for the physical capital investment. That gave him a second term and the high-tech boom that led to the high-tech bust.

But regardless of what labels were stuck on what was being legislated into the law of the land, beneath it a quite different reality had taken over. The Bank of Canada, founded in 1934, and its shareholders bought out by the federal government in 1938 at a good profit. That had made possible the financing of Canada's Second World War effort at a minimal cost, since much of the financing of the war and the post-war reconstruction had been financed through the Bank of Canada. By that arrangement, much of the interest paid for such financing came back to the federal government as dividends paid by the Bank of Canada to its sole shareholder, the federal government. There were also provisions in the *Bank of Canada Act* even on its books until today that made borrowing by the provinces possible through the central bank, though the resulting interest charges came back to haunt them.

Some Distant Background: Socrates et al

The New Encyclopedia Britannica (Volume 16, page 1001) under the heading "Socrates" simplifies the problems that have brought our modern world to the point of collapse. We quote:

"Socrates of Athens, who flourished in the last half of the 5th century BC, was the first of the great trio of ancient Greeks – Socrates, Plato and Aristotle – who laid the philosophical foundations of Western culture. As Cicero said, Socrates 'brought down philosophy from heaven to earth' – i.e., from the nature speculation of the Ionian and Italian cosmologists to analyses of the character and conduct of human life.... Living during the chaos of the Peloponnesian War, with the erosion of moral values, Socrates felt called upon to shore up the ethical dimensions of life by the admonition to 'know thyself' and by the effort to explore the connotations on moral and humanistic terms.

"Socrates was born in or about 470 BC, ten years after the battle of Salamis.... Plato and Aeschines, both writers of Socratic dialogues, agree with the military historian Xenophon in depicting him as intimate with the leading figures of the Periclean circle (Aspasia, Alcibiades Axiochus, Callias), then dominant in Athens. Xenophon agrees with Plato in saying that he was well-versed in

geometry and astronomy, and this concurs with the narrative of Plato's *Phaedo* as well as with the burlesque *The Clouds*, written by the playwright Aristophanes.

"Socrates must already have been a conspicuous figure at Athens when Aristophanes and Ameipsias both made him the subject of their comedies in 423, and because they both made a point of his neediness he had probably suffered recent losses....

"Socrates' record for endurance was distinguished. He served as a hoplite [a heavily equipped foot-soldier] perhaps at Samos (440), and at several stations during the Peloponnesian War. (At Potidaea he saved the life of Alcibiades.) In politics he took no part, knowing, as he told his judges, that office would mean compromise of his principles.... When the oligarchy of the Thirty Tyrants in Athens, wishing to implicate honourable men in their proceedings, instructed him and four others to arrest Leon, one of the victims, Socrates disobeys. In Plato's *Apology* he says that this might have cost him his life but for the counter-revolution the following year.

"In 399 Socrates was indicted for 'impiety.' ... There were two counts in the accusation, 'corruption of the young,' and 'neglect of the gods whom the city worships and the practice of religious novelties.' Socrates, who treated the charge with contempt, and made a 'defense' that amounts to avowal and justification, was convicted, probably by 280 votes against 220. The prosecutors had asked for the penalty of death; it now rested with the accused to make a counterproposition. Though a smaller, but substantial penalty would have been accepted, Socrates took the high line that he really merited the treatment of an eminent benefactor: maintenance at the public table. He consented only for form's sake to suggest the small fine of one mina, raised at the entreaty of his friends to 30.

"The claim to be a public benefactor incensed the court, and death was voted by an increased majority, a result that Socrates declared himself well content. As a rule in Athens, the condemned man 'drank the hemlock' within 24 hours but, in the case of Socrates the fact that no execution could take place during the absence of the sacred ship sent yearly to Delos caused an unexpected delay of one month, during which Socrates remained in prison, receiving his friends and conversing with them in his usual manner. An escape was planned by his friends Crito, but Socrates refused to hear of it, on the grounds that the verdict, though contrary to

fact, was that of a legitimate court and must therefore be obeyed. The story of his last day, with his drinking of the hemlock, has been told in the *Phaedo* of Plato.

"Main sources of information. Socrates wrote nothing; therefore, information about his personality and doctrine has to be sought chiefly in the dialogues of Plato and the *Memorabilia* of Xenophon. As both men were nearly 45 years younger than Socrates, they could speak from first-hand knowledge about only the last ten to 12 years of his life.

"Xenophon, whose relations with Socrates seem not to have been close, has been suspected of drawing from Plato. His admitted deficiencies of imagination and

A Letter from a COMER Leader to the Bank of Canada Head

24/12/09

Mark Carney
Governor of the Bank of Canada

Your remarks to the "Rendez-vous avec l'autorité des marchés financiers" on Reforming the Global Financial System were like a breath of fresh air – clear and straight forward.

I was particularly taken by your observations that "we are awash in moral hazard" which "if left unchecked...will distort private behaviour and inflate public costs," and your statement that "losses endured in future crises must be borne by the institutions themselves. This means management, shareholders and creditors, rather than taxpayers."

You are concerned about "Canadians taking on mortgages that will be unmanageable when interest rates rise," but you won't act to stop a housing bubble on the grounds that the Bank "does not have the mandate to adjust interest rates to target housing prices..." (reported in an article by Peter Zimonjic on 24/12/09). At the same time, commercial banks are creating money to lend to mortgage seekers at rates which encourage a housing boom and borrowers want to buy before prices go up.

Would this be the time for government to re-instate the statutory reserves to enable you to limit what the banks are doing without adjusting interest rates?

Richard Priestman, Kingston, Ontario

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capacity for thinking do not make him the more faithful exponent of a philosophical genius....

"Plato's more vivid picture has been suspected on the grounds that he used Socrates as a mouthpiece' for speculations of his own; the theory of 'Ideas' or doctrine of "Forms" is thus held to be have been originated by Plato....

"Personal characteristics. Though Socrates was a good fighting man, his outward appearance was grotesque. Stout and not tall, with prominent yes, snub nose, broad nostrils, and wide mouth, he seemed a very Silenus. But as his friends knew, he was 'all glorious within,' 'the most upright man of that day' (Plato, *The Seventh Letter*). 'He had schooled himself to moderation that his scanty means satisfied all his wants.'

"But Socrates was no self-tormenting ascetic: 'He knew both how to want and how to abound' and could be the soul of the merriment at a gay party. Conscious of his own infirmities, he felt a profound sympathy for the intemperate.'

"Socrates was a true patriot who felt that he could best prove his devotion to Athens by setting his face resolutely against the specious, popular but deadly, false theories of public and private morality.... It was his very patriotism that made him an unsparing critic of the Athenian 'democracy' and led to his condemnation to death.

"Nothing was more marked in his character than an unusually keen appreciation of the comic in human nature and conduct that protected him at once against sentimentality and against cynicism. 'Intellectually the acutest man of his age, he represents himself in all companies as the dullest person present. Orally the purest, he affects to be the slave of passion.' (W.H. Thompson). '[He] disarmed ridicule by anticipating it' But its true source is the spontaneous sense of fun that makes its possessor the enemy of all pretentiousness, moral or intellectual.

"Religious beliefs. Socrates was clearly a man of deep piety with the temperament of a mystic. he regarded mythology, with its foolish or immoral tales about gods, as a mere invention of the poets. But he found it possible to combine his own belief in God as rulers of the world with the view that in practice that one could worship God in the way prescribed by 'the usage of the city'.... God's existence is shown, he held, not only by the providential order of nature and the universality of the belief in Him but also by warnings and revelations given in dreams, signs, and oracles. The soul of man

partakes of the Divine and as Plato argued in *Phaedo*, Socrates believed in the soul's immortality. Aristophanes makes Socrates combine the parts of the 'infidel' physicist and hierophant of a mysterious private faith and, in *The Birds* presents him as presiding at a fraudulent séance. He was regular, says Xenophon, in prayer and sacrifice, though he held that, because only the gods know what is good for a man, his prayer should simply be 'give me what is good.'

"What is implicit in such a belief is that to judge what is good or bad, hence what really exists, involves the constant re-evaluation of our limited powers of observation of what still lies beyond our ken. From that attitude millennia before Einstein's relativity was discovered — after some distinguished 19th century sociologists that to understand what happens under our noses we must examine our ability to appraise our perception of what occurs in far-off space as well. Far from being a simple linear affair, deeper observation was an infinitely more complex affair, and getting to understand that complexity is a necessary preliminary for grasping what goes on closer at hand. In short relativity and all that has happened to our concept of space, observation powers, and the uncounted unexplored dimensions involved in each of these. We can appreciate the immensely productive unwillingness to believe in knowledge as a simple relationship between our one-way observations and the multi-dimensional reappraisal of our observative powers involves an ever-ongoing reappraisal of just about everything on the earth or the firmament or within our own bodies.

"It is clear from Plato that Socrates was quite familiar with Pythagorean and Orphic religious ideas. The evidence that Socrates had a markedly 'mystical' temperament is abundant. Plato tells of his curious 'rapt' in one of which he stood spellbound 24 hours in the trenches. The accounts of the philosopher's 'divine sign' tell the same story.... According to Plato, it merely gave prognostications of good or bad luck, and the occasions of its occurrence were often 'very trivial.' Thus it was neither an intuitive conscience nor a symptom of mental disorder but an interior psychic audition."

"Mode of life. Socrates seemed to spend all his time in the streets, the marketplace, and more particularly, the *gymnasia*. He cared little for the country. Though he frequented by choice the society of young men of promise, but he also talked freely to politicians, poets, and artisans about their

callings, their notions of right and wrong, the familiar matters of interest to them. The object of all this dialogue was to test the famous oracle of Apollo at Delphi, that had pronounced him the wisest of men. This pronouncement was made before Socrates had become conscious of his mission to his fellow men. Even at this early date, it is implied, he had the highest of reputations in circles interested in wisdom....

“Socrates set himself to convict ‘the god’ of falsehood. But finding that those who thought themselves wise were unable to give any coherent account of their wisdom, Socrates had to admit he was wiser than the others, just because he was aware of his own ignorance. This account is tinged with the usual irony. Socrates took the Delphic oracle seriously enough to probe into its real import. He believed himself charged with a mission from God to make his fellowmen aware of their ignorance and of the extreme importance of knowledge of what is for the soul’s good. This is proved by his declaration that he was more than ready to face instant death rather than neglect his commission.

“The poverty in which this had involved him and the austerity of this rule of life that it entailed were notorious. Summer and winter, Socrates’ coat was the same; he had neither shoes nor shirt. ‘A slave that was made to live so, the Sophist said, ‘would run away.’

“His message, however, was variously received. Some of those whose false pretensions were exposed by his trenchant criticizing regarded him with ill will; many thought him an offensive busybody. Among the younger men many thought it good sport to see their elders silenced.

“Others such as Alcibiades and Critias, deliberately attached themselves to him for a time for private ends, believing that to learn the secret of so acute a reasoner would be the best preparation for success in the law courts, the council, and the assembly. Others hoped by associating with him to become good men and true, capable of doing their duty by house and citizens. Finally, there was an inner circle that entered more deeply into Socrates’ principles and transmitted them to the next generation. But these were not ‘disciples’ united by a common doctrine. The bond of union was a common reverence for a great man’s intellect and character. It was, in the main, this group – many from states that had been enemies of Athens in the recent war – that collected around Socrates on the day of his death.

“**The accusation and its causes.** The ex-

planation of the attack on Socrates is simple. He had been on terms of close friendship with the two men whose memories were most obnoxious to the democrats: Critias, the fiercest spirit among the extremists of the ‘terror’ of 404; and Alcibiades, whose self-will had done so much to bring about the downfall of the Athenian empire. The charge of ‘educating Alcibiades’ was made prominent in the pamphlet written a few years after the trial by the Sophist Polycrates, in justification of the verdict. More than half a century later, the orator Aeschines reminds his audience that Socrates had been put to death because he was believed to have educated Critias. In point of fact, it was absurd to make Socrates responsible for the ambitions of Alcibiades, and, as he reminded his judges, he had disobeyed an illegal order from Critias and his colleagues at the risk of his life. But it is natural that he should have had to suffer for the crimes of both men, the more so since he had been an unsparing critic of democracy and of the famous democratic leaders and, furthermore, had not, like the advanced democrats, withdrawn from Athens during the ‘terror.’

“The real grounds for the attack could not be disclosed in the indictment because of the amnesty that had terminated the struggle. Hence, the charge took the form of a vague accusation of ‘corruption of the young.’ But there must have been more behind the charge. In the *Apology*, Socrates says that the persecution is, no doubt, relying on memories of Aristophanes; *The Clouds* where he had been made to talk ‘atheism’ as part of the burlesque on men of science.

“But there must have been more behind the charge. It seems likely that the persecution of Andocides revived the old scandal of the ‘profanation of the mysteries’ that had thrown Athens into a ferment on the eve, in 415 of the Sicilian expedition. The two chief victims, Alcibiades and his uncle Axiochus, had both been among the intimates of Socrates, and there is reason to think that others of his friends were affected.

“Socrates himself treats the whole matter with contempt. His defence consists in narrating the fact of his past life, which had proved that he was equally ready to defy the populace and the Thirty in the cause of right and the law, and insisting on the reality of his mission from God, and his determination to discharge it, even at the cost of his own life. The prosecutors had no desire for blood. They counted on a voluntary with-

drawal of the accused from the jurisdiction before trial; the death penalty was proposed to make such a withdrawal certain.”

Doctrine and Method

“Socrates was a man of the Periclean Age, which witnessed one of the periodic bankruptcies of science.’ Cosmological speculation...boldly pursued from the beginning of the 6th century, seemed to have led to a chaos of conflicting systems of thought. The Rationalist Parmenides of Elea had apparently cut away the ground from science by showing that the entire world must be quite unlike anything that the senses reveal and that, consequently, the interpretation of the world by familiar analogies is inherently fallacious. And his pupil Zeno of Elea seemed to have shown that even the postulates of mathematics are mutually contradictory. Thus, the ablest men such as the Sophists Protagoras and Gorgias, had turned away from the pursuit of science and concerned themselves not with the truth, but with making a success of human life.

“Socrates as a young man, was enthusiastically interested in ‘natural science’ and familiarized himself with the various current systems – with the Milesian cosmology [and] its flat earth and the Italian with its spherical earth and with mathematical puzzles raised by Zeno about ‘the unit’ (i.e., the problem of ‘continuity’). There was a complete lack of critical method. For a moment, Socrates hoped to find salvation in the doctrine of Anaxagoras that “Mind” is the source of all cosmic order because this seemed to mean that ‘everything is ordered as best it should be, that the universe is a rational teleological system. But on reading the book of Anaxagoras, he found that the philosopher had made no effective use of his principle; the details of his scheme were as arbitrary as any other.

“**The Socratic ‘hypothesis.’** After this disappointment, Socrates resolved from then on to consider primarily not ‘facts’ but *logoi*, the ‘statements’ or ‘propositions’ one makes about ‘facts.’ His method would be to start with whatever seemed the most satisfactory ‘hypothesis’ or postulate about a given subject and then consider the consequences that follow from it – so far as these consequences proved to be true and provisionally confirmed. But one should not confuse inquiry into the consequences of the ‘hypothesis’ with proof of its truth. The question of truth could be settled only deducing the initial ‘hypothesis’ as a consequence from some more ultimate, accepted ‘hypothesis.’

“The doctrine of Forms. According to Plato, Socrates next proceeded to take it as his own fundamental ‘hypothesis’ that every term such as ‘good,’ ‘beautiful,’ ‘man’ that has an unequivocal denotation directly names a selfsame object of a kind inaccessible to sense perception and apprehensible only by thought. Such an object Socrates calls an *Idea* or *Eidos*, i.e., a Form.

“Scholars in the 19th century usually assumed that this doctrine of Forms was consciously devised by Plato after the death of Socrates. The chief argument for this view is based upon the observation of Aristotle that Socrates rightly ‘did not separate’ the universal from the particular, as it is apparently implied, Plato did. He might equally have meant, however, that the doctrine of the *Phaedo* does not itself involve the kind of ‘separation’ to which he objects in the Platonic theory. On the other side, the doctrine is expressly said in the *Phaedo* to be a familiar one, which Socrates ‘was always’ repeating; and, if untrue, it is hard to see what could be the point of such a mystification and harder to understand how Plato could have expected it to be successful, especially as most of the personages of the *Phaedo* were certainly still alive. If true, however, one must be prepared to admit the possibility that he is also reproducing the thought of Socrates in the *Symposium* and *Republic*, in which he speaks of a supreme Form, that of Beauty or Good, the vision of which is the far-off goal of all intellectual contemplation.

“Unfortunately, no complete separation of the Socratic and the Platonic is possible.

“Logical methods. On the logical side, both Plato and Xenophon bear out the remark of Aristotle that Socrates may fairly be credited with two things: ‘inductive arguments’ and ‘universal definitions.’ The ‘Universal definition’ is an attempt to formulate precisely the meaning of a universally significant predicate – i.e., to apprehend what the *Phaedo* calls a Form. And it is from the practice of Socrates, who aimed at the clarification of thought about the meaning of moral predicates as the first indispensable step toward the theory of logical division and definition, as worked out by Plato and Aristotle, has arisen....

“And it is from the practice of Socrates, who aimed at the clarification of thought about the meaning of moral predicates as the first indispensable step towards the improvement of practice, that the theory of logical division and definition, as worked out by Plato and Aristotle, has arisen....

“Induction, on this view of it, is not

regarded as a method of proof; its function is that of suggestion: it puts the meaning of a proposed ‘definition’ forcibly and clearly before the mind....

“Ethics and politics. With Socrates the central problem of philosophy shifted from cosmology to the formulation of a rule of life, to the ‘practical use of reason.’ As the *Apology* relates, the specific message from God that Socrates brought to his fellowmen was that of the ‘care’ or ‘tending’ of one’s ‘soul’...for the ‘soul’ or *psyche* is most truly a man’s self.

“Socrates’ view of the soul stands in sharp contrast with the Homeric and Ionian view of the *psyche* as the ‘breath of life,’ which is given up when the man ‘himself,’ his body has perished, and also with the view prevalent in circles influenced by the Orphic – type religions, according to which the soul is a sort of stranger loosely inhabiting the body, which sleeps while the body is active, but wakes when the body sleeps.” Instead, the soul came in the 4th century to be viewed as the normal waking personality, the seat of character and intelligence, ‘that,’ as Socrates says in Plato, ‘in virtue of which we are called wise or foolish, good or bad.’ And as this usage of the word first appears in writers known to have been influenced by Socrates (Isocrates, Plato and Xenophon), it may fairly be ascribed to his influence....

“Even a Themistocles or a Pericles plainly had no knowledge of true statesmanship: they gave the populace the things that tickled its taste, such as a navy and commerce; but they were no ‘physicians of the body politic,’ for they did not promote righteousness and temperance....”

What Socrates Would Recommend In Dealing With Our World Crisis

These are not only consulting key works, but more specifically works whose suppression from our universities, media, having brought on the crisis, makes impossible the very obvious set of policies that would allow the world economy to heal. In the following list there is no real attempt of ordering the suppressed literature that would provide the keys to a solution of according to their relative importance. It is enough that imposed as an embracing effort to cripple the attempt of parliaments, the media and our universities to seriously seek the solutions that were not difficult to identify, but simply banned.

Let us begin with a quotation from Volume 3 of *Meltdown, Money, Debt and the*

Wealth of Nations, COMER Publications, 2008, page 148, “Weird Tale” written by me: “In the 1960s the ‘just society’ promised during the war was actually being realized. To accommodate the baby-boomers, new schools, universities, hospitals and housing were built. The institutions of social pluralism were set up. Under such circumstances, I was puzzled that economists should be characterizing the upward inching of prices as simple ‘inflation.’ Still worse, higher interest rates had begun being touted the one method for repressing it.

“These institutions could not possibly be delivered while prices lay flat. However, whatever is not done for profit was banished from the operational core of the official model as an ‘externality.’ It simply does not enter into the reckoning.

“Nevertheless, these new or extended public services do have their costs. And these must be covered by taxation that turns up as a deeper layer in the price of marketed goods. It is as simple as that. The official price theory, however, holds that if prices climb, it means that there is an excess of demand over supply. Yet the higher interest rates that were being applied as the ‘one blunt tool’ against ‘inflation’ can bring down prices temporarily only by pushing up bankruptcies and unemployment. In doing so, they shrink the tax-base and the revenues of government, and thus inexorably lead to still higher prices. Interest rates are played like an accordion to find the magic level at which prices would lie dead. That invited financial speculation at the expense of the productive economy.”

Perceptive French Economists

“During the 1960s there was still considerable freedom of discussion. In the course of fleshing out these thoughts, I came across the work of not one but two French economists who had clearly posed the problem. J.P Mockers wrote: ‘In most cases observed, the years of slack correspond to periods when price increases have been most marked. We have here quite the opposite phenomenon to that postulated by the traditional price theories of the cycle. We must [then] begin by devising a terminology that will distinguish between a price rise that can be traced to an overheated economy, with more demand than can be supplied, and a price increase that coincides with a slack economy. That must be caused by other factors.’

“As early as 1962, Pierre Biacabe discussed these structural aspects of price rise. It is necessary to adopt a new definition of

inflation, or to use this term only in its original sense and find another terminology for the new phenomenon that we are trying to track down. But no one has yet detected the new phenomenon.... We continue viewing it as a sinister thing, harmful and destructive, because of the effects it might have had in a previous economic system.

“The champions of the reigning economic doctrine were just beginning to feel threatened. A considerable space still existed for heterodox views. The sixty-some page paper that I wrote and sent to some thirty publications on economic theory was purchased by the leading French economic journal at the time, *La Revue Économique* and carried in its May, 1970, issue. Only much later did I learn that both Mockers and Biacabe were on its editorial board. Calmann-Levy, a leading French publisher, wrote suggesting that I expand my article into a book that they would publish. I spent the next year writing that book, and sent it to them. But by then the Ice Age had closed in. I still have received no acknowledgment from Calmann-Levy.

“I published the book intended for France in English – it has stood up well enough over the subsequent quarter of a century. It received positive reviews in half a dozen European countries including the *Economic Journal* of Cambridge University. But on the whole the following paradox emerged.

A Pall of Silence

“Not in a single instance has an economist taken issue with the thesis – that price in a pluralistic society must reflect the increase in taxation that pays for unpriced public services.’ Yet not a single economist – [not associated with COMER] in recent years has dared defend such a position. And yet the slightest sense of responsibility would have required them to do so either from a knowledge of accountancy or our history. The economic disasters that resulted were a special invitation to ever more brainless military adventures and continued surrender to Wall Street – specially so given the hopeless flaws in the official remedy for ‘licking inflation’ that was being wheeled into place under President Obama. To understand the roots of this failure we must refer to another signal achievement of the French school – the theory of ‘the dominant revenue’ of François Perroux. He held that in every historic period the volume and rate of the revenue of the particular that holds economic power is imposed as an adequate index of the well-being of society as a whole.

In Britain after the Napoleonic Wars it was the income of the landowners, who fought for the maintenance of the Corn Laws [that kept high tariffs to guarantee maximum rents on their land holdings]. The introduction of James Watt’s steam engines into the factories of Britain led to the dominant revenue shifting to the industrialists who now favoured low tariffs or free trade at home and abroad to enable them to convert their pioneer position in converting to steam power into still lower wages.”

But the costliest confirmation of Perroux’s “dominant revenue” came as a result of the growing literacy of the British working class. Until well into the 19th century the British workers were largely illiterate, and it mattered little that the most prominent economists Adam Smith, David Ricardo, and most of the others, made use of some version of the labour theory of value to frame their doctrines. It was simply over the heads of most illiterate workers. But by mid-19th century philanthropist institutions and eventually the public schools were teaching the workers to read, at the very times that socialist and anarchist leaders, defeated on the barricades that had been thrown up in almost every European capital, were arriving in droves in Britain. These included Karl Marx and family, Friedrich Engels and in a few years some of the leading Communards. In no time the refugees, including Marx’s talented and tragic daughter Eleanor were organizing open air meetings in Hyde Park – almost within earshot of Buckingham Palace. That made the labour theory of value in whatever form it may have been set up, a social peril for the feudal and industrial classes. And their response as that throughout much of Europe was equally drastic. The perceived locus for the creation and calculation of value was accordingly shifted from the grimy factories, in which workers toiled under dreadful conditions to the elegant retail shops where value came to be estimated by the amount of pleasure they provided their purchaser. In at least three European countries the momentous shift took place quite independently. A bit of misused calculus provided the scientific credentials. It worked wonders. Thus unemployment ceased being a problem: it was declared not to exist. What had been mistaken for unemployment under the previous value theories came to be seen as an error – if workers stayed home it was simply that they had compared the pleasures of leisure in their parlors with the joys of working in the factories at the wage offered and found

them wanting. Even George Bernard Shaw – mighty iconoclast and leader of Fabian socialism – wrote a book praising the logic of the new system.

Without this background of intellectual swindle the world could have never find itself today embarked upon stepped up hyper-gambles delivered in fractions of a second – with privilege for sale of a secret peek at the trend of the gambles before they are made public.

William Krehm

No Need for HST

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The provincial government is going to implement a new tax, the infamous HST on taxpayers. Don’t they understand that consumer spending is 70 per cent of our GDP? All economic recoveries are fuelled by an increase in consumer spending.

Our federal and provincial governments have a tool at their disposal that they always ignore and it is called the Bank of Canada. If there were two banks in town and you owned one of them, where would you borrow your money from?

Under Article 18 subsections (c) (i) and (j) of the *Bank of Canada Act*, the Bank of Canada may make loans to the provincial government that shall not exceed one-fourth of its estimated revenue for the fiscal year and in the case of the federal government, such loans shall not exceed one-third of its estimated annual revenue.

Why is it our elected officials never make use of the tools available to them on our behalf?

The federal government is the sole shareholder of our bank and all interest is returned to them as dividends. Our debt increased from 1867 to 1992 to \$423 billion. Only eight per cent of this debt was used for goods and services and 91 per cent has been spent on interest. This interest bearing debt is pointless when we have our own bank. These figures come from Statistics Canada.

My goodness, if I were an elected official and knew that our problem was the \$160 million per day – that’s right, \$160 million per day, we spend on interest payments on both provincial and federal debt – I would take advantage of our bank and replace this private debt to our own bank as permitted in the *Bank of Canada Act*.

If the province took advantage of our bank, there would be no need for the HST.

Andre Marentette, Belle River

Japan is Learning the Hard Way that Money Spent on Human Resources Is a Crucial Investment

The Globe and Mail (26/12, “How Japan is fighting deflation with day care” by Tomoko Yamazaki and Komaki Ito reproduced from “The Bloomberg News”) has come up with some crucial information about the seemingly hopeless world economy.

“Japan’s efforts to escape a deflationary spiral may depend on whether Yuko Furukawa’s son finds a place in day care.

“Prime Minister Yukio Hatoyama wants to encourage working mothers such as Ms. Furukawa to fuel household demand and thus help pension funds and health care. The Dai-Ichi Life Research Institute says a 0.6% rise in Japan’s female employment rate would boost consumer spending by 1.3% and increase the Nikkei 225 Stock Average by 3.2%.

“Ms. Furukawa is in a bind because the nursery at Nippon Yosen K.K., where she works, only takes children age three or younger. She doesn’t know what she will do when her two-year-old hits the limit, unless the government expands access to day care. ‘It would almost be a miracle for my child to get into any of the government-run centers,’ said Furukawa, 28, who is in public relations at Japan’s largest shipping line, in Tokyo.

“Some investors are already betting that a recovery in Japan’s birth rate will increase spending on children. The ‘Government is going to do something,’ said Jim Rogers, chairman of Singapore-based Rogers Holdings, in a November 4 interview. ‘In other countries giving incentives for people to have babies has actually worked.’

“Given the acute demographic pressures, ‘Japan can’t afford not to make better use of its females,’ said Kathy Matsui, 44, the Tokyo-based chief strategist at Goldman Sachs Japan Co. and mother of two. ‘Unless it does, Japan risks losing out in the global growth race.’

“Population Minister Mizuho Fukushima, 53, herself a working mother, wants to do more to encourage women to enter the labour force. Mr. Hatoyama’s Democratic Party of Japan on August 30 ended five decades of rule by the Liberal Democratic Party, though it needs the votes of Fukushima’s Social Democratic Party to control both houses of parliament.

“‘I even had to move to a new neighborhood to find after-school care,’ Ms.

Fukushima said in an October 21 interview, speaking of her now-grown-up daughter. ‘I was a lawyer, so in some ways I was fortunate’ to have a flexible schedule. ‘But women working for companies have long hours, and that’s a struggle.’

“The government’s promises mark a shift from as recently as 2007, when LDP health and welfare minister Hakuo Yanagisawa said in a January 27 speech that the solution to Japan’s problem was for the ‘baby-making machines’ to have more children.

“Until now, efforts to improve child-care facilities were shoved aside because they didn’t win votes,’ said Yutaka Sanadam the Tokyo-based general manager of Japan’s nationwide after-school child-care association.

“The government plans by early next year to ease rules restricting how many children day-care centres can take, to cut the 25,384-child waiting-list. A government task force says it will come up with an overall plan by the end of January.

“Under the government’s election manifesto, families would get a monthly allowance of ¥13,000 (\$145) per child under 15 beginning April 2010, rising to 26,000 yen the following year.

“If France is a guide, benefits helping mothers return to work would raise the birth rate. The government gives as much as €620 per month in child benefits, plus up to €880 for each newborn.

“French women give birth to an average of 1.96 children each, the most in Europe and up from 1.78 a decade ago. Women in Japan have only 1.34 children on average. World Bank data for 2007 show that is below the 2.07 required for a stable population.

“‘I realize that the clock is ticking,’ said Nana Nakagawa, 33, as manager in the legal department at Daiwa Securities Group Inc., Japan’s second largest brokerage. ‘But unless there’s more back-up from the government, it’s difficult imagining having a second child.’”

And yet in a “Call to Action” in its issue of December 14 *The Wall Street Journal*, in a 20-point “Future of Finance Initiative” over the signatures of eminences from the worlds of “Business, Academia and Public Policy,” published a 20-point summary of what must be done. It should be noted that

The Wall Street Journal responsible for this initiative is currently controlled not by an American corporation but by an Australian press magnate famed for his rightist convictions. That makes Item 11 of the 20 conclusions issued by the Conference of particular importance. We quote it: “Global regulators over the next 18 months should achieve agreement on the adoption of accounting standards set by the International Financial Reporting Standards and appropriate capital and liquidity standards.”

Accepted accountancy standards is thus brought into this impressive initiative and brings us to the very heart of the problem of the Japanese birth rate and its ruinous effect on Japan’s population drop.

That returns us to a bit of history that could never have taken place, if an order of Crusaders, the “Knights Templar,” had not brought the double-entry system of accountancy from Muslim lands to central and Western Europe. It had been developed in Muslim lands to enforce the Muslim belief that interest could be charged only if the financier shared in the risks of an enterprise.

That very radical accountancy carefully tracked the “amortization” of the cash or credit paid to finance the given enterprise, and that was carefully “amortized” (Latin for “to extinction,” “following a fixed schedule”). And in another column the current market value of the physical assets of the enterprise was carefully noted (“depreciated” from the Latin *de Pretio* – “according to current market value”).

This made it possible to organize joint stock companies for the costly expeditions that led both to the discovery of the Americas and the route around the Cape of Good Hope to Southern and Eastern Asia – bypassing both the fanatic Christian empire of Constantinople and even less accommodating Muslim regimes that blocked the approaches to India and China. And before long the English banks had evolved to the point where they found their interests better served pirating shipments of gold from the Spanish colonies than depending on their own colonizing efforts. Accrual accountancy in varied degrees survived in the private sector to serve the tax-collectors, *but was stricken from the government’s own books.*

What happened in the matter reflected largely where political power was at the moment. The industrialists coming to the fore with the introduction of James Watt's steam engine into Britain's factories affected not only the accountancy but the very concept of economic value. That found its most brilliant expression in the notion of the late, great economist François Perroux: in every society the revenue of the class in power is taken as a reliable index of the welfare of society as a whole. Thus in Britain during and after the Napoleonic Wars, it was the rents screwed high behind tariff walls filled that filled that role. But with the introduction of Watt's steam engines to replace human muscle-powers in British factories, free trade became the dominant revenue that allowed the industrialists to fully profit from the temporary monopoly that steam power gave them at home and abroad.

Until then economic theory had been largely based on the amount of average labour entering the production of a product. Since the labour force was still largely illiterate, there was little danger of seditious influences from such theorizing. But that the spread of literacy rapidly changed. Moreover, the socialist and anarchist refugees defeated on the barricades thrown up in almost every European capital, poured into Britain. Quite independently in at least three European capitals the source of value was altered in the identical way – it shifted from *production* in the factories to the amount of *enjoyment* available from the consumption of the given product.

Let us reread *The Wall Street Journal's* item 11 in the light shed by Perroux's "dominant revenue." "Global regulators over the next 18 months should achieve agreement on the adoption of accounting standards set by the international Financial Reporting Standards." There is no hint of what the accounting standards might be. Clearly there is no indication whether it will depend very much whether the government borrows for its needs from its own central bank – which was founded in 1994, but bought out by the federal government at a good profit from the 12,000 private stockholders less than four years later. When that happened the federal government was able to borrow its needs and get back the interest it paid, less a minor handling cost. Canada's record in financing its part in World War II, was more economically handled than either that of the UK or Washington. As was the reconstruction and the assimilation of a vast postwar immigration, and catching up with the new

technologies after a decade of depression, a world war, and the settlement of a vast penniless immigration from war-battered Europe.

At the most basic level, what the world is suffering from today is from the re-regulated banking community having scrapped and buried the legislation that worked well to get us and keep us out of the worst aspects of the Great Depression.

The story was carefully constructed and retold on pages 224-225 of Volume 1 of *Meltdown, Money, Debt and the Wealth of Nations*, edited by William Krehm and the first of the John Hotson Memorial Series, 1999, COMER Publications.

What Now, Mr. Martin? The Unravelling of a Hoax

"An unperceived revolution has taken place in US government statistics that makes nonsense of the central issue of the presidential campaign – the deficit.

"Until last January Washington made no distinction between current and capital spending. Ottawa still does not. The budget they speak of is a cash-flow exercise that writes off all non-financial capital spending (buildings, equipment, land) in the year in which it is made. The same is the case with investment in human capital (education, health, welfare). The value of such investment is entered on the government's balance sheet at a token dollar. Such a budget can be balanced – if at all – only with wrenching effects on the economy.

"Over the past two decades and more, that bad accountancy has helped gut the economy.

"First there is its inflationary effect on price. Picture what would happen if an oil company wrote off the cost of its wells, pipelines, refineries in a single year. Even the attempt to balance such a budget would drive the price of petroleum products into the skies. By the same logic, the absence of capital budgeting in government accounts was a major if unrecognized factor in the surge of prices that began in the latter sixties.

"In the sixties the baby boomers were approaching university age, and to educate them to the new required standards, post-secondary campuses sprang up throughout the land. Then there were the public infrastructures needed for the expanding cities, and to serve countless new technologies. Such outlays were not treated as investments. Because the services they delivered to the public were not priced or paid for directly by them, but by the three levels of govern-

ment, no unadjusted price index could pick up their benefits – for the same reason that you cannot read atmospheric pressure from a thermometer or temperature from a barometer. Yet the taxation to cover their costs did find its way into the prices of whatever was marketed. That effect on the price level was confused with an overheated market ('too many dollars chasing too few goods'). And the attempt was made to suppress it with ever higher interest.

"Why has the correction been partially made in the US just now? Undoubtedly to help Mr. Clinton in the coming election. And why was it carried out in such stealth that even financial analysts have overlooked it? We can only surmise the answer. In keeping with its passion for reassuring the financial community, the Clinton team has been content with the vastly improved deficit and debt statistics that have resulted. Politics dictated their not drawing undue attention to the king-sized can of worms they have opened.

"In just three years (1992-4) recognizing the *physical* investment of the federal government resulted in a \$618.5 billion lower debt figure. Carried forward to 1995 (and backward to 1959), the change would far exceed a trillion dollars. And that, mind you, ignores the government's investment in human capital that certainly outstrips by far its physical capital assets. Once the Department of Commerce has revised the government savings figures, as the Federal Reserve Bulletin (table A-40), had no choice but to take over those figures, without mentioning what brought about the massive drop in the deficit.

"So it has come to pass that all parties have been mum about the reason for this massive deficit reduction. Right-thinking economists have too much to answer for to blurt out that much of Clinton's deficit reduction was due simply to the introduction of elementary accountancy into the government's books – something they had resisted for decades.

"COMER, however, feels that the costs to society of these rigged statistics has been too staggering to leave the job incomplete. As early as the latter sixties some of us were writing about the distortion introduced by the absence of capital budgeting in the inflation figure. We understood that the sudden upper movement in the CPI in the latter 1960s had less to do with 'too many dollars chasing too few goods' than to massive capital investments by the public sector that were being disregarded.

“Had capital budgeting been brought into the accountancy of governments only enough taxation would have been raised to cover the depreciation of the public investment [assets] interest on the [unamortized] portion of the cash invested. Obviously Canada must make the same rectification in its statistics. But we cannot leave matters there, By this accountancy dodge, hundreds of millions of dollars have been siphoned from the pockets of the producing population to rentiers and speculators, countless families have been broken, lives destroyed, and the unity of Canada itself compromised.

“The time has come to put an end to all that and to make sure that it will never happen again. With the recognition of the public savings and investment, we will have a meaningful balance sheet for our government. The price index must be unbundled to reveal how much or its upward movements really reflects an overheated economy, and how much the increased package of unpriced capital infrastructures – both material and human. If there is in fact an overheated market with ‘too many dollars chasing too few goods,’ the remedy is not higher interest rates but higher re-

serves to rein in the banks’ near-money (i.e., interest-bearing debt) creation. At present the nation’s money creation, increasingly surrendered to our banks, is being used to finance their speculations and less and less to finance the producing economy.

“The jig is up Mr. Martin. The time has come to come clean.”

William Krehm

[Endnote] “Some years ago I developed a simple method for unbundling the Consumer Price Index to reveal the extent to which the economy may be ‘overheated,’ i.e., suffering from an excess of demand

Language of Deceit on the Tongues of the Mighty

The most flattering thing that can be said of our brand new Prime Minister Stephen Harper is that he has a way with words, neo-conning them into quite the polar opposite of their accepted meaning. Even a right-inclining columnist like John Ibbitson of *The Globe and Mail* (11/10, “Clean-air pledge is just political smog”) draws an unflattering conclusion: “Two months ago, Intergovernmental Affairs Minister Michael Chong said Canadians would be ‘pleasantly surprised’ by his government’s autumn proposals to improve air quality. He may have been right about the adjective, but there’s nothing to justify the adverb. Stephen Harper’s announcement that his government will introduce a *Clean Air Act* next week was simply a political mirage.

“When the Conservatives declared earlier this year that Canada would fail to meet its Kyoto targets, they were simply speaking the truth. The Liberal government signed the protocol committing Canada to reducing carbon-dioxide emissions, then failed to live up to that undertaking.

“But the Tories had another calculation in mind: Most Canadians were confused about global warming, which may or may not be linked to increased carbon-dioxide emissions, and which may or may not be reversible.

“But urban Canadians are very aware that smog is getting worse. The government’s strategy was simple: shift from greenhouse gases to smog. Produce a program that toughens automobile emissions and reduces the pollution from coal-fired generating stations. Ignore environmental zealots such as those at the David Suzuki Foundation, but aim for at least a partial endorsement from the moderates in the environmental movement.

“Nice plan. Isn’t working.

“To reduce urban smog, the Tories needed to achieve several goals all at once: to work with the Americans to establish continental targets for reducing harmful emissions from coal-fired generating plants. And they needed to toughen emission standards at home. But there was neither time nor sufficient political capital to achieve the first goal, while the second would decrease business competitiveness and require Draconian increases in the price of cars and fuel.

“And the electorate, when it isn’t demanding cleaner air, is buying stupidly huge trucks while protesting against rising gas prices. The Liberals, to their sorrow, know all about this.

“Stephen Harper wants to be known as the prime minister who tackled smog. But nothing he has offered thus far suggests that, when it comes to fighting bad air, he is anything other than just another disappointment. However, his greatest misstep that concerns the environment, has to do with greenhouse-gas targets under the Kyoto Protocol.”

In the same issue of the *G&M* (“PM plans ‘intensity alternative’ to Kyoto” by Bill Curry and Mark Hume), we read: “Mr. Harper said his government will introduce next week its *Clean Air Act*, legislation that will trigger at least a year of talks with industry and the provinces to set mandatory reduction targets for pollution and greenhouse gases. But in responding to questions in Vancouver, Mr. Harper uttered a phrase that had the opposition fuming. We will produce intensity-based targets over the short range and long term and they will cover a range of emissions, not just carbon dioxide, but nitrous oxide, sulphur oxide,

sulphur dioxide, and it will be a comprehensive plan. It marked the first time the Harper government has said its plan to address global warming would be ‘intensity-based.’ This means industries would have to reduce emissions per unit of production, such as per barrel of oil. Lowering emissions per unit, however, does not mean that Canada’s total output of greenhouse gases will decline. If, for example, there is an expansion in the oil sands, total levels of emissions would increase even if per unit emissions decrease.

“Such an approach runs contrary to Canada’s commitments under Kyoto, which calls for the country’s total output of greenhouse gases to decline. Last month’s report from federal Environmental Commissioner Johanne Gelinas warned that, left unchecked, greenhouse gas emissions from Alberta’s oil sands could double between 2004 and 2015. But Mr. Harper said yesterday technology improvements will ultimately reduce total reductions over the long term. He cited a recent federal report that says emerging technologies – such as injecting carbon emissions back into the ground – could reduce emissions by 60% in 2050.”

In short, the PM is evading the issue with a plethora of “mays” and “mights” decades ahead. From this there is a lesson to be learned. Once a political leader has done a masterful job in evading one important issue, he forfeits his conscientious use of language in dealing with other key issues that may arise. He acquires, as it were, a forked tongue that wraps itself around the very words of the issue and twists language to cover up rather than to clarify. Mr. Harper’s “intensity-based” emission programs warns us of what lies ahead with Mr. Harper in office.

W.K.

over supply. In essence it consists of adding to the sample basket of goods and services on which the CPI is based items for ecological clean-up, non-marketed public services, mandated standard improvements, and other such unpriced benefits priced at zero (for they are unpriced) and weighted according to their total costs as a proportion of the GDP. In essence it diluted the price index by the unpriced benefits. See W. Krehm, *A Power Unto itself – The Bank of Canada* (1993) Stoddard Publications, p. 96.”

How does all this fit into President Obama’s evasions of the hub issues in the current crisis?

This is no time to be sitting on two chairs at the same time. But that is precisely in his choice of both key personnel and issues is what President Obama is doing.

Let us go to *The New York Times* (4/12, “A Focus on Jobs, but no Promises of a Turn-around” by Jackie Calmes): “Washington – After months of focusing on Afghanistan and health care, President Obama turned his attention on Thursday to the high level of joblessness, but offered no promise that he could do much to bring unemployment down quickly even as he comes under pressure from his own party to do more.

“At a White House forum, scheduled for the day before the government releases unemployment and job loss figures for November, Mr. Obama sought new ideas from business executives, labor leaders, economists and others. Confronted with concern that his own ambitious agenda and the uncertain climate it has created among employers have slowed hiring, the president defended his policies.

“Mr. Obama said he would entertain ‘every demonstrably good idea’ for creating jobs, but he cautioned that ‘our resources are limited.’

“The president said he would announce some new ideas of his own next week. One of these, he indicated when he participated in a discussion group on clean energy, would be a program of weatherization incentives for home-owners and small businesses modeled on the popular ‘cash for clunkers’ program.

“On Capitol Hill, Ben S. Bernanke, the chairman of the Federal Reserve, told senators at a sometimes testy hearing on his confirmation for a second term, ‘Jobs are the issue right now.’

“It really is the biggest challenge, the most difficult problem we face right now,’ Mr. Bernanke added, citing in particular the inability of many credit-worthy small

businesses to get bank loans.

“In the House, where lawmakers are particularly sensitive to the employment issue since they face re-election next year, Democratic leaders on Thursday were finishing work on a jobs bill for debate this month. It would extend expiring federal unemployment benefits for people who have been shut out of jobs for long periods, and provide up to \$70 billion for roads and infrastructure projects and for aid to small businesses. House Democrats plan to pay for the plan by drawing from the \$700 billion fund set up last year to bail out financial institutions.

“The House also passed legislation on Thursday that would freeze the federal tax on large estates at its current level. Under current law, the tax would have disappeared entirely next year, only to reappear at much higher levels in 2011. The vote highlights the raft of fiscal issues facing the administration and Congress and the tension between addressing budget deficits and taking potentially expensive actions to help the economy.

“Mr. Obama’s jobs event captured the political and policy vise now squeezing the president and his party at the end of his first year. It came at the end of a government report expected to show unemployment remaining in double digits, and two days after Mr. Obama stressed as he ordered 30,000 additional troops to Afghanistan that he did not want the financial burdens of the war to overwhelm his domestic agenda.

“Both the domestic and the military demands on the administration are raising costs unanticipated when Mr. Obama took office, even as pressures build to arrest annual budget deficits now exceeding \$1 trillion. Those demand are also eroding the broad support that swept Mr. Obama into office, especially among independent voters, and igniting a guns-versus-butter budget debate in his own party not seen since the Vietnam era.

“While liberals are calling for ambitious job-creating measures along the lines of the New Deal and Republicans want to scale back government spending programs, Mr. Obama talked at the White House on Thursday of limited programs that he suggested could provide substantial bang for the buck when it comes to job creation. Among them was the weatherization program.

“Called ‘cash for caulkers,’ it would enlist contractors and home-improvement companies like Home Depot – whose chief executive was on the panel – to advertise the

benefits, much as the car dealers did for the clunkers trade-ins this year.

“Yet that relatively modest proposal underscores the limits of the government’s ability to effect a jobless recovery with the highest unemployment rate in 26 years – and Mr. Obama acknowledged as much. Just as he said in Tuesday’s Afghanistan speech that the nation could not afford an open-ended commitment there, especially when the economy is so weak and deficits so high, Mr. Obama emphasized at the jobs forum that the government had already done a lot with his \$787 billion financial bailout that he inherited.

“‘I want to be clear. While I believe the government has a critical role in creating the conditions for economic growth, ultimately true economic recovery is only going to come from the private sector,’ he told his audience, which included executives and some critics from American Airlines, Boeing, Nucor, Google, Walt Disney and FedEx.

“Mr. Obama told the chief executives that he wanted to know: ‘What’s holding back business investment and how can we increase confidence and spur hiring? And if there are things that we’re doing here in Washington that are inhibiting you, then we want to know about it.’

“He got a blunt answer from Fred P. Lampropoulos, founder and chief of Merit Medical Systems Inc., a medical device manufacturer in the Salt Lake City area. Mr. Lampropoulos said some in his discussion group agreed that businesses were uncertain about investment because ‘there’s such an aggressive legislative agenda that business-people don’t really know what they ought to do.’ That uncertainty, he added, ‘is really what’s holding back the jobs.’

“The president acknowledged, ‘This is a legitimate concern,’ one that he and his advisers discussed before he took office.’

“But Mr. Obama said he decided that ‘if we keep on putting off tough decisions about health care, about energy, about education, we’ll never get to the point where there there’s a lot of appetite for that.’

“The argument that Democrats’ ambitions are unnerving business is one that Republicans have been making lately, and it was prominent when House Republican leaders held a competing roundtable on jobs with conservative economists on Thursday.

“The American people are asking ‘Where are the jobs?,’ but all they are getting from Washington Democrats is more spending, more debt, and more policies that hurt small businesses,’ said Representative John

A. Boehner of Ohio, the House minority leader.

“But W. James McNerney Jr., the head of the Boeing Company, said in an interview after the president’s forum, ‘If you ask me what creates the uncertainty I’m dealing with, its more than the state of the economy.’”

“The administration’s domestic agenda is a problem only to the extent that it ‘is crowding out their attention’ to the economy, Mr. McNerney said, adding, ‘I think the purpose of today was to convince us that there’s at least a half-pivot in the other direction.’”

It is becoming increasingly obvious that the Obama line that was expected to save the world is perilously confused, incoherent, and broken. The time has come when a major initiative must be taken to retrieve what had been learned from our history, the great economists sociologists, mathematicians and humanitarians. Alarmed at the dangerous drift to the precipice with a stepped-up emphasis on derivatives of an ever higher order.

COMER invites participation of all concerned organizations to open up for a world-wide discussion of such a world-wide initiative along the following lines:

1. A clear discussion of what is and what is not insurable and what is not “risky” but “wrong.” $2 + 2 = 5$, for example, is not risky but wrong and, accordingly, is not insurable. To pretend that it is, can only lead to corruption and the inevitable ruin of both the supposed “insured” and “insurer.” And when the fate of the world’s economy and peace prospect depends on such distinctions, it will land us in an ever deeper ocean of troubles.

2. Professional mathematicians must be brought in to assess the refined split-second gambling that has come to make up the greater volume and exposure of the New York stock market, that even includes peddling fore-knowledge of the bets being placed in the new ultra-rapid subsidiaries that handle the greater part of Wall Street’s activities.

3. An initiative must be considered to seek an understanding with democratic Mohammedan views of what interest can be charged and what cannot. This could conceivably lead to renewed progress in achieving a peaceful, democratic resolution of the ever deepening military confrontations that are currently dragging the world toward the next world war.

William Krehm

What Will the Effect on Our Society Be of the High-speed Railways that are Taking Over in Key Lands?

We have made much of the obvious effect on Marxist views of the railway technology that was just beginning to take over when Karl Marx was born. Undoubtedly it helped inspire the notion that society was programmed to develop along predetermined lines, with successive evolving forms in foreseen locations and climaxing in the terminal where passengers take their ultimate departure with beatific smiles on their faces. The realities have been far choppy and less reassuring. And with the largely misfired prophecy behind us we can only speculate what the sociological effects of the speed trains could have up their sleeves for humanity.

What contributes to power the transformation to the high-speed railway revolution is, of course, the need for a technological revolution that can help fill the employment gap throughout much of the world. The article in *The Wall Street Journal* (“High-Speed Rail Keeps Train Makers on Track” by Paul Glader): “St. Petersburg, Russia – As an engineer pulls the throttle, villagers tracks side gawk at the bullet-shaped train as it gathers speed. Soon, forests and wooden shacks are as a dashboard display reads 250 kilometers (155 miles per hour).

“Ten years in the making, Russia’s state-owned trains that in December will rush travelers from here to Moscow in less than four hours. With fancy kitchens and leather seats in first class, the Sapsans (Russian for peregrine falcons) mark a change in Russia’s egalitarian rail tradition.

“More broadly, though Russia’s new trains mirror a global push in high-speed rail that spans from China to the US, an effort that is buffering Siemens AG, Hitachi Ltd., Bombardier Inc. and other industrial giants against the economic slump.

“Global spending on trains, tracks and equipment is expected to reach €122 billion this year (\$182 billion), up 18% from 2004, according to Unife, an international trade association. It projects that the figure will rise to €150 billion by 2016.

“Rail spending ‘has a short-term effect on unemployment as well as a longer-term effect on economic growth,’ says Michael

Clausecker, Unife’s director general.

“A high-speed rail link between Madrid and Barcelona opened last year has stolen former air travelers, cutting daily flights between the cities in half between Madrid and Barcelona in half to 35. France hopes to double its high-speed track to about 2,500 miles by 2020.

“In the US President Barack Obama has vowed to spend \$13 billion over five years to build high-speed rail links between major cities. The spending is aiding the fortunes of train makers.” Bombardier’s rail-division revenue in the quarter ended July 31 rose 5% from earlier to \$2.55 billion while total company revenue was flat. The Canadian manufacturer recently reported a \$2 billion contract to send 80 Zefiro high-speed trains to China by 2014.”

A Shift of Our Central Governments’ Central Concerns?

“China is making the strategic investments to build a high-speed rail network and sustaining transportation system,’ says Jianwei Zhang, president of Bombardier China. The country wants to build ‘the most advanced rail network in the world.’

“Japan’s Hitachi shipped six high-speed bullet trains to the UK this summer and plans to build rail cars there. Revenue for the unit that includes rail rose 19% for the fiscal year ended March 31, making the business one of Hitachi’s strongest.

“Alston SA’s transportation sales increased 3% to a record €69 billion for the year ended March 31. The company projects continued strong demand, citing stimulus packages in the US’s. France and elsewhere in Europe, says Chief Executive Patrick Kron. The French company in March formed a joint venture to develop products in Russia.

“And while General Electric Co.’s rail operation primarily makes locomotives for freight trains, executives plan to sell future-efficient locomotives for faster passenger railroads in the US and elsewhere. GE want to sell Amtrak more engines that go even faster are on the horizon as they would require expensive track upgrades.

“For the Sapsan project, Russian Railways spent nearly \$1 billion for its eight Siemens Velaro trains.

“The Sapsans will trim the Moscow-to-St. Petersburg trip to three hours and 45 minutes from 4.5 running about 60 mph below their capacity because of difficulties upgrading tracks. The trip is expected to cost about \$100 one way, roughly the same as the average plane fare.

“It makes everything more convenient, by removing airport security lines and the need to travel between an airport and the center of town says Irina Darienko, a delivery-operations specialist for Alcatel-Lucent

in Moscow.

“Alexei Daibov, an auditor with PricewaterhouseCoopers in St. Petersburg is more skeptical but he hopes a price war will lower the cost of plane tickets.”

However, on the base of past experience it should add to the semi-wasteland that lower levels of government – provinces and municipalities – farther removed from the central government to which such “less urgent spending is relegated like health, education, and so much else. Now most of our non-central levels of government – like the 30 million inhabitants of Greater Mexico – today will fall into this ill-defined territory not di-

rectly clued into the primary concerns of the central government. It bodes ill for an alert accountancy that will fund different strata of population in a way that corresponds to society’s real needs. That will be determined by the standards of accountancy that will be brought in to reflect the real needs of our human capital – a concept that has been resisted ferociously to this very day. It bodes little good to extend more of the population and their key living concerns to the ill-defined middle land whose needs are relegated ever more distantly from the central feeding boxes of the central government.

W.K.

PART 2: A REVIEW OF A BOOK BY ELLEN HODGSON BROWN

“Web of Debt” — A Very American Perspective on Money’s Essence

It pains me to say so, but what Ms. Brown writes about the Russian Revolution is mostly nonsense. It makes no distinction between a serious historic source, and the propaganda of oppressive regimes on either side of the great waters. Thus on page 224 we read: “There were actually two Russian revolutions. The first, called the February Revolution, was a largely bloodless transfer of power from the Tsar to a regime of liberals and socialists led by Kerensky, who intended to instigate political reform along democratic lines. However, the facts were quite different. Conditions in the Russian armies were so bad, that troops dispatched to the front were even short of rifles, and were instructed to wait until the man ahead was killed to pick up his rifle and push ahead. That irresponsible determination to continue with hopeless offensives on the Eastern front to distract the Germans from concentrating on the Western front was a key factor in bringing on the Bolshevik revolution.

What is astounding is that in the third edition of what by and large is an impressive work, the references to the detail of the Russian events are taken from First World War or Stalinist propaganda at its rawest. And by now the authoress should have felt the need to distinguish between First War propaganda during the anti-Communist excesses of the Palmer raids where anything left of center even the apolitical International Workers of the World (“Wobblies”) but still persecuted by the Palmer raids. I quote from Ms. Brown’s third edition: “The far bloodier October Revolution was essentially a coup, in which Kerensky was overthrown

by Vladimir Lenin with the support of Leon Trotsky and some 300 supporters who came with him from New York.”

The fact is that he traveled alone with his family, and was removed from the ship and imprisoned in Halifax by the British until the message came from Kerensky, head of the Russian government, asking that he be released and allowed to continue to Russia. The reason for that? In his mid-twenties Trotsky had been head of the St. Petersburg Soviet that led the 1905 revolution that was eventually suppressed.

“Born Lev Bronstein, Trotsky was a Bolshevik revolutionary who had come to New York after having been expelled from France in 1916.” Incorrect, he was neutral between the Bolsheviks (which incidentally means “majority”), hence debunking the statement on Brown’s next page: “They represented the smallest of the Russian radical movements – how then did they turn up as the majority at the Congress when the Russian socialists split into Bolsheviks (majority) and the Mensheviks (minority)?”

By now there is a rich literature reporting and correcting every bend of the Stalinist rewriting of history to justify the slaughter not only of Trotskyists but of any one straying from absolute loyalty to Stalin. That Trotsky was Lev Bronstein should not seem surprising as an underground movement in the days of the Czars on, *noms de guerre* were a must. Stalin – meaning “man of steel” had the original Georgian name of Dzhughashvili, and few revolutionaries in Russia used their own name. As for Trotsky’s 300 supporters who accompanied him from

New York – where for some months he had edited a Russian socialist paper – they simply did not exist.

But why the authoress has to refer to an Ed Griffin, author of *The Creature from Jekyll Island*, on the support the Bolsheviks receiving strong support from the highest financial and political power centers in the US men who were supposedly “capitalists” and should have strongly opposed socialism and communism. Griffin maintains that Lenin, Trotsky and their supporters were not sent to overthrow the Tsar. Rather their assignment from Wall Street was to overthrow the revolution. A particular source of misinformation has to do with the rigged trials that sent thousands of good revolutionaries because of suspected disloyalty to Stalin. Why in the midst of all this should Ms. Brown refer to an American writer concerned with the establishment of the Federal Reserve Bank as the source of who did what, and in Russia, of all places.

“The 19th century Opium Wars allowed the British to impose economic imperialism on China. The Chinese government, alarmed at the growing number of addicts in the country, made opium illegal and tried to keep the British East India Company from selling it in the country. Britain then forced the issue militarily, acquiring Hong Kong in the process.

“To the Japanese, it was an early lesson in the hazards of ‘free trade.’ To avoid suffering the same fate themselves, they sealed their own borders. When they re-opened their borders later, it was to the United States rather than to Britain. The Japanese Meiji

Revolution of 1868 was guided by Japanese students of Henry Carey and the American nationalists. It has been called an 'American System Renaissance,' and Yukichi Fukazawa, its intellectual leader, has been called 'the Benjamin Franklin of Japan.' The feudal Japanese warlords were overthrown and a modern central government was formed. The new government abolished the ownership of Japan's land by the feudal samurai nobles and returned it to the nation, paying the nobles a sum of money in return.

"How was this massive buyout financed? President Ulysses S. Grant warned against foreign borrowing when he visited Japan in 1879. He said, 'Some nations like to lend money to poor nations very much. By this means they flaunt their authority, and cajole the poor nation. The purpose of lending money is to get political power for themselves.' Great Britain had a policy of owning the central banks of the nations it occupied, such as the Hong Kong and Shanghai Bank in China. To avoid that trap, Japan became the first nation in Asia to found its own independent state bank. The banks issued new fiat bank money which was used to pay the samurai nobles. The nobles were then encouraged to deposit their money in the state bank and to put it to work creating new industries. Additional money was created by the government to aid the new industries. No expense was spared in the process of the industrialization. The funds were, after all, just government credits – money internally generated, based on the credit of the government credits – money that was internally generated, based on the credit of the government rather than on debt to foreign lenders.

"The Japanese economic model that evolved in the 20th century has been called a 'state-guided market system.' The state determines the priorities and commissions the work, then hires private enterprises to carry it out. The model overcame the defects of the communist system which put ownership and control in the hands of the state. Chalmers Johnson, president of the Japanese Policy Research Institute, wrote in 1989 that the closest thing to the Japanese model in the US is the military/industrial complex. The government determines the programs and hires private companies to implement them. The US military/industrial complex is a form of state-sponsored capitalism that has produced one of the most lucrative and successful industries in the country. The Japanese model differs, however, in that it achieved this result without the pretext of

war. The Japanese managed to transform their warrior class into the country's industrialists, successfully shifting their focus to the peaceful business of building the country and developing industry. The old feudal Japanese dynasties became the multinational Japanese corporations we know today – Mitsubishi, Mitsui, Sumitomo, and so forth."

Assault of the Wall Street Speculators

"Of the Bolshevik movement Mr. Griffin wrote, 'But theirs was a movement that scoffed at numbers and frankly mistrusted multitudes. Lenin always sneered at the obsession of competing socialist groups with their "mass base." "Give us an organization of professional revolutionaries," he used to say, "and we will turn Russia upside down."' It required a mass party to sustain a civil war where Communist Russia was invaded from almost every point of the compass. During this period there was little time for foreign banks. When Stalin finally brought in the first Five Year Plan in the latter 1920s, Trotsky from exile wrote that Stalin had resisted such plans advocated by him for some years. That curtailed the possibility of the imaginary supporters of American bankers on the say – so of American authors writing to set the US bankers in an unflattering light rather than from any serious acquaintance with what was going on or had gone on in Russia."

Ms. Brown must learn to distinguish between early unconvincing sources when Russia was pretty well under an economic ban let alone receiving bankers' support.

But the most insensitive use of irresponsible rumor occurs when on page 231 she cites the 1938 interrogation of C.G. Rakovsky, one of the founder of Soviet Bolshevism – though a native Bulgarian and an intimate of Trotsky, who was tried in one of the countless show trials in the USSR under Stalin. Rakovsky maintained that Hitler had actually funded the international bankers through their agent Hjalmar Schacht in order to control Stalin, who had usurped power from their agent Trotsky. Surely, Ms. Brown should learn distinguish historic record from the answers of a prisoner of Stalin fighting for his life.

If you went through the hundreds of prosecutions by the Stalinist government of alleged Trotskyist counter-revolutionaries and took the evidence given by the prisoners as gospel you would end up with a strange view of what had gone on in this world. An excellent corrective is the work of Albert Glotzer: *Trotsky Memoir and Critique*, Prometheus Books, 1989. Glotzer, for years

one of the younger leaders of the US Trotsky movement, who spent some months with Trotsky during his first exile on the Turkish Island of Prinkipo. From there he reported his fishing in the Black Sea with Trotsky to catch the fish that this alleged ally of US bankerdom was reduced to catching to feed his wife and himself and whatever house guests were with him – as was Glotzer – to help him. Writes Glotzer, "Never had I been fed so poorly before or after."

Since then Glotzer had separated from the Trotskyites largely because of their rigid Marxism which led him to criticize the Spanish Trotskyists for not breaking with the anarchists since rigid Marxist faith holds that who has control of the means of production controls society. In Barcelona and Catalonia as a whole, however, the Trotskyites who had merged with other Marxist groups managed to survive largely thanks to the protection of the Anarchists. It was the Anarchists that had suppressed the Franquista rebellion in Barcelona harbour at the outset of the Spanish civil war. The anarchists – the CNT trade unions – went on to take over the telephone central instead of what Trotsky deduced should by orthodox Marxist logic would have been the factories. But the POUM survived against the Stalinist push as the one source of arms – paid in gold as well as blood. Trotsky always had a lack of empathy towards anarchists, he had put down an anarchist uprising in Kronstadt in the early years of the Bolshevik revolution. To ask his followers to follow that line when the anarchists protected them from their Stalinist foes seeking principals for future Moscow trials was an awfully long hop. And one that Glotzer – for all his admiration of Trotsky, the revolutionary and martyr to revolution – was not prepared to make. I would recommend it to Ms. Brown to help her straighten out her view of the 300 Trotskyites who she mentions as having accompanied Trotsky back to Russia in 1917, who, however, never existed.

As for Trotsky's backing by US bankers, let me mention that not only was Trotsky refused entrance to the US when alive, but even when assassinated, he was still not allowed into the US. In the beautiful park bounded the White marble Bellas Artes music Hall in Mexico City on the East and the Quemadero (the Burning Ground where earlier Protestants and Jews had been burned in Spanish times). Towards the other Western end of the Street to the north is a modest funeral parlor. That is where Trotsky was laid out when his corpse was refused

entry to the United States. And instead of giving the murdered hero of the 1905 and 1917 revolutions a worthy funeral in New York. Max Schachtman, leader of the more humane wing of American Trotskyism came down from New York and stood lone vigil over the coffin in a near empty funeral parlor. When I appeared to pay my tribute – I had never met Trotsky alive – he asked whether I would share his duty with him. And of course I did. That is why it is tragic to the point of the ludicrous to accuse this leader of two great revolutions in Russia that of 1905 and that of 1917 of being an agent of American bankers. Ms. Brown would help wipe out these astounding weaknesses in appraising sources especially those that go back to the Stalinist accusations where the accused were desperately trying to escape a bullet in the back of their heads.

“The Japanese state-guided market system was so effective and efficient that by the end of the 1980s, Japan was regarded as the leading economic and banking power in the world. Its Ministry of International Trade and Industry (MITI) played a heavy role in guiding national economic development. The model also proved highly successful in the ‘Tiger’ economies – South Korea, Malaysia and other East Asian countries. East Asia was built up in the 1970s and 1980s by Japanese state development aid,

along with private investment and MITI support. When the Soviet Union collapsed, Japan proposed its model for the former Communist economies, and many began looking to Japan and South Korea as via alternatives to the US free-market system. State-guided capitalism provided for the general welfare without destroying capitalist incentive. Engdahl writes: ‘The Tiger economies were a major embarrassment to the IMF free-model agenda. So long as the Tigers appeared to succeed with a model based on a strong state role, the former communist states and others could resist taking the extreme IMF course. In east Asia during the 1980s, economic growth rates of 7-8 per cent a year, rising social security, universal education and a high worker productivity were all backed by state guidance and planning, albeit in a market economy – an Asian form of benevolent paternalism.’

“[However], the model represented a major threat to the bankers’ system of debt-based money and IMF loans. To diffuse the threat, the Bank of Japan was pressured by Washington to take measures that would increase the yen’s value against the dollar. The stated rationale was that this revaluation was necessary to reduce Japan’s huge capital surplus (excess of exports over imports). The Japanese Ministry of Finance countered that the surplus, far from being a problem,

was urgently required by a world needing hundreds of billions of dollars in railroad and other economic infrastructure after the Cold War. But the Washington contingent prevailed, and Japan went along with the program. By 1987, the Bank of Japan had cut interest rates to a low of 2.5%. The flood was a flood of ‘cheap’ money that was turned into quick gains on the rising Tokyo stock market, producing an enormous stock market bubble. When the Japanese government cautiously to deflate the bubble by raising interest rates, the Wall St. bankers went on the attack, using their new ‘derivative’ tools to sell the market short and bringing it crashing down.

“No sooner did Tokyo act to cool down the speculative fever, than the major Wall Street investment banks, led by Morgan Stanley and Salomon Bros., began using exotic new derivatives and financial instruments. Their intervention turned the orderly decline of the Tokyo market into a near panic sell-off, as the Wall Street bankers made a killing on shorting Tokyo stocks in the process. Within months, Japanese stocks had lost nearly \$5 trillion in paper value.

“Japan, the ‘lead goose,’ had been seriously wounded. Washington officials proclaimed the end of the ‘Japanese model’ and turned their attention to the flock of Tiger economies flying in formation behind....”

China Takes Further Step to Disentangle Its Foreign Investment from the US Currency

Wherever it might be, heaven or hell, Mao Tze Tung’s spirit must be rubbing its eyes to grasp what is afoot in China. *The New York Times* (20/11) reports steps to makes it possible for Chinese and foreigners alike to invest in China directly in Chinese currency without having to do so through some foreign currency.

“Regulators have already made it easier for private equity investors to take pre-initial public offering in private companies that plan to go public in China, now the world biggest market for such offerings, without the process up to now that has involved listing on overseas stock exchanges.

“C.G. Wu, the China chairman at CLSA Asia Pacific Markets, says that under the new rules private equity funds can cash out, or exit, using the Chinese stock market rather than going through a more complicated process that involves listing on overseas stock exchanges. Mr. C.G. Wuk the China chairman

of at CLSA Asia Pacific Markets, says that under the new rules, private equity funds can cash out, or exit using the Chinese stock market rather than going through a more complicated process that involves listing on overseas stock exchanges. Mr. Wu’s recently formed a \$1.4 billion Chinese equity fund with a state-owned company in Shanghai.

“More than 190 funds denominated in Chinese currency, with more than \$30 billion in combined capital have been established during the last two and a half years, according to Zero21PO, a Beijing-based research firm.

“Until now private equity here has been dominated by global funds investing dollar dominated assets.

“For at least a decade, global funds acquired stakes in Chinese start-ups. To get around government restrictions on foreign investments, the funds helped the Chinese Companies create offshore holding com-

panies, putting the deal largely beyond the reach of Chinese regulators.”

That, of course, weakened the control of the Chinese state and of course, weakened part of the Communist heritage, which had little enough to do with stock markets in general, let alone foreign ones. But time marches on and its the rough martial boots that once shod it are acquiring the shine of patent leather.

With respect to currencies, the development constitutes a further set-back for the American dollar as the Chinese currency, renminbi takes over. “Another effect is that Chinese entrepreneurs have more choices about whom to form alliances with.”

China, in short is reemerging as the great trading nation that it had been. That leaves the American currency is become ever more hemmed in with still less of the sovereign eminence that it brought out of WWII.

W.K.

“Most of the Asian geese succumbed to these tactics, but Malaysia stood its ground. Malaysian Prime Minister Mahathir Mohamad said the IMF was using the financial crisis to enable giant international corporations to take over Third World economies. He contended: “They see our troubles as a means to get us to accept certain regimes, to open our market to do business without any conditions. [The IMF] says it will give you money if you open up your economy, but doing so will cause all our banks, companies and industries to belong to foreigners. They call for reform but this may result in millions thrown out of work. I told the top official of the IMF that if companies were to close, workers will be retrenched, but he said this didn’t matter as bad companies must be closed. I told him that companies became bad because of external factors, so you can’t bankrupt them as it was not their fault. But the IMF wants the companies to go bankrupt.”

“Mahathir insisted that his government had not failed. Rather, it had been victimized along with the rest of the region by the international system. He blamed the collapse of Asia’s currencies on an orchestrated attack by giant international hedge funds. Because they profited from relatively small differences in asset value, the speculators were prepared to create sudden, massive and uncontrollable outflows of capital that would wreck national economies by causing capital flights. He charged, “This deliberate devaluation of the currency of a country by currency raiders purely for profit is a serious denial of the rights of independent nations.” Mahathir said he had appealed to the international agencies to regulate currency trading to no avail; so he had been forced to take controls, a policy aimed at shifting the focus from catering to foreign rate of the ringgit (the Malaysian national currency). These measures did not affect general investors, he said, who could bring in foreign funds, convert them into ringgit as needed.”

“...Before controls were imposed, Malaysia’s economy had contracted by 7.5%. The year afterwards growth projections went as high as 5%. Joseph Stiglitz, chief economist of the World Bank acknowledged in 1999 that the Bank had been ‘humbled’ by Malaysia’s performance....”

“David had stood up to Goliath, but the real threat to international bankers was Malaysia’s much more powerful neighbor to the north. The Chinese Dragon was not only still standing; it was breathing fire....”

William Krehm

“The Market Is Always Right.” Fine, But Which Market?

At least in the lofty regions where market shifters and benders reign, there are some vastly different approaches to finding the dependable market wisdom. *The Wall Street Journal* (“In The Oil Patch, a Tale of Have and Have Not – For Repsol, Discoveries Mount Up” by Thomas Catan and Bernd Radowitz) recounts a rags to riches version of the dilemma according to the past unlucky guy, and ends up with the reserves previously denied him, and the usual accompanying prizes.

“Madrid – For years, Repsol YPF SA was derided as the oil company with no oil, but its gamble on boosting exploration has paid off handsomely, with the Spanish company hitting the jackpot in Brazil, West Africa, and now the US.

“Repsol is expected to announce on Friday a new oil discovery in the Gulf of Mexico that it says will boost production from its Shenzi field and help reduce US dependence on foreign oil.

“The company said the discovery contains a ‘fairly sizeable’ amount of new crude oil in two wells in the Shenzi field, operated by BHP Billiton Ltd. The field in which Shenzi owns a 28% stake, now produces about 120,000 barrels of oil a day, or about 2.5% of daily US output.

“Its string of discoveries leaves Repsol with the unexpected challenge of developing a sudden surge in oil and gas reserves.

“‘We’ve had some success in exploitation,’ Chairman and CEO Antonio Brufau said in an interview. ‘Now we have to shift to a phase that also carries risks: developing these projects.’

“The work of developing the discoveries – building the platforms, pipelines, and other infrastructure needed to get the oil and gas to market – would require Repsol to ramp up capital investment at a time when margins in its core business of oil refining have collapsed.

“Repsol also has relatively little development expertise, and buying it could prove difficult at a time when oil companies are competing for skilled workers able to build projects in challenging terrain.

“Offshore oil platforms for deep water are also hard to come by, and the uncertain future of oil prices further complicates the equation.

“But Mr. Brufau is accustomed to skepticism. Many in the industry were doubtful in 2004 when he launched a major drive to discover new sources of oil and gas to help offset Repsol’s waning production in Argentina.

“He more than doubled Repsol’s exploration and production staff to around 1,800. The company also developed a well-regarded proprietary technology called Kaleidoscope to crunch through massive amounts of seismic data in search of signs of gas and oil.

“Partly as a result, Repsol was involved in three of the world’s biggest oil and gas discoveries last year. Among them was Guara, a giant reservoir in Brazil’s prolific Santos offshore basin. In September, production tests indicated that Guara, in which Repsol holds a 25% stake, contains the equivalent of up to two billion Repsol’s oil and gas reserves, which stood at 2.2 billion barrels at the end of 2008.

“Last month, the company announced its biggest ever natural-gas discovery in shallow waters of the Gulf of Venezuela. Repsol, which will have a stake in any development of the field, says the reservoir, called Perla, contains up to 1.4 billion barrels of oil equivalent. The same month, a consortium including Repsol announced the first oil discovery in deep waters off Sierra Leone.

“Repsol said its latest discovery off the Gulf Coast is attractive because of its proximity to the world’s biggest oil market, favorable tax rules, and the fact that pumping infrastructure is already in place.

“As recently as 2007, Repsol was replacing only around 35% of the reserves it was pumping. Excluding the Argentinean unit, YPF, that ratio has improved to 65% in 2008.

“Mr. Brufau thinks the company will ‘easily’ beat its target of to replace 125% of its output with fresh reserves by 2012.

“Mr. Brufau has tried to shift Repsol’s assets to more politically stable countries. In 2004, only 40% of its assets were in countries belonging to the Organization of Economic and Development, a rough proxy for political stability. By 2012, Mr. Brufau aims to have at least 55% of those assets in OECD nations.

“That isn’t a risk-free strategy. Compe-

tition in OECD countries is fierce, as oil companies are well-established there.

"In addition, though the deep Gulf of Mexico, home of the Shenzi field, is one of the most stable oil-producing areas, it is among the technically most challenging.

"The company's huge gas find in Venezu-

ela may also be hard to commercialize for political and technical reasons, while Sierra Leone remains, at this stage, no more than a promising find.

"The Brazilian finds will require up to \$15 billion in investment over the next five years to develop, according to Mr. Brufau.

That may be too much."

There is, in short, a completely new many-dimensional environment – technological, social and political – to reckon with in coping with the abundant fuel resources being discovered beneath our oceans.

W.K.

Each Alleged Statesman Chooses His Favorite Mathematical Operator but With a Sovereign Disregard of Where It Might Lead

The Wall Street Journal staff in Washington (15/09, "Treasury wants to keep bailout cash in reserve" Deborah Solomon and Michael R. Crittenden) confess to nursing some grave doubts about their plans to rescue the US and world economies.

What emerges is the blind faith they place in a favored mathematical algorithm, and indeed, in the accountancy that would even allow them to look the favored mathematical principle in the eye. It ends up the precise equivalent of a religious scholar – it hardly matters of what faith – skipping becoming literate in whatever language their God is believed to have delivered their Holy Scrolls.

However, let us turn to the incoherent evidence this imposes on the *WSJ* staffers: "The US Treasury Department is exploring ways to keep in reserve some emergency bailout funds that would expire if the Treasury doesn't extend the Troubled Asset Relief Program (TARP) for an additional year.

"Treasury officials want to keep at least some of the money that has yet to be committed to any particular program on hand in case financial conditions worsen and the government is forced to step in for an additional year.

"The decision of whether to extend TARP has become embroiled in a debate over the unpopularity of the \$700 billion bailout and the nation's mounting fiscal woes.

"Treasury Secretary Timothy Geithner hasn't yet determined whether to extend the government's TARP authority for another year, Treasury officials said, and has until December 31 to make a final determination. Even if TARP is allowed to expire, the program won't technically end until the government's investments are repaid and the US is no longer a shareholder in financial institutions.

"Treasury officials are discussing whether

there is any way to preserve that money without extending TARP authority, such as funding new programs ahead of the December 31 expiration. But that carries risks, since new problems may arise and the administration could find itself under fire if it tried to use funds for anything other than the original purpose.

"Neal Wolin, Treasury's deputy secretary, said it was too easy to make a decision on whether to extend TARP. 'We will be looking and making judgments about extending TARP in the weeks and months ahead,' Mr. Wolin said in response to questions after a speech Thursday.

"As markets begin to stabilize and the economy shows signs of strength, some lawmakers are demanding the program cease and that any unused and repaid TARP funds go to pay down the nation's debt. Last week, a group of 39 Republican senators and one Democrat sent a letter to Mr. Geithner urging him to let TARP expire and to use returned bailout funds 'for debt reduction.' About \$128 billion of the \$700 billion remains uncommitted.

"The US is expected to hit its debt ceiling later this fall. Mr. Geithner has asked lawmakers to raise that limit so the government can continue borrowing money to fund its obligations."

Will Taxpayers See Their Money Again?

"The debate has been complicated by the independent overseers of the bailout, who have questioned both the success of the program and whether taxpayers will ever recover their investments. At a hearing Thursday, the special inspector general for TARP said the program has improved market stability but fallen short on broad goals, such as spurring lending. 'It is extremely unlikely that the taxpayer will see a full return of its TARP investments,' Neil Barofsky told

the Senate Banking Committee.

"Treasury officials worry giving up the remaining funds – [for that] could destabilize markets should conditions worsen.

"In this context, it is prudent to maintain capacity to address new developments,' Herb Allison, the Treasury assistant secretary who heads TARP, told law lawmakers on Thursday. Mr. Allison wouldn't say whether he believed the program should be extended.

"Some lawmakers remain skeptical about TARP and its effectiveness and say the program has the potential to turn into a permanent government subsidy if it isn't ended quickly."

We ask the readers' pardon us for putting our conclusion in italics. But there is a bridge so badly broken that must be reconstructed as the only way of crossing a great abyss. COMER has on countless occasions emphasized that mathematics as such have no empirical content, but what they do have is unlimited powers of analysis. Now we must add the rider: *what brings practical relevance to mathematics in economics is value theory. If you want to know the state of the mathematical techniques of which academic economists – a pitilessly weeded-out clan take such pride – enquire after the value theory that once supported their bridge leading from economic theory to reality.* The agonizing crisis that has flooded the world economy can only be understood in terms of a foot-bridge leading from the mathematical techniques might pass, were that so enlightenment rather than further confusion might result.

In prehistoric times it was usually religion that provided the necessary foot-bridge – whether the quinquennial forgiveness of debts, or the Muslim law that allowed the charging of interest only if the lender shared the risks of the entrepreneurs who paid the interest.

The home-coming Crusaders brought

back with them – the Knights Templar in particular – a dazzlingly brilliant system of “accrual” or “double-entry accountancy.” Its essence was that every investment had to be entered on a firm’s books twice – once the expenditure of the cash or credit invested, which was “amortized” to fixed schedules set up according to the expected duration of usefulness of the investment. And a second time based on the current market value of the physical assets of the investments that was “depreciated” according to its remaining profitability. That allows an appraisal of the productive powers of an investments. Brought home by the Crusaders it made possible the financing of voyages of discovery across the Atlantic, and around the Cape of Good Hope that provided a maritime route to Southern and Eastern Asia.

What a footbridge over the chasms, which empowered explorers and scientists to deploy their mathematics in a keenly relevant way!

The “Dominant Revenue”

How the great legacy of accrual accountancy was blasted out of existence is best described by the late great French economist, François Perroux. He held – in an infinitely more realistic idea than Marx’s notion of the foreseeable progression of social development – that in every society there is a class whose revenue, termed by him the “dominant revenue,” whose income in its volume and growth is taken as a reliable index the welfare of society as a whole.

Thus after the Napoleonic Wars in Britain it was the rents of the great feudal landlords that were screwed up behind the high tariffs of the Corn Laws. Then with the introduction of John Watt’s steam-powered machines into the factories to replace human muscles as power sources, the “dominant revenue” position was soon taken over by the industrialists, who endorsed free trade to profit from their industrial monopoly while it lasted.

The “dominant revenue” thus passed from the large land-owners to the industrialists. And with literacy spreading rapidly amongst factory workers, labour theories of value became incendiary stuff. Hence the value theory that answered the call for a theory of value that would emphasize not the labour of workers as the source and measure of value, but rather the degree of enjoyment that the consumers of products could derive from their consumption came to fill that role. That, for example, dealt with unemployment with the flick of a finger.

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When Once Again “Naked” Implies Indecency

The Wall Street Journal reports (13/10, “Regulators Target ‘Naked’ Access” by Scott Patterson): “Federal Securities regulators are examining whether an arrangement that lets high-speed traders rapidly buy and sell large chunks of stock anonymously could go awry and threaten markets.

“Called sponsored ‘naked’ access, the set-up allows high-speed firms and other outfits to trade directly on exchanges using powerful computers without the exchanges or regulators knowing who is making the trades.

“‘We understand that some firms are offering so-called naked access without effective controls over financial regulatory risk,’ said David Shillman, associate director of the Securities and Exchange Commission’s division of trading and markets, which is stepping up its scrutiny of the issue.

“The practice is one of several involving high-frequency trading that is troubling regulators amid a broader look at making securities markets more transparent and stable. High-frequency firms collectively trade billions of shares a day using computer algorithms to capture fleeting changes in prices. The strategy recently has been one of the most lucrative in the markets and now accounts for more than half of stock-trading volume, according to industry estimates.

“Sponsored access is akin to members of an exclusive club charging others to use their pass. The members in this case are registered brokerage firms that are approved and pay to trade on exchanges. High-frequency firms or other traders such as hedge funds that let them use their computer access codes – known as a ‘market participant ID’ – to trade directly on exchange computers that match buy and sell orders.

“Stock exchanges are usually left in the dark about the identity of the trading firms, and only see trade orders in the name of the sponsoring broker. Still, exchanges and brokerages have supported the practice, which is bringing in huge trading volumes and fees.

“One concern, regulators say, is that a trading outfit could suffer a massive loss through a computer glitch that threatens the financial stability of the sponsoring broker, or triggers a sudden and unexplained decline in the broader market. Brokers that provide sponsored access are on the hook for client losses that exceed the client’s capital.

“‘The risk is that neither the broker nor the exchange have any obligation to implement technology that would allow them to act if a cascade of rapid-fire orders went awry, potentially destabilizing markets,’ said Laurie Berke, a principal with Tabb Group, which tracks computerized trading.

“Defenders of sponsored access note that so far there has been scant evidence that the arrangements pose risk to markets. They say brokerage firms employ rapid post-trade checks that can quickly shut down an operation if orders run amok. They also say high-speed traders are sophisticated enough to avoid problems. For now, a patchwork of loose rules among exchanges and brokers govern the practice.

“The SEC says naked access poses threats to stability, whereas ‘flash orders,’ a type of high-speed trading that recently has caught the attention of politicians, raise concerns of fairness. Flash involves some traders getting a sneak peek at market orders before other investors. The SEC has recently sought to ban flash orders.

“Sponsored access has spread in recent years along with high-speed trading. On the NASDAQ Stock Market, the biggest volume provider is Los Angeles-based Wedbush Securities, a closely held brokerage firm with more than \$2 billion in assets, according to NASDAQ. Wedbush says more than 75% of the volume in its clearing unit stems from traders using sponsored access.

“Goldman Sachs Group Inc. and Credit Suisse Group AG provide a variant of sponsored access, according to representatives at the firms. But, unlike Wedbush, they require the firms to route orders through their computer systems before the orders go to the exchange; this step creates a more-immediate way to monitor trades.

“Citigroup Inc. says it doesn’t provide the service but is considering offering a version of it in the future.

“Trading outfits that use the service say that if they had no channel orders through a brokerage firm’s computer systems, the resulting split-second delays could put them at a disadvantage to rivals who trade directly on the exchange. Sponsored access, they say, is cheaper than paying the costs involved with becoming a brokerage firm and paying for the exchange access.

“Critics fear sponsored-access risk-management standards are slipping, and risks are rising, thanks to increased volume of high-frequency trading, ramped up speeds, and because of the difficulty regulators and exchanges face keeping up with traders’ technological advances.

“Though sponsored access has been on the SEC’s radar for more than a year, the agency’s concerns lately have mounted as more firms jump into the field of high-frequency trading, according to a person familiar with the agency’s thinking.”

Society’s Future Determined by Advancing Technology of Gambling and Bankerdom

That this should be going on at the very time when governments are trying to creep and crawl out of the systemic disaster that have already engulfed them, leads us to a most disturbing feeling: that it is neither legislatures or elections that would appear to determine society’s future, or lack of one, but the ever-advancing technology of the stock markets and bankerdom.

“In January, NASDAQ OMX Group Inc., which runs the NASDAQ Stock Market, submitted a proposal to the SEC, with new sponsored-access rules. In late September, the NASDAQ submitted an updated proposal and is waiting for feedback.

“The SEC is concerned the exchanges haven’t enacted new rules quickly enough, according to a person familiar with the matter. Another concern is that the exchanges could face conflicts of interest, since they benefit from the huge volumes high-speed traders bring to the market.

“If the exchanges don’t act soon, the SEC may impose its own rules, the person says. Though the SEC isn’t expected to impose a ban, it could require that users of sponsored access submit to pre-trade order checks monitored by the brokerage firm. The rule would undercut the practice of curbing the speed advantages firms get from sponsored access.

“One example of a bad trade this year in a transaction similar to sponsored access highlights how complex trading systems in high-speed markets can break down.

“SWS Group Inc., a Dallas financial-service firm that ‘clears’ or processes, for clients, suffered a \$6.3 million pretax loss when a client’s trade went awry. The client traded past certain limits and was ‘ignoring our repeated attempts to contact,’ SWS Chief Executive Donald Hultgren said on an August earnings call.

“Earlier this decade, Wedbush slashed fees it charged clients to boost volume. High-frequency firms piled in, including via sponsored access.

“One recent Wedbush sponsored-access client is Quadeye Trading LLC, a New York high-frequency-trading firm with \$10 million in capital.

“Quadeye is run by four traders with a background in computer-driven investment strategies, including Sudeep Gupta, who has more than a decade of experience running quantitative trading desks at Morgan Stanley and Merrill Lynch, now part of Bank of America Corp. Mr. Gupta says the firm has ‘multiple layers of risk control.’

“Wedbush, which declines to share revenue figures or a sponsored-access fee schedule, says firms using sponsored access and brokerage firms that offer it are motivated to manage their risk, since even small glitches can result in big losses that the brokerage

firm ultimately could have to bear.

“‘We think the risk decisions should be left to people with the capital on the line,’ said Jeff Bell, an executive vice-president at Wedbush. Mr. Bell says Wedbush hasn’t incurred any losses from sponsored access.

“He says sponsored access allows more traders to compete in the high-frequency race, which adds liquidity to markets that can help generate price competition.

“Wedbush has proposed the Depository Trust & Clearing Corp. as a vehicle for risk-management checks for traders using sponsored access. As for less sophisticated traders entering the high-frequency race, ‘we have a history of weeding those folks out,’ said Mr. Bell.”

That remark vibrates with confidence that high-frequency traders and trading is beyond control of anything so outdated as Congress or the nation.

W.K.

History’s Recurrent Patterns of Doom

The New York Times (10/29, “Transcripts of Defeat” by Victor Sebestyen) carries a knell-like warning that Washington should not really not need. Author of a book that recounted how Afghan played more than a bit-part in luring the Soviet system ever deeper into the Afghan disaster that ultimately precipitated its doom. But the vanities of power and the weaknesses even of relative democracies know few bounds when political ambitions enter play.

“London – The highly decorated general sat opposite his commander-in-chief and explained the problems his army faced in fighting in the hills around Kabul. ‘There’s no piece of land in Afghanistan that has not been occupied by one of our soldiers at one time or another,’ he said. ‘Nevertheless much of the territory stays in the hands of the terrorists. We control the provincial centers, but we cannot maintain political control that we seize.

“‘Our soldiers are not to blame. They’ve fought incredibly bravely in adverse conditions. But to occupy towns and villages temporarily has little value in such a vast land where the insurgent can just disappear into the hills.’

“He went on to request extra troops and equipment. ‘Without them, without a lot more men, this war will continue for a very, very long time,’ he said.

“These sound as though they could be the words of Lt. Gen. Stanley McChrystal, the top American commander in Afghanistan, to President Obama in recent days or weeks. In fact, they were spoken by Sergei Akhromeyev, the commander of the Soviet armed forces, to the Soviet Union’s Politburo on November 13, 1986.

“Soviet forces were then in the seventh year of their 10-year-long Afghan conflict, and Marshal Akhromeyev, a hero of the Leningrad siege in WWII, was trying to explain why a force of nearly 110,000 well-equipped soldiers from one of the world’s two superpowers was appearing humiliated by bands of ‘terrorists’ as the Soviets often called the mujahideen.

“The minutes of Akhromeyev’s meeting with the politburo were recently unearthed by American and Russians scholars of cold war – these and other materials substantially expand our knowledge of the Soviet Union’s disastrous campaign. As President Obama contemplates America’s own future in Afghanistan, he would be well-advised to read some of these revealing Politburo papers. He might also pick up a few riveting memoirs of Soviet Generals who fought there. These sources show as many similarities between the two wars as differences and may provide the administration with valuable counsel.

“Much of the fighting during the Soviet

war in Afghanistan was in places that have grown familiar to us now, like Kandahar and Helmand provinces. The Soviets' main base of operations was Bagram, now the US Army Headquarters. Over the years, the Soviets changed their tactics frequently, but much of the time they were trying and failing to pacify the country's south and east, often conducting armed sweeps along the border with Pakistan, through which many of the guerrillas moved, as the Taliban do now."

Said the Soviet Politicians to the Soviet Generals, "Shut Up and Obey Orders"

"That war was characterized by disputes between soldiers and politicians. As Russian documents show, the politicians ordered the invasion against the advice of the armed forces. The chief of the Soviet Defense Staff, Marshal Nikolai Ogarkov, raised doubts shortly before Soviet forces were dispatched on Christmas Day 1979. He told Dmitri Ustinov – the long-serving defense minister who had been a favorite of Stalin – that experience from the British and czarist armies in the 19th centuries should encourage caution. Ustinov replied: 'Are the generals making policy in the Soviet Union? Your job is to plan specific operations and carry them out. Shut up and obey orders.'

"Ogarkov went further up the chain of command to the Communist Party boss, Leonid Brezhnev. He warned that an invasion 'could mire us in unfamiliar, difficult conditions and would align the entire Islamic East against us.' He was cut off mid-sentence: 'Focus on military matters,' Brezhnev ordered. 'Leave the policy-making to us.'

"The Soviet leaders realized they had blundered soon after the invasion. Originally, the mission was simply to support the Communist government – the result of a coup Moscow had initially tried to prevent, and then had no choice but to back – and then get out within a few months. But the mujahideen's jihad against the godless Communists had enormous popular support within the country and from outside. Money and sophisticated weapons poured in from America and Saudi Arabia, through Pakistan.

"The Soviets saw withdrawal as potentially fatal to their prospect in the cold war, so they became mired deeper and deeper in their failed occupation. For years, the Soviets heavily bombarded towns and villages, killing thousands of civilians and making themselves even more loathed by Afghans. Whatever tactics the Soviets adopted, the result was the same: renewed aggression

from their opponents. The mujahideen, for example, laid down thousands of anti-tank mines to attack Russian troop convoys, much as the Taliban are now using home-made bombs to strike at American soldiers on patrol, as well as Afghan civilians.

"About 99% of the battles and skirmishes we fought in Afghanistan were won by our side,' Marshall Akhromeyev told his superior in November 1986. The problem is that the next morning there is the same situation as if there had been no battle. The terrorists are again in the village where they were – or we thought they were – destroyed a day before. Listen to a coalition spokesman now explaining the difficulties its forces are facing in tough terrain, and it would be hard to hear a difference from what comes out of Washington today.

"There are many in Washington now calling on President Obama to cut his losses and find an exit strategy from Afghanistan. Even if he agreed, it may not be an easy business. When Mikhail Gorbachev became Soviet leader in March 1985 he called Afghanistan 'our bleeding wound.' He declared ending the war was his top priority. But he could not do it without losing face.

"The Soviet leadership fatally prevaricated. Foreign Minister Eduard Shevardnadze wanted to pull out of Afghanistan immediately and blame Kremlin predecessors for the unpopular war. So did Mr. Gorbachev's most important adviser, the godfather of the perestroika and glasnost reforms, Aleksandr Yakovlev.

"But Mr. Gorbachev dithered, searched for something he could call victory, or at least that other elusive prize for armies in trouble: peace with honor. 'How to get out racks one's brains,' Mr. Gorbachev complained in the spring of 1986, according to Politburo minutes.

"We have been fighting there for six years. If we don't start changing our approach we'll be there another 20 or 30 years. We have not learned how to wage war there.'

"Mr. Gorbachev was also haunted by the last Americans leaving Saigon in panic: 'We cannot leave in our underpants or without any,' he told his chief foreign policy aide, Anatol Chernyayev, whose diaries have recently become available to scholars. Chernyayev himself called Afghanistan 'our Vietnam.' But worse.

"Withdrawal was a long, drawn-out agony. By the time the last troops left in February 1989, 15,000 Soviet soldiers and 800,000 Afghans had died. 'We must say

that our people have not given their lives in vain,' Mr. Gorbachev told the Politburo. But even his masterful public relations skills could not mask the beginning of the end for the Soviet empire in Europe, as revolution swept through Eastern Europe in 1989, and the Soviet Union two years later."

It has reached the point where peace must be redefined not as the absence of war but the inability to declare the real facts and name and define them accordingly. It has reached the point where we must bring in the early sociologists who taught our ancestors that what we grasp much of the time is not a straight two-way yes-no recognition, but at least a three-way affair in which we re-define what we are seeking or what we have found to our apparent convenience and then deal with it as though it really were there in a simple two-way relationship. Peace-making as redefined today's has become too bloody multi-angled a business. And with the technologies of killing progressing full-steam ahead, such ambiguities are more than humanity can bear and survive.

Of course, this is particularly dedicated to those on whom most expectations were based, such as Mr. Obama.

William Krehm

Statesman *from page 18*

There simply was no such thing. If workers stayed home instead of going to work, it was simply because they derived greater enjoyment from leisure in their parlors than could be had from spending the wages offered. Nonsense? Not lightly to be cast aside, for it led basically the breed of misconceived maths that brought on some of the worst aspects of the dominance of our speculative banking age. Misconceived mathematics? The foot-bridge assigned to mathematics, brought in the exponential curve – the maths of the atomic bomb – to calculate the rates of insurance of the speculative ventures of our gambolling banks.

The consoling belief arose that everything could be insured for a proper price. But that is deeply erroneous and leaves no foot-bridge for mathematics to sally across the abyss below. For example $2 + 3 = 4$ is not *risky*. It is *wrong*, leaving maths not a foot-bridge for working its miracles, but forbidding it to hide its face. Have $2 + 2 = 5$ insured will ruin not only the insurer but the banker who thought he had insurance.

That point has still not penetrated the banking community nor the Obama government.

W. Krehm