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Bank On Canada!

By Ann Emmett

On June 1, COMER – in support of Paul Hellyer's "Bank on Canada" Campaign – conducted a rally on Parliament Hill and a march to the Bank of Canada, to demand government-created, debt-free money.

At 6:30 am, the Toronto contingent boarded the bus to Ottawa, then stopped briefly in the Kensington district to round up a group of young people who had overslept. As they tumbled bleary-eyed but good-naturedly onto the bus, they were welcomed aboard in a spirit of camaraderie that established the prevailing tone of the event.

Following an opportunity to catch up on lost sleep, everyone received – at intervals – a few carefully selected materials to read and discuss en route. People intermingled in quiet discussion and cheerful banter throughout what seemed my slowest trip to Ottawa ever.

At the Hill, we were met by a female officer assigned to our event, who turned out to be admirably competent and congenial – very much a positive component in a totally peaceful demonstration.

Before an impressive background of Parliament's main tower, on the landing of the first staircase to the House, five speakers representing a wide range of age and involvement, addressed those assembled there. Christopher Lambe, a young university student, conducted the rally and included a few excellent, well-delivered comments of his own on the importance of monetary reform.

Jacob Kearey-Moreland, a young man focused on poverty and safe food issues, confided that he had planted garlic on the Hill, to ward off vampire capitalists. Then, accompanied by Chris and by Carol Bailey's flute, he sang a political song of his own composition, to the jaunty strains of his ukulele.

Throughout the presentations the bells of Parliament rang out as I fancied bells may have pealed in 1935, as Prime Minister W.L. Mackenzie King delivered to the nation his key message, repeated at the rally by a Comer speaker from Kingston:

Once a nation parts with control of its currency and credit, it matters not who makes the nation's laws. Usury, once in control, will wreck any nation. Until the control of currency and credit is restored to Government and recognized as its most conspicuous and sacred responsibility, all talk of the Sovereignty of Parliament and of democracy is idle and futile.

The Honourable Paul Hellyer delivered the concluding remarks, highlighting why we had come, and urging everyone there to support his "Social Contract Between the Government and People of Canada." (Details are at www.victoryfortheworld.net.)

During the entire event, six long-suffering young people held up an enormous canvas banner. It read:

Prosperity Not Austerity
Use
The Bank of Canada

When, after introducing Paul, I rejoined the demonstrators, a young woman whom I had never seen before, approached me and,

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Correspondence

Hi Bill,

You might like this letter that an old friend sent to CBC radio's Neil McDonald. I hope you're well, by the way.

Regards,

Jozsef Izsak

Dear Mr. Macdonald,

I am very grateful to you for your examination of "quantitative easing," which I heard you discussing on *The Current*.

I realize that the subject is a controversial one, since it defies most people's concept of what money is to learn that central banks can create it – in any amount – with what amount to bookkeeping entries.

A couple of factors should also be considered before reaching the conclusion that this money creation by government bodies is a fatally dangerous practice. The more relevant question is what the money so created is being used for, and for whose benefit.

First, it needs to be understood that money creation is not a new phenomenon. The whole concept of fractional reserve banking (whose origins extend back to the practice of goldsmiths in the middle ages of writing promissory notes redeemable for more gold than they actually owned), means that private banks create new money with the stroke of a pen whenever they issue loans. Every credit card transaction, mortgage issued, or loan approved creates new money. And that money is "destroyed" every time a loan is repaid or defaulted upon.

I have taken the liberty of reproducing below some very instructive testimony given by Graham Towers, the first Governor of the Bank of Canada in 1939 to the Parliamentary Standing Committee on Banking and Commerce. In it, Mr. Towers clearly states that both private banks and government-owned central banks create money and that in 1939, approximately 12% of all money in Canada was "government created." This was hardly seen as dangerous and experimental in its day, nor should it be seen as such now.

The main point is that in the past, money created by government was used for public purposes – for instance, providing government services and building infrastructure. This was highly efficient, since the funds provided by this action did not have to be repaid, did not contribute to national debt, and were interest-free. Nor were they a source of "runaway inflation." Rather, they helped build this country, retire the national debt from the Second World War,

Bank On Canada *from page 1*

without a word or a smile, simply looked very somberly into my eyes, and hugged me. I was deeply moved.

Two days before the rally, a woman had phoned me from Ottawa, who said that she had tried hard to get family and friends to support the world-wide protest against GMO foods, the week before. She said, "I was terribly discouraged! There was hardly anybody there. You may think this selfish, but I work all week, and I value my Saturdays. I hate to try to persuade people to come, if there isn't going to be anybody there. Have you any idea how many might show up?" We spoke about all that and, of course, I could not guarantee a good turnout. Nevertheless, she said that she would come and try to get others to take part.

As we began to organize for the march to the Bank of Canada, she introduced herself to me, and said, "I'm so glad I came!" With her, was her son, a lad of about sixteen, who smiled sweetly and seemed to share her interest. Again, her sincerity was deeply moving.

The point of these stories is that they reflect a pressing need for hope and encouragement. Sharing the truth about money, debt and power can do much to meet that need – can suggest a real course of action and inspire a sense of purpose.

From the Hill, we drummed, flauted, plucked and chanted our way to the Bank of Canada, a few short blocks down the street.

There, we gathered on its doorstep, behind our banner, facing the street. It's a busy street; many cars passed by. Many drivers honked their support, and passengers waved enthusiastically.

Paul read aloud his "Social Contract."

There was no mainstream press present, of course, but several alternative press interviewed people throughout, and the rally was well videotaped and will be available at more than one internet site. It is hoped that viewers will pass its message along to their MPs.

Many thanks to Paul for his initiative, to those who worked so hard to make it all happen, and to all who participated in the demonstration.

Congratulations on a job well done! ■

and maintained high levels of employment and a vibrant economy.

In current experience, money is being created for a far different purpose – to bail out malfeasant financial institutions.

This raises some obvious concerns – not the least of which is moral hazard (banks and other financial institutions are given a free ride to continue the same dangerous speculations that damaged the global economy in the first place). The scale of contemporary money creation is vast – but it is not inflationary. How can this be? Well, we have to understand that the speculative excesses leading up to the 2008 crash created a monumental amount of "created money" – in the form of inflated assets of negligible intrinsic value. When the bubble burst in 2008, balance sheets around the world reflected the correction and trillions of dollars of pseudo-money was wiped out. The current quantitative easing policies of central banks is simply refilling the bubble – so far, if anything, the trends in the global economy are deflationary rather than inflationary because the money being created by the central banks is going into the financial economy and isn't finding its way into the real economy. In short, we are not seeing "too many dollars chasing too few goods and services" – quite the opposite, in fact, as austerity measures being imposed on various governments stifle real economic activity.

The implications of these developments are huge, but not because there is a "great experiment" that is tremendously risky in the sense that you described this morning.

First, what we are seeing is a kind of state support for dangerous speculation that is anti-democratic and also anti-capitalist. Capitalism relies on "creative destruction" – the bankruptcy of businesses (in whatever sector) that are not able to survive on their own, or that take unreasonable risks that don't pay off. The fact that malfeasant and arguably fraudulent institutions are bailed out to the tune of trillions of dollars, regardless of the harm they've caused the public, suggests that they are too powerful, even to the point of having co-opted democratic institutions to become their perpetual backstop, regardless

A Social Contract Between the Government and the People of Canada

In view of the fact that our present banking and financial system is unstable, unsustainable and basically immoral, the federal government must use its constitutional power over all matters pertaining to money and banking by forthwith taking the following action to benefit all Canadians.

1. The government of Canada should print fifteen non-transferable, non-convertible, non-redeemable $10 billion nominal value Canada share certificates.

2. Simultaneously the Justice Department should be asked for a legal opinion as to whether the share certificates qualify as collateral under the *Bank of Canada Act*. If not, legislation should be introduced to amend the Act to specify their eligibility.

3. The government should then present the share certificates to the Bank of Canada that would forthwith book the certificates as assets against the liability of the cash created, and deposit $150 billion in the government's bank accounts. The federal government should immediately transfer $75 billion to the various provinces and territories in amounts proportional to their population, with the understanding that they would help the municipalities, as appropriate, so there would be no need to cut back on essential services, or sell valuable assets.

4. Amend the *Bank Act* to reverse the 1991 amendments that eliminated the requirement for the Canadian chartered banks to maintain cash reserves against their deposits and provide the Minister of Finance, or some one acting on his or her behalf, the power to set the level of cash reserves for banks and other deposit-taking institutions up to a maximum of 34%, provided the increase, beginning in fiscal year 2013/14 is not less than 5% per annum until the new 34% base has been established in 7 years. *This will ensure that there will be no inflation resulting from the government-created money.*

5. Repeat the action prescribed in sections 1 and 3 above in accordance with the following schedule. (a) 2014/15, $150 billion of government-created money (GCM); (b) 2015/16, $150 billion GCM; (c) 2016/17, $125 billion GCM; (d) 2017/18, $125 billion GCM; (e) 2018/19, 50 % of the estimated increase in GCM to bring bank reserves up to 34% by the end of fiscal year 2019/20, (likely to be an amount greater than $100 billion); (f) 2019/20, the remaining amount of GCM to increase bank reserves to 34% (again likely to exceed $100 billion).

6. In each fiscal year following 2019/20, the amount of GCM spent into circulation will be 34% of the desired increase in monetary expansion for that year with the remaining 66% to be the prerogative of the chartered banks.

NB. The great advantage of changing the system over a 7-year period is to allow all levels of government the certainty of a cash flow adequate to complete projects once begun, and to facilitate a smooth transition to the new stable and sustainable system.

7. After a year or two of robust economic growth, as tax revenues begin to rise, the amount of GCM created during the transitional period should not exceed prudent budgetary requirements, so governments at all levels should take advantage of the opportunity to pay off significant amounts of their outstanding debt. It is estimated that the federal government could reduce its net debt by as much as one-third, providing further relief to hard-pressed taxpayers.

8. We demand that the parliament and government of Canada implement items 1 to 4 above no later than midnight May 10, 2013 in order that the economic benefits will begin for students seeking employment.

9. We believe these actions to be so essential for the future welfare of the majority of Canadians, and as a precedent for other struggling countries, that should parliament and the government fail to meet the deadline above we will feel duty-bound to adopt such peaceful measures as are within our power to guarantee that the 99% of Canadians on the lower end of the income scale are not shortchanged one more time.

See www.victoryfortheworld.net for more information.

> "Massive poverty and obscene inequality are such terrible scourges of our times – times in which the world boasts breathtaking advances in science, technology; industry and wealth accumulation – they have to rank alongside slavery and apartheid as social evils. [O]vercoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life."
>
> *Nelson Mandela*

of the public interest. As such, the current practice of quantitative easing has profound implications for democracy – are so-called democratic governments to act in the service of the citizen or the speculator? The answer seems to recall the Golden Rule – he who has the gold makes the rules.

Ultimately, who gets the money is a question of who is powerful and who is powerless; it has more to do with Machiavelli than Adam Smith.

It is also the case that the openly flaunted creation of trillions of dollars raises the question, "why can't we afford health care, infrastructure renewal, and a guaranteed standard of living for citizens," when corrupt and predatory financial institutions have an unlimited call on the public purse? The fact is that there is no reason at all – money can be created for any purpose, but clearly it helps to be powerful and have the ear of government in order to have this miraculous service performed for one. But the next time you hear governments talk about how we all have to grit our teeth and accept a lower standard of living, inadequate transit and health care, because we have to service the national debt, consider that there are real alternatives – alternatives that were actively used by Canadian governments from the 1930s until the 1970s – the period which, not coincidentally, resulted in the greatest growth of prosperity in Canada's history, and the construction of about half the national infrastructure.

I suppose it's important to keep ordinary citizens from learning that these alternatives exist, and that they wouldn't be inflationary as long as governments don't create more money than the productive capacity of the country can handle. So we continually hear the patently false comparison between the national budget and household budgets. Households can't create money – governments can. The next time you hear a politician say, "it would be nice if we could provide Canadians with certain health care services so that they won't die and can live without pain, but where will the money come from?" remember that there are "lies, damned lies, statistics, and the pronouncements of economists and right wing think tanks." Ultimately, it seems clear that a decision has been made (and I'm sure it was an easy choice!) that saving hedge fund managers' houses in the Hamptons trumps saving lives….

Fortunately, we are seeing the emergence of a few – so far, very few – contrarian economists who are reintroducing the concept of "quantitative easing for public purposes." This is an idea that deserves coverage in one of your future reports – I hope you will consider informing the public accordingly.

Sincerely,

(signature withheld by request)

Evidence Given by Graham Towers: Money Is Created by Banks

Some of the most frank evidence on banking practices was given by Graham F. Towers, Governor of the Central Bank of Canada (from 1934 to 1955), before the Canadian Government's Committee on Banking and Commerce, in 1939. Its proceedings cover 850 pages. (Standing Committee on Banking and Commerce, Minutes of Proceedings and Evidence Respecting the Bank of Canada, Ottawa, J.O. Patenaude, I.S.O., Printer to the King's Most Excellent Majesty, 1939.) Most of the evidence quoted was the result of interrogation by Mr. "Gerry" McGeer, KC, a former mayor of Vancouver, who clearly understood the essentials of central banking. Here are a few excerpts:

Q. But there is no question about it that banks create the medium of exchange?

Mr. Towers: That is right. That is what they are for… That is the Banking business, just in the same way that a steel plant makes steel. (p. 287)

The manufacturing process consists of making a pen-and-ink or typewriter entry on a card in a book. That is all. (pp. 76, 238)

Each and every time a bank makes a loan (or purchases securities), new bank credit is created – new deposits – brand new money. (pp. 113, 238)

Broadly speaking, all new money comes out of a Bank in the form of loans.

As loans are debts, then under the present system all money is debt. (p. 459)

Q. When $1,000,000 worth of bonds is presented (by the government) to the bank, a million dollars of new money or the equivalent is created?

Mr. Towers: Yes.

Q. Is it a fact that a million dollars of new money is created?

Mr. Towers: That is right.

Q. Now, the same thing holds true when the municipality or the province goes to the bank?

Mr. Towers: Or an individual borrower.

Q. Or when an individual goes to a bank?

Mr. Towers: Yes.

Q. When I borrow $100 from the bank as a private citizen, the bank makes a bookkeeping entry, and there is a $100 increase in the deposits of that bank, in the total deposits of that bank?

Mr. Towers: Yes. (p. 238)

Q. Mr. Towers, when you allow the merchant banking system to issue bank deposits which, with the practice of using the cheques as we have it in vogue today, constitutes the medium of exchange upon which I think 95 per cent of our public and private business is transacted, you virtually allow the banks to issue an effective substitute for money, do you not?

Mr. Towers: The bank deposits are actual money in that sense, yes.

Q. In that sense they are actual money, but, as a matter of fact, they are not actual money but credit, bookkeeping accounts, which are used as a substitute for money?

Mr. Towers: Yes.

Q. Then we authorize the banks to issue a substitute for money?

Mr. Towers: Yes, I think that is a very fair statement of banking. (p. 285)

Q. 12 per cent of the money in use in Canada is issued by the Government through the Mint and the Bank of Canada, and 88 per cent is issued by the merchant banks of Canada on the reserves issued by the Bank of Canada?

Mr. Towers: Yes.

Q. But if the issue of currency and money is a high prerogative of government, then that high prerogative has been transferred to the extent of 88 per cent from the Government to the merchant banking system?

Mr. Towers: Yes. (p. 286)

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

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

Q. So far as war is concerned, to defend the integrity of the nation, there will be no difficulty in raising the means of financing, whatever those requirements may be?

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

Q. And where you have an abundance of men and materials, you have no difficulty, under our present banking system, in putting forth the medium of exchange that is necessary to put the men and materials to work in defence of the realm?

Mr. Towers: That is right. (p. 649)

Q. Would you admit that anything physically possible and desirable, can be made financially possible?

Mr. Towers: Certainly. (p. 771)■

The EU Wants a Wide-open Banking System. We Should Say No.

By Scott Sinclair, The CCPA Monitor, July–August, 2013

"EU regulators insist that foreign investors must have unimpeded rights to challenge financial regulations through investor-state dispute settlements."

The stakes are high in the last stages are high in the last stages of the *Canada-EU Comprehensive Economic and Trade Agreement* (CETA) talks, yet there remains a serious lack of public information and debate over what is actually on the table.

Negotiators boast that the CETA is the most ambitious and comprehensive economic treaty ever, pushing trade and investment rules into new territory. The agreement would tie governments' hands in many areas only loosely related to trade, including patent protection for drugs, local government purchasing, foreign investor rights and financial regulation.

As US economist Hyman Minsky observed more than 30 years ago, financial markets are prone to runaway speculation and boom-and-bust cycles. During the 2008 financial crisis, trillions of dollars of wealth disappeared almost overnight, the global financial system came perilously close to collapse, international trade dried up and most of the richest nations in the world slipped into recession. Clearly, strong government regulation is absolutely essential to prevent speculative excess in the financial sector from damaging the broader economy. Yet one of the largest remaining roadblocks to the CETA is Canada's unwillingness, thus far, to weaken its regulatory authority over banking and financial services.

The failure of a single company (such as Lehman Brothers in October 2008) or unchecked growth in markets for high-risk financial products (such as sub-prime mortgages) can quickly cascade out of control, threatening the integrity of the entire system. Especially during a crisis, financial regulators need to act decisively, without worrying about expensive lawsuits from disgruntled foreign investors. But that's precisely the toxic ingredient the CETA negotiations have introduced into the mix.

The EU insists that foreign investors must have unimpeded rights to challenge banking and other financial regulations through investor-state dispute settlement. The Canadian Department of Finance is arguing that financial sector regulation is of such critical importance to the economy that regulatory measures must be shielded from direct challenge by foreign investors.

Negotiators reportedly are at an impasse and this issue is now on the list to be resolved by politicians. Given the intense pressure to close a deal, politicians could overrule Finance officials and undermine the ability of regulators to avert or stem future financial crises.

Despite the ongoing financial turmoil in the Eurozone, the EU approach in trade and investment treaties is to treat financial services like any other sector, providing investors the opportunity for growth. Since Canadian banks see growth through expansion into the large EU market, pressure is coming from investors on both sides to soften regulations.

The crux of the issue is how much power the treaty should give foreign investors to challenge prudential regulation of financial services – regulations aimed at protecting depositors and ensuring the integrity and stability of the financial system. The CETA's investor-state dispute settlement mechanism would give foreign investors extraordinary rights to bypass the domestic court system and directly challenge government regulatory measures.

The threat of having to pay huge monetary damages to affected investors impedes effective regulation. As the Canadian Press reported recently, Canadian regulators have warned that these supercharged investor rights would "create a chilling effect that will have negative consequences for the overall economy of the country."

NAFTA triggered a spate of investor-state challenges to Canadian environmental protection laws, resulting in regulatory chill and millions of dollars in damages. But powerful financial regulatory agencies in Canada and the US were able to strictly limit the rights of investors to challenge financial services regulations. That protection could be weakened – or disappear altogether – in the haste to get this new deal completed.

Certain NAFTA investment protections, such as the controversial "minimum standards of treatment" rule, do not apply in the financial sector. NAFTA also allows financial regulators to take measures to ensure the integrity and stability of the financial system, *even if these regulations violate NAFTA's investment protection rules.* This "prudential carve-out" can stop investor-state arbitration in its tracks.

On this critical point, the EU has dug in its heels. Its negotiators are insisting that the CETA give investor-state tribunals the power to award monetary damages to foreign investors who are allegedly "expropriated" by financial regulations.

Ironically, Europeans are learning the folly of this approach the hard way. Foreign investors have turned to investor-state arbitration to try to recover losses from Europe's seemingly interminable financial crisis. In the first investor-state case ever by a Chinese mainland investor, a Chinese financial services company is suing Belgium under a 2005 Belgium-China investment protection treaty. Ping An, the largest single shareholder in the Belgian-Dutch bank Fortis, allegedly lost $2.3 billion USD when government authorities, who stepped in to rescue the financial giant, subsequently sold off assets over the objections of minority shareholders. Foreign investors have also filed investor-state claims against both Greece and Cyprus to recover losses incurred under financial restructuring programs.

While the risk of an investor-state dispute is highest during a crisis, under Europe's proposed CETA approach more routine financial regulations could also be vulnerable. For example, the Canadian government has tightened mortgage regulations four times since 2008. Canadian officials have publicly confirmed that these are just the sort of regulations that the Europeans want to see exposed to challenge.

Another potential target is the "widely held" ownership rule – which, by limiting any single shareholding in a large Canadian bank, makes them immune to foreign takeover. Canadian trade officials appear confident that the rule, despite its protectionist impacts, is safeguarded by their prudential carve-out. But if this protection disappears, or is diluted, by the CETA, foreign investors will be able to sue the Canadian government directly over a range of domestic banking regulations.

Key decisions about vital financial regulations would then be made by investor-friendly, quasi-judicial panels. These panels would be largely beyond the reach of domestic legislators and the review of domestic courts, with taxpayers on the hook to pay monetary damages. This lack of open, transparent and accountable processes is fast becoming a troubling trademark of sweeping treaties that cater to powerful foreign investors, but give short shrift to the public interest.

Scott Sinclair is director of the CCPA's Trade and Investment Project.

Immigrant Struggles Compounded by Old Age

By Kirk Semple, The New York Times, July 26, 2013

After retiring from his job as a security guard in 2011, Wahid Ali spent his days struggling against tedium. Speaking only limited English and with few friends, he had little to do and mainly stayed at home, a small rented room in an illegal basement apartment in Coney Island.

But the tougher fight was financial. Mr. Ali, 78, had meager savings, and his wife had not worked since they immigrated to the United States from Pakistan in 2006. So the couple depended on his monthly Social Security check of less than $600.

"It was extremely difficult," he said, especially putting enough food on the table.

These are increasingly familiar concerns within New York City's growing immigrant population.

As is the case in the rest of the country, the city's residents are skewing older. Yet a new study, released Thursday, reveals that immigrants are the driving force behind this trend, posing enormous challenges to local government agencies and social service organizations.

From 2000 to 2010, the number of immigrants in the city aged 65 and older increased by about 30 percent while the corresponding native-born population dropped by 9 percent, according to the study by the Center for an Urban Future, an independent research organization in New York.

The foreign-born now represent 46 percent of the city's population aged 65 and older, a proportion far higher than their share of the city's overall population (37 percent).

"I think it's the biggest demographic trend that nobody is talking about," said Jonathan Bowles, the center's executive director.

Besides being one of the fastest-growing demographic groups, older immigrants are also among the most vulnerable. "Many in this group are not only poised to strain the social safety net but fall through it entirely," the study said.

On average, older immigrants have far lower incomes and far smaller retirement savings than older native-born residents, and they receive fewer benefits from entitlement programs like Medicare and Social Security. Nearly 24 percent of all older immigrants in the city live in poverty, compared with 15 percent of their native-born counterparts, the study said.

In addition, language obstacles conspire with a lack of education and cultural barriers to keep many older immigrants from finding out about, and seeking help from, government agencies and community-based advocacy groups.

Last year, Mr. Ali found some relief from his struggles at the Council of Peoples Organization, a community group focused on South Asian Muslims that had opened a senior center at its office in Midwood, Brooklyn. He now spends his days there, eating free meals, making friends, watching Pakistani satellite television programs and "hanging out," he said through an interpreter. The center has also helped him and his wife apply for additional government assistance and get medical help.

The organization's executive director, Mohammad Razvi, said the center opened last year after clients began asking if they could take some of the canned food that had been donated for disaster relief in Pakistan.

With its extensive public transportation networks, concentration of health care centers, array of immigrant enclaves and proliferation of immigrants' services groups, New York City can be a relatively accommodating place for immigrants to grow old.

Yet in interviews, advocates for older immigrants said that the needs of the population were far from being met and that more financing, from both public and private sources, was needed to meet current, and especially future, demand.

There are now at least 463,000 immigrants aged 65 and older living in New York City, the largest population of its kind in any city in the United States, according to the report, which was based in part on census data.

The growth is largely attributable to the aging of the people who arrived in the United States during the 1980s and 1990s, decades that saw a sharp increase in immigration, Mr. Bowles said.

Among the array of challenges that these immigrants now face, poverty arguably looms largest; about two out of every three elderly people in New York living below the poverty line are immigrants, the study said.

Immigrants tend to earn significantly less over the course of their working lives than native-born people and therefore receive less in benefits from Social Security, and many do not qualify at all for the program or have not enrolled, the study said.

Kit Fong Lee, 74, who volunteers at a senior center in Lower Manhattan run by the Hamilton-Madison House, said the center's clients, most of whom are Chinese immigrants, received Social Security benefits of, on average, about $600 a month, around half the national average. Some clients scrape by collecting soda cans on the street, she said, or by relying on relatives.

The most significant barrier preventing older immigrants from taking advantage of social services in the city is their inability to communicate with service providers in a language they know well, the study asserted.

"When I go to Manhattan, I can sometimes get lost," Soon Kim, 88, said through an interpreter. "When I get sick I can't describe how sick I am." For 26 years, Ms. Kim has been a regular at a senior center in Corona, Queens, run by Korean Community Services of Metropolitan New York.

Language barriers can lead to social isolation, advocates said, which in turn can lead to mental illness and suicide.

❧ ❧ ❧

Our Comment. "The allegedly specified" social contribution to human contribution is *de facto* sheer swindle with the itchy omnipresent palms of the supposed "independent" the officially supposed human invested "human capital" has been converted to simple "cant," which lying tongues have already done once before Mendacions conversion to major restructuring of fiction has again elbowed out truth. *W.K.*

PART 2 IN A SERIES

Fantopian Update

The second part of an excerpt from Fantopian Update by James Gibb Stuart, Ossian Publishers Ltd., www.ossianbooks.co.uk.

Seigniorage on the Banknote Issue

There were five people selected to sit on that advisory panel. These were Banker, an Economist, a Politician, a Journalist and an Antiquarian, the letter being thrown in as a make-weight because is was thought that his involvement with the mysteries of antiquity would leave him free of any preconceived notions about macro-economic theory.

But is so happened that when the Panel assembled for its opening session, it was the Antiquarian who first came up with a contribution. "Just my line of historical research!" he remarked as they settled down. "This creation of design notes by the Talent Engraver seems to function exactly as the *seigniorage* bestowed on society by the ancient kings."

"What's seigniorage?" asked the Politician, who had already emphasized that he knew nothing about economics.

"Anything to do with *droit de seigneur*?" quipped the Journalist with a suttee grin.

"More to do with the counting chamber than the bedchamber," replied the Antiquarian, straight of face. "It was once the practice of the Sovereign, when he had minted the nation's coinage into golden crowns, to let it be spent into circulation, That was called his *seigniorage*, and it was seigniorage which provided the prime source of revenue for running the kingdom. Even in more recent times, when the use of coin has been limited, and our golden crowns have become *paper* crowns – at one – fiftieth of the value – the Government has retained its seigniorage of all the newly issued cash money, thereby giving the Exchequer a source of revenue for financing in the public sector."

"Is it true?" asked the Journalist, looking hard at the Banker.

"To some extent," confessed the latter grudgingly, "the Government does finance itself through the issue of banknotes and coin. But nowadays that forms an ever diminishing part of the money supply due to the greater use of credit cards, checking accounts and electronic transfers."

"The onward march towards a cashless society," exclaimed the Journalist, searching in his mind for a headline.

"Does that mean this *seigniorage* thing doesn't exist any more?" enquired the Politician, who did not understand economics.

"It exists, but only on a small percentage of the new money stock," the Antiquarian explained. "If the issue of new banknotes and coin had been maintained at the level of some thirty years ago, the Government would now have extra spending money of about ten billion Fantopian crowns per annum – enough to build a few Tumbledum road bridges, or upgrade some of the housing stock in the inner cities – which is exactly what the Talented Engraver has just been doing with his *maundy* money."

"So the country would be better off if we loaded our wallets and paid all our bills with fistfuls of banknotes," suggested the Journalist brightly. "No doubt it would cut the borrowing from the private banking system, and put billions into the public purse."

"It would also be quite ridiculous, now that the public's banking habits have changed," declared the Banker. "Today, even if we did load our tills with mountains of cash, nobody would want to carry it around with them."

Perhaps they would, if they were told that it could be beneficial."

The Banker shuffled his papers. "It says here that if the Government tried to increase this type of finance *beyond current demand for it*, it would lose control of interest rates, and inflation would take off."

"I shall need a sight of that," insisted the Antiquarian. "It's sheer unadulterated poppycock, of course, wherever it comes from. No doubt the public wants to keep its credit cards and other sophisticated cash transfer devices. But cash or credit, how can you support the contention that Government-issued money, upon which it had claimed *seigniorage* for the benefit of the nation, would cause runaway inflation?"

The Banker spluttered, "Tell them," he exhorted, turning to the Economist. "Why do you think I got you elected to this panel?"

"Synchronized price stability depends upon the input of known and accurately calculable factors into the cost-push equation," began the Economist nervously. "Focused purchasing power, inserted beyond the scope of the interest rate variable, can therefore destroy the basis of sustained velocity manageability, and exacerbate the incentives towards upward mobility within the wage-related cost-push analysis."

"Hrrmph! I'm glad you agree with me," said the Banker.

"I'm afraid I don't understand economics," said the Politician.

"What does it all mean?" asked the Journalist, and the Antiquarian made a dart with his order paper and floated it off into a corner of the room.

Looking for Scapegoats

But the Antiquarian was back in contention when the panel sat down again after the midday break.

"It seems to me," he began, "that if there's anything to be gained by developing a historical perspective, it's to make valid comparisons between the past and what might prove to be corrupt trends in present and future. I'm saying this because I feel that here in Fantopia today – as well as in many other countries across the hemisphere – we're confronted with some of the most vicious features of free market capitalism, and you people don't want to admit they exist, far less propose to do anything about it. Shouldn't we now be telling the public what damage has been done to society by the loss of *seigniorage* on the supply of new money?"

"Governments are run by politicians,"

"I'm afraid the ordinary citizen will not like to be told that the banks can and do create money. And they who control the credit of the nation direct the policy of Governments and hold in the hollow of their hand the destiny of the people."

Reginald McKenna, as Chairman of the middle bank addressing its stockholders in January 1924. He had been Chancellor of the exchequer in 1915-16.

The entire structure of the antitrust statutes in this country is a jumble of economic irrationality and ignorance. It is the product: (a) of a gross misinterpretation of history; and (b) of rather naïve, and certainly unrealistic, economic theories.

Alan Greenspan, Chairman of the US Federal Reserve Bank

Our programmes are like medicine. Some of the medicine has harmful side-effects, and there are real questions about what the dosage ought to be. The best that can be hoped for is that we are prescribing more or less the right medicine in more or less the right dosage.

Michael Mussa, as Chief Economist of the IMF intoned the Economists, "and as you colleague remind us, politicians don't understand economics. So we've had to teach them the hard facts of life. There's no such thing as a free lunch. The world doesn't owe us a living, and no such thing as a free lunch. The world doesn't owe us a living, and it's all a matter of doing as best we can with the scarce resources at our disposal. So money invested on one project can only be obtained by saving it on something else, otherwise we could never hope to achieve a fine balance of integrated micro-compatible sustainability."

"Can I get a quote on that?" asked the Journalist, reaching for his recorder, but the Antiquarian tapped impatiently on the table.

"Let's stick to plain language," he pleaded. "We're having to deal with two types of money, one type that is borrowed at interest from the banking house, the other issued debt-free by the Government. This latter kind of money is traditionally been in banknotes and coin, and within living memory, was as much as 46% of the total money supply. Now it's reduced to an insignificant fraction, and the community suffers in consequence."

"I've told you already," said the Banker testily, "that there's a limited demand for that kind of cash money nowadays. The Fantopian public can't easily be persuaded to take something they don't want.

"Agreed. But the other thing about the Fantopian public is that they're also fond of fair play. So what are they going to say when we tell them belatedly about that loss of *seigniorage* which was so beneficial to past generations?"

"How often must I say it?" asked the Banker, glancing down at his papers. "If government tried to increase this type of finance beyond current demand, we would lose control of interest rates, *and there would be a vast inflation.*"

"Inflation again!" commented the Antiquarian. "The reflex response to all innovative proposals! The question is, if it didn't cause inflation thirty years ago, why should it cause inflation now?"

"Tell him," demanded the Banker, turning again to the Economist. The latter scrambled through the pages of his economics textbook.

"Inflation is a monetary phenomenon which responds to fine tuning of the money aggregates," he announced at length. "New money brought into circulation without compensatory adjustments in the interest rate variable impacts the output gap, and introduces unquantified stresses into the supply-demand equation which – which –"

"Distorts the converging integers of monitored flexibility," suggested the Antiquarian, helpfully.

"How did you guess?" asked the Economist.

"I think we may have taken the same course in jargonese," replied the other.

"I'm glad I don't understand economics," wailed the Politician.

"It's all done by mirrors," decided the Journalist. "But I can't sell this stuff to my readers. Can't we work in something about *present pain bringing next year's gain*, or *tightening belts to stop living beyond our means.* The public has unlimited capacity for sacrifice if you can just dress it up in the right packaging."

"The public also has a capacity for lynching people who inflict unnecessary hardship on them and their family," hinted the Antiquarian ominously. "Once they realise what could have been done for their health, welfare and amenities by Government *seigniorage* on all those billions of newly issued money, they'll start looking for scapegoats. Seems to me that top of the list will be bankers and politicians."

"Could it get to that?" agonized the Politician. "Perhaps it's time I started to understand economics."

Ignorance About Money

Politics in Fantopia had been bedevilled for centuries by a trend towards colour stereotyping, accentuated by the vagaries of the class system.

The principal antagonists were the Blues as the party of capital and property; the Reds, who traditionally looked for something in between. There had in addition been a certain amount of colour blending down through the years. Mixing Yellows and Red produced an indeterminate shade of Pink. You could get indeterminate shade of Pink. You could get muddy Browns by tinting Reds, Yellows and Blues. And pouring the lot into one big melting pot produced Chameleons who could be expected to assume any colour at will. Under Him the Incomparable, the governing clique at that time were Chameleons.

Party politics were the tactics of division. They indulged mankind's capacity for taking sides, and then finding someone to blame when things went wrong. The Reds were blamed when the workers rioted, and the Blues when the landlords raised rents or cut wages.

The bankers found it expedient to finance them both at different times, but always by design and self-interest. If they had not invented the party system, they were certainly concerned to perpetuate it, and had long since suborned *democracy* to perform their functions for them. The Politician on the Panel was typical of the prevailing consensus, with much attention to partisan interests and no discrimination between effects and causes. But he somehow sensed that a historic watershed had been reached in the affairs of his party and his country, and felt in need of both advice and reassurance. It was to the Antiquarian that he turned, during a break in sessions, when there was an opportunity for private

Extract from a speech by the Earl of Caithness in the House of Lords on the 5th of March 1997

It is a consequence of our debt-based monetary system that it leads inevitably to business and economic cycles.

Conventional wisdom tells us that in order to create new jobs and boost the economy, interest rates have to be reduced. That has happened. People are encouraged to borrow to invest and spend. That has happened. As the continuing flow of new money finds its way into the economy, inflation will follow and up will go interest charges again to reduce the level of borrowing. In order to pay the increasing levels of interest, borrowers will once more have to reduce expenditure in other areas of economic activity.

The cycle will continue, but the next time, as before, we will all start deeper in debt and with a burden harden harder to carry. Personal debt has already increased by nearly 3,000 per cent since 1971. How much more can we take? I hope for the sake of our economy, without which we cannot finance what we want to see – a good health service and a good social security system among other things – we will question this conventional wisdom.

We all want our businesses to succeed, but under the existing system the irony is that the better our banks, building societies and lending institutions do, the more debt is created.

Hansard, Vol. 578, No. 68, columns 1869-1871 conversation.

"I've got a major structural project coming up in my constituency," he confided. "The laying down of a principal motorway extension! I must say, after what I've been hearing today, that I'd be much happier if it could be wangled through this Engraver chappie's design notes, as opposed to that great new wonder methodology of the Private Finance Initiative. I don't want tolls. My colleague up at Tweedledum tells me his life has been made an absolute misery since this new toll bridge was opened."

"And so it should be," replied the Antiquarian. "Too many people have been brainwashed into believing that it's only politicians who are irresponsible with money. As a result they've given it all over to the bankers, who certainly know how to manipulate money – *for the benefit of bankers*. The most important thing to remember about money is that the advantage *accrues to the issuer at the point of issue*. That's why it's vital for the nation to get back its rights of *seigniorage* on new money supplies."

"All this stuff about *new* money and *old* money, and who gets the advantage of it," said the Politician. "When I was a party worker, I used to think there was only so much in the whole wide world, and it was a case of grabbing what you could when it was passing round."

"Ignorance about money could ultimately have us enslaved to the banking system," the other told him curtly, "and I'm afraid that until we become money-literate – start teaching it with the abc's in schools, for instance – we'll be fighting the economics battle like a boxer with one arm tied up his back. By the way, I'm doing a little presentation this evening. Perhaps you'd like to come along."

Inflation — A Remarkable Revelation

In the end the Antiquarian had a full house of all Panel members when he set up his blackboard and proceeded to lay out the message. What he wanted to illustrate was the effect it might have had on the Fantopian economy, had the early kings kept their gold under lock and key, and obliged the nation to borrow all its currency from bankers.

"Suppose," he began, "that the original requirement was for the equivalent of the million golden crowns, and that this was borrowed at an annual interest rate of five per cent. At the end of the first year" – he did the computation – "the nation collectively would owe the banks one million and fifty thousand paper crowns in capital and interest. At the end of the second year – ignoring minor discrepancies and the compounding of interest – it would have risen to one million, one hundred thousand, and so on, year by year – *yet there were still only one million paper crowns in existence.* So the nation was already incurring a debt which it did not have the money to pay."

> "It is not that humans have become any more greedy than in generations past, it is that the avenues to express greed have grown so enormously."
>
> *Alan Greenspan, Chairman of the US Federal Reserve, in 2002*

There was a murmur among the members of the Panel. Said the Journalist, "And how would the banks handle that situation?"

"Very simply," replied the Banker. "It's happening all the time. They would just increase the money supply."

"Increase the money supply?" echoed the Antiquarian from his rostrum. "But suppose there was no growth in the economy. Could they still afford to increase the money supply? Would that not cause inflation?"

"Well perhaps a little bit of inflation," admitted the other hastily. "Who's to say what might have been happening in the primitive economy hundreds of years ago?"

"Who indeed, sir?" agreed the presenter. "But I'm trying to establish a principle. All through the years of monetarism we've been told that the interest rate lever was the main control instrument on the supply of new money. Now we're learning from the Banker's own lips that, irrespective of all other factors, the banks have an absolute *compulsion* to go on creating more money, so that there will always be an increment available for the payment of their interest."

"I get it!" exclaimed the Journalist. "What you're saying is that when a bank makes a loan, it creates the principal – *but it doesn't create the interest*, which can't get paid unless there is a supply of new money, continually coming along. Isn't that inflationary?"

"Of course it's inflationary. It's the single most important reason why the cost of living has been inflated by a factor of fifty in our own lifetimes."

"This is dynamite." The Journalist cast a bold eye round his colleagues. "If I can believe what I'm hearing, the banking lobby has been conning us all along. And to do that, it must have turned logic and mathematics upside down, and corrupted our economics faculties as well."

"Be careful what you're saying," warned the Banker threateningly. "You could be offending some very important people."

"Does it matter? You copied us a statement, from no less an authority than the Queen's own Treasury, that if the Government issued any more of its own money – beyond that needed for banknotes and coin – *it would lose control of interest rates, and inflation would take off.* Seems to me that if important people talk such nonsense, they need to be challenged. All I can say is that it's a shame they've gone unchallenged for so long."

"Ours is a lonely and difficult task at times," replied the Banker evasively, "so it's a blessing we're not continually exposed to uniformed and carping criticism. Because governments are so irresponsible with money, they've always had to lean on us for guidance. Having absolutely no concept of economic management, they would otherwise run amuck, and destroy the whole fabric of civilized society."

"I resent that," interjected the Politician on the Panel. "How would they destroy the fabric of society?"

"By seizing control of the money-creating process, and creating it willy-nilly, at every whim and circumstance. Then we should have that vast inflation which you find so improbable."

The Politician paused, "Maybe," he said at length. "I'm beginning to understand a bit better myself. You bankers have frightened us out of interfering with financial matters on the basis that only bankers can understand them. And always you have lectured us on the inflationary consequences of our meddling. But now we learn that nothing is more inflationary than for governments to borrow their money at interest from the banking system. Isn't that what you've been illustrating?" He looked appealingly at the Antiquarian.

"You've seen the examples," confirmed the latter briefly. "And there was no inflation under the ancient kings."

"Very little by way of unemployment pay, health and welfare services either," the Banker reminded him scornfully. "Your blackboard illustrations are amusing so far as they go. But I can't agree with your conclusions, not when you're challenging the most fundamental edict of our modern financial system – that leverage through the interest rate is the only effective instrument for keeping inflation under control."

"I can prove it," cried the Economist eagerly. "I did a thesis on it once, to a whole lecture room of economics professors, and

I can tell you it was well received. The monetarist theory is now like holy writ. You can't challenge it at this stage without causing chaos."

"Chaos – and breakdown – is what we might get in any case," argued the Antiquarian, "unless the nation retains some measure of public finance for its own essential purposes."

"Even if our experts have already told you that it would be vastly inflationary?"

"Sometimes your experts fly in the face of common sense and logic, especially when they have a vast interest to protect. And what they tell us in this case has simply not been borne out by the facts. There was no appreciable inflation whilst the Nation had a considerable measure of seigniorage from the currency issue."

"Neither does there seem to have been any inflation as a result of the Talented Engraver's design notes," remarked the Journalist.

"There *should* have been!" retorted the Banker fiercely. "We had the most wonderful micro-economic model constructed to show exactly how there *ought* to have been, but this clown of an economist broke it in pieces when he was trying to transport it to our meeting."

The Economist was looking very discomfited. "Perhaps I shouldn't have come," he said glumly. "Things have a habit of breaking down when I try to put them into practice. I only went into economics because my professor said it was the one profession where you could score high marks while missing the point entirely."

The Antiquarian had meanwhile dismantled his blackboard and put away his display material. He was glad he had got his own economic perceptions from a reading of history.

> You can site the most prestigious bank in all the world in the centre of a barren desert, and invite it to monetize the desert's assets in the form of currency, promissory notes and negotiable securities. All of these, whatever their numbers or denominations, would be worthless bits of paper, since they would have no purchasing power in a land without people or resources.
>
> But dig wells, find water, create an environment in which vegetation can exist, and living things can grow and multiply. Then your currency will have started to acquire a value. That value will have been determined, not by the awesome dignity of the bank itself, the acclaimed financial expertise of its governors or the imposing calligraphy on its note issue – only by the intrinsic wealth of the community that had gathered round its doors.
>
> *From Economics of the Green Renaissance by James Gibb Stuart*

Because There Was No More Money

Next day, when the Panel re-assembled, the Banker and the Economist seemed to be on much better terms. The latter had in fact recovered his composure, and was at pains to impress upon the others the hazards posed by governments taking control of their own money.

"Governments are merely the representatives of the people," he indicated, "and the people have no sense and understanding about money. Tell them they have the right to print, and they would just go mad with their excesses, like cattle in a field of ripe corn. Then when they had brought themselves to the brink of disaster, they would turn us to rescue them form their folly, and have to endure the restraints and sacrifices we would impose to restore the principles of sound finance."

"There has been no proposal for a money-printing binge," replied the Antiquarian modestly, "merely the restoration of a situation which existed not so many years ago. The country needs this for the benefit of society and the environment. Nowadays, but for the Engraver's design notes, we should be totally starved of resources in the public sector, while private finance is freely available for all manner of speculative investment."

"That's one of the first principles of the free market," the Economist told him with earnest dogmatism, "that money will always flow to the area of highest profitability. So if you have a need for finance in the public sector, it has to be offered on terms which are comparable with what can be obtained elsewhere. Haven't we given you the Private Finance Initiative?"

"You have indeed, and that's a truly monstrous abuse of the common weal," declared the Antiquarian severely. "The state should *never* borrow for the financing of public works. It imposes a debt which can never be repaid, since structures and institutions created for the public good are not conceived as profit-making enterprises. That's why we need a source of *public* finance, such as we had with seigniorage on the note issue."

"Confound it, you *still* have seigniorage on the note issue!" exclaimed the banker explosively. "How often must we say it?"

"Three to four percent of the new money supply is not enough. That is evident from the pressure on our public services – and of course the contrived folly of PFI. It would be much worse without the Engraver."

"Can't we just nationalize the Engraver, and put him to work officially?" suggested the Journalist hopefully, but both the Politician and the Economist threw their hands up in horror.

"All right," said the Antiquarian, gesturing, "I see that since the dawn of the New Era, *nationalization* has become a dirty word. But this is not about ideologies – just practicalities. What ever the colour of your politics – be they Red, Blue or Yellow – the problem remains essentially the same, that Government must have a sure source of its own finance to do the things that only Government – or a State authority – can properly do."

"When governments want finance, they know we are there to provide it," said the Banker. "We've never failed them in the past. That's why they leave it to us in the end."

"As for governments creating money," chimed in the Economist, "their trouble is that they never know how much money should be created. What would be your advice to them in that situation? For that's the very point on which such tomfool schemes have foundered." He looked to the Banker for approval.

But the Antiquarian took it in stride. "What is money, but a means of utilizing resources and galvanizing people into action?" he philosophized. "If the need is there, and the skills and resources are available to satisfy the need, that is the extent to which money can safely be created. You have seen it happen with the Engraver's design notes. Did he not direct them to areas of the greatest social and environmental need, and to purposes for which the financiers told us there was no money?

"No money!" he repeated. "How many urgently required projects have had to be cancelled or postponed *because there was no money*? Yet there was money for gambling, and for takeovers and mergers, and for all manner of speculative enterprises. Only the *public* need could not be satisfied – because there was no more money."

The Banker coughed. "One has to understand these things," he ventured. "Money appears on demand."

"Of course it does," agreed the Antiquarian. "I think you and I understand each other very well – and I have no quarrel with that type of finance, which is the lifeblood of our commercial and industrial system.

But the deterioration which has been allowed to creep – almost unnoticed – into our national affairs, is due to erosion of that public finance which comes to us through seigniorage, when the Government increases the banknote issue."

"How does the Government do that?" asked the Journalist, suddenly curious.

"It raises the security which I suppose we could call a Treasury credit. This is lodged with the Bank of Fantopia, which then goes ahead and prints the note issue. No doubt our banker colleague could explain it all in greater detail, but the banking industry has been extremely reticent about the whole business, and getting information from them on that subject has been like drawing teeth."

"A case of needing to know," declared the Banker defensively. "Naturally we don't feel the need to share confidences with the general public on all the technicalities of our profession."

"But the public *needs to know* what's been happening to its Government-funded finance – even if it has previously been unaware of its significance. And as the seigniorage is eroded, it needs to know what is going to take its place. These are big questions, to which this Panel must ultimately produce an answer."

"It won't be a simple answer," decided the Economist. "I expect I'll be asked to contribute the economic theory part of it, and I have drafted a few notes in anticipation."

"It will have to be a *very* simple answer," contradicted the Antiquarian. "The Fantopian public has to be told, in words it can clearly understand, what it will have lost in terms of public works, social uplift and environmental renewal, if Government loses total control of the new issue money, and it is unable to finance desirable national initiatives from its own resources. I'll be putting forward some practical proposals with that in view, and hope to have a majority in support."

As he spoke, he looked hopefully towards the Journalist and the Politician, but was dismayed to note that they had turned away in an attitude of dissent and apparent disinterest.

A Tactical Diversion

When the meeting broke up, the Antiquarian then had an opportunity of speaking informally with both of them before they all went their separate ways. "Disappointed not to have you support," he said quietly. "I thought I had explained why we have to stop the bankers taking total control of the supply of new money."

"You have indeed!" the Journalist assured him instantly. "You made it very plain, I'm sure we're both in agreement with what you're proposing."

"Then why didn't you support me?"

The pair looked slightly shamefaced, and the Journalist glanced cautiously around him before answering. "Personally, I had no idea what a can of worms we were opening when we discussed this business of Government-created finance. Seems even to talk about it is taboo. Late last night I had a call from my editor, and believe me, I took a roasting. He more or less told me that if I step out of line on this one, my career could be over. This Banker fellow on the Panel is scarcely playing the game. He's been leaking stuff back to his PR men, and getting them to put the screw on where it hurts."

"That goes for me too," declared the Politician. "I've had a call from the Prime Minister's office, and one of those *spin-doctor* fellows came on to read me a lecture. The message is clear, I've to stick to the party line, and give my support only to orthodox financial measures."

"So what does that mean?" asked the Antiquarian.

"It means that we take our cue from the Banker, that's what it means," the Journalist inferred morosely. "We refrain from rocking the boat, or upsetting the applecart, or proposing anything which might disturb the finance establishment."

"Even if it should result in social breakdown? Did you try to explain to him this problem about he loss of seigniorage?"

"Actually my editor was surprisingly vague on that subject. Said he had scarcely heard the word outside of a historical context. But he was positive enough that he's not for it if the Big Boys don't like it. They say that money talks, except that when it's Big Money, it takes with a deafening hush."

"That's largely the impression I was getting from the PM's office," agreed the Politician. "You know, when Him the Incomparable got elected with his massive majority. I fondly imagine he would be answerable to no one but God – and that on full media coverage – by appointment only. Now I learn that where financial matters are concerned, he's got to take his cue from some anonymous bloke in the Treasury."

"Hmmm…. I see," said the Antiquarian. "I suppose it's neither more nor less than I could have expected. They do have the power to destroy you, and I can't blame you for thinking about your careers."

"Personally, I've got family responsibilities, so I daren't take the risk," confessed the Journalist. "I once knew a market analyst who wrote for the financial columns of the dailies. His stuff was brilliant, but when he refused to kowtow to the mandarins, they had him sacked, and so thoroughly discredited that he couldn't even get a letter published in the correspondence columns of his local rag."

"I'll remember that, next time anyone talks to me about freedom of press," said the Politician. "And our party system doesn't seem to be any better. I suppose you'll be telling me now it was those Big Money boys who picked Him for Premier, and that he'll stay sweet with them, whatever the social consequences."

"Even if it means taxation on everything that breathes, tolls on *all* the motorways, and the health services turned over to PFI."

"That's the bit I'm going to hate, and I'm sorry we'll be letting you down."

"Think nothing of it," replied the Antiquarian, with surprising equanimity. "It's not something we have to decide immediately, and I hope you'll at least help me gain a little extra time on this Panel. It's fortunate we're going to be in recess till further notice."

"In recess?" they repeated simultaneously. "We didn't realize…."

"No, of course you wouldn't." The Antiquarian was improvising furiously. "But it shouldn't be too difficult to arrange, if we were all to plead pressure of business elsewhere."

He looked at the Politician. "Haven't you got a by-election coming up in a neighbouring constituency? I'm sure the Chameleon

US Presidents, On Money and Banking

All the perplexities, confusion and distress in America arise, not from defects in the Constitution or Confederation, not from want of honour or virtue, so much as from downright ignorance of the nature of coin, credit and circulation.

US President John Adams

I believe that banking institutions are more dangerous to our liberties than standing armies. Already they have raised up a moneyed aristocracy that has set the Government at defiance. The issuing power should be taken from banks, restored to the people to whom it properly belongs.

US President Thomas Jefferson

candidate would be happy to benefit from your experience."

To the Journalist he said, "As for that troublesome editor, he can't be finding our deliberations particularly newsworthy, since he's intending to suppress them. So perhaps he'd like to have you back doing something worthwhile, like sleaze gathering, or reporting on the finals of the ball games."

The pair took their cues readily enough, and went off to make their own arrangements. As for the Antiquarian, when he returned to his office he had a long night ahead of him, as he got to work on his new microdot.com system. Which linked him to innumerable contacts across the hemisphere. He was sending out a call to arms, like the beating of the tom-tom in the jungle, or the fiery torch that had once summoned fighting men together in the Fantopian northlands.

In the coming weeks, at a prestigious conference centre in the Great Republic beyond the seas, a meeting was due to be held of the much praised and sanctified Standing Committee for Altruistic Mondialism (SCAM for short). It was an organiza-

Depositors Beware: Cyprus-style Bank "Bail-ins" Now Also Approved for Canada

By Jerry Ackerman and George Crowell, The CCPA Monitor, July–August, 2013

"The 'bail-in' procedure was approved by the G-20 nations at their summit meeting in 2011, and was formally implemented for Canada in the 2013 Federal Budget passed on June 10."

One of our most solidly entrenched assumptions, going back even to childhood, is that when we deposit our money in a bank, it is safe and available for our use at any time. So back in March when we learned that the European financial powers-that-be were arranging to rescue the troubled banks of Cyprus by appropriating the money entrusted to them by depositors, we were shocked. We might have been less disturbed if a portion only of large uninsured deposits were to be taken. But when we learned that 6.75% even of small, insured deposits under 100,000 euros were targeted, we fully understood why Cypriots were angrily protesting in the streets. These protests led the Cypriot Parliament courageously to take small depositors off the hook – except for any hardships which result from having their withdrawals limited to 300 euros per day. But 60% of deposits over 100,000 euros were seized to rescue the banks and, allegedly, the economy of Cyprus.

This procedure – this theft – is now known as a "bail-in" as distinguished from a "bail-out" such as that engineered massively in the US in 2008 in order to rescue the "too-big-to-fail" banks, whose speculative and fraudulent practices brought on the devastating, ongoing Great Recession. A bail-out steals from taxpayers, whereas a bail-in steals from depositors. Pretty much the same people.

But we in Canada can take comfort, can we not, from the oft-repeated assurance of the Harper government that our exceptionally sound Canadian banking system is immune from such abuses. How, then, are we to account for the fact that the 2013 omnibus Federal Budget, passed June 10 courtesy of Harper's majority Conservatives, included a barely noticed provision announcing that any major Canadian bank which may get into deep trouble will be rescued through a bail-in? Here is the wording of that provision:

"The Government proposes to implement a 'bail-in' regime for systemically important banks. This regime will be designed to insure that, in the unlikely event that a systemically important bank depletes its capital, the bank can be recapitalized and returned to viability through the very rapid conversion of certain bank liabilities into regulatory capital. This will reduce risks for taxpayers. The Government will consult stakeholders on how best to implement a bail-in regime for Canada…."

Included among "bank liabilities" are our deposits; "regulatory capital" consists of shares of the bank's stock. With bank insolvency imminent, "certain bank liabilities" (how vague can you get?) – including insured and uninsured deposits, mutual funds, "guaranteed" investment certificates, retirement savings plans, etc. – would be subject to conversion into bank shares. The funds realized would be used in attempts to bring the troubled bank back to solvency. Depositors would no longer have immediate access to their money, but as shareholders, would be free to sell their stock, perhaps at a considerable loss.

Responding to expressions of alarm about this Budget provision, the Harper government issued a "clarification": "The bail-in scenario described in the Budget has nothing to do with depositors' accounts and they will in no way be used here [in Canada]. Those accounts will continue to remain insured [up to $100,000] through the Canada Deposit Insurance Corporation, as always." Can we trust this assurance? The legislation says nothing about guaranteeing protection for depositors. And even if insured deposits are intended for favoured treatment, we have no way of knowing whether the CDIC would have sufficient resources to cope with a financial meltdown. And we are expected to be comforted by the fact that taxpayers would be spared!

How did the bail-in procedure get imposed on us? It was embraced as an alternative to using bail-outs which might provoke resistance from taxpayers and governments as occurred in Iceland. The Bank of International Settlements, which dominates the central banks of capitalist nations in the interests of private banking, pushed the bail-in alternative. This procedure was approved by G20 nations at their 2009 meeting. With passage of our 2013 Budget, we can now be told that bail-ins have been "democratically" approved for Canada.

And the story gets even worse. As we know, the world's largest banks have been gambling with high-risk derivatives on an immense scale – in the US some $230 trillion! Banks on the losing side of derivative bets can quickly be driven to insolvency. With the recently accepted bail-in strategy, we can expect that the winning derivative operator, the "counter-party," will now be given priority over all other creditors, including depositors.

We do not know the extent to which our Canadian banks are involved in risky derivatives. But so intertwined are global banking operations that our banks might suffer from collapse initiated elsewhere. We are being set up for sudden, larger than ever shifts of wealth from the middle class to the already obscenely rich.

Jerry Ackerman, PhD, is a financial analyst and advocate of public banking. George Crowell, retired University of Windsor professor, has been working on monetary issues since 1994.

tion which had once carried the hopes of poverty-stricken and repressed peoples from all around the globe, as it purported to bring peace, harmony and prosperity through a policy of universal free trade.

Unfortunately however, in the Antiquarian's opinion, this august body, with it's high-sounding principles, had made a fatal mistake at the very beginning when it encouraged the Sesser developed societies to take massive loans from the banking houses of their more sophisticated mentors, with the result that some of them were now consuming a substantial part of their Gross National Products in paying the interest, leaving very little for the feeding and housing of their populations. It was not a happy omen for that era of universal peace which was intended to usher in a New Millennium.

In the discord and disillusionment which ensued, Peace itself had become an early casualty, and with ethnic animosities and economic conflicts springing up on all sides. SCAM was only able to continue its mondial operations under the shelter of its own military arm, a vast aerial armada equipped with the latest destructive technology, which stood ready to bash recalcitrant cultures and creeds into total submission.

The Antiquarian's microdot contacts were not generally of a military persuasion. Many were scholars and academics like himself, who had gained their perceptions of current trends from a diligent reading of history.

Without breaching Panel confidentiality, he was acquainting them with his misgivings about a future in which money became more important than people, and inviting them to ensure that when the momentous gathering of presidents and prime ministers, bankers, financiers, trade lawyers and lobbyists assembled for their latest round of strategic manoeuvrings to bring all forms of financial and commercial activity under their control, the concerns and forebodings of ordinary folk would not go unrecorded.

To be continued

Even the Economic Doomsayers Now See Signs of Lasting Growth

By Nelson D. Schwartz, The New York Times, June 16, 2013

For more than a decade, the economy has failed to grow the way it once did. Unemployment has not stayed this high, this long, since the 1930s.

But could the New Normal, as this long economic slog has been called, be growing old?

That is the surprising new view of a number of economists in academia and on Wall Street, who are now predicting something the United States has not experienced in years: healthier, more lasting growth.

The improving outlook is one reason the stock market has risen so sharply this year, even if street-level evidence for a turnaround, like strong job growth and income gains, has been scant so far.

A prominent convert to this emerging belief is Tyler Cowen, an economics professor at George Mason University near Washington and author of *The Great Stagnation*, a 2011 best seller, who has gone from doomsayer to a decidedly more optimistic perspective.

He is not predicting an imminent resurgence. Like most academic economists, Mr. Cowen focuses on the next quarter-century rather than the next quarter. But new technologies like artificial intelligence and online education, increased domestic energy production and slowing growth in the cost of health care have prompted Mr. Cowen to reappraise the country's prospects.

"It's better than it looked," Mr. Cowen said. "Technological progress comes in batches and it's just a little more rapid than it looked two years ago." His next book, *Average Is Over: Powering America Beyond the Age of the Great Stagnation*, is due out in September.

Certainly, there are significant headwinds that will not abate anytime soon, including an aging population, government austerity, the worst income inequality in nearly a century and more than four million long-term unemployed workers.

These and other forces prompted some leading economists, led by Robert J. Gordon of Northwestern, to conclude not long ago that the arc of American economic growth for centuries was over, to be replaced by decades of stagnation. Productivity might grow steadily, Professor Gordon argued, but the benefits will not flow to most Americans.

Other analysts are challenging that perspective, which they said was colored, in part, by the severe downturn that hit the global economy more than five years ago. And some of them now see a brighter outlook right around the corner, not just far into the future.

Two widely followed economic forecasters, Morgan Stanley and IHS Global Insight, have both increased their estimates for growth in recent days.

"Its been a long time coming," said Nariman Behravesh, chief economist at IHS. "There is more optimism about the US and in particular about the second half of this year and 2014. Three months ago, we wouldn't have come to the same conclusion."

Indeed, a number of forecasters are now predicting that the expansion, which began in 2009 and has remained subpar ever since, might prove to be far more durable than the typical five-to-six-year growth cycle, in part because of the absence of the traditional boom, then bust pattern.

The optimistic view is hardly universal and there have been premature proclamations of better days before, most famously the "green shoots" spotted by Ben S. Bernanke, the chairman of the Federal Reserve, in 2009.

Whether or not the economy is poised to grow faster in the months ahead will be the central question when Federal Reserve policy makers meet this week, with more volatility expected on Wall Street as traders look for any sign the Fed is ready to taper back its huge stimulus efforts.

Whatever the Fed's conclusion, many analysts insist the more upbeat view is justified this time.

In particular, Mr. Behravesh and other economists said, the economy has shown greater resilience than expected in the face of tax increases and spending cuts in Washington. As the impact from this fiscal tightening eases, the overall growth rate should pick up.

Mr. Behravesh now expects the annual growth rate to rise to 2.9 percent in 2014 and 3.5 percent in 2015. If he's right, it would mark the fastest annual growth since 2005, when the economy expanded by 3.1 percent. It is also well above the 2 percent rise in output the economy has averaged over the last three years.

The nonpartisan Congressional Budget

Office also sees relatively fast growth of 3.4 percent next year, and 3.6 percent between 2015 and 2018.

A few other private economists are even more bullish. Jim Glassman, senior economist at JPMorgan Chase's commercial bank, estimates the economy could expand by 4 percent in both 2014 and 2015. If that were to come to pass, it would be the strongest back-to-back annual growth since the late 1990s.

"I think 2014 will be the real deal," Mr. Glassman said. "If we get to that level, which I feel pretty confident about, economists will say it's about time."

Mr. Cowen, who is also an occasional contributor to the Sunday Business section of *The New York Times*, is more skeptical about a short-term takeoff, focusing instead on what he sees as a brightening, longer-term picture of the United States economy.

Intend to Destroy a Country? Do it financially. Here's How Greece Was Destroyed.

By Jerry Ackerman, PhD, Financial Analyst

The corrupt government trying to meet the deficit rules for joining the European Union, accepted the Global Bankster (GB) advice on how to hide the true deficit by using a derivative – a credit default swap.

The GB, expecting the truth would later emerge, became the counter – party to the derivative. When the truth emerged, the European Central Bank (ECB) and other private banks – notably France and Germany "bailed out" Greece so that the interest on the new debt could be serviced. Conditions applied.

"Wasteful spending" had to be curtailed. Too many government employees. Pensions were too rich. Taxes were too low. That deficit had to be brought into line. Publicly – owned assets were to be privatized, and government services cut back.

These austerity measures hastened the decline in economic activity and brought forth a surge of major protests by the unemployed. When a GB assumed the presidency and bowed low to the ECB and the IMF, the situation worsened. An election was called, but the government remained in place. Further loans kept "rescuing" the country by adding to the debt. More collateral (even the gold holdings), more austerity, and further privatization of public assets and businesses.

Then, Cyprus! Two large banks held Billions of Greek bonds on behalf of foreign investors. When the bond prices fell, a "troika" of ECB, IMF and GBs moved to "rescue" the situation – (*their* situation) by "bailing-in" 60% of the deposits above a guaranteed level and a smaller percentage of deposits below that level. Note: Counter-parties to derivative losing bets get *first* priority on the assets of the failing bank. Depositors are unsecured.

Which country is next? Might it be Canada?

Let's read the *intention* of the country's majority government, as explained in the omnibus "budget" bill awaiting passage. From p. 145 of the Economic Action Plan: "The government also recognizes the need to manage the risks associated with systemically important banks whose distress or failure could cause a disruption to the financial system, and, in turn, negative impacts on the economy. This requires prudent oversight and a robust set of options for resolving these institutions without the use of taxpayer funds in the unlikely event that one becomes non-viable.

The government intends to implement a comprehensive risk management framework for Canada's systemically important banks. This framework will be consistent with reforms in other countries and key international standards, such as the Financial Stability Board's *key attributes of effective resolution regimes for financial institutions*, and will work alongside the following elements: (Systemically important banks will face a higher capital requirement as determined by the Superintendent of Financial Institutions.) The government proposes to implement a "bail-in" regime for systemically important banks. This regime will be designed to ensure that in the unlikely event that a systemically important bank depletes its capital, the bank can be recapitalized and returned to viability through the very rapid conversion of certain bank liabilities into regulatory capital. This will reduce risk for taxpayers.

The government will consult the stakeholders on how best to implement a "bail-in" regime in Canada. Implementation guidelines will allow for a smooth transition for affected institutions, investors and other market participants. (Systemically important banks will continue to be subject to existing risk management requirements, including enhanced supervision and resolution plans.)

This risk management framework will limit the unfair advantage that could be gained by Canada's systemically important banks through the mistaken belief by investors and other market participants that these institutions are "too big to fail."

Here is my analysis of this "intention":

1. The SIBs are all six large Canadian chartered banks. Since the Mulroney government removed all reserve requirements 1990, the banks can create as much money as they choose. They can fund the sale of Conrad Black's empire to Izzy Asper's empire, Galen Weston's acquisition of Selfridges, participate in the ENRON fraud, the Asset-Backed Commercial Paper fiasco, the taxpayer funded residential mortgage insurance payout to AIG, GE, Wells Fargo, et al, and can certainly be a part of the global multi-trillion dollar derivative game.

2. When "bets are lost" in the latter game, the counterparty collects (just as Goldman Sachs, UBS, Deutschbank collected on the $500 Billion bet with AIG in 2008). Instead of getting destroyed, the largest insurance company that had invented credit default swaps, accepted a "bail-out" of $181 billion from US taxpayers.

3. Still looking South, I notice that the TBTFs (too big to fail banks) have some 70% of depositor funds (unsecured assets of the bank) and that two of the TBTFs – JPMorgan and Citigroup – have derivative "bets" totaling $75 and $77 *trillion*.

Taxpayers and their Washington representatives (?) have soured on the "bail-out" response. But the "bail-in" response is at the ready.

The Really Big Takeover can happen some weekend.

4. Lastly, for a Minister of Finance to not understand this situation and to suppose that depositors are not taxpayers, stretches all credulity.

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Our Comment. If you sincerely believe that social trusts can be put together as a clap board version of social lies, this may be a fit home for you. For society at large it can only spell disaster. *W.K.*

The recent surge in domestic oil and gas production marks "the start of a new era of cheap energy," he said, while less expensive online education programs could open the door to millions of people who have been priced out of more traditional academics.

At the same time, Mr. Cowen said, he now expects subtler improvements in the country's economic well-being that will not necessarily be reflected in statistics like gross domestic product, but will be significant nonetheless.

For example, slower growth in the cost of health care will be a boon for the government and businesses, but will actually subtract from reported economic activity. "It's like the music industry," he said. "Revenues are lower at record companies but the experience for listeners is better."

Martin Neil Baily, a senior fellow at the Brookings Institution and a former chairman of the council of Economic Advisers under President Clinton, said he has always been skeptical of Professor Gordon's long-term view but has recently become more hopeful about the short-term as well.

"I don't buy the historical wave theory," he said. "He's right that there are headwinds like slowing population growth but the tech revolution is still very much happening."

In terms of the immediate future, "I thought there was a distinct possibility that spending cuts and tax increases might stall the economy," he said. "I'm more optimistic now because we seem to be weathering it. There is a sense that we are going to get through this."

The current debate has turned out to be one of the most important ones in years among economists, who half-jokingly refer to their field as the dismal science. Some well-known experts challenge the new optimists. J. Bradford DeLong, an economics professor at University of California at Berkeley, sees few signs of a rebound, adding that Washington's austerity policies only "dig the hole we are in deeper." The percentage of workers in the labor force remains at lows not seen for a quarter-century.

"The great stagnation will end for a lot of people but not everyone," Mr. Cowen said. "I think there will be great breakthroughs but the distribution of those gains will go to owners of capital and intellectual property."

How big will these breakthroughs really be? That issue is key for Professor Gordon of Northwestern, arguably the most influential pessimist among academic economists today.

While computers and the Internet hold revolutionary possibilities, he said, they will not affect living standards or productivity the way the innovations of the last 150 years did, citing developments like railroads, electrification, indoor plumbing and the like.

"Electronics has already had its revolution with the Internet, the personal computer and e-commerce," he said. "Advances in the future will doubtlessly be impressive, but the real impact of the electronic revolutions has already occurred."

Whether pessimists or optimists, economists do not have a great track record of predicting the future. Many feared the Great Depression might return after World War II ended, only to see the economy boom in the post war era. Similarly, few foresaw the financial crisis of 2008 or the depth of the most recent recession.

Mr. Bernanke said that the near-term outlook remains murky but nonetheless put himself firmly in the optimists' camp in a commencement speech last month at Bard College at Simon's Rock in Massachusetts.

Acknowledging Mr. Gordon's point that living standards have not advanced since the 1960s the way they did in the previous 50-year period, he nevertheless echoed Mr. Cowen's newfound optimism about innovation.

"Both humanity's capacity to innovate and the incentives to innovate," he said, "are greater today than at any other time in history."

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Our Comment. What most of the cited commentators overlook is at rock bottom that society is meeting the survival interest of the folks who contribute to it – and most definitely not forgetting society's ultimate consumers. Forget that and the result – guaranteed – is endless, literally bloody, troubles. *W.K.*

Fast Food, Low Pay

By Mark Bittman, The New York Times, July 26, 2013

Last November, following the Black Friday protests by Wal-Mart employees, 200 workers at 30 New York fast-food restaurants walked off their jobs.

Not much happened immediately. There was press and vocal support from organized labor and the nascent food movement. But the strike didn't spread like wildfire.

Something else didn't happen, however: no one lost his job. And that was a huge deal.

As far as I can determine, only one worker was permanently terminated as a result of the many actions that have followed nationwide. Usually, the striking fast-food workers are escorted back to work by co-workers, clergy, union leaders and even elected officials, who together insist that there be no retribution. That's worked.

And so a rapidly increasing number of food industry and other retail workers are now fighting for basic rights: halfway decent pay, and a real work schedule, the right to organize, health care, paid sick days, vacations and respect. Next week, organizers say, we'll see a walkout of thousands of workers at hundreds of stores in at least seven cities, including New York and Chicago.

Something is happening here, though exactly what isn't quite clear. Fast food was never a priority of organized labor – it's difficult to imagine a traditional union of four million fast-food workers in something like 299,000 locations – but dozens of organizations are now involved, including, to its credit, the Service Employees International Union, which is providing financing and counsel. The upshot: Workers with nothing to lose are demanding a living wage of $15 an hour, and gaining strength and confidence.

They don't have much else. Those making minimum wage ($7.25) and just above have less buying power than their peers did in the mid-50s. Even business leaders are beginning to recognize that forcing workers onto food stamps is no way to sustain an economy – or a society. The chief executive of Costco, Craig Jelinek, for example, has endorsed President Obama's efforts to raise the minimum page.

The movement found an unwitting ally when McDonald's offered its workers a sample personal budget that included such laughable features as the need for a second job and budget lines for "Heating" (zero) and "Health Insurance" ($20). Per month. (The company, which is worth $100 billion, give or take a few bucks, now says that heat costs $50 a month. But only if you speak English; the Spanish language site budgets heat at $30.) In the old days you could say: "So what? Those workers are all teenagers.

Continued on page 17

True or Faked, Dirt on Chinese Fuels Blackmail

By Dan Levin and Amy Qin, The New York Times, June 18, 2013

Shuangfeng, China – The photograph usually arrives as an e-mail attachment or the old-fashioned way, in an envelope with no return address.

It is rarely a pretty picture.

Often the image captures a well-fed, middle-aged bureaucrat engaged in a sordid encounter with a woman who is not his wife. Or it could be a fully clothed official but one wearing an expensive timepiece that his government salary could never afford.

Then comes the demand: Pay up, or become the next online viral sensation.

A recent spate of Chinese officials have found themselves ensnared by extortion schemes that leverage the public's mounting disgust for wayward behavior. But even those who have resisted wrongdoing are not immune. Aided by computer software, blackmailers sometimes copy and paste their quarry's likeness into not-safe-for-work images that are synonymous with excesses of power.

The extortion boom comes at a time when many Communist Party members are begrudgingly enduring a government austerity campaign, pushed by President Xi Jinping himself, that has denied them the expensive, taxpayer-financed banquets and chauffeured sedans once considered the birthright of Chinese officialdom. More than 2,000 officials have been investigated and punished for violations from the campaign's launch at the end of 2012 through the end of April, according to the Central Commission for Discipline Inspection, China's top anticorruption agency.

Now, in addition to looking over their shoulders for anti-graft inspectors, civil servants must contend with blackmailers armed with honey traps, video cameras or worse: Photoshop.

Here in Shuangfeng, a rural country in Hunan Province, the authorities have arrested dozens of blackmailers, some of whom have used officials' actual transgressions to demand payments and some of whom have simply used electronic manipulation to make misdeeds up.

"Being a government official is a really high-risk profession," said the deputy head of a provincial-level department in the central province of Shaanxi, who asked not to be identified to avoid scrutiny.

Paranoia is a way of life, the official said, and many colleagues live in dread that their faces, appearing in flagrante delicto, will surface online and doom their careers.

Those involved in the shadowy industry of forged photography, he said, range from brazen crime syndicates seeking easy money to individuals seeking advantageous business contracts, though power-hungry officials extorting political gain from comrades are also "pretty common."

"The scariest thing is that if you're accused, the government can't say anything," the official said. "No one really cares if it's true or false at the end of the day."

Such fears have been heightened by a string of high-profile blackmail cases.

The Zhengzhou Daily newspaper reported last month that police in Hebei Province broke up a crime ring of 80 fake journalists who made 1.1 million renminbi, or about $180,000, over the past five years threatening officials and companies with publishing negative news.

In April, three former officials in China's central Hunan Province were indicted after they were caught attaching a bug and hidden camera to a water cooler in the office of the local party chief, Hu Jiawu. According to prosecutors, the three recorded Mr. Hu "violating party discipline" – usually a euphemism for bribery – and then threatened to expose him unless they were promoted. Rather than oblige, Mr. Hu reported them. He remains in his post.

The government of Shuangfeng has gone on the offensive against the blackmail scourge. For years, nobody seemed to mind the telephone fraudsters who gave the region a bad name. That is, until 2011, when local con artists upgraded their game with Photoshop and started targeting officialdom.

In March, the local authorities began posting billboards and banners that framed the crackdown with language traditionally employed for family planning campaigns and exhortations to venerate the Communist Party.

"The whole society must take action! Let's engage a massive people's war against blackmail crimes using Photoshopped obscene pictures," they blared.

The propaganda juggernaut emerged as the Shuangfeng police announced that they had arrested 37 people in connection with 127 extortion cases in which $7.3 million was sought. In a meeting to plan the offensive, the local party secretary vowed "to fight to win or die," according to the government's Web site.

Even if the sloganeering has provided plenty of fodder for satirists online, residents acknowledged that the crackdown had been successful. Still, few think it will completely eradicate an industry they say has paid for many of the newly constructed three-story homes that dot the countryside here. "It's called a 'people's war,' but why would ordinary people help the government?" said a shopkeeper, who estimated that nearly half the villagers were involved in fraud and extortion schemes. "Government officials are known for being obsessed with gourmet cuisine, sex and money," he added. "It's a very lucrative industry."

Official extortion burst into public view last November, when a muckraking Chinese journalist posted video stills into the Web that depicted Lei Zhengfu, a 54-year-old party secretary from the southwestern municipality of Chongqing, having sex with an 18-year-old woman.

She later told investigators that a local property developer had paid her $48 to secretly record their intimate liaison. The developer then attempted to use the footage to blackmail Mr. Lei into handing over building contracts.

The ensuing scandal felled at least 10 officials, including Mr. Lei, who is awaiting trial on corruption charges.

"Lewd photos' extortion has become the 'soft rib' of officials," read the headline of an official party editorial published online in the aftermath of the Chongqing affair.

According to Zhu Ruifeng, the journalist who first published the images, the extortion racket plaguing Chinese officials has been made possible by the proliferation of social media, which gave anticorruption advocates and their shadier entrepreneurial counterparts the ideal forum for exposing public servants' moral failings.

Mr. Zhu has little sympathy for those caught up in the free-for-all. "Why would they become targets of extortion if their hands are clean?" he said, adding a colorful Chinese idiom for effect. "There's a reason flies swarm over rotten eggs."

He and others say that would-be targets have changed the way they pursue their leisure activities. Bureaucrats have begun personally booking hotel rooms for their lunchtime trysts and searching their female companions' purses for recording devices before disrobing. "Officials are now getting more and more cautious," he said.

A midlevel city official in Xi'an, home of the famed terra cotta warriors, confided recently that his own newfound vigilance was spurred by the appearance of an incriminating photo that showed him wearing a luxury watch he seldom displayed in public.

Flustered by the accompanying demand for hush money, the official said he quietly approached a trusted colleague, who responded with shock that this was his first encounter with blackmail. "You only just received an extortion letter?" the man asked.

The official asked to remain anonymous lest his confession bring unwanted attention.

In the end, the official said he decided to ignore the blackmailer's demand, but he became increasingly careful about showing off his wealth and connections.

The watch in question is now safely hidden away. Even his relatives have come to taste the bitter fruit of self-denial. As his son prepared to get married recently, the official decided a lavish wedding ceremony with a lengthy guest list carried excessive risk. "It would have been too public," he said.

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Our Comment. When public virtue reduces to vice so massively that it enforces public honoring, society becomes victimized to the point where the very arithmetic tables become agents of anti-social fiction. Sheep are treated better when driven to the slaughter house. *W.K.*

Fast Food *from page 15*

They live at home." But the median age of today's fast-food worker is over 29, and many are trying to support families. One estimate claims that a family of four needs nearly $90,000 a year to get by in the nation's capital. That's six minimum wage jobs. Explain to me, please how you can be pro-family and anti-living-wages simultaneously? (Many Republicans in Congress seem to manage.)

We can afford to pay these workers: a petition titled "Economists in Support of a $10.50 US Minimum Wage" estimates that McDonald's could recoup half the cost of such an increase simply by hiking the price of a Big Mac from $4 to $4.05. One item: 1 percent.

So the only reason this kind of outrage continues is that many ultra-rich are denying the needs and suppressing the rights of our lowest-paid workers. These people face huge odds, but equal challenges were overcome in both the 1930s and the 1960s by bold and sometimes "crazy" actions. There was mild government support then, and that's weaker now; but perhaps midterm elections will change that.

The recession killed 60 percent of $15- to $20-an-hour jobs, which should be the lowest-paying ones. Around 20 percent have returned, but he rest are being replaced by those paying less than $13 an hour. Thus median income for working-age households fell more than 10 percent from 2000 to 2010.

A vast majority of Americans are much closer in income to McDonald's workers than to corporate CEOs. Yet we tolerate the fact that one in seven of our fellow Americans live in poverty, with half of those people working tough jobs. Do we want to be part of that? Surely, better scenarios exist. And victory for the lowest-wage workers will have a positive impact on wages for everyone.

Six elements are effected by the way food is produced: taste, nutrition and price; and the impact on the environment, animals and labor. We can argue about taste, but it's clear that our production system – especially in the fast-food world – is flunking all the others. And if you think food is "cheap," talk to the people working in the fields, factories and stores who can't afford it. Remember: no food is produced without labor.

Well-intentioned people often ask me what they can do to help improve our food system. Here's an easy one: When you see that picket line next week, don't cross it. In fact, join it.

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Our Comment. It should be clear that the pricing that should, but doesn't, count in the official reckonings is the purest bogus, that throws the fictitiously priced sewage systems. Public water systems likewise are written off in itchy-fingered morality. *W.K.*

The Secretive World of Printing Money

By Neil Macdonald, Senior Washington Correspondent, CBC News. Posted May 1, 2013. Part 1 appeared in the May issue of ER*; Part 2 in the June issue.*

Consider this: as America agonizes and argues over the pain of government cuts totalling about $85 billion next year, the US Federal Reserve is printing that much every month.

Its current balance sheet – the amount of money it has created, the bulk of it in the past five years – stands at $3.2 trillion, about twice Canada's entire annual economic output.

The European Central Bank's balance sheet is even higher at $3.45 trillion, and others, like Japan, are racing to catch up.

The plain fact is that these central bankers, Canada's Mark Carney among them, are executing what is perhaps the most profoundly important public policy of our time – an unprecedented printing of money and lowering of interest rates – with little in the way of public debate.

Such debate that is taking place is at rarefied levels among macroeconomists and other academics, or in the feverish blogs of the far right, whose members tend to see government conspiracy in just about everything.

But at least they're paying attention. Much of the mainstream media, fixated as it is on political horse races, is largely ignoring what's happening. There are honourable exceptions – economics specialists in certain newspapers and business-focused cable channels – but they are few.

The general public mostly hasn't a clue. Neither do many elected politicians, judging by some of the things they say publicly about the subject.

Hiding the Bad News

What these bankers do with this new money they print is buy government debt, or shore up failing banks or teetering national economies or industries like housing or insurance, part of the policy they call quantitative easing.

They say, and many respectable experts support them, that quantitative easing has saved entire economies from imploding.

They also say – high priest-like – that they must keep the details of their discussions secret because their words could be misinterpreted, and entire markets could move on a misunderstanding.

And they stress they are operating entirely within the mandates given them by elected governments.

That's as may be.

It's also true the central bankers did not ask for the immense power they now exercise.

It was thrust upon them because the private sector made enormous, stupid, ruinous blunders, and because elected politicians were too terrified to make all the deeply unpopular decisions, like whether to let more banks fail, that had to be made when the financial meltdown started feeding on itself.

Politicians, given the chance, kick the can down the road; central bankers act.

But because of their mandate to maintain economic stability, they like to hide the bad news, or obscure it with vague euphemisms.

The transcripts of the US Federal Reserve meetings make fascinating reading, even though they're only published five years after the decisions are made.

But the tone is a bit patronizing. Transparency and informing the public is clearly not high on the governors' agenda. They have drawn what one British financial regulator called a "veil of ignorance" around the subject of money printing.

"They see something coming, they may be right, they may be wrong. But they are bound not to tell the folks what they feel and see for fear that it will upset the system," says William Greider, an author and keen student of the US Federal Reserve.

In Canada, Britain and Europe, central banks never release transcripts of internal discussions.

But while economists are divided on the wisdom of all this money printing, the central bankers aren't: They've marched together, to the same tune, since 2008, making a giant collective bet.

Don't Tell the Punters

Not since early last century, when the central bankers of Great Britain, Germany, France and Europe acted in concert to try to remediate the market crash of 1929, has such a radical policy been implemented on such a global basis.

Of course, those central bankers of yore did the exact opposite of quantitative easing. They actually tightened the money supply, and are generally blamed for having created the Great Depression.

That bit of history goes a long way to explain why today's central bankers are running the printing presses almost nonstop.

But there are huge implications for everyone in what's happening.

Some economists warn it will lead to inflation, or hyperinflation. So far, it hasn't because consumers, investors, and businesses, still nervous and wary, have sat on what cash they have, rather than embark on the sort of spending sprees the central banks are now trying to encourage.

But certainly all this QE has distorted asset prices, and pushed some stock markets to all-time highs.

It has also fuelled heavy borrowing and real estate bubbles in parts of the world. And it has punished people with savings, older people especially, by artificially depressing interest rates and the return on their money.

Should the money printing continue?

In the US, the far right sees the practice as a government conspiracy to destroy the money system.

Some days it feels like almost every second advertisement on Fox News these past few years has been for gold, supposedly the eternal hedge. Some crackpots are even planting survival gardens in anticipation of systemic failure.

The political left supports even more money printing, along the lines that Japan has recently embarked upon (a doubling over the next two years).

Among the suggestions: Lend directly to companies that need credit. Send free money to every household. Do whatever is needed to kick-start growth.

The fact is, it's impossible to know where all this is going, or whether the central banks, having addicted governments and consumers to cheap money, can close the money taps without enormous disruption to the system.

But it's something that screams for public discussion.

"It may be time for modern citizens to get educated about their own capitalism," says Greider, who says there is nothing democratically healthy about the bankers' opaque discussions and decisions on a scale like this.

Lord Adair Turner, the outgoing chairman of Britain's now-defunct banking regulator (the Financial Services Authority), summed up the bankers' attitude in February in a speech at London's City University. (It was there he spoke of "the veil of ignorance" in which bankers like to shroud their handiwork.)

Considered a front-runner last year for the Bank of England's top job (the one that went to Mark Carney), Turner suggested that the times are so dire that the central bank should consider simply printing every pound the British government needed to borrow, effectively monetizing its deficits, a practice, he concedes, that is generally considered taboo.

The problem in doing that, said Turner, is telling the hoi-polloi.

"Once we tell the populace and the popular press and the backbenchers of Parliament that this is possible, they'll want to do it not only in the one year out of 100 when it's appropriate, and not only in a reasonable amount, but all the time and in excessive amounts to try and win the next election."

Turner is right, to an extent. Politicians can certainly be pusillanimous fools, and voters uninformed. It would be nice if they weren't, but it is ultimately their right.

Still, unelected officials that operate at the behest of governments have no business cloaking such profound decisions. Few topics deserve more attention.

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In Turnabout, Cybersecurity Stings Expert

By David E. Sanger and Nicole Perlroth, The New York Times, June 16, 2013

Washington – When the United Arab Emirates wanted to create its own version of the National Security Agency, it turned to Booz Allen Hamilton to replicate the world's largest and most powerful spy agency in the sands of Abu Dhabi.

It was a natural choice: The chief architect of Booz Allen's cyberstrategy is Mike McConnell, who once led the NSA and pushed the United States into a new era of big data espionage. It was Mr. McConnell who won the blessing of the American intelligence agencies to bolster the Persian Gulf sheikdom, which helps track the Iranians.

"They are teaching everything," one Arab official familiar with the effort said. "Data mining, Web surveillance, all sorts of digital intelligence collection."

Yet as Booz Allen profits handsomely from its worldwide expansion, Mr. McConnell and other executives of the government contractor – which sells itself as the gold standard in protecting classified computer systems and boasts that half its 25,000 employees have Top Secret clearances – have a lot of questions to answer.

Among the questions: Why did Booz Allen assign a 29-year-old with scant experience to a sensitive NSA site in Hawaii, where he was left loosely supervised as he downloaded highly classified documents about the government's monitoring of Internet and telephone communications, apparently loading them onto a portable memory stick barred by the agency?

The results could be disastrous for a company that until a week ago had one of the best business plans in Washington, with more than half its $5.8 billion in annual revenue coming from the military and the intelligence agencies. Last week, the chairwoman of the Senate Intelligence Committee, Dianne Feinstein, whom Mr. McConnell regularly briefed when he was in government, suggested for the first time that companies like Booz Allen should lose their broad access to the most sensitive intelligence secrets.

"We will certainly have legislation which will limit or prevent contractors from handling highly classified and technical data," said Ms. Feinstein, a California Democrat. Senior White House officials said they agreed.

Yet cutting contractors out of classified work is a lot harder in practice than in theory. Booz Allen is one of many companies that make up the digital spine of the intelligence world, designing the software and hardware systems on which the NSA and other military and intelligence agencies depend. Mr. McConnell speaks often about the need for the private sector to jolt the government out of its attachment to existing systems, noting for example, that the Air Force fought the concept of drones for years.

Removing contractors from the classified world would be a wrenching change: Of the 1.4 million people with Top Secret clearances, more than a third are private contractors. (The background checks for those clearances are usually done by other contractors.)

Mr. McConnell himself has been among the most vocal in warning about the risks to contractors. "The defense industrial base needs to address security," he said in an interview with *The New York Times* last year, months before Booz Allen hired Edward J. Snowden, its young systems administrator who has admitted to leaking documents describing secret NSA programs. "It should be a condition for contracts. You cannot be competitive in the cyber era if you don't have a higher level of security."

Booz Allen is saying little about Mr. Snowden's actions or the questions they have raised about its practices. Mr. McConnell, once among the most accessible intelligence officials in Washington, declined to be interviewed for this article.

"This has to hurt Mike's relationship with the NSA," said a business associate of Mr. McConnell's who requested anonymity. "He helped set up those contracts and is heavily engaged there."

Indeed, few top officials in the intelligence world have become greater authorities on cyber-conflict than the 69-year-old Mr. McConnell, who walks with a stoop from a bad back and speaks with the soft accent of his upbringing on Greenville, SC. He began his career as a Navy intelligence officer on a small boat in the back waters of the Mekong Delta during the Vietnam War. Years later he helped the American intelligence apparatus make the leap from an analog world of electronic eavesdropping to the new age of cyber-weaponry.

President Bill Clinton relied on Mr. McConnell as director of the NSA, a post he held from 1992 to 1996. He then moved to Booz Allen as a senior vice president, building its first cyber-units. But with the intelligence community in disarray after its failure to prevent the terrorist attacks of Sept. 11, 2001, the fiasco of nonexistent weapons of mass destruction in Iraq and the toll of constant reorganization, President George W. Bush asked him to be second director of national intelligence from 2007 to 2009.

That was when he made his biggest mark, forcing a reluctant bureaucracy to invest heavily in cyber-capability and overseeing "Olympic Games," the development of America's first truly sophisticated cyber-weapon, which was used against Iran's nuclear enrichment program. When Mr. Bush needed someone to bring President-elect Barack Obama up to speed on every major intelligence program he was about to inherit, including drones and defenses against electronic intrusions from China, he handed the task to Mr. McConnell.

But Mr. Obama was not interested in keeping the previous team, and Mr. McConnell returned to Bozz Allen in 2009. He earned more than $4.1 million his first year back, and $2.3 million last year. He is now vice chairman, and the company describes him as the leader of its "rapidly expanding cyber-business."

In Washington he is often Booz Allen's public face, because of his ties to the intelligence agencies and his extensive and loyal network of federal intelligence officials who once worked with him.

Two months ago, the company announced the creation of a Strategic Innovation Group, staffed by 1,500 employees who are pursuing, among other projects, one of Mr. McConnell's favorites: the development of "predictive" intelligence tools that is clients can use to scour the Web for anomalies in behavior and warn of terror or cyber-attacks. He has also hired a senior counterterrorism official to market products in the Middle East. This year, the company began working on a $5.6 billion, five-year intelligence analysis program for the Defense Intelligence Agency.

The company's profits are up almost eightfold since it went public in late 2010. It's majority shareholder is the Carlyle Group, which matches private equity with a lot of Washington power, and its executives, chief among them Mr. McConnell, drum up business by warning clients about the potential effects of cyber-weapons.

"The digital capabilities are a little bit like WMDs" Mr. McConnell said in the interview last year. The good news, he said, is that countries like China and Russia recognize limits in using those weapons, and terror groups have been slow to master the technology. "The people that would do us harm aren't yet in possession of them," he said.

As director of national intelligence, Mr. McConnell kept a giant world map propped up in front of his desk. Countries were sized by internet traffic, and the United States ballooned bigger than all others – a fact that he told a visitor was at once "a huge intelligence advantage and a huge vulnerability."

The advantage was that the United States' role as the world's biggest Internet switching center gave it an opportunity to sort through the vast troves of meta-data – including phone records, Internet activity and banking transactions ' enabling analysts to search for anomalies and look for attacks in the making. But he chafed at the legislative restrictions that slowed the process.

So in 2007, as the intelligence chief, he lobbied Congress for revisions to the *Foreign Intelligence Surveillance Act* to eliminate some of the most burdensome rules on the NSA, including that it obtain a warrant when spying on two foreigners abroad simply because they were using a wired connection that flowed through a computer server or switch inside the United States.

It made no sense in the modern age, he argued. "Now if it were wireless, we would not be required to get a warrant," he told the *El Paso Times* in August of that year.

The resulting changes in both law and legal interpretations led to many of the steps – including the government's collection of logs of telephone calls made in and out of the country – that have been debated since Mr. Snowden began revealing the extent of such programs. Then Mr. McConnell put them into effect.

In 2007 "Mike came back into government with a 100-day plan and a 500-day plan for the intelligence community," said Stephen J. Hadley, Mr. Bush's national security adviser. "He brought a real sense of the private sector to the intelligence world, and it needed it."

The new technologies created a flood of new work for the intelligence agencies – and huge opportunities for companies like Booz Allen. It hired thousands of young analysts like Mr. Snowden. The intelligence agencies snapped them up, assigning them to sensitive, understaffed locales, including the Hawaii listening station where Mr. Snowden downloaded his materials.

Only last month, the Navy awarded Booz Allen, among others, the first contracts in a billion-dollar project to help with "a new generation of intelligence, surveillance and combat operations."

The new push is to take those skills to American allies, especially at a time of reduced spending in Washington. So while the contract with the United Arab Emirates is small, it may be a model for other countries that see cyber-defense – and perhaps offense – as their future. The company reported net income of $219 million in the fiscal year that ended on March 31. That was up from net income of $25 million in 2010, shortly after Mr. McConnell returned to the company.

But the legal warnings at the end of its financial report offered a caution that the company could be hurt by "any issue that compromises our relationships with the US Government or damages our professional reputation."

By Friday, shares of Booz Allen had slid almost 7 percent since the revelations. And a new job posting appeared on its Web site for a systems administrator in Hawaii, "secret clearance required."

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Our Comment. Doesn't all this end up concluding "absolutely secret" unless you pay through the nose for it? What a way of getting the world into Paradise! *W.K.*