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How to Make Sense When Matters Get Stood on Their Head

In *The New York Times* (07/06, "In State Parks, the Sharpest Ax is the Budget's" by William Yardley we are informed: "Deception Pass State Park, Wash. — As the summer season gets under way, budget-strapped state parks across the country are pursuing creative and sometimes controversial solutions simply to stay open. Many are imposing steep new fees, leaning ever more heavily on volunteers and, in one ominous effort to raise money, even pushing to drill for oil and gas beneath hiking trails and picnic pavilions.

"The vast majority of states have cut park financing, often significantly, since the economic downturn took full hold in 2008, and some were cutting long before that. Some parks are closing altogether; Gov. Jerry Brown of California in recent days announced plans to permanently close 70 of the state's 278 parks this fall. Even where parks remain open, the compromises they make to do so are often uncomfortable.

"There have been lines crossed that were unthinkable a couple of years ago,' said Richard Dolesh, chief of public policy for the National Recreation and Park Association.

"Here in Washington, one of only a handful of states has not charged entrance fees to state parks, and the revenue stream is about to change. Beginning July 1, the parks will no longer receive state money for their operating budgets. Instead, they will rely directly on new entrance fees — \$30 for an annual pass, \$10 for one day. It is far from clear that the new plan will compensate for the \$70 million in state money that parks are losing each year.

"We're totally free of the tax system,' said Jack Hartt, the manager here at Deception Pass State Park. 'If you support the park

system, you'll buy a pass. If not, you won't.'

"Customers,' Mr. Hartt said, 'is the new buzzword.'

"One of the most inventive efforts is in Ohio, where the Legislature is set to approve a bill that would allow drilling for oil and gas in the shale beneath some state parks. Lawmakers say parks would directly benefit from revenues. The number of full-time Ohio parks employees has declined by nearly 40 percent over the last decade, and the state says it faces \$1 billion in delayed repairs and maintenance.

"I don't want to see the parks become refineries or anything like that,' said Paul Wolf, president of Friends for Preservation of Ohio State Parks. 'But it's a rough decision to make. If parks deteriorate, what good is keeping drilling out of the parks?'

"When a State House Committee passed the measure last month, Jack Shaner of the Ohio Environmental Council said in a statement: 'Under the park rules, it is unlawful for a camper to tack a clothesline to a tree. But under the bill, it would be OK for a driller to chop his way through the forest to set up a drilling rig. This puts a whole new spin on 'getting away from it all.'

"The resignation some feel about the Ohio plan is rooted in a broader sense nationwide that the status of parks has permanently changed, that parks officials cannot passively presume that lawmakers, Democrat or Republican, will rescue them. Yet some officials also worry that rising fees, rising gas prices and a need to 'market' parks to people who will spend money will keep those with lower incomes from enjoying public lands.

"We're catering more to Middle America, to middle-class recreationists, and there's

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Making Sense from page 1
nothing wrong with that,” said Richard Just,
the chief planner at the Idaho Department
of Parks and Recreation and immediate past
president of National Association of Recreation
Resource Planners.

“But, Mr. Just said, a basic pact between
parks and the public – the idea that parks
will be easily accessible and affordable, and
safeguarded by the state – is at risk. He
recalled a new board member of the association
asking, ‘In what way are they state parks
anymore?’

“Last year, Gov. C.L. Otter of Idaho
proposed eliminating the parks department
altogether. That plan died amid resistance
and concerns over a loss in federal matching
funds. In California, federal rules also
complicate Governor Brown’s plan. But in
Idaho, parks officials are not relaxing. Mr.
Just pointed to Farragut State Park near Coeur
d’Alene, Idaho, where he said the state
makes money from entrance fees as well as
by selling discs to users of its Wreckreator
Frisbee golf course. The idea is to do what
the views of the northern Rockies apparently
cannot do alone: attract a variety of
park users and their money.

“We’ve put all of our eggs in the market-
ing basket,’ Mr. Just said. ‘We’re paying a lot
more attention to – and I hate this phrase –
running them like a business, because
they’re not a business.’

“Efforts at streamlining and privatizing
are everywhere. Colorado just approved
merging its parks department with the
Division of Wildlife. Arizona and Florida are
considering privatizing park operations. Local
governments have taken over operations at
certain state parks. Community groups
mow grass and plow snow. One, in Aurora,
NY, is paying for a portable toilet for Knox
Farm State Park.

“In Georgia, parks financing has been
cut by almost 50 percent since 2008,’ said
Becky Kelley, the parks director there. Georgia
parks are in the middle of what Ms.
Kelley called a ‘repositioning,’ expected for
completion in 2015, that is intended to
make them financially independent by raising
revenues from sources like parking fees and
overnight Father’s Day packages at golf
courses in state parks.

“We were told by the General Assembly
to ‘pursue a strategy of self-sufficiency,’”
Ms. Kelley said. ‘We realized we could not
hunker down and wait it out. This was a
different day.’

“As fees rise, some services are declining.
Maintenance and repair backlogs grow

while staff shrinks. ‘They just redid the
bathrooms, but now they’re not even open,’
said Margo Townsend, walking West Beach
at Deception Pass, which spans two islands
in Puget Sound.

“At nearby Rosario Beach, also in Deception
Pass, ‘We’ve got rangers with degrees
cleaning restrooms,’ said Sammye Kempbell,
a volunteer.

“Often the only park representatives at a
site, volunteers are growing accustomed to
authority. Ms. Kempbell applied for grant
money to buy the cart she uses to haul
educational materials out to teach children
by the tide pools. She also leads volunteer
training.

“Ms. Kempbell has been doing this work
for eight years and loves it. But at 68, she
said she would like to spend a little more
time enjoying parks and a little less time
saving them – not that she expects the need
to go away.

“A lot of us who do these things are
retirees,’ said Ms. Kempbell, hauling her
cart off the rocky beach as the tide rose and
an afternoon rain began.... ‘We need some
young blood.’”

However, underlying all this nonsense
about whether a teeming, ever more crowded
world, stifling under the clash between the
demands of a rapidly growing population
competing for breath with its ever more
highly-developed technology. As a result
we have no serious accountancy to warn us
what must be ever alert to survive: investment
in human capital is not an option but an
essential prepaid investment that governments
must make. That, in fact, was the most
significant lesson that came out of World
War II, that emerged out of the research
that arose from the work of hundreds of
economists that the United States government
dispatched to Japan and Germany to study
the war damage and foretell how long
Germany and Japan could once again before
the former great traders they had been.

Some sixteen years later, one of these,
Theodore Schultz of the University of
Chicago wrote an essay in which he explained
how wrong he and his colleagues had been.
For they had concentrated on the physical
destruction of the war and attributed scant
importance to the detail that the human
capital, to wit. the highly educated work
forces had come through the struggle almost
intact. The Germans, but above all the
Japanese, emerged from the struggle
virtually intact, and in a matter of decades
transformed their country from mainly a
producer of textiles that had imported the

raw materials for its industries, leaving scant net profits within the land. Systematically it shifted its industry to heavy engineering and retrained its population for such industries. As a result Japan moved to a leading position in automobile and other heavy engineering, in industrial growth and enrichment, which lasted until the Japanese banks – like so many others – succumbed to the lure of US real estate.

Schultz was praised, decorated and then completely forgotten except by COMER that had done some important original research along similar lines. These stemmed from a perception of mine that an increasing section of our investment stems not from the marketed economy, but from direct government investment in human capital which would have to include not only education, but investment in health, environment, adequate infrastructures for our proliferating mega-cities. Such human capital comes prepaid, and Theodore Schultz lost no time in identifying it as the most rewarding investment a government can make: the children of educated are more readily educated. Those of healthy parent tend to be healthier. Great Britain is still deriving income from one Billy Shakespeare, and Izzy Newton for the local schooling the obtained in their home towns.

These and other perceptions of the non-marketed crucial government investments are not even recognized to exist. One was the factor of “social revalorization” that assigns a higher value than the historical one to the effort of a given social class, e.g., of factory workers becoming literate in 19th-century Britain. But most important of all was the concept of social capital – that I termed the “social lien” – that recognized expenditures on education, and hence health, the environment, as an investment – prepaid – of the government and must not be seen as just spending. This essay, which examined the concept from a variety of angles, was purchased by the leading French economic journal at the time – the *Revue économique*.

It was most favorably reviewed twice in the economic journal of Cambridge University that particularly praised my title “social lien.” It received most favorable reviews in some eight journals specializing in economic theory. A review in a Toronto newspaper, produced a call and an invitation to come to Waterloo University, from John Hotson. COMER was born. Within a month or two François Perroux, the leading French economist of the day was brought to

Waterloo University to address a near-full auditorium.

That is the heritage that humanity must reclaim to save our social well-being. At the moment human capital, that would of course, include our parks, is treated as debt rather than as an investment. The notion of human capital has been suppressed. The fictitious “government debt” that results is used to justify fire-sales of public capital to “balance a budget” that is over-balanced. The fictitious debt of the government is used to justify liquidation sales of the choicest bits or government investments available. The Bank of Canada, nationalized in 1998, in a lucrative buy-out of the private shareholders who had held their share for

little more than three years.

The central bank is no longer used as finance aid to immigrants as it was with spectacularly positive results, but to slash the financing of human capital investment. This leads to the government selling downtown real estate that it owns to reduce its “debt” – actually to strip key capital investments for a song.

The current deepening economic trouble has surrendered control of government finances to well-connected speculators. At the end of the road embarked on, there is only ruin and disaster. It is high time that we reclaim our history and make use of laws that are still on our books.

William Krehm

The First 20 Years Set the Course for Life

A *Globe and Mail* editorial (06/09, “The first 20 years set the course for life”) informs us: “Investing in the health of children benefits society. A new study of 17,000 Canadians over 16 years show that children from families with lower educational and income levels are less healthy over time than their more affluent counterparts. By the age of 20, this trajectory is largely set. It is difficult to overcome the health effects of deficits experienced earlier in life. These deficits can include everything from poor-quality housing and a poor diet, to stressful life events and social isolation.

“Programs aimed at alleviating poverty among schoolchildren pay dividends to society; these should be continued and, where fiscally practicable, extended. Providing free hot lunches and snacks to schools in low-income neighbourhoods, vision and hearing screening, and funding for after-school arts and sports programs, all help students’ cognitive development and improve overall health.

“By international standards, Canadian adults and children are very healthy. But by the age of 20, there are discernible differences across social groups in health-related quality of life,” said Nancy Ross, a McGill professor and co-author of the study, published in the *Journal of Epidemiology and Community Health*.

“And yet early-intervention programs are often among the first to be cut in times of budget deficits. This is a false economy. It is hard to reverse the negative health impacts of poverty once a child is grown. And

universal health insurance and generous old age pensions do not prevent the accelerated decline in the health of poorer and less educated Canadians.

“There is room for innovative programs, and for more public-private partnerships. Food banks and community organizations could launch programs to feed children from poor neighbourhoods during the summer. Schools in wealthier neighbourhoods could fundraise for schools in areas where parents do not have time or resources to do so as effectively.

“Helping children overcome disadvantages of their birthright actually benefits all in the long run, through a decreased demand on the health-care system, and improved productivity and prosperity.”

Halleluia! Bless the *Globe and Mail* editorialist for opening what has been a bolted door for handling the problems currently engulfing the world. Let us follow up by pursuing the implications of the editorial further. Surely if educated children are so vital an asset, educated parents, and grandparents, and healthier ones must be equally so and that reveals the fact that government spending not only for health, adequate housing, the environment, and adequate infrastructures for our exploding cities are all ascending links in a greater relationship investment in “human capital” is the most rewarding investment that society can make.

Nor does it stop there. If we treat the “greatest investment a government can make” as debt, we have nothing that can be

mistaken for government accountancy even in the dark.

It is revealing that the *G&M* editorial should have appeared just a few days after a conference in Ottawa organized by the International Economic Policy Institute of Laurentian University, Sudbury, and the University of Ottawa should have reached the identical conclusion implied above, in a broader more embracing conclusion. And this at a time when the ever-shrinking availability of university positions has been exploited to discourage such unorthodox thinking.

Hence, it was an outstanding achievement of Professor Alain Parguez of the University of Franche Comté, Besançon, France, but also spends time teaching at Canadian universities. My links with Professor Parguez in fact reach back many decades to my having noted that not all rises in the price level can be attributed to an excess of demand over supply: an increasing portion of our rise in prices must be attributed to non-market factors. Above all to the growing investment in prepaid human capital directly by governments without ever having been marketed. My association with the French economic school of which Professor Parguez is a distinguished representative reaches back some forty years. I remember visiting the University of Besançon many decades ago to meet him.

Rather than a market debt as economists have been compelled to assume, it is not even marketed but invested directly by the government. A 41-page essay written by me on this key phenomenon of our times, had been sent to some 30 technical economic journals throughout the world and purchased by *Revue économique* in Paris almost by return mail and published in its May, 1971, issue. It was only later that I found out why. On its editorial board there was the leading French sociologist the day, and two statisticians who had tried in vain to find a link between rising market prices and the available supply-demand market relationships. My detailed study was reviewed not once by the Cambridge University economic journal most favourably, but twice. The reviewer was particularly taken by my title “the social lien” to describe one of the two non-market forces at work – the other was “social revalorization.”

I am enclosing the latest volume reporting on our experiences in pursuing this neglected but very crucial follow-up to your remarkable editorial.

William Krehm

Cooked Books Disguised as Virtue

The New York Times (8/06, “Fed wants Priority Put on Deficit” by Binyamin Appelreich) reports out of Washington: “The leaders of the Federal Reserve are talking like people ready to sit down and let others take the lead in addressing the nation’s economic problems.

“Monetary policy cannot be a ‘panacea,’ the Fed’s chairman, Ben S. Bernanke, told an audience of bankers Tuesday in Atlanta.

“He said that growth remained slow and uneven, but he made no mention of the possibility that the Fed would intervene, noting instead that ‘a healthy economic future’ required a plan to shrink the federal deficit.

“William C. Dudley, one of Mr. Bernanke’s top lieutenants, expanded on the same theme Tuesday night, saying that the government needed to balance its books, and that the nation needed to reduce its dependence on borrowing and consumption.

“These are fundamentally structural issues – not cyclical issues; they cannot be tackled primarily through monetary policy,” Mr. Dudley, the president of the Federal Reserve Bank of New York, said in a speech at a Midtown Manhattan hotel. “Instead, monetary policy is mainly a tool for stabilizing the macro-economy and keeping inflation expectations well anchored.”

“Both men emphasized that the Fed had played an important role in helping the economy to recover. And both defended the need for continuation of a series of extraordinary policies meant to encourage growth, including holding interest rates to near zero and maintaining a large portfolio of investments. But the speeches, together with remarks by other Fed officials, signaled that additional interventions were, for now, very unlikely.

“The Fed will conclude the planned purchase of \$600 billion in Treasury securities at the end of June.

“Investors ready to celebrate any sign that the Fed might pump more money into the economy sold equities as Mr. Bernanke spoke. The Standard & Poor’s 500-stock index ended down slightly after climbing almost 2 percent earlier in the day.

Mr. Bernanke’s speech followed related remarks by President Obama, who told reporters Tuesday that he was worried about the rate of growth, but saw no possibility of another recession.

“I am concerned about the fact that the

recovery that we’re on is not producing jobs as fast as I want it to happen,” Mr. Obama said. “This economy has moved in recent months like a car in heavy traffic, gaining and then slowing, faster again and then suddenly hitting the brakes.”

“Despite those fluctuations, Mr. Bernanke said Tuesday that he remained confident that the pace of growth was likely to increase during the second half of the year.

“He also said that he continued to see no evidence of broad and enduring inflation despite increases earlier this year in the price of oil and other commodities.

“Over all, the economic recovery appears to be continuing at a moderate pace, albeit at a rate that is both uneven across sectors and frustratingly slow from the perspective of millions of unemployed and underemployed workers,” Mr. Bernanke told the International Monetary Conference, a gathering of bank executives.”

Continued Dependence on Government Support

“Mr. Bernanke made clear that recent data had shaken his confidence in the strength of the recovery. Mr. Bernanke has said he wants to see evidence of strong and sustained hiring by private firms before deciding that the economy can withstand the loss of that support. On Tuesday, he said that ‘until we see a sustained period of stronger job creation, we cannot consider the recovery to be truly established.’

“The economy has expanded much more slowly this year than the Fed had predicted. Last month private employers added only 83,000 jobs increasing the average so far this year to about 180,000 jobs a month – barely enough to cut into the numbers of the jobless.

“Mr. Bernanke noted that after two years of economic recovery, the net decline in one important measure, aggregate hours worked, remained greater than the peak decline of that measure during the deep recession in 1981-2.

“The Fed has invested more than \$2 trillion in a range of unprecedented programs, first to restore the financial system and then to encourage economic expansion. Mr. Bernanke has argued that the policies achieved worthwhile but limited objectives. Internal and external critics, however, describe the results as lackluster and warn that the poli-

cies could make it more difficult for the Fed to control inflation.

“Those critics have taken a toll. So has internal debate about the efficacy of additional stimulus, which already seems to be yielding diminishing returns. So the Fed’s focus has turned to advocating for broader solutions to broader problems.

“Policy-makers urgently need to put the federal government’s finances on a sustainable trajectory,” Mr. Bernanke said. Such a plan should not impose large spending cuts immediately, he cautioned, but it could produce immediate benefits by leading to lower long-term interest rates and increased consumer and business confidence.”

All this sounded so reasonable. But in these excessively smooth assurances of reasonable conciliation, Bernanke and the Treasury spokesmen had wiped out everything learned during the Great Depression, under President F.D. Roosevelt, in Canada’s nationalization of the Bank of Canada. And the use of that nationalized bank not only to finance our part in World War II more shrewdly than the mighty US and Great Britain, whose central banks remained privately controlled until after World War II. Canada’s quite unique achievement almost every variety of social reformer played a key role, including Social Credit governments out West with more than a smudge of racial prejudice.

These various efforts allowed Canada to open wide its arms to millions of mostly penniless refugees from Europe. There were instances where American philanthropic institutions provided the funds but could not obtain the American visas for refugee with professions and arranged their welcoming reception in Canada instead.

Yet, while all this remains on the law books in Canada, in practice it has been forgotten. This was due largely to the regime of Brian Mulroney. It was a time when Washington and Wall Street were putting much eloquence and arm-twisting into the objective of a single currency for North America. Our Prime Minister of the day, Brian Mulroney, was prepared to anticipate Washington’s pleasures almost before they were uttered.

Thus when Washington, was peddling a single North American currency, Brian Mulroney eager to anticipate ever wish of our southern neighbor actually proposed reprivatizing the Bank of Canada, and declaring zero-inflation national goal. However, Brian Mulroney’s own financial caucus turned down his initiative remains stuck as a

draft proposal, to remind us that, as much as we cherish our Southern neighbour, we do insist on running our own show.

Convinced as we are that Washington’s success with its Latin American neighbours lies in curtailing its powers of intimidation, we have decided with true Canadian modesty to tell a story on ourselves.

“I quote from volume 5 of *Meltdown, Money Debt and the Wealth of Nations*, The John Hotson Memorial Series, page 33: “Sometime before the remote 1930s, a considerable immigration of Doukhobors, a religious sect from Russia (the name translates into ‘Spirit Wrestlers’) came to Canada. An extremist group amongst them opposed their children attending schools. When the government objected, the group took to stripping their clothes and demonstrating in the nude to make their point. Canada being

a strictly moral land by our own criteria, would have none of that.

“So our Royal Canadian Mounted Police – not on horse on these occasions – took to stripping their own clothes to better chase the offending Doukhobors. First their belts, their pistols, and then – allow me to skip further details – they ended up with the RCMP officers as naked as they had been born pursuing equally unclothed Dukes to arrest and charge them.

“Who was ahead in the race seemed long in doubt, but to observers observing one group of nude people chasing another, the moral issue was definitely blurred. My readers will grasp the relevance of my parable to our soft lumber folk, and Washington’s tanking popularity throughout Latin America.”

William Krehm

A Surprisingly Successful Conference at the University of Ottawa

It did not start out that way. Speaker after speaker, seemed more concerned with safeguarding their jobs in a universe where university positions had been thinning out. I suggested that this discipline was imposed by the official concern for balancing budgets where what had been recognized as the best investment – in human health, education, and hence the environment, and adequate infrastructure for our exploding cities – had been downgraded to simple “spending” that we could no longer afford. In short the perverted accountancy come into vogue was being used to intimidate university staffs, to swap what they had learned for what would assure their livelihood at the hands of what had taken over their universe. I expressed sympathy for their plight.

On the first day of the conference I pointed out that what I and my French colleagues, amongst whom the most illustrious was the late François Perroux, had concluded with me that human capital was the most rewarding investment a government could make. But the laws of accountancy had been stood on their head to confuse public investment with public debt, and in doing so were misrepresenting and exploiting the public interest. I made the point that the lack of available university positions that resulted, was being used to impose the view that investment in human capital was a debt rather

than an asset. From that there followed in close sequence, the sale of government assets – especially in downtown areas of cities exploding with redevelopment for a song to friendly speculators.

The point was powerfully taken up by COMER member Anne Emmet, once a primary school teacher in Baffinland, who had been left as the sole federal official in that Inuit area. With depth, first-hand knowledge of the issues involved, she helped turn around the direction of discussion. But then the task was dazzlingly completed by Alain Parguez of the University of Franche Comté, Besançon, France, who also teaches at the University of Ottawa. Parquez in a 40-minute closing address restored the view of investment in human capital, in education, and hence health, the environment, and adequate infrastructures for the rapid urbanization taking over throughout the world.

In my brief remarks on the first day of the conference I remarked that the conference had failed allowing the freedom of expression we had enjoyed the previous year. At the close of this conference I sought out the person in charge of the conference, to apologize for the change that had occurred. It had not only met last year’s great promise. It exceeded it.

William Krehm

Can We Afford to Forestall Starvation?

The New York Times (05/06, “A Warming Planet Struggles to Feed Itself” by Justin Gillis) leads us to the very heart of our society’s current quandary: “Ciudad Obregon, Mexico – The dun wheat field spreading out at Ravi P. Singh’s feet offered a possible clue to human destiny. Baked by a desert sun and deliberately starved of water, the plants were parched and nearly dead.

“Dr Singh, a wheat breeder, grabbed seed heads that should have been plump with the staff of life. His practiced fingers found empty husks.

“‘You’re not going to feed the people with that,’ he said.

“But then over in Plot 88, his eyes settled on a healthier plant, one that had managed to thrive in spite of the drought, producing plump kernels of wheat beards rustling in the wind.

“Hope in a stalk of grain: it is a hope the world needs these days, for the great agricultural system that feeds the human race is in trouble.

“The rapid growth in farm output that defined the late 20th century has slowed to the point of failing to keep up with the demand for food, driven by population increases and rising affluence in once-poor countries.

“Consumption of the four staples that supply most human calories – wheat, rice, corn and soybeans – has outstripped production for much of the past decade, drawing once-large stockpiles down to worrisome levels. The imbalance between supply and demand has resulted in two huge spikes in international grain prices since 2007, with some grains more than doubling in cost.

“Those price jumps, though felt only moderately in the West, have worsened hunger for tens of millions of poor people, destabilizing politics in scores of countries, from Mexico to Uzbekistan to Yemen. The Haitian government was ousted in 2008 amid food riots, and anger over high prices played a role in the recent Arab uprisings.

“Now, the latest scientific research suggests that a previously discounted factor is helping to destabilize the food system: climate change.

“Many of the failed harvests of the past decade were a consequence of weather disasters, like floods in the United States, drought in Australia and blistering heat waves in Europe and Russia. Scientists be-

lieve some, though not all, of those events were caused or worsened by human-induced global warming.

“Temperatures are rising rapidly during the growing season in some of the most important agricultural countries, and a paper published several weeks ago found that this had shaved several percentage points off potential yields, adding to the price gyrations.

“For nearly two decades, scientists had predicted that climate change would be relatively manageable for agriculture, suggesting that even under worst-case-assumptions, it would probably take until 2080 for food prices to double.

“In part, they were counting on a counterintuitive ace in the hole: that rising carbon dioxide levels, the primary contributor to global warming, would act as a powerful plant fertilizer and offset many of the ill effects of climate change.

“Until a few years ago, these assumptions went largely unchallenged. But lately, the destabilization of the food system and the soaring prices have rattled many leading scientists.

“‘The success of agriculture has been astounding,’ said Cynthia Rosenzweig, a researcher at NASA who helped pioneer the study of climate change and agriculture. ‘But I think there’s starting to be premonitions that it may not continue forever.’

“A scramble is on to figure out whether climate science has been too sanguine about the risks. Some researchers, analyzing computer forecasts used to advise governments on future crop prospects, are pointing out what they consider to be gaping holes. These include a failure to allow for the effects of extreme weather, like the floods and heat waves that are increasing as the earth warms.

“A rising unease about the future of the world’s food supply came through during interviews this year with more than 50 agricultural experts working in nine countries.

“These experts say that in coming decades, farmers need to withstand whatever climate shocks come their way while roughly doubling the amount of food they produce to meet rising demand. And they need to do it while reducing the considerable environmental damage caused by the business of agriculture.

“Agronomists emphasize that the situation is far from hopeless. Examples are

already available, from the deserts of Mexico to the rice paddies of India, to show that it may be possible to make agriculture more productive and more resilient in the face of climate change. Farmers have achieved huge gains in output in the past, and rising prices are a powerful incentive to do so again.

“But new crop varieties and new techniques are required, far beyond those available now, scientists said. Despite the urgent need, they added, promised financing has been slow to materialize, much of the necessary work has yet to begin and, once it does, it is likely to take decades to bear results.

“‘There’s just such a tremendous disconnect, with people not understanding the highly dangerous situation we are in,’ said Marianne Baenzinger, deputy chief of the International Maize and Wheat Improvement Center, a leading research institute in Mexico.

“A wheat physiologist at the center, Matthew Reynolds, fretted over the potential consequences of not attacking the problem vigorously.

“‘What a horrible world it will be if food really becomes short from one year to the next,’ he said. ‘What will that do to society?’”

The World Is Talking

“Sitting with a group of his fellow wheat farmers, Francisco Javier Ramos Bours voiced a suspicion. Water shortages had already arrived in recent years for growers in his region, the Yaqui Valley, which sits in the Sonoran Desert of northwestern Mexico. In his view, global climate change could well be responsible.

“‘All the world is talking about it,’ Mr. Ramos said as the other farmers nodded.

“Farmers everywhere face rising difficulties: water shortages as well as flash floods. Their crops are afflicted by emerging pests and diseases and by blasts of heat beyond anything they remember.

“In a recent interview on the far side of the world, in northeastern India, a rice farmer named Ram Khatri Yadav offered his own complaint about the changing climate. ‘It will not rain in the rainy season, but it will rain in the non-rainy season,’ he said. ‘The cold season is also shrinking.’

“Decades ago, the wheat farmers in the Yaqui Valley of Mexico were the vanguard of a broad development in agriculture called

the Green Revolution, which used improved crop varieties and more intensive farming methods to raise food production across much of the developing world.

“When Norman E. Borlaug, a young American agronomist, began working here in the 1940s under the sponsorship of the Rockefeller Foundation, the Yaqui Valley farmers embraced him. His successes as a breeder helped farmers raise Mexico’s wheat output sixfold.

“In the 1960s, Dr. Borlaug spread his approach to India and Pakistan, where mass starvation was feared. Output soared there, too. Other countries joined the Green Revolution, and food production outstripped population growth through the latter half of the 20th century. Dr. Borlaug became the only agronomist ever to win the Nobel Peace Prize, in 1970, for helping to ‘provide bread for a hungry world.’

“As he accepted the prize in Oslo, he issued a stern warning. ‘We may be at high tide now,’ he said, ‘but ebb tide could soon set in if we become complacent and relax our efforts.’

“As output rose, staple grains – which feed people directly or are used to produce meat, eggs, dairy products and farmed fish – became cheaper and cheaper. Poverty still prevented many people in poor countries from buying enough food, but over all, the percentage of hungry people in the world shrank.

“By the late 1980s, food production seemed under control. Governments and foundations began to cut back on agricultural research, or to redirect money into the problems created by intensive farming, like environmental damage. Over a 20-year period, Western aid for agricultural development in poor countries fell by almost half, with some of the world’s most important research centers suffering mass layoffs.

“Just as Dr. Borlaug had predicted, the consequences of this loss of focus began to show up in the world’s food system toward the end of the century. Output continued to rise, but because fewer innovations were reaching farmers, the growth rate slowed.

“That lull occurred just as food and feed demand was starting to take off, thanks in part to rising affluence across much of Asia. Millions of people added meat and dairy products to their diets, requiring considerable grain to produce. Other factors contributed to demand, including a policy of converting much of the American corn crop into ethanol.

“And erratic weather began eating into

yields. A 2003 heat wave in Europe that some researchers believe was worsened by human-induced global warming slashed agricultural output in some countries by as much as 30 percent. A long drought in Australia, also possibly linked to climate change, cut wheat and rice production.

“In 2007 and 2008, with grain stockpiles low, prices doubled and in some cases tripled. Whole countries began hoarding food, and panic buying ensued in some markets, notably for rice. Food riots broke out in more than 30 countries.

“Farmers responded to the high prices by planting as much as possible, and healthy harvests in 2008 and 2009 helped rebuild stocks, to a degree. That factor, plus the global recession, drove prices down in 2009. But by last year, more weather-related harvest failures sent them soaring again. This year, rice supplies are adequate, but with bad weather threatening the wheat and corn crops in some areas, markets remain jittery.

“Experts are starting to fear that the era of cheap food may be over. ‘Our mind-set was surpluses,’ said Dan Glickman, a former United States secretary of agriculture. ‘That has just changed overnight.’

“Forty years ago, a third of the population in the developing world was undernourished. By the tail end of the Green Revolution, in the mid-1990s, the share had fallen below 20 percent, and the absolute number of hungry people dipped below 800 million for the first time in modern history.

“But the recent price spikes have helped cause the largest increases in world hunger in decades. The Food and Agriculture Organization of the United Nations estimated the number of hungry people at 925 million last year, and the number is expected to be higher when a fresh estimate is completed this year. The World Bank says the figure could be as high as 940 million.

“Dr. Borlaug’s latest successor at the corn and wheat institute, Hans-Joachim Braun, recently outlined the challenges facing the world’s farmers. On top of the weather disasters, he said, booming cities are chewing up agricultural land and competing with farmers for water. In some of the world’s breadbaskets, farmers have achieved high output only by pumping groundwater much faster than nature can replenish it.

“‘This is in no way sustainable,’ Dr. Braun said.

“The farmers of the Yaqui Valley grow their wheat in a near-desert relying on irrigation. Their water comes by aqueduct from nearby mountains, but for parts of the past

decade, rainfall was below normal. Scientists do not know if this has been a consequence of climate change, but Northern Mexico falls squarely within a global belt that is expected to dry further because of human emissions of greenhouse gases.

“Dr. Braun is leading efforts to tackle problems of this sort with new wheat varieties that would be able to withstand many kinds of stress, including scant water. Descendants of the plant that one of his breeders, Dr. Singh, found in a wheat field one recent day might eventually wind up in farmers’ fields the world over.

“But budgets for this kind of research remain exceedingly tight, frustrating agronomists who feel that the problems are growing more urgent by the year.

“‘There are biological limitations on how fast we can do this work,’ Dr. Braun said. ‘If we don’t get started now, we are going to be in serious trouble.’”

Shaken Assumptions

“For decades, scientists believed that the human dependence on fossil fuels, for all the problems it was expected to cause, would offer one enormous benefit.

“Carbon dioxide, the main gas released by combustion, is also the primary fuel for the growth of plants. They draw it out of the air and, using the energy from sunlight, convert the carbon into energy-dense compounds like glucose. All human and animal life runs on these compounds.

“Humans have already raised the level of carbon dioxide in the atmosphere by 40 percent since the Industrial Revolution, and are on course to double or triple it over the coming century. Studies have long suggested that the extra gas would supercharge the world’s food crops, and might be especially helpful in years when the weather is difficult.

“But many of those studies were done in artificial conditions, like greenhouses or special growth chambers. For the past decade, scientists at the University of Illinois have been putting the ‘CO₂ fertilization effect’ to a real-world test in the two most important crops grown in the United States.

“They started by panting soybeans in a field, then sprayed with extra carbon dioxide from a giant tank. Based on the earlier research, they hoped the gas might bump yields as much as 30 percent under optimal growing conditions.

“But when they harvested their soybeans, they got a rude surprise: the bump was only half as large. ‘When we measured the yields,

it was like, wait a minute – this is not what we expected,’ said Elizabeth A. Ainsworth, a Department of Agriculture researcher who played a leading role in the work.

“When they grew the soybeans in the sort of conditions expected to prevail in a future climate, with high temperatures or low water, the extra carbon dioxide could not fully offset the yield decline caused by those factors.

“They also ran tests using corn, America’s

single most valuable crop and the basis for its meat production and its bio-fuel industry. While that crop was already known to be less responsive to carbon dioxide, a yield bump was still expected – especially during droughts.

“The Illinois researchers got no bump.

“Their work was contributed to a broader body of research suggesting that extra carbon dioxide does act as plant fertilizer, but that the benefits are less than previously

believed – and probably less than needed to avert food shortages. ‘One of the things that we’re starting to believe is that the positives of CO₂ are unlikely to outweigh the negatives of the other factors,’ said Andrew D.B. Leakey, another of the Illinois researchers.

“Other recent evidence suggests that longstanding assumptions about food production on a warming planet may have been too optimistic.

“Two economists, Wolfram Schlenker

Aren't We All Heirs of Those Greek Assets?

The Wall Street Journal (24/ 05, “Greece Speeds Plans to Sell Off State-Hold Assets” by Aleman Granitsas) raises some questions: “Athens – Greece, under pressure from Germany and other euro-zone members to reduce its massive debt burden, said on Monday it will accelerate its long-delayed plans to sell off €50 billion (\$70.7 billion) in state-owned over the next five years.

“The government said it will move forward plans to sell stakes in some of its most valuable assets, including a state-owned bank, the country’s gambling monopoly, its two largest ports and a water utility in the northern city of Thessalonica.

“The move comes amid growing expectations in Europe that Greece will need a further bailout to avoid defaulting on its debt. Officials in Berlin and other European capital are reluctant to extend more aid without winning concessions from Athens and have demanded the government begin selling state property as soon as possible.

“The government now hopes to raise as much as €65.5 billion through asset sales by the end of 2011, up from an initial target of €2 billion to €4 billion it had been aiming for just a few weeks earlier.

“Economists welcomed the announcement, saying that Greece needed to step up its privatization drive. Since coming to office in October, 2009, Greece’s Socialist government has yet to sell any state assets, fearing internal opposition in the governing party and among the country’s powerful labor unions, one of its core constituents.

“‘This is very encouraging news, there has to be an acceleration of the program, because there really is no alternative,’ said Yannis Stournaras at the Foundation for Economic and Industrial Research, a Greek think tank. ‘Of course, it still remains to be seen how the implementation of the program will go.’

“Under the revised program, Greece will immediately seek a buyer for its 34% stake in Hellenic Postbank, something that been slated for 2013. It will move this year to sell another 34% stake in highly profitable gambling monopoly OPAP SA, instead of next year as originally planned.

“The new program also calls for moving forward by one year the state’s holdings in Piraeus Port Authority SA, Thessalonica Port Authority SA, or OTE, by exercising a put option that expires later this year, German telecom giant Deutsche Telekom SA, or OTE, holds a 30% stake in the company and, under the terms of a 2008 deal, is obliged to buy that stake, valued at around €400 million.

“The government also reaffirmed its commitment to meet its 2011 deficit target of 7.5 of gross domestic product, and said it will take some €6.4 billion in fresh austerity measures to reach that.”

Anybody who had known Greece, say forty years ago, and revisited it recently, will have been struck breathless by the incredible amount of restoration from the Parthenon down to the incredibly well-run museums, and parks. Obviously that involved a staggering financial outlay that must be seen not as irresponsible spending, but investment in bringing to life once again the great cultural debt that the world owes Greece. And we would recoil in horror at the suggestion to treat Greece’s problems in financing the incredible restorations as just financial irresponsibility, and tanking advantage of it by dismantling the country to the point where it could no longer function as an independent nation – its ports, post office, and other essential services taken over by our speculative banks.

A major part of the problem lies not only with the European Union but with the world at large that has buried the greatest

lesson to have come out of World War II: the most profitable investment a country can make is in its human capital – the education, and hence the health, the environment, and adequate infrastructures in our exploding mega-cities.

That was formulated most clearly by one of the many hundreds of economists that Washington sent to defeated Japan and Germany to study the wartime damage and predict how long it would take for these once great trading nations to be able to resume such roles. Some sixteen years later that economist Ted Schultz of Chicago University, wrote an essay in which he concluded that he and his colleagues had missed the point, in concentrating on the physical destruction in WWII while overlooking that the highly talented, educated, and dedicated human capital had come through the conflict virtually intact. And from that, in a stroke of genius, he concluded that human capital – the education, and hence the health, the environment, and adequate infrastructures in our million-headed cities is the best investment that a government can make.

For a few years Schultz was feted, and decorated, and then completely forgotten. Investment in human capital today throughout the world is treated not as the most productive investment a country can make, but as an expenditure that our government, completely absorbed in bailing out our gambolling banks cannot afford.

Of course, the Greek government, should contribute to the solution: by offering specially low-priced facilities for citizens of other lands to come to Greece, as students, scholars, or just visitors and benefit from low-price or free tours so that they can better profit from the great heritage that we share with them.

William Krehm

of Columbia University and Michael J. Roberts of North Carolina State University, have pioneered ways to compare crop yields and natural temperature variability at a fine scale. Their work shows that when crops are subjected to temperatures above a certain threshold – about 84 degrees for corn and 86 degrees for soybeans – yields fall sharply.

“This line of research suggests that in the type of climate predicted for the United States by the end of the century, with more scorching days in the growing season, yields of today’s crop varieties could fall by 30 percent or more.

“Though it has not yet happened in the United States, many important agricultural countries are already warming rapidly in the growing season, with average increases of several degrees. A few weeks ago, David B. Lobell of Stanford University published a paper with Dr. Schlenker suggesting that temperature increases in France, Russia, China and other countries were suppressing crop yields, adding to the pressures on the food system.

“I think there’s been an under-recognition of just how sensitive crops are to heat and how fast heat exposure is increasing,” Dr. Lobell said.

“Such research has provoked controversy. The findings go somewhat beyond those of a 2007 report by the Inter-governmental Panel on Climate Change, the United Nations body that episodically reviews climate science and advises governments.

“That report found that while climate change was likely to pose severe challenges for agriculture in the tropics, it would probably be beneficial in some of the chillier regions of the Northern Hemisphere, and that the carbon dioxide effect should offset many problems.

“In an interview at the University of Illinois, one of the leading scientists behind the work there, Stephen P. Long, sharply criticized the 2007 report, saying it had failed to sound a sufficient alarm. ‘I felt it needed to be much more honest in saying this is our best guess at the moment, but here are probably huge errors in there,’ Dr. Long said. ‘We’re talking about the future food supply of the world.’

“William E. Easterling, dean of earth sciences at Pennsylvania State University and a primary author of the 2007 report, said in an interview that the recent research had slightly altered his perspective. ‘We have probably to some extent overestimated’ the benefits of carbon dioxide in computerized crop forecasts, he said. But he added

that applying a ‘correction factor’ would probably take care of the problem, and he doubted that the estimates in the report would change drastically as a result.

“The 2007 report did point out a hole in the existing body of research: most forecasts had failed to consider several factors that could conceivably produce nasty surprises, like a projected rise in extreme weather events. No sooner had the report been published than food prices began rising, partly because of crop failures caused by just such extremes.

“Oxfam, the international relief group, projected recently that food prices would more than double by 2030 from today’s high levels, with climate change responsible for perhaps half the increase. As worries like that proliferate, some scientists are ready to go back to the drawing board regarding agriculture and climate change.

“Dr. Rozenzweig, the NASA climate scientist, played a leading role in forming the old consensus. But in an interview in her office in Manhattan, she ticked off recent stresses on the food system and said they had led her to take a fresh look.

“She is putting together a global consortium of researchers whose goal will be to produce more detailed and realistic computer forecasts; she won high-level endorsement for the project by a recent meeting between British and United States officials.

Promises Unkept

“At the end of a dirt road in northeastern India, nestled between two streams, lies the remote village of Samhauta. Anand Kumar Singh, a farmer there, recently related a story that he could scarcely believe himself.

“Last June he planted 10 acres of a new variety of rice. In August 23, the area was struck by a severe flood that submerged the field for 10 days. In years past, such a flood would have destroyed his crop. But the new variety sprang back to life, yielding a robust harvest.

“The miracle was the product not of divine intervention, but of technology – an illustration of how far scientists may be able to go in helping farmers adapt to the problems that bedevil them.

“‘It’s the best example in agriculture,’ said Julia Bailey-Serres, a researcher at the University of California, Riverside, California, who has done genetic work on the rice variety that Mr. Singh used. ‘The submergence-tolerant rice essentially sits and waits out the flood.’

“In the heyday of the Green Revolution,

the 1960s, leaders like Dr. Borlaug founded an international network of research centers to focus on the world’s major crops. The corn and wheat centers in Mexico is one. The new rice variety that is exciting farmers in India is the product of another that is more resistant to drought and flooding and that responds especially well to rising carbon dioxide....

“The flood-tolerant rice, was created from an old strain grown in a small area of India, but decades of work were required to improve it. Money was so tight that even after the rice had been proven to survive floods for twice as long as previous varieties, distribution to farmers was not assured. Then an American charity the Bill & Melinda Gates foundation stepped in with a \$30 million grant to finance final development and distribution of the rice in India and other countries. It may get into a million farmers’ hands this year.

“In 2008 and 2009, in the midst of the political crises set off by food prices, the world’s governments outbid one another to offer support.... It later turned out, however, that no more than half was new money not previously committed to agriculture, and two years later, the extra financing has not fully materialized, ‘It’s a disappointment,’ Mr. Gates said.

“So far, the Obama administration has won \$1.6 billion from Congress for the purpose. Amid the budget struggles in Washington, it remains to be seen whether the United States will fully honor its pledge to the world’s hungry people.

“Yet the leading agricultural experts say that the poor countries cannot solve the problems by themselves. The United Nations recently projected that global population would hit 10 billion by the end of the century, 3 billion more than today. Coupled with the demand for diets richer in protein, the projections mean that food production may need to double by later in the century.”

This lays bare an even more basic missing condition for assuring human survival on this planet: a system of accountability that will recognize one of the great truths that emerged from the slaughter of World War II – that human capital is the soundest investment that a government can make. It comes prepaid and emerged from World War II as the result of a US government initiative. No sooner had Japan and Germany surrendered, than Washington sent hundreds upon hundreds of economists to those defeated power to study the extent of the wartime damage and from it predict

how long it would be before they could resume their role as great trading nations again. Some sixteen years later, one of these, Theodore Schultz of the University of Chicago, published an essay that explained how wide of the mark his forecast had been. That was because they had concentrated on the physical destruction suffered by the leading Axis powers, but had attributed little importance to the circumstance that their human capital had come out of the war essentially

intact. The Japanese lost little time in proving him correct – not only did they rebuild their country but changed its economy from a dependence on textile exports, all the materials for which they had to import, to a modern industrial nation with an industrial technology that would leave more of their profits within the country.

For a few years Schultz was celebrated and even decorated for his great conclusion. Only to be stricken from official memory –

that of governments and of our universities.

And yet unless our governments resurrect all that has been buried about our history and economic theory learned at great human cost, we will be left without anything that could be mistaken for serious government accountability even in the dark.

And those precious life-saving advances in dealing with crucial agricultural yields will be wasted.

William Krehm

Secrets Kept from Mega-banks' Top Brass

The Wall Street Journal (12/4, "BoFA Kept Executives in Dark on Dividends" by Dan Fitzpatrick and Joann S. Lublin) offers us a peek on how key information is kept from top executives of mega-banks: "Bank of America Corp's internal auditors are reviewing why two top finance and accounting executives weren't consulted before the bank disclosed to investors that a dividend increase had been rejected by regulators, according to people familiar with the situation.

"The March 23 filing with the Security and Exchange Commission was more explicit than an earlier news release. It showed that the Federal Reserve had 'objected' to the proposed dividend increase following a 'stress test' of all major US financial institutions.

"Shares of Bank of America, the only bank to disclose the Fed's outright objection, dropped almost 4% in three days after the filing.

"But Chief Financial Officer Chuck Noski and Chief Accounting Officer Neil Cotty didn't see the filing or know it had been filed with the SEC, people familiar with the matter said. Head of investor relations, Kevin Stitt, found out later the night before, according to one of these people. Mr. Noski, Mr. Cotty and Mr. Stitt declined comment through a spokesman.

"Chief Executive Brian Moynihan complied with recommendations of internal and external counsel when he approved the SEC filing. But the lack of communication highlights questions about the management style of the relatively new bank chief. While the bank was in full compliance with regulations, the failure to communicate to two top executives has raised question inside the bank about how decisions are made.

"The exclusion of certain executives wasn't deliberate, a company spokesman said. People who worked for Mr. Noski and

Mr. Cotty participated in the drafting of the document, he added including a senior member of Mr. Noski's team.

"Board chairman Chad Holliday said he is confident that Mr. Moynihan is making good decisions as CEO and this incident doesn't change his view. 'He has done exactly what we were expecting him to do' he said.

"But some governance specialists said it is unusual for a public company to make such a regulatory filing without consulting the top finance and accounting executives.

"A proposed dividend increase 'goes to the heart of what they did,' said Charles Elson, head of the Weinberg Center for Corporation Governance at University of Delaware's business school. 'Leaving them out of the loops is a little odd.'

"General corporate auditor Christine Katziff, who reports to the audit committee of the bank's board, is leading an internal review of the matter that is expected to generate recommendations for procedural changes, said people familiar with the situation. The report was ordered up by Mr. Moynihan, according to the board chairman, and it will go to the board audit committee.

"'This is a review that Brian asked for,' Mr. Holliday said. 'He asked for it to understand what happened. We have to wait and see what comes out.'

"When he got the job at the beginning of 2010, Mr. Moynihan pledged to US regulators that he would seek consensus among bank executives to improve the company's decision making. Regulators had been concerned that prior management had become too insular, leading to poor decisions prior to the financial crisis.

"But changing his stripes hasn't been easy. Before his promotion, Mr. Moynihan was known for saying 'this is the way' and 'it

shall be done,' said one person familiar with the situation.

"The 51-year-old CEO 'is really working at changing his style,' said the person familiar with this situation, but there are still signs of struggle.

"Executives are still trying to piece together how the dividend disclosure failed to include certain executives. It started on March 18, when the Fed denied a request that the bank raise its penny-a-share dividend in the second half of the year, first to three cents and then to four. The bank released a media statement that didn't explicitly disclose whether Bank of America's dividend plan had been rejected, only that it intended to 'resubmit' its plan for a second-half increase.

"Both the Fed and outside law firm Bass Berry & Sims signed off on the March 18 statement, said people familiar with the situation. Bass Berry acts as outside counsel to the bank's audit committee. Mr. Noski and Mr. Cotty also were aware of the March 18 release before it was sent.

"After March 18, Bass Berry came back with a recommendation that the bank be more specific about the Fed's dividend rejection in an 8-K filing with the SEC, one of the people said. Those involved in the discussion included Mr. Moynihan, general counsel Ed O'Keefe, chief risk officer Bruce Thompson and strategy head Mike Lyons, said people familiar with the situation. Through a bank spokesman, they all declined to comment.

"Some board members were taken aback at the filing after they saw news reports about the SEC disclosure and that it was done without close oversight by some top executives, one of these people said, adding that they expect management to fix the process problems and make sure that it doesn't happen again." ■

China Not Immune to the Worldwide Instability

The Wall Street Journal (14/06, “Wave of Unrest Rocks China” by Jeremy Page) recounts: “Beijing – A wave of violent unrest in urban areas of China over the past three weeks is testing the Communist Party’s efforts to maintain control over an increasingly complex and fractious society, forcing it to repeatedly deploy its massive security forces to contain public anger over economic and political grievances.

“The simultaneous challenge to social order in several cities from the industrial north to the export-oriented south represents a new threat for China’s leaders in the politically sensitive run-up to a once-a-decade leadership change next year, even though for now the violence does not appear to be coordinated.

“In the latest disturbance, armed police were struggling to restore order in a manufacturing town in southern China Monday, after deploying tear gas and armored vehicles against hundreds of migrant workers who overturned police cars, smashed windows and torched government buildings there the night before.

“The protests which began Friday night in Zengcheng, in the southern province of Guangdong, followed serious rioting in another city in central China last week, plus bomb attacks on government facilities in two other cities in the last three weeks, and ethnic unrest in the northern region of Inner Mongolia last month.

“Antigovernment protests have become increasingly common in China in recent years, according to the government’s own figures, but they have been mainly confined to rural areas, often where farmers have been thrown off their land by property developers and local officials.

“The latest unrest, by contrast, involves violent protests from individuals and large crowds in China’s cities, where public anger is growing over issues including corruption and police abuses.

“There is no evidence to suggest the recent violence is part of a coordinated movement – the party’s greatest fear. Nor do they threaten its grip on power given the strength of China’s security apparatus, and its booming economy, analysts say. They are nonetheless troubling for China’s government which, unnerved by unrest in the Arab world, has detained dozens of dissidents, since appeals for a ‘Jasmine Revolution’ in

China began circulating online in February. The Mideast uprisings so far have not inspired similar mass protests in China.

“The recent violence, however, has exposed the limits of the government’s ability to control the urban population using a sophisticated array of tools from internet censorship to surveillance – part of what the party leaders refer to as ‘social management.’

“Authorities have turned to displays of raw power, deploying paramilitary police and armored vehicles in at least three cities in as many weeks, to prevent the violence from spiraling further as protesters have repeatedly directed their anger at government buildings, often ostentatious symbols of power.”

Flashpoints of Opposition

“What connects the violence is the way that a flashpoint – in the case of Inner Mongolia – the death of a Mongol at the hands of a Han Chinese truck driver and in Southern China, the assault by security personnel on a pregnant migrant worker – sets off wider conflagrations.

“The disturbances could reflect badly on President Hu Jintao, who has tried to promote the concept of a ‘harmonious society’ and who is due to retire as party chief next year.

“‘There is an increasing sense of frustration that [leaders] are unable to put out a consistent unifying message, even within the Party,’ said Kerry Brown, head of the Asia program at Chatham House, who met senior party officials last week. ‘Local officials are overreacting partly because of a lack of clear leadership at the top.’

“But the unrest is likely to strengthen the clout of ZhouYongkang, who technically ranks ninth of nine on the Politburo Standing but wields huge power as he oversees the police, intelligence agencies, prosecutors and courts.

“Social unrest has been rising steadily in recent years. In 2007, China had more than 80,000 ‘mass incidents,’ up from 60,000 in 2006, according to the Chinese Academy of Social Sciences, although many involved no more than a few dozen people. No authoritative estimates have been released since then, though analysts citing leaked official figures put such incidents at 127,000 in 2008.

“Since February, Messers Hu and Zhou have called for tighter restrictions on the Internet, which provides a conduit for people to share anger at government policies and malfeasance and learn about unrest.

“Authorities have been careful to balance their use of force with conciliatory gestures, including the removal of some local officials. State media have also been reporting the unrest relatively openly, compared with previous years, in what some analysts see as an attempt by the government to take control of the narrative ahead of bloggers and other official media.

“A Monday editorial by the *Global Times*, a tabloid linked to the Communist Party, warned against trying to connect the recent incidents of unrest and draw conclusions about social stability. ‘China is not a nation where public anger collectively seeks to topple the existing order. It is time to debunk this ludicrous lie,’ it said.

“The violence in Zengcheng, a town of about 800,000 near Guanzhou, began Friday night when security personnel pushed to the ground Wang Lianmei, a 20-year-old pregnant street vendor from the western province of Sichuan, as they tried to clear her stall from the road, according to state media. A crowd of migrant workers began attacking security guards and police as rumors spread that Ms. Wang had been injured, and her husband, 28-year-old Tang Xuecat, killed, the state media reports said.

“Local authorities tried to quell the unrest over the weekend by setting up a special task force to investigate the case, arresting 25 people and organizing a news conference at which Mr. Tang said that both his wife and their unborn child were unhurt.

“Xu Zhiblao, Zengcheng’s Party chief went to visit Ms. Wang in hospital and took her a basket of fruit, the China Daily said.

“But the violence flared again on Sunday night, witnesses said.

“‘We were all told not to go out on the street,’ said Dong Xinguo, a migrant from Sichuan who is working as an IT engineer in Zengcheng.

“A Zengcheng government spokesman said: ‘Currently the situation in Zengchen is stable. No death toll.’ He confirmed that there were still riot police on the streets ‘to keep the peace,’ signed Andrew Browne.”

Such is the totally castrated tale of China’s economy as recounted by the official

Chinese bureaucracy. From that report we are only left in total ignorance about what ails the Chinese economy. Next we will move to what is far from a frank version, but at least makes an unconvincing pretense of dealing with the real factors and problems that are leading our world to disaster.

I quote from *The Globe and Mail* of Toronto (02/06, "In China's Factories Wheels Start to Slow" by Andy Hoffman, Yankhang, China, and Brian Milner): "The din of hundreds of stamping machines punching out sheets of metal at the sprawling production facility in southern China suggests anything but a slow-down.

"Scores of young workers side-step massive rolls of steel, aluminum and copper that are scattered everywhere, vividly illustrating the Chinese economy's mammoth appetite for commodities.

"However, officials at the Yang-jiang Xinli Industrial Co. factory, which makes small motors, fish and turkey fryers as well as barbecues, say that they aren't running at full capacity despite the approaching summer season.

"The rapid expansion of China's factory production that has underpinned the country's staggering economic growth for the past decade is slowing.

"Persistent inflation, high commodity prices and a series of measures by China's central bank to tighten monetary policy in an effort to combat rising prices and rein in

a runaway property market are taking a toll.

"Two surveys released Wednesday reveal that Chinese manufacturers expanded in May at their slowest pace in nine months. Other economic signals show factory output slowing elsewhere in Asia, reducing such high-growth economies as India, South Korea and Taiwan, as well as Europe and the United States.

"The slowdown is causing concerns that the global economic recovery may be knocked off the rails by high commodity prices, falling consumption and a trend toward tighter monetary policies. Those concerns caused a trend towards tighter monetary policies, falling consumption and a trend toward tighter monetary policies. Those concerns caused a sell-off in stocks in North America and Europe.

"The purchasing managers index tallied by JPMorgan Markit for global manufacturing declined in May for the third consecutive month.

"It was the biggest decrease since the depths of the financial freeze in December, 2008. The US Institute of Supply Management's measure of factory expansion plunged to its lowest level since September, 2009, and its biggest single-month decline since 1984.

"A similar gauge for the euro-zone hit a seven-month low and Russia's version described industry in 'near stagnation.'

"Slowing manufacturing in the world's

leading driver of economic growth is a problem not only for China but for major commodity producers like Canada and big industrial exporters such as Germany, whose fortunes are increasingly linked to Chinese growth. Australia, which avoided the global recession thanks in no small measure to its burgeoning commodities trade with China, saw its gross domestic product sink 1.2 percent in the first quarter, almost entirely because of a decline in exports....

"Cooling off the economy is not such a bad thing,' said Eswar Prasad, a Cornell University economics professor and an expert on China. 'But the way the cooling is taking place, through a slowdown in industrial activity with the knock-on effects on employment and consumption, is not necessarily a good thing.'"

Not End of China's Growth

"Even so, few analysts are ready to call an end to China's remarkable growth story and the decade-long commodity boom just yet. China and other economies are slowing as they battle inflation, but there is little chance of a so-called hard landing due to overly aggressive policy intervention."

"China faces no risk of an economic crash, said Mr. Prasad, a former head of the International Monetary Fund's China division. 'The government has enough control to keep the economy moving. Any signs of stalling, it can turn on the credit taps and it

Bizarre Results of Suppressing Our History

The Western world had learned the lessons of the Great Depression the hard way. The banks had brought on the hungry 1930s in most instances allowing stepped-up financial gambles until the whole structure caved in, and it required a world war, and the reform movements that rose out of it, to compel the banks to stick to banking, and leaving major banking to government controlled banks that would be barred from engaging in other financial pillars: these were brokerage firms, insurance mortgage companies. Canada and New Zealand, in particular, having nationalized their central banks, did a praiseworthy job of seeing that a more democratic financial arrangement was made

That and the Second World War taught governments the hard way what banks should be allowed to do, and what should be forbidden them. Above all to convince

the millions of workers – in armed forces that the postwar world had to be something worth risking their lives to defend, in leading Western countries, drastic restraints were imposed on what bank could be allowed to do. They were not to be allowed to take over non-banking financial pillars, to wit, stock, brokerages, insurance, and mortgage companies. In the absence of such restraints, banks would buy those "other financial pillars" and make a bee-line for the funds they used for their own businesses, and with them gamble ever more daringly if not more wisely.

So what resulted was that governments turned their backs on the grim lessons of the 1930s, and set about to bring back the conditions that had produced the 1930s. Finding a way to resume the highly speculative banking of the 1920s that had brought on the depression of the 1930s, had to be an

outside job. It was undertaken by the International Monetary Fund that had originally been set up to handle the syndication of the reparations demanded from the defeated German government who offered to send workers into France and Belgium to make good the war damage, but the French and Belgians insisted that it be paid in a strong currency.

Hence, the International Monetary Fund was entrusted with the exchange of the German reparations into a strong currency. That happened in no great hurry, but meanwhile the Bank for International Settlements had rendered the Hitler government some chosen services. When the German army entered Prague shortly before WWII, the BIS surrendered the gold that had been deposited with it by the Czechoslovak government precisely to keep it from the Germans.■

has a lot of room on the fiscal front.’

“In a boardroom perched above his factory floor, Liang YuanMin, president and general manager of Xinli’s parent company, Henergy Investment Co. Ltd., takes a drag from a Double Happiness cigar and lays out the changing realities of his business.

“He’s had to boost wages about 10 percent over the past year to counter rising inflation that has taken root across China. Still, he’s doing a lot better than factory owners in Guangzhou and Shenzhen, about a three hours’ drive east, where wages have risen by more than 20 percent.

“His biggest pressure, however, is the increasing cost of raw materials needed to build the barbecues that roll off the line bearing a host of well-known North American brand names.

“‘Prices are going up everywhere,’ Mr. Liang explains. ‘We do have good relationships though and order material at the low point of demand. We manage raw material cost fluctuations better than most.’

“Indeed, the Chinese economy is an inflection point that could hasten the end of the commodity rally that helped resource-rich Canada avoid the worst of the global recession. Policy makers in China are now confronting both stubbornly high inflation and slowing growth. A looming electricity shortage and a drought along the Yangtze River that has been called the worst in more than 50 years are only adding to worries that commodity prices are poised for a major correction.

“‘Persistently high inflation and slower growth, as shown again in the May PMI data, is not a good combination,’ Na Liu, the founder of CNC Asset Management and China adviser to Scotia Capital, said in a report.

“But resource producers don’t face any steep drop in demand from the transition now under way in China, at least not yet.

“‘Calling it problematic for commodity markets would be too strong a word,’ said John Mothersole, who tracks global commodity trends for HIS Global markets, said Mr. Liu, who continues to assign a ‘market weight’ rating to the commodity service.”

Running an ever more complex world by the doctrine of “moral hazard” is like permitting car drivers to travel 100 miles per hour through downtown areas during rush hour, because they do have one million dollars of insurance on their cars. Obviously, the insurance companies would go as broke as our government says it is getting.

W.K.

Our Forgotten Great Guide: Theodore W. Schultz

An Autobiography

The adverse economic events following the First World War turned me toward economics. In the Dakotas, where I was born (April 30, 1902), I learned during my youth how hard it was for farm families to stay solvent. Farm product prices fell abruptly by more than half. Banks went bankrupt and many farmers suffered foreclosures. Was politics or economics to blame? I opted for economics.

My schooling was disrupted by the shortage of labor during World War I. It meant foregoing high school. Then, late in 1921, I entered upon a short course in agriculture at South Dakota State College. I managed to enter college in 1924 and I was permitted to complete my college work in three years. The unorthodox economics of the University of Wisconsin during those years appealed to me. Despite my lack of proper credentials I was accepted by the graduate school. My intellectual debt to Professors Commons, Hibbard, Perlman and Wehrwein is large.

My professional apprenticeship at Iowa State College from 1930 to 1943 could not have been better; the Great Depression made it so and the talented younger economists at Ames during that period made it an exciting and profitable intellectual experience. The opportunity to consolidate and interpret that experience has been ideal for me at the University of Chicago, where I have been since 1943.

In retrospect, I value highly what I have learned about the economic behavior of rural people while abroad. During the summer of 1929, I acquired location specific information in parts of the Soviet Union. In 1960 when I was president of the American Economic Association, several U.S. economists and I were guests of the Soviet Academy of Sciences. It was a grand opportunity to return to the same locations about which I had acquired information in 1929. Over the years, I have ventured frequently into many low income countries to do what I did in the Soviet Union. In general, I avoided giving lectures or attaching myself while abroad to a university. To learn what I wanted to know, I went instead to rural communities and onto actual farms. Talk with university people, government officials and US personnel stationed in the country

was much less rewarding for me.

In addition, and beyond this, there is the standard puffing vita.

From Nobel Lectures, Economics 1969-1980, Editor Assar Lindbeck, World Scientific Publishing Co., Singapore, 1992

This autobiography/biography was written at the time of the award and first published in the book series Les Prix Nobel. It was later edited and republished in Nobel Lectures. To cite this document, always state the source as shown above.

Theodore W. Schultz died on February 26, 1998.

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http://nobelprize.org/nobel_prizes/economics/laureates/1979/schultz-autobio.html

From the University of Chicago Chronicle

March 5, 1998, Vol. 17, No. 11

Charles Hutchinson Distinguished Service Professor Emeritus in Economics, Theodore Schultz, a Nobel prize-winning economist who helped pioneer the study of the connections between education and national wealth, died February 26 at the Presbyterian Home in Evanston. He was 95.

Schultz, the Charles Hutchinson Distinguished Service Professor Emeritus in Economics, made significant contributions to understanding agriculture in the United States and in developing nations. But his contribution to economics went far beyond that of agricultural economics.

In a 1958 paper, “The Emerging Economic Scene and Its Relation to High School Education,” Schultz first wrote about the connections between education and productivity. At the time, other economists were having trouble explaining how the economies of such nations as Germany and Japan grew so quickly after World War II. Some economists attributed the improvements in those nations and others to “technical change,” but Schultz identified people as the source of the economic growth.

Schultz was the first economist to systematize “how investments in education can affect productivity in agriculture as well as the economy as a whole,” according to his 1979 Nobel citation. He was often a critic of developing nations’ efforts to expand industrialization at the neglect of agriculture

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development.

By being able to show that economic growth depended on “human capital,” Schultz opened a whole new area of research and paved the way for work by other economists, including fellow Nobel Prize winner Gary Becker, University Professor in Economics.

“Schultz was the leader in introducing the importance of education and skills to the modern economy and to the process of development,” said James Heckman, the Henry Schultz Distinguished Service Professor in Economics. “He was also a major figure in transforming the vision of the development process away from state planning approaches and toward incentive-based schemes. “The most remarkable of all of his traits was his openness to ideas and his belief that economics was an empirical field – one that learned from data and the real world and one that contributed knowledge to it,” Heckman added. “He was not a hothouse intellectual – he went out in the world and learned from it and shaped it. He had ‘mud on his boots’ as the agricultural economists put it – real practical experience and a pragmatic vision.”

Schultz began his work on economic growth at Chicago, where he published *Food for the World* (1945), a collection of papers presented at a conference, and *Transforming Traditional Agriculture* (1964), which was “the culmination of years of experience and reflection on problems of agriculture and development in the poorer nations together with his new thinking about investments in human being,” said Mary Jean Bowman, Professor Emeritus in Economics in an article reviewing Schultz’s work.

The book demonstrated that farmers in developing countries, with little or no education, are rational men who are unwilling to accept extremely risky and unproved improvements poorly fitted for their situations, Bowman said. The so-called “green revolution,” which introduced new and profitable varieties of grain, provided farmers an opportunity to maximize returns on their efforts and accordingly was rapidly adopted.

“The rapid adoption in the 1960s of new, high-yielding varieties of rice and wheat was fully consistent with his conclusions,” said D. Gale Johnson, the Eliakim Hastings Moore Distinguished Service Professor Emeritus in Economics and a fellow scholar of agricultural economics.

Schultz also expanded understanding of agriculture in the United States, emphasizing

the role of economic theory in the study of agricultural economics. Until his work on the faculty of Iowa State College (now Iowa State University) in the 1930s, much of the research in agricultural economics focused largely on issues such as farm management, marketing and credit, without much reference to other area of economics.

“In the late 1930s and the 1940s, Schultz turned his attention to the analysis of agricultural policies,” said Johnson. “The many New Deal agricultural programs provided numerous research opportunities, and one important interest was to determine the effects of particular programs, such as acreage limitations, upon actual output of farm products.”

Schultz’s interest in the rigorous, quantitative study of agricultural economics led to his move to Chicago in 1943. During World War II he oversaw a series of studies on wartime farm production, including a study that emphasized the resource savings that could be realized if margarine were used as a substitute for butter. Dairy farmers forced Iowa State to withdraw the pamphlet and Schultz left for the University of Chicago over the issue of academic freedom.

He continued to be interested in agricultural policies and in 1978 published *Distortion of Agricultural Incentives*, which explored the adverse impact of food and agricultural policies in developing countries on the growth of agricultural production.

Schultz was born in 1902 on a farm near Arlington, SD. He never attended high school, but was admitted directly into college. He received his BS from South Dakota State College in 1926, his PhD in 1930 from the University of Wisconsin, and he became a faculty member at Iowa State College in 1930.

At Chicago, he was Chairman of Economics from 1946 to 1961 and was named the Charles Hutchinson Distinguished Service Professor in 1952. He became Professor Emeritus in 1970.

Survivors include daughters Elaine Glickman of Winnetka and Margaret Schultz of Chicago; a son, T. Paul Schultz of Madison, Conn.; three brothers and a sister; six grandchildren; and three great-grandchildren. Memorial donations may be made in his name to the Department of Economics. A memorial service will be held May 5. ■

RENEW TODAY!
(SEE PAGE 2)

Can Society Survive the Suppression of the "Greatest Lesson to Come Out of World War II?"

No sooner had the two leading Axis powers surrendered than Washington sent hundreds of economists to Japan and Germany to assess the wartime damage to predict how long it would take before those formidable traders could resume such roles again. Some sixteen years later, one of these, Theodore Schultz of the University of Chicago, wrote an essay explaining how wide of the mark he and his colleagues had been, and why. They had concentrated on the physical destruction of the war, and paid little heed to the detail that the highly trained and dedicated personnel had come through the struggle almost intact. And then in a stroke of genius, Schultz concluded that human capital is the most productive investment that a government can make. It comes prepaid, for the children of healthier parents are easier to educate, tend to be healthier, and must include proper care for the environment, the retired, and adequate infrastructures for the swarm of mega-cities springing up throughout the world.

For a few years, Schultz was hailed and decorated for his great conclusion, and then completely forgotten. COMER is one of the few organizations that remember the man and his great message. For they would stand in the way of the rape of our society by unbridled capital that has taken over today.

Years ago the outstanding French journal, *Revue économique*, published a 41-page essay of mine that approached the issue from a quite different angle. I began from the neglected detail that more and more of our key production is being carried out not on the market but directly ordered and paid for by the government. However, because it is not marketed, it is treated by governments and economic classes in practically all the universities of the world as an expense rather than as the key investment that it has become. My essay was reviewed favourably not once but twice by the economic journal of Cambridge University in Britain, one of the reviewers repressing particular praise for the term "social lien" that I applied to this investment by society that was not actually marketed. A review in a Canadian paper caught the eye of the late John Hotson, an eminent member of the economic department at Waterloo University and COMER was born.

That essay led to valuable connections of with the important non-orthodox economic schools in France. I came to understand why they had snapped the essay I had sent them almost by return mail. On its board was the most eminent economic sociologist of the day and two statisticians who had tried tracking any possible connection between market supply and demand and price patterns and failed. The outstanding French unorthodox economist, François Perroux, I arranged to come to Canada, to lecture to an almost full auditorium at the University of Waterloo.

Elementary Logic Needed

There was much elementary logic to be recaptured before we could come to grips with society's problems. Not least of these is a proposition cannot be turned around and remain valid. Example, if I put a loaded pistol to my head and press the trigger I fall dead. But I cannot reverse that simple proposition and consider it valid: If I fall dead, I could have had heart failure or many other causes than suicide.

Yet in this ever more complex world of ours such simplistic inversions of propositions are indulged every day. From a scarcity of supply – other things being equal – prices will be pushed up. But that proposition cannot be turned around. If prices go up, it could be not due to a lack of supply, but the unmarketed contribution of the public sector is providing more services without which society could not function, and cannot be left to the private sector.

And that brings us to a leading article in the Money and Investing section of *The Wall Street Journal* of 14/06, "Rising Prices a Risk by Jonathan Ching." We quote: "For the past six weeks, stock-market investors had their eyes trained on the sputtering US economy.

"Now, some are also beginning to focus on the prospect of a pernicious sidekick creeping inflation.

"It might seem counterintuitive, but some investors see a risk that prices will keep rising, even if the economy slows. That is significant because it could dent corporate profits by crimping consumer spending

Learn from Our Opponents

It is not enough to note where our side went wrong and allowed itself to be bamboozled out of its heritage which essentially is our history. For our voracious opponents have concluded that a knowledge of that history would block their program and it must therefore be denied us. Playing purely defensive would help their strategy.

To wit:

We must reclaim the full knowledge of our history especially how the world was able to come out of the Depression and enjoy a bracing period of recovery and further development.

The teachings of the great economists and sociologists of the period must be restored from their imposed oblivion. We have urgent need of that background.

This must include other university faculties rather than only the economics ones. Imagine for a moment what our flights to the moon and other planets would be if we confined the research to guide them

to a single faculty of our universities. And certainly, the economic flights that speculative finance have embarked us on are more hopelessly perilous than the safeguards that have come out of our economic faculties in recent decades.

There must be a thorough cooperation of all university faculties in such a program, example – the illiterate barbarism of turning around an equation of causality and assume that it can remain valid read backward or forward. Try that out on the trips to the moon!

Imagine what our space programs would be like if it were declared the domain of a single faculty, especially one subject to the corruption technique established in our economic sector.

Samples of certain great economists and sociologists once recognized to deal with the problems of an economy undergoing revolutionary change: Ted Schultz, François Perroux, G.G. McGeer, Douglas North.

William Krehm

while prices are rising. It also may make it less likely that the Federal Reserve would step in to further help the economy, some investors say.

“The rise in inflation has been driven in part by the surge in commodity prices but also extends more broadly into imports from emerging economies like China, India, Brazil and elsewhere which are still red hot.

“The prices of a variety of imported goods, including household tools and equipment housekeeping supplies and apparel have been rising, due to both commodity and wage inflation in these countries. While many economists expect commodity prices to ease, inflationary pressures may still remain in the system.

“The entire mosaic we have before us, confirms a global slowdown and input costs are high,” says Quincy Krosby, chief market strategist at Provincial Financial. She says further evidence of commodity-price increases could pose a fresh challenge to the market.

“Inflation will come to the fore at the Bureau of Labor releases readings on producer and consumer prices. Economists expect a continued picture of about 0.2% in ‘core inflation,’ which excludes goods and energy prices, for both.

“While the threat of slowing growth and

rising inflation – known as stagflation – still appears small, Fredrik Nerbrand, global head of asset allocation for HSBC Bank PLC in London, suggests buying inflation-protected Treasury securities, known as TIPS, as a hedge.

“Mr. Nerbrand sees just a 15% chance of stagflation, for that is triple the probability he forecast to October. And TIPS right now aren’t reflecting major inflation concerns, though they are higher this time than last year.

“Import figures for May, released Friday, showed prices for goods and services from outside the US rose 0.2%, bucking expectations for a 0.7% decline. That puts the year-to-year import price increase at 12.50%, the highest since September 2008, according to Peter Boockvar, managing director and equity strategist at Miller Tabak & Co.

“That rise came despite a 0.4 fall in petroleum import prices and a 0.5% decline in food import prices, the ‘non-core’ components of inflation. That means nearly all of the import price gains were clustered in the places where a pickup in inflation could prove to be sticky, including auto parts, consumer goods, industrial supplies and capital goods.

“At the same time the economy has weakened.

“While that slowdown, and six-week decline in stock prices, has elicited calls for the Fed to step in with a third round of quantitative easing, or QE3, some say robust inflation would deter the central bank from acting. The Fed stepped in this time last year, as the economy slowed, because fears of deflation were rising. That round QE2 ends at the end of June.

“A move toward fiscal tightening also indicates that little stimulating help is likely from Congress.

“Any worrisome inflation readings will make the Fed’s job tougher as it not only ties their hands with current policy but pressures them to facilitate the exit strategy,” Mr. Boockvar says.

“So far, fears of inflation are muted. In a recent *Wall Street Journal* economic forecasting survey, economists expect headline consumer inflation to moderate over next year.

“The implied five-year inflation rate has seen inflation expectations fall in the past six weeks, though gold prices continue to suggest higher inflation.

“As with growth estimates, it is unclear how much of this inflation is likely to stick around and how much is transitory – driven, for instance, by the rise in oil prices. Most economic forecasters say serious inflation pressures are a distant concern until US wages begin to rise.

“The labor market remains extremely soft, suggesting wage growth will not be a source of significant inflation for quite some time,” Goldman Sachs economist Andrew Tilton wrote in a note to clients on Friday.

“Miller Tabak’s Mr. Boockvar agrees that wage growth in the US is low, but adds, ‘I agree that we have inflation in China that we are now importing, noting that China now accounts for about a fifth of US imports. Over the past year, Chinese import prices have jumped 2.8%,’ he says.

“Higher import prices from the emerging world will be one of the biggest inflation pressures this year, says Tom Porcelli, chief US economist for RBC capital markets.

“Mr. Porcelli highlighted rising import costs for apparel. ‘Things have clearly changed on this front,’ Mr. Porcelli says, pointing to apparel import prices that are approaching 1980 levels, prompting retailers to war of large price increases later this year.”

What emerges is a tangle of classification that confuses rather than clarifies. Most of it obliterates the key importance of human capital to makes possible the survival of our civilization.

William Krehm

Correspondence

Conference in Ottawa

Dear Friends, Colleagues, Comrades,

I have to thank you for your presence and so interesting interventions which prove that I have to work again if not forever.

Warmest regards.

Alain Parguez

PS: My evaluation of 60% as the true rate of underemployment in France is now accepted if not recognized.

A Project for the Bank of Canada

Greetings, COMER Enthusiasts:

I had a visit from a gentleman yesterday with an idea that might provide the catalyst needed by COMER and others interested to re-instituting the Bank of Canada as a source of government revenue.

The gentleman’s name is Barry Mahar at barbary@nrtco.net. Barry is retired and lives in Renfrew, Ontario.

His idea is based on comments made by Sheila Fraser as she retired as Auditor General. Fraser had harsh words for the Federal

Government because it has not honoured its commitments to upgrade the infrastructure in aboriginal communities.

Paying for the upgrading of that infrastructure using the Bank of Canada is the idea.

It seems to me that such a not directly self-serving use of the B of C could be a helpful catalyst in the effort to revive the institution.

Sheila Fraser has a considerable following and if she could be brought on board to have this wrong corrected via the B of C, we might have a winning formula. Any of you know how to contact Ms. Fraser?

I’m over my head with other projects, but I’m enthused by this possibility so agreed to put Barry in touch with COMER. I’m not sure who among you I would refer him to, so please contact him and take advantage of the cooperative potential.

Best wishes.

Yours,

Mike Nickerson

While Our Governments Live in a World of Bad Primary School Arithmetic, Scientists Explore Universe of Antimatter

The New York Times (05/20, “NASA installs Device at Space Station in Long-Sought Quest for Antimatter” by William Harwood) reports: “Kennedy Space Center, Fla. – The astronauts aboard the space shuttle Endeavor attached a \$2 billion cosmic ray detector to the International Space Station on Thursday, and delighted scientists immediately began detecting ‘thousands and thousands’ of subatomic particles from deep space.

“Equipped with a powerful magnet and an intricate array of sensors, computer processors and high-speed data links, the Alpha Magnetic Spectrometer is designed to measure tiny deflections in the trajectories of cosmic ray particles to look for the tell-tale signs of antimatter and the unseen dark matter, believed to make up nearly 25 percent of the universe.

“It will also be on the lookout for the unexpected as it sifts through currents of passing protons, electrons and atomic nuclei for the next ten years or longer, ideally for the remaining life of the space station.

“‘We immediately checked all the detectors; everything functioned properly,’ Samuel Chao Chung Ting, the project’s principal investigator, told reporters. ‘Not a single one was broken, not a single electronic channel was malfunctioning. Right away, we began to see an enormous amount of data coming down.

“‘Holding up sample graphs showing the passages of an electron and a carbon nucleus, Dr. Ting said, ‘We’re very pleased. It took 17 years to build this thing.’ Over time, he said, the scientists on the project hope ‘to make an important contribution to our understanding of the origin of the universe.’

“‘Carried aloft in Endeavor’s cargo bay, the 7.5-ton Alpha Magnetic Spectrometer was attached to the right side of the space station’s solar power truss using the orbiter’s robot arm and a similar crane on the lab complex. After the instrument was locked in place, an umbilical carrying power and data was attached by remote control.

“‘Within two to three hours, scientists and engineers at the Johnson Space Center in Houston were receiving a steady stream

of data, ‘We have thousands and thousands of signatures already,’ Dr. Ting said, referring to particle signatures.

“‘It was a welcome, long-awaited milestone for a project with a history that reads like ‘The Perils of Pauline.’

“‘After the 2003 explosion of the space shuttle Columbia, the project was bumped from NASA’s manifest. A lobbying campaign by Dr. Ting and his colleagues eventually won over President Obama and key lawmakers, who approved financing for an extra shuttle flight to get the particle-detecting magnet into orbit.

“‘But a decision to extend the space station’s life from 2015 to 2020 and beyond prompted Dr. Ting’s teams to give up a more powerful but short-lived super-conducting magnet in favor of a more powerful but short-lived super-conducting magnet used in a 1998 test flight.’”

Botched Arithmetic of Economic Policy

“All told, Dr. Ting and his team – more than 600 physicists from 60 institutions in 16 countries – have spent nearly two decades designing, building, testing and redesigning the Alpha Magnetic Spectrometer. The payoff is finally at hand.

“‘One of the mysteries the device was designed to explore is what happened to the antimatter that must have been created when the universe was born.

“‘If the universe comes from a big bang, before the big bang it is a vacuum,’ Dr. Ting said before Endeavor’s launching. ‘Nothing exists in vacuum.’

“‘In the beginning,’ he said ‘you must have anti-matter; otherwise we would not have come from the vacuum.’

“‘So now the universe is 14 billion years old, you have all of us made out of matter. The question is, where is the universe made out of antimatter?’

“‘Another subject of study for the spectrometer is dark matter, the mysterious material believed to provide the gravitational glue that holds galaxies and clusters of galaxies together. While Dr. Ting’s creation cannot directly detect dark matter, the mysterious material believed to provide

the gravitational pull that holds galaxies and clusters of galaxies together.

“‘To my collaborators and me, the most exciting objective of AMS is to probe the unknown,’ Dr. Tang said, ‘to search for phenomena which exist in nature, but yet we have not the tools or the imagination to find.’

“‘Meanwhile, as NASA continues its advances in space, on Earth – in Washington – it was scolded for tardiness in deciding what it will do after the shuttles are retired in July.

“‘Leaders of the Senate Committee on Commerce, Science and Transportation sent a letter to Maj. Gen. Charles F. Bolden, Jr., the NASA administrator, demanding documents detailing how the agency was carrying out the blueprint Congress passed last year for future space exploitation.

“‘The plans called for development of a new heavy-lift rocket and spacecraft for missions beyond low-Earth orbit.

“‘The senators said NASA had failed to provide required reports to Congress and requested that a NASA official begin briefing them every other week about the agency’s efforts.

“‘NASA’s current inaction and indecision in implementing this transition could impact our global standing and take many years and billions of dollars to repair,’ said the letter, signed by Senators John D. Rockefeller IV, a Democrat of West Virginia who is chairman of the committee; Kay Bailey Hutchison of Texas, the ranking Republican member; Bill Nelson, a Democrat of Florida and chairman of the space subcommittee and John Boozman, Republican of Arkansas.

“‘The Obama administration has placed higher priority on financing commercial companies [than] for developing space taxis for taking astronauts to orbit.’”

And that threatens to become the dunderheaded fatality that can bring on the ruin and final wreckage of the human race. For it was from astrology and astronomy that humans learned over the ages from the heavens via Newton, Einstein and so many others to master the every more intricate mathematical prowess revealed. However,

Continued on page 20

Are Europe's Deepening Woes Telling Us that Official Accountancy Is a Hoax?

"*The Wall Street Journal* (24/05, "Europe Sinks Markets" by Tom Lauricella and Alex Frangos) verges on hysteria in reporting that official accountancy is misleading: "Global stock and commodity markets fell Monday amid escalating worries about China's economic growth, and fresh troubles for Europe's debt-laden countries, signaling that investors are concerned about the strength of the global economy's recovery.

"Monday's declines coupled with sell-offs over the past month have wiped out some of the optimism that investors had at the start of the year. It's been replaced by fears that many issues of the financial crisis remain unresolved.

"There are too many negatives for people to be comfortable saying they want to be bullish at this point," said Jeffrey Sica, president and chief investment officer of Sica Wealth Management.

"Anxieties about Europe's debt problems have been fanned further by an open dispute between the European Central Bank about what to do with Greece's large and growing debt burden. A negative report on Italy's credit rating and a crushing defeat in weekend elections for Spain's ruling party intensified concerns that Europe's debt problems were entering a new critical stage.

"It's really difficult to see how [Europe] can get out of this," says Gabriel Stein, a director at Lombard Street Research in London. He echoes the view of many who see some sort of Greek debt default as inevitable, but worry that it will usher in a period of more volatility as investors and government officials struggle to contain the problem."

China Ambiguities

"The change in investor sentiment has combined with worries about China to send stock markets in Asia and Europe into negative territory for the year. Investor concerns have also eroded gains in US markets, where share prices have remained supported by healthy corporate earnings. The worries in other parts of the globe were enough to send the Dow Jones Industrial Average down 130.78 points or 1.05%, to 12381.26 on Monday. The Dow is down 3.4% for the month.

"Hong Kong's Hang Seng Index, which

fell 2.1% on Monday, is now down nearly 6% in the past month. China's Shanghai Composite fell nearly 3% Monday and is now down more than 1% for the year. In Europe, the Stoxx 600 Index dropped 1.7% and the UK's FTSE 100 Index sank 1.89%. Both are in the red for the year.

"The euro fell sharply, slipping below \$1.40 for a while Monday, its lowest level in two months, before recovering to \$1.4049 later in the day. The euro which has rallied strongly from mid-January through the end of April has lost more than 5% this month against the dollar. Investors headed to the safety of US and German debt, while selling sovereign debt of peripheral European countries like Spain, Italy and Ireland.

"There is no real compelling reason to buy stocks long-term when situations like this keep crawling back up," says Jason Weisberg, senior vice-president at Seaport Securities.

"The negative news began late Friday when the outlook on Italy's \$1.9 trillion of government debt was lowered to negative by credit-ratings firm Standard & Poor's, which cited weak growth prospects and a slipping economic reform agenda.

"Then on Sunday, Spain's ruling party suffered a crushing defeat in weekend elections. The heavier than expected losses for the Socialist Party of Spanish Prime Minister Jose Luis Rodriguez Zapatero raise questions about his government's ability to pursue plans to overhaul the euro zone's fourth largest economy and thereby ward off an international bailout.

"This follows a growing political backlash elsewhere in Europe over the bailouts of Greece, Ireland, and Portugal that is seen as making any additional support for those countries even harder to galvanize than in the past.

"Euro-zone governments are increasingly coming to the conclusion that Greece should seek to postpone repayments on its bonds coming due in 2011 and 2012. ECB officials have responded by warning that any restructuring would make the bonds ineligible as collateral at the ECB, a move that would cut off an essential financial life-line for Greek banks.

"By late Sunday in New York, the focus had shifted to the other side of the globe as

fresh economic data raised concerns about the pace of economic growth in China, with whom the fortunes of other Asian economies is closely linked.

"A preliminary read of an HSBC purchasing managers' index for China slowed to its lowest rate in 10 months in May. At 51.1 the index is still reflecting an economic expansion with a reading above 50, but has fallen below its long-term average.

"In the US, business surveys last week also pointed to a downshift in industrial activity. April's export orders from Taiwan and freight volumes from Hong Kong's airport, the world's busiest cargo hub, point to a mild slowdown in trade growth.

"At the same time Japan is still struggling with the aftermath of the devastating earthquake and subsequent nuclear, prompting investors to scale back on their expectations for a rosy economic environment in 2011.

"The question on investors' minds is whether emerging markets, and in particular, China, can engineer a so-called soft-landing in which they halt the rise of inflation, but don't tip their economies into recession. Despite the retreat in many markets, most investors expect China to keep growing at a pace well above that of the big, developed economies....

"Among the biggest reversals in sentiment has come in the commodity markets, where hedge funds and many other investors had loaded up on bets that would profit from economic strength, particularly in resource-hungry emerging markets."

There is such clashing discord about what is needed for our world to live with a modicum of contentment with itself, or even to survival at all, that we must turn to what has been plowed under in official reckonings. Only serious accountancy, the suppressed teachings of the Great Depression of the 1930s and the social accountancy that came out of it, can help the world in its deepening plight. And it must come soon enough.

It is impossible even to understand what has taken over in a complex ever more high-tech world if you try to impose a stable price-level. For that would require raising interest rates and making markets lie flat putting power in the hands of speculative bankers to run the world economy as their

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The Stench from Washington's Policy Kitchens

It is so rare an occasion when our southern neighbour comes clean in dealing with critical issues, that it is impossible not to take full advantage of the occasion. We refer to the publication *Corporate Knights*, issued by the Magazine for Clean Capitalism, Tenth Anniversary Issue.

The crucial article is entitled "Big Country, Small Steps: Taking a critical look at the last decade of corporate social responsibility in Canada" by Madelaine Drohan. We quote: "Let's start with a brainteaser: Define corporate social responsibility. Does it include sports sponsorship, as Air Canada indicated when it cited its CSR policy and admonished the NHL for not taking sufficient action against hockey violence? Is it building schools in Africa, as the Canadian mining firm Banro Corp. has done in the Democratic Republic of Congo? Encouraging young Quebecers not to drop out of school, which the Bank of Montreal has flagged as one of its CSR initiatives? Or having a zero tolerance policy for the use of child labour by suppliers, as the Hudson's Bay Company says in its report? Is it all of these things or none of these things?"

"If you don't have an answer, you are not alone. Despite an intense debate in Canada over the last decade and years of on-and-off discussions before that, there is no agreement on what corporate social responsibility entails or even on what it should be called. New labels crop up constantly, sustainable business, corporate citizenship, responsible business conduct, triply bottom line, voluntary corporate initiatives, total sustainable mining, E3 plus. Some emerge from business conduct, or advocacy groups trying to slant the concept by way of consultants, advisors and gurus, who slap a new name on an old idea...to make it their own. There is so much murk surrounding the issue that it's difficult to see your way clear."

The Good News

"Few corporate executives still approvingly quote (at least publicly) Milton Friedman's dictum that the only social responsibility of business is to increase profits. These days, companies are happy to boast when they hit the top rung of a CSR rating or win a reward for their program. There is a growing agreement that business should integrate social and international standards and the expectations of society. Through the

Global Reporting Initiative, there is even emerging consensus on which international standards to use and how to report on the processes put in place to meet them.

"It all sounds rather rosy until you dig a little deeper. The rankings are a good place to start. They give a deceptive impression of progress because most measure what processes have been put in place, rather than the impact of those processes. Having a process is an essential first step to improving corporate performance, but not proof that this has been done. Measuring actual impact – for example, whether the code of environmental conduct actually reduced a company's carbon emissions, or the code of ethics actually eliminated bribes – remains a work in progress, and a difficult feat. The convergence on how to report does not extend to what to report, even among the largest companies in the world. UNCTAD, the United Nations body that tracks such information, says 87 of the world's top transnational agencies report some information on their climate-change policies, but they do not all report the same kind of information or to the same extent...."

What is missing is a the concept of what serious accounting implies.

"For business, more regulation remains an abomination. But it has started to creep in at the edges in some countries through requirements for stock exchange listings or in legislation aimed at solving a particular problem. A good example here is the *Dodd-Frank Act* in the US, which, though broadly aimed at fixing the problems that led to the recent financial crisis, also requires companies to ensure that they are not using minerals that might be fueling the conflict in the Democratic Republic of Congo.

"The fight over whether there should be mandatory rules or voluntary guidelines has been central to the debate in Canada, which has focused on mining and petroleum companies. The Canadian Chamber of Commerce, which speaks for 192,000 companies, doesn't like the term corporate social responsibility, preferring 'responsible business' or 'voluntary corporate initiatives' to underline that this is optional behavior by companies that have already met their legal obligations.

"Perhaps it isn't a surprise then that Canada has lagged rather than led in this area. There was an early attempt in 1993 to get

out in front with the Whitehorse Mining Initiative, which at the instigation of the Mining Association of Canada brought together business, government, environmental groups and aboriginal groups to discuss the challenges ahead for mining. It is one of the few examples where Canada actually led the world in exploring new ways for corporations to take into account the concerns of stakeholders beyond shareholders and employees.

"Yet in looking at the major milestones on the road to corporate social responsibility...a pattern emerges of Canada following behind after others have forged ahead. In 1992, the year the Earth Summit in Rio de Janeiro endorsed the idea of sustainable development that had become the Brundland Commission report, a group of far-sighted international CEOs set up the World Business Council for Sustainable Development to promote the idea. That same year, a separate group of multinationals set up Business for Social Responsibility. The Canadian equivalent, Canadian Business for Social Responsibility, did not appear until three years later. In 2000, some governments,

What We Must Learn from Physics

In a book I published 31 years ago, and will shortly appear in a new edition, I quote: "In looking beyond the confines of coordinate systems, physics was in fact engaged in an unending search for the real invariants of its problems.

"Let us examine the implications of this for economics – keeping in mind what we see in the methodology of physics basically the laws of human perception. We must begin with avoiding taking anything for granted as an absolute invariant, no matter how insistent common sense may argue the point. For what we might assign that role to could turn out to have appeared as invariant only with respect to relationships no longer with us. Thus there was nothing more vital to common sense than the invariance of time and space. Experiment, however, proved that the speed of light was the invariant, and to reconcile that with the known laws of physics Einstein showed that time and space were not invariant. The case of price today is strictly similar."

William Krehm

non-government organizations (NGOs) and businesses agreed on the Voluntary Principles on Security and Human Rights. meant to deal with the growing problem of human rights abuse by the security forces of extractive companies. Although this was a key concern for Canadian mining and petroleum companies working overseas, Canada did not commit to the principles until 2009. The Extractive Industries Transparency Initiative, established in 2003 when the problem of corruption in resource dependent countries had reached such a scale it could no longer be ignored, did not attract Canadian participation until 2007.

“That fragile consensus fell apart two years later, however, when the Canadian government responded with a strategy that adopted many of the recommendations – including setting up a counsellor for corporate social responsibility and a centre of excellence to do further research on the subject – but ignored those dearest to the heart of the advocacy groups who participated in the roundtables. Chief among the ignored provisions were established sanctions with teeth, making the new counsellor independent of government, setting a tripartite review committee to work with the counsellor and making reference to comprehensive human right standards in endorsing guidelines that companies should follow. At the time, John Ruggie, the UN special representative for the secretary-general, was still working on his guidelines for business and human rights. While his final report, released in 2011, clarifies business responsibilities, it does not recommend any legislated changes.

“The battle over Bill C-300, a private member’s bill that included many of these provisions but was narrowly defeated in the last parliament, deepened decisions. In many ways, the debate over corporate social responsibility in Canada is stuck close to

where it was a decade ago, with both sides even more firmly entrenched.

“It would be easy to blame business intransigence or unrealistic demands by advocacy groups for the current impasse. But the problems go deeper than that. Although representatives no longer publicly side with Friedman, the capitalist system they work in pressures them to do his bidding, and make profits and the interest of their shareholders their only priority.

“An increasing number of management thinkers have zeroed in on this dilemma to propose solutions that could lead to a giant leap in corporate social responsibility. In their article ‘Creating shared value,’ which appeared in the January issue of the *Harvard Business Review*, Michael Porter and Mark Kramer say that capitalism has to be reinvented so that corporations recognize and are rewarded for advancing not just their interests but those of society at large. In that same publication, Dominic Barton, global managing director for the consulting firm McKinsey & Company, calls for an end to the short-termism that encourages executives to focus on quick profits at the expense of sustainable growth. In *The New Capitalist Manifesto*, economic strategist Umair Haque tackles these same issues. Closer to home, Roger Martin of the Rotman School of Management talks in his new book, *Fixing the Game* of the destructive split between the real market (the business of designing, making and selling products and services) and the business of trading stocks, options and derivatives) and how capitalism must reflect the concerns of the real market if it is to survive.

“Inherent in all of these propositions is the idea that fundamental changes to capitalism are required to re-legitimize business. This is a big picture approach to corporate social responsibility in contrast to the narrower vision that has been pursued so far

when it involves high financial gambles at the public expense, is ever valid whether read backward or forward. And where that simple-minded fixation is leading the world, is destruction by atomic war. For there a quite different brand of mathematics is cultivated and favored. For our atomic power programs are chosen for their military potential – uranium-based rather than the thorium-based that were once favored and have a far smaller potential for warfare. Their powers of destruction can turn out as dangerous in peacetime as in war.

W.K.

and with limited success in Canada. Is it any likelier to succeed? Sweeping changes usually follow in the wake of a crisis so profound that entrenched interests are knocked off balance long enough for changes to take place. One would have thought the global financial crises fit this bill. Yet in the changes being proposed by governments which no sane person hope for, the future for corporate social responsibility looks incremental. And that’s too bad.”

Does *Fixing the Game* and such groping efforts with the lights turned low ring a bell? It should. For on a far better thought-out and universal scale it was what we call the “social lien” or the need for governments and business firms to recognize that an increasing portion of the assets of society are not even marketed but provided directly to society through the concept of the “social lien” delivered to society directly by the government without having shown up in the marketing process.

There was a time when this was seriously recognized, published in leading economic journals on economic theory, when suddenly it threatened universities financing by governments and private business grants to do so.

Today official wisdom is starting to show a bit of forced interest in such matters. They, governments, and the financially vulnerable universities that quickly closed the books on such matters, must allow them to be recognized once more. Failing that, the final, fatal gamble on the matter will take the form of the next atomic war – preparations for which are amongst the very few items that continue lavishly well funded.

William Krehm

Deepening Woes from page 18
private slaughter-house.

There is not only the suppressed history of our world to guide us on the point, but a first-year high-school grasp of mathematics. The experiences of the Great Depression taught the world that the banks must be confined strictly to banking and forbidden to take over the non-banking financial pillars – notably, in that early day, the stock markets, insurance and mortgage companies. For allowing them to do that brought on the speculative housing crisis that has still left the world economy a basket-case. And when you have gotten the world economy in a mess, you do not entrust the solution to those who played the games that brought us into this hopeless plight.

William Krehm

Bad Arithmetic from page 17

in our worldly accountancy this has been reduced to the nitwitted simplicity where when prices go up it is because there is too much demand and the only answer is higher interest rates.

If only the US senators who are so conscientious in watching over the interplanetary researches of our mathematicians, and scientists in outer space, applied what we learned from the complexities of the mathematical relations involved to current earthly affairs. There, however, we find the supply and demand relation, ever simply reversible