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## Canada's 2012 Budget: Imposing Austerity on the World's Most Resource-rich Country

*Canada, called the world's most resource-rich country, is now being subject to austerity measures like those imposed on third world countries in earlier decades. It is all done in the name of reducing a federal debt that got out of control in the 1970s, when Canada quit borrowing from its own central bank.*

*By Ellen Brown*

Last week in Ottawa, the Canadian House of Commons passed the federal government's latest round of budget cuts and austerity measures. Highlights included chopping 19,200 public sector jobs, cutting federal programs by \$5.2 billion per year, and raising the retirement age for millions of Canadians from 65 to 67. The justification for the cuts was a massive federal debt that is now over C\$581 billion, or 84% of GDP.

An online budget game furnished by the local newspaper *The Globe and Mail* gave readers a chance to try to balance the budget themselves. Possibilities included slashing transfer payments for elderly benefits, retirement programs, health benefits, and education; cutting funding for transportation, national defense, economic development and foreign aid; and raising taxes. An article on the same page said, "The government, in reality, doesn't have that many tools at its disposal to close a large budgetary deficit. It can either raise taxes or cut departmental program spending."

It seems that no gamer, lawmaker or otherwise, was offered the opportunity to toy with the number one line item in the budget: interest to creditors. A chart on the website of the Department of Finance Canada titled "Where Your Tax Dollar Goes" shows interest payments to be 15% of the budget – more than health care, social security, and

other transfer payments combined. The page was dated 2006 and was last updated in 2008, but the percentages are presumably little different today.

### Penny Wise, Pound Foolish

Among other cuts in the 2012 budget, the government announced that it would be discontinuing the minting of Canadian pennies, which now cost more than a penny to make. The government is focusing on the pennies and ignoring the pounds – the massive share of the debt that might be saved by borrowing from the government's own Bank of Canada.

Between 1939 and 1974, the government actually did borrow from its own central bank. That made its debt effectively interest-free, since the government owned the bank and got the benefit of the interest. According to figures supplied by Jack Biddell, a former government accountant, the federal debt remained very low, relatively flat, and quite sustainable during those years. The government successfully funded major public projects simply on the credit

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Budget from page 1

of the nation, including the production of aircraft during and after World War II, education benefits for returning soldiers, family allowances, old age pensions, the Trans-Canada Highway, the St. Lawrence Seaway project, and universal health care for all Canadians.

The debt shot up only after 1974. That was when the Basel Committee was established by the central-bank Governors of the group of ten countries of the Bank for International Settlements (BIS), which included Canada. A key objective of the Committee was and is to maintain “monetary and financial stability.” To achieve that goal, the Committee discouraged borrowing from a nation’s own central bank interest-free and encouraged borrowing instead from private creditors, all in the name of “maintaining the stability of the currency.”

The presumption was that borrowing from a central bank with the power to create money on its books would inflate the money supply and prices. Borrowing from private creditors, on the other hand, was considered not to be inflationary, since it involved the recycling of pre-existing money. What the bankers did not reveal, although they had long known it themselves, was that private banks create the money they lend just as public banks do. The difference is simply that a publicly-owned bank returns the interest to the government and the community, while a privately-owned bank siphons the interest into its capital account, to be re-invested at further interest, progressively drawing money out

of the productive economy.

The debt curve that began its exponential rise in 1974 tilted toward the vertical in 1981, when interest rates were raised by the US Federal Reserve to 20%. At 20% compounded annually, debt doubles in under four years. Canadian rates went as high as 22% during that period. Canada has now paid over a trillion Canadian dollars in interest on its federal debt – nearly twice the debt itself. If it had been borrowing from its own bank all along, it could be not only debt-free but sporting a hefty budget surplus today. And that is true for other countries as well.

**Another Way**

Why are governments paying private financiers to generate credit they could be issuing themselves interest-free? According to Professor Carroll Quigley, Bill Clinton’s mentor at Georgetown University, it was all part of a concerted plan by a clique of international financiers. He wrote in *Tragedy and Hope* in 1964:

“The powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. This system was to be controlled in a feudalist fashion by the central banks of the world acting in concert, by secret agreements arrived at in frequent private meetings and conferences. The apex of the system was to be the Bank for International Settlements in Basel, Switzerland,

*Continued on page 10*

**Summing It All Up for Our Readers**

All that and further material – especially on the true legacy of Greece, that should have taught us that you cannot simply turn around a proposition and consider the result valid. Socrates published nothing, but was put to death for the questions he asked.

These questions inspired Plato and a list of other philosophers to ask the crucial questions ignored today. It is not only contemporary Greece that is being victimized by ignoring that questions cannot be simply be turned around and remain valid. Plato in particular made the point that the answer to the crucial questions must come from many points of the compass – including even the phase of the moon. Today, there is not a single government that abides by this crucial Grecian heritage. And that is depriving the world of realizing the strategic worth of its human capital. We will send you to you – at our own cost whatever has been published by us on this crucial subject, At present it is being treated by governments through-out the world as an extravagant expense.

Good luck in this necessary campaign to resume the recognition of human capital that must be recognized rather than suppressed.

*William Krehm*

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# Gatekeeper Economics 1: Economics, Economy and Society — Conformance with Experience?

By W. Robert Needham

## 1. Gatekeeper Economics — Unreality

Abstract Time

Certainty

A free market assumed with independence of supply and demand.

Complete Knowledge

Rational Consumers and

Producers — only economic prices matter.

Perfect competition is the norm.

People get just what they deserve so all inequalities are justified — at least according to marginal products.

The above tools of mainstream or conventional economics constitute *gatekeeper tools* for the capitalist system. They divert attention from the operation of the real world as described in the next section, “Economy and Society.”

The above model becomes an end in itself so that its practitioners direct an increasingly narrow specialist attention to polishing, in effect the ends of pins. The entire apparatus, however, has been *debunked*.<sup>1</sup> Seemingly undeterred the *mainstream plows on deceiving students and contributing to its own intellectual and academic ignominy*. In effect, by taking the above system as given.

The American philosopher John Dewey: “The transition from an ordinary to a scientific attitude of mind coincides with ceasing to take certain things for granted and assuming a critical and testing attitude.” [Dewey, John (1903). *Logical Conditions of a Scientific Treatment of Morality. Decennial Publications of the University of Chicago*. First Series, Vol. 3, 115-139].

“If you would be a real seeker after truth, it is necessary that at least once in your life you doubt, as far as possible, all things.” — Rene Descartes, *Principles of Philosophy*.<sup>2</sup>

The discipline of economics ignores this. It follows that economics cannot be said to be a science. Indeed it can be said that mainstream economics seems rather to be practiced as a *religion of the mythical free market*. Richard Moore in his recent book, *Escaping the Matrix*, [with *matrix*, drawn from the film by that name], uses *matrix*, to mean system, with a metaphoric character. What one normally thinks of as reality is unreality; what one takes as truth is false: “what had been assumed to be reality turned out to be collective illusion, fabricated by the Matrix mainframe...true reality and perceived reality exist on entirely different planes.”

The neo-classical use of the *a priori* in a sense manufactures truth and, in effect, in dictatorial fashion *a priori* assumptions tell students what they are to think. In fact what is manufactured as truth is in fact false. Since no one has a monopoly on truth the mainstream manufactures truth as needed to suit its gatekeeping purposes and straitjackets unsuspecting minds into working within those manufactured constraints.

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## 2. Economy and Society — Reality

Real Time.

Uncertainty.

There is no Free Market<sup>3</sup>

Overall the power and control of some people by others is the operative concept. It implies coercion and no choice in workplace settings for workers (it may imply weak and compliant unions); and limited choice for consumers.

Supply and Demand are interdependent. Prices (and wages) are set and administered to markets.<sup>4</sup>

Prices are kept as high as possible while wage costs are kept as low as possible. There may be explicit mark-ups on supply costs that set some prices. But material and other costs (there are no scarcities) may be irrelevant or of minor significance in the larger picture so that any measure of a mark-up on costs falls out *after the fact* of consumer exploitation contributing to a mal-distribution of income.<sup>5</sup> The techniques used in each firm's *mode of operation* have to be determined and not assumed.

A seller may try to extract as much income from consumers as possible no matter how low costs may be.<sup>6</sup> So consumers beware! Keeping consumers in the dark — with incomplete knowledge of products and about the seller's MO, assists the seller in income extraction (expropriation). Consumers may demand more transparency in the consumer producer/seller interface. A search for social responsibility on the part of the corporate sector ensues.<sup>7</sup>

Producers aim to eliminate competition as quickly as they can to assure their own survival. Oligopoly and monopoly are inevitable, leading back into product and prices and wages being administered to the market.

**There is a responsibility gap.** According to the rhetoric corporations have only a responsibility to their shareholders. In fact corporate managers seem to be responsible only to themselves. The consequence is that inequalities widen in favour of the corporate sector and its managers and all the while a variety of social costs deepen.

**We ought to measure gross national cost:**

System generated social costs include.<sup>8</sup>

Unsafe Working conditions

Unfair terms and conditions of employment

Impure Food and Drugs

Unemployment

Poverty

Homelessness

Criminal activity including violence, family abuse and breakup

Extreme inequality

Pollution of land, water, air

Ill health, including fear, insecurity and psychological depression

on the Cambridge Controversy. *The Review of Radical Political Economics*, VII, 1-27. Nell, E. and Hollis, M. (1975). *Rational Economic Man: A Philosophical Critique of Neo-Classical Economics*. Cambridge: Cambridge University Press.

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## A Tax Tactic That's Open to Question

By Floyd Norris, *The New York Times*,  
September 14, 2012

“Anyone may arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one’s taxes.” – *Judge Learned Hand, 1934*

That quotation has become sacred to opponents of taxes, and has often been invoked this year to rebut criticism of Mitt Romney for paying relatively low tax rates.

But nothing in it says the government is required to make it possible to avoid paying taxes. Nor does it provide that all efforts to avoid taxes are legal.

In fact, the appeals court ruling by Judge Hand concluded that the taxpayer – who had concocted an elaborate scheme to convert ordinary income into capital gains, and therefore pay less in taxes – had violated the law.

The Supreme Court unanimously upheld Judge Hand’s decision. Certainly there is a rule saying that a motive to avoid taxes is permissible, wrote Justice George Sutherland, but that was irrelevant because the strategy used by the taxpayer “upon its face lies outside the plain intent of the statute. To hold otherwise would be to exalt artifice above reality and to deprive the statutory provision in question of all serious purpose.”

There is no evidence that Mr. Romney has violated the law. The principal means he used to pay low taxes on his hundreds of millions of dollars in income was the technique known as carried interest, which allows managers of private equity funds to treat most of the fees they receive for running the funds as capital gains rather than ordinary income.

The technique strikes some – including President Obama – as outrageous, but it is legal under current law. Unless and until the Congress changes the law, Mr. Romney has every right to take advantage of the technique.

But there is a related tactic to avoid taxes that is used by some private equity firms, including Bain Capital, whose legality is less clear. The Internal Revenue Service has not challenged it – at least not publicly – but some legal scholars say it is not justified, and some private equity firms have not chosen to use it.

The fact that Bain uses the technique became public last month when the Gawker Web site posted annual reports from a number of Bain funds in which Mr. Romney, or his family trusts, have interests. It is clear that some Bain partners saved hundreds of millions of dollars in taxes from its use, but the Romney campaign says he did not benefit from it personally. The technique is complicated – I’ll get to the details later – but the effect is not. It concerns the management fees that sponsors of private equity funds, such as Bain Capital, are paid. Those fees are separate from the fund profits that the managers are able to treat as carried interest.

Instead of paying ordinary income taxes on those fees, the partners and employees of the fund sponsors pay taxes at much lower capital gains rates. In fact, they do even better than that. In some cases, they defer paying those capital gains taxes for years, itself a substantial benefit.

How good a deal is that? Annual reports from 2009 for four Bain funds showed that over the years the funds converted \$1.05 billion in management fees from ordinary income into capital gains.

That directly benefited the Bain partners who shared in the management fees. Assuming they paid the capital gains tax of 15 percent, rather than the ordinary income tax rate of 35 percent, they saved about \$210 million in income taxes and \$28 million more in Medicare taxes.

And that reflects what happened at a few funds run by one manager. All told, it is likely that private equity and venture capital fund managers save billions each year.

They do this through the technique of

waiving the management fees and converting them into a preferred profit standing in the funds. The deals are structured so that they are all but certain to get the payout, assuming the fund makes money in any quarter, even if it loses money over all.

If they took the money out then – and some do – they would pay capital gains taxes immediately. But even that is more than many managers are willing to do. At many private equity funds, managers are required to put up more money, along with other investors, whenever the fund makes an acquisition. The managers use the waived management fee to make the required investment, and defer paying any taxes on it.

When that investment eventually is withdrawn, perhaps years later when the fund liquidates, the manager owes taxes on the management fee, but at the low 15 percent capital gains rate.

Some tax experts think the IRS could win if it challenged the practice.

“It is not legal,” said Victor Fleisher, a tax law professor at the University of Colorado, in an interview this week. He noted that different money managers used variations, some of which he said were less likely than others to withstand an audit. “Bain,” he said, “is on the aggressive end of this.”

In an article that appeared in the journal *Tax Notes* in 2009, Gregg D. Polsky, a tax law professor at the University of North Carolina School of Law who formerly worked in the IRS office of chief counsel, said he believed the IRS had good arguments that would be likely to prevail in court.

In a statement issued by the Romney campaign, Brad Malt, the trustee for Romney’s blind trusts, said the tactic was “a common, accepted and totally legal practice,” although Mr. Romney had never used it personally.

One manager of private equity funds, Apollo Global Management, wants to have it both ways. As a public company, it wants to persuade investors that it has steady fee

income. So it shows the waived management fees as ordinary income in the financial statements it files with the Securities and Exchange Commission. But those same reports disclose that it passes the deferred fees on to its partners and employees, who take advantage of the tax benefits.

It is quite possible that the maneuver is legal under current tax law, and that Bain and Apollo acted completely appropriately to arrange their affairs to make the taxes owed by their partners and employees as low as possible. Even if the IRS and the courts eventually concluded otherwise, that would not indicate the funds had done anything wrong in asserting the position.

But it is hard for me to see the difference between that and an arrangement under which my employer invested, on my behalf, money that it would otherwise have to pay me for writing this column. Then I would tell the IRS that I owed no taxes until I liquidated the investment, and even then would pay only capital gains rates.

If I tried that, I could not get away with it. If the law lets those who work in private equity do it, Congress should change the law.

At the same time, it should end the carried-interest dodge. Managers are being paid for their services when they receive a share of profits from the fund. The amount may be based on profits, but that is no different from the situation at normal companies that pay bonuses based on company earnings. It is compensation, and should be taxed as such.

Mr. Romney's former colleagues in private equity may come to regret his candidacy, whether or not he wins. Few in the public understood this particular maneuver before the Bain reports were disclosed. Now many do. If and when Congress decides to reform the tax law, this area is likely to be a prime target.



**Our Comment.** Human capital, the investment of society in the health, education, and general well-being of our citizens, has already been run over as though by a ten-ton truck in being treated just as a private expenditure and non-taxed accordingly. Now, however, it is being subjected with all the further evasions accorded to private profit in contemporary society. The end result is an outrageous abuse of the most elementary rules of accountancy. Unless this multiple distortion of the basic elements of accountancy are remembered and applied, we are left with the lights out and smashed when it comes to running our society. *W.K.*

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# Young, Gifted and Neglected

*By Chester E. Finn Jr., The New York Times, September 19, 2012*

Washington – Barack Obama and Mitt Romney both attended elite private high schools. Both are undeniably smart and well educated and owe much of their success to the strong foundation laid by excellent schools.

Every motivated, high-potential young American deserves a similar opportunity. But the majority of very smart kids lack the wherewithal to enroll in rigorous private schools. They depend on public education to prepare them for life. Yet that system is failing to create enough opportunities for hundreds of thousands of these high-potential girls and boys.

Mostly, the system ignores them, with policies and budget priorities that concentrate on raising the floor under low-achieving students. A good and necessary thing to do, yes, but we've failed to raise the ceiling for those already well above the floor.

Public education's neglect of high-ability students doesn't just deny individuals opportunities they deserve. It also imperils the country's future supply of scientists, inventors and entrepreneurs.

Today's systemic failure takes three forms. First, we're weak at identifying "gifted and talented" children early, particularly if they're poor or members of minority groups or don't have savvy, pushy parents.

Second, at the primary and middle-school levels, we don't have enough gifted-education classrooms (with suitable teachers and curriculums) to serve even the existing demand. Congress has "zero-funded" the Jacob K. Javits Gifted and Talented Students Education Program, Washington's sole effort to encourage such education. Faced with budget crunches and federal pressure to turn around awful schools, many districts are cutting their advanced classes as well as art and music.

Third, many high schools have just a smattering of honors or Advanced Placement classes, sometimes populated by kids who are bright but not truly prepared to succeed in them.

Here and there, however, entire public schools focus exclusively on high-ability, highly motivated students. Some are nationally famous (Boston Latin, Bronx Science), others known mainly in their own communities (Cincinnati's Walnut Hills, Austin's

Liberal Arts and Science Academy). When my colleague Jessica A. Hockett and I went searching for schools like these to study, we discovered that no one had ever fully mapped this terrain.

In a country with more than 20,000 public high schools, we found just 165 of these schools, known as exam schools. They educate about 1 percent of students. Nineteen states have none. Only three big cities have more than five such schools (Los Angeles has zero). Almost all have far more qualified applicants than they can accommodate. Hence they practice very selective admission, turning away thousands of students who could benefit from what they have to offer. Northern Virginia's acclaimed Thomas Jefferson High School for Science and Technology, for example, gets some 3,300 applicants a year – two-thirds of them academically qualified – for 480 places.

We built a list, surveyed the principals and visited 11 schools. We learned a lot. While the schools differ in many ways, their course offerings resemble AP classes in content and rigor; they have stellar college placement; and the best of them expose their pupils to independent study, challenging internships and individual research projects.

Critics call them elitist, but we found the opposite. These are great schools accessible to families who can't afford private schooling or expensive suburbs. While exam schools in some cities don't come close to reflecting the demographics around them, across the country the low-income enrollment in these schools parallels the high school population as a whole. African-American youngsters are "overrepresented" in them and Asian-Americans staggeringly so (21 percent versus 5 percent in high schools overall). Latinos are underrepresented, but so are whites.

That's not so surprising. Prosperous, educated parents can access multiple options for their able daughters and sons. Elite private schools are still out there. So are New Trier, Scarsdale and Beverly Hills. The schools we studied, by and large, are educational oases for families with smart kids but few alternatives.

They're safe havens, too – schools where everyone focuses on teaching and learning, not maintaining order. They have sports teams, but their orchestras are better. Yes, some have had to crack down on cheating,

but in these schools it's OK to be a nerd. You're surrounded by kids like you – some smarter than you – and taught by capable teachers who welcome the challenge, teachers more apt to have PhDs or experience at the college level than high school instructors elsewhere. You aren't searched for weapons at the door. And you're pretty sure to graduate and go on to a good college.

Many more students could benefit from schools like these – and the numbers would multiply if our education system did right by such students in the early grades. But

that will happen only when we acknowledge that leaving no child behind means paying as much attention to those who've mastered the basics – and have the capacity and motivation for much more – as we do to those who cannot yet read or subtract.

It's time to end the bias against gifted and talented education and quit assuming that every school must be all things to all students, a simplistic formula that ends up neglecting all sorts of girls and boys, many of them poor and minority, who would benefit more from specialized public schools.

America should have a thousand or more high schools for able students, not 165, and elementary and middle schools that spot and prepare their future pupils.

With their support for school choice, Mr. Romney and Mr. Obama have both edged toward recognizing that kids aren't all the same and schools shouldn't be, either. Yet fear of seeming elitist will most likely keep them from proposing more exam schools. Which is ironic and sad, considering where they went to school. Smart kids shouldn't have to go to private schools or

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## Nordstrom: The “Cadillac” of Mall Tenants

*US department-store retailer strikes deal with mall developer for four locations likely to lure droves of shoppers*

*By Marina Strauss, The Globe and Mail, September 14, 2012*

Cadillac Fairview Corp. has emerged as a clear winner in the years-long marathon to woo Nordstrom Inc. as the upscale US department-store retailer prepares to expand into Canada.

Toronto-based Cadillac, one of this country's premier shopping centre developers, has nabbed Nordstrom as its tenant for the retailer's first four store locations in Canada in four key malls, the companies confirmed on Thursday. The deal virtually ensures that Cadillac will attract more customers to those centres – in Calgary, Ottawa, Vancouver and Toronto – once the US chain sets up shop here, starting in the fall of 2014.

While Nordstrom will not pay high rents – department stores never do on the basis that they serve to attract more shoppers to malls overall – the big coup for Cadillac is being able to lure more people to their properties and ultimately raise other tenants' rents, industry insiders said.

“The value of these properties suddenly goes up,” said David Ian Gray of retail consultancy DIG360 in Vancouver. “It becomes such a draw...They could start asking for bigger rents tomorrow.”

Cadillac executives did not provide financial details of its deal with Nordstrom, but the agreement was the culmination of years of work in a pitched battle among Canada's top mall developers to get Nordstrom as a tenant. Cadillac is betting that the US chain's arrival in its centres will rev up traffic and retail sales.

“We think Nordstrom is one of the pre-

eminent retailers in North America,” said John Sullivan, chief executive officer of Cadillac. “We think their coming to Cadillac Fairview first in Canada is a great marriage – a marriage made in heaven, if you will.”

Cadillac was on its way to clinching the deal earlier this year when it bought back three high-profile leases from struggling Sears Canada Inc. for \$170 million. At that point, Cadillac had an edge among other mall owners to attract Nordstrom. The US chain wanted a number of stores, rather than just one, to launch in Canada to make its initial heavy investment here worthwhile.

The fight among mall owners for Nordstrom entailed developers that are owned by the country's largest pension funds: Cadillac, controlled by Ontario Teachers' Pension Plan, faced off with Oxford Properties, owned by OMERS, and Ivanhoe Cambridge, a division of Caisse de Dépôt et Placement du Québec.

Even so, Oxford and Ivanhoe continue to talk to Nordstrom about the retailer eventually moving into some of its properties, industry sources said. Nordstrom envisions six to nine mainstream stores in Canada in the future, president Blake Nordstrom said on Thursday.

Department store retailers in North America pay less than \$10 a square foot in rent while specialty chains pay about 10 times more, industry insiders said.

Mr. Nordstrom said the retailer insisted on being in top retail locations “to make this thing work. We also needed more than one location in order to justify the huge investment.”

The first Nordstrom store will launch in Chinook Centre in Calgary in the fall of 2014, followed by Ottawa's Rideau Centre

and Vancouver's Pacific Centre in the spring of 2015 and Sherway Gardens by the end of 2016. (The first three sites are Sears outlets now and will be vacated this fall.)

“This is a significant milestone for us as a company,” Mr. Nordstrom said. “We're the new kids on the block and there's a lot to learn.”

Nordstrom also is expected to also roll out its discount Rack outlets after it launches its first conventional store. “Usually for every Nordstrom deal there are three Nordstrom Rack deals that are done, which would be right within our business plan,” Fred Waks, chief operating officer of Rio-Can Real Estate Investment Trust, told analysts last month.

The department store's arrival will not come without some additional costs for Cadillac: It will pour money into the malls where Nordstrom will set up shop to upgrade the properties and expand some of them.

Nordstrom is preparing to enter this market at a time when US retailers are viewing it a lucrative destination with a stronger economy. Canada has about 50 per cent of the retail space per capita as that south of the border, according to Nordstrom figures.

A slew of US retailers have opened in Canada or are looking for space. And in what is expected to be a transformational event, US discount giant Target Corp. is set to start opening its first stores here in early 2013 following its acquisition of most Zellers stores, which are now closing.



**Our Comment.** The trading that really counts these days is in the ghosts of society's real producers who were denied recognition. These are really ghost stores capable of keeping one awake day and night. *W.K.*

get turned away from Bronx Science or Thomas Jefferson simply because there's no room for them.

*Chester E. Finn Jr., the president of the Thomas B. Fordham Institute and a senior fellow at the Hoover Institution at Stanford University, is the author, with Jessica A. Hockett, of Exam Schools: Inside America's Most Selective Public High Schools.*

## Our Comment

Of course, it's more than a mere matter of schooling. What is at stake simply could not be greater. The inability to recognize the crucial value of the brightest children of underprivileged is not only unjust, but simply socially dangerous. For that will most certainly create an embittered frustrated mess of the most talented young people who will seek their revenge. Denied responsible positions in society, they will provide an embittered vengeful opposition that will guarantee social strife on an even more

embittered scale. If you set out to design a split and irreconcilable political disaster, you could do no better. Moreover, it leaves the government supposedly in power in a riven, disrupted world with no possibility of peaceful cooperation. Indeed, the government will never be in a position to balance its books.

If you take that view, you end up with no way of learning the all-pervading lessons of classical Greece: to get the answer to any of the questions that have to do with humanity's future. For that, you can't simply turn the question around. Instead you must track its effect in every direction of the compass, and even the phases of the moon! Fail to do that, and you are flying blind with nothing that could be mistaken for accountancy and with the lights out. That shows up our governments' treatment of human capital as taught by Plato and the other students of Socrates. Notably, Socrates wrote nothing but was put to death for the questions he

asked. But his students, Plato and all the others, learned to look in every possible direction for the effect of a question, asked or unasked. Forget that and mistake the question turned around for the answer, and you simply have no accountancy.

That is the state of the world today. It is human capital – denied the Greece of our day, for a powerful enough reason, and the result is staggering – our governments have nothing that could be mistaken for accountancy in the dark. What is omitted, in fact, is the human capital that is essential about real accountancy. What is omitted is the human capital that would provide the ultimate answers. Not a government in the world today allows anything that could be mistaken for accountancy in the dark. That explains the passion with which contemporary Greece is denied the recognition of its and our heritage. What is lost in the reckoning is human capital.

W.K.

# Is the Function of Mainstream Economics to Avoid the Analysis of Business as War?

*(John Nash was not a soldier.)*

By W. Robert Needham

"The age of chivalry is gone: that of sophisters, economists and calculators has succeeded and the glory of Europe is extinguished for ever." – Edmund Burke, 1790

"Equilibrium is just equilibrium." – Professor Lionel Robbins, 1932.<sup>1</sup>

Take the following:

1. All wars are trade wars<sup>2</sup>
2. The business of war is business
3. The war of business is business
4. Business is war and the war is never over<sup>3</sup>
5. Economics is a soldier.<sup>4</sup>
6. John Nash was not a soldier.
7. On the origins of predatory laissez-faire commerce McLuhan is enlightening: "Let me tell you that religion is not a nice comfortable thing that can be scouted by cultivated lecturers. It is veritably something which, if it could be presented in an image, would make your hair stand on end. Hence the fate of those poor uneducated undisciplined devils who stumble upon some of its "horrors" while remaining inaccessible to its resources. Such as Bunyon and countless others. It is no wonder that men unable thus to see God and to live, quickly rationalize their beliefs as has happened in all the older Protestant sects. Men must be at ease in Zion

if they are to pay more than a flying visit. The 17th cent. Protestants abandoned the world and the flesh to the Devil and packed up for Zion. They found the climate their [sic] impossible and returned to earth only to discover that the devil had been making hay. That is the origin of predatory laissez-faire commerce: [and quoting Burdett] "Industrialism [capitalism] establishes a state of slavery more corrupting than any previously known in the world because the master is not a man but a system, and the whip an invisible machine. With this it is impossible to enter into any but inhuman relations, and in such an inversion of humanity all the instincts become perverted at their source. Burdett, Osbert (1925). *The Beardsley Period: An Essay in Perspective* (p. 268). See Molinaro M., McLuhan, Corinne & Toyé, William (Eds) (1987). *Letters of Marshall McLuhan* (p. 75). Oxford: Oxford University Press.

8. The term *global village* has been popularized, as has *global pillage*. The terms have become part of the rhetoric associated with control by capitalist corporate enterprise.<sup>5</sup> The terms *global pillage* and *global factory* emphasize the exploitation of people that is involved at all levels. The term *global vil-lage* seems to have been coined by Marshall McLuhan but note his stress. The subplot [of *War and Peace in the Global Village*] is

the effect of the computer; the main plot is that every new technology creates a new environment that alters the perceptual life of the entire population. Since violence is the inevitable means of quest for identity when the old image, private or corporate, is smudged by the new technology, war is automatic as a means of recovering identity. [M. Molinaro, Corinne McLuhan and William Toyé, eds., *Letters of Marshall McLuhan*, (Oxford: Oxford University Press, 1987), 348. Emphasis added.] In appended footnote #2 (page 348), the editors suggest that peace in the global village will come about through this adjustment, adjustment to pain caused by new media and new technologies and the pain inflicted by illuminating them, which is also implicit in the action of technology. In writing to Hubert Humphrey, (dated 671228) McLuhan remarked: Today in our global village, created by instant communications, all backward countries are threats to all developed countries. Like the Negro and the teen-ager in our own country, they get turned on by the new electric age. They never had an industrial age or a 19th century. They start with the latest, electric information. The electric environment is totally involving. It is not an environment of consumers. That is why Word War III is also a depression, whereas

World War II had been a struggle to get out of a depression. All backward countries are “communist.” They have never known social or political individualism. The Orient is entirely tribal and family oriented. Russian communism was similarly oriented for the benefit of a tribal people. They are still tribal. To regard the global encirclement of the USA by backward communities presenting a communist threat to the USA is a very confusing affair. It represents a state of mind at least as confused as the Kaiser in 1914. It

also ignores the fact that electric technology is totally tribalizing the USA. (*Letters of Marshall McLuhan*, 349-350.)

9. The United States seems to have for long been intent on world domination. This, of course, makes the US the biggest problem other countries have to face. The war in Iraq in 2003 is just one incident of many. See Hudson, Michael (1972). *Super Imperialism: The Economics Strategy of The American Empire*. New York: Holt Rinehart and Winston; and the revised edition, Hud-

son, Michael (2003). *Super Imperialism: The Origin and Fundamentals of U.S. World Dominance*. London: Pluto Press. Taken with McLuhan’s use of the term, WWII, the super imperialism of US domination seems to be a shoot-first-ask-questions-later-war by the US against at least some of the rest of us. Are the rest of us sycophants? And thus this business is war and the war is never over. See also the important article by John McMurtry, Understanding the U.S. War State, *Monthly Review* (March 2003):

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

(© W. Robert Needham, 2006)

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

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

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

— John Dewey

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

**Notes**

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

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

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



www.monthlyreview.org/0303mcmurtry.htm. And George, Susan (10 March 2008). *Globalisation and War*. International congress of IPPNW, New Delhi. www.tni.org/detail\_page.phtml?act\_id=18042

10. Demand determines supply and supply costs determine prices according to markup formulas – at least in some sense.

This truth seems independent of market structure, whether competitive, oligopolistic, or monopolistic. In support: markup and normal cost pricing procedures have been used since the time of Adam Smith... the historical prevalence of these pricing procedures undermines the need to provide an analytical basis and a historical (theoretical) justification for them...the empirical evidence does not suggest that their usage is a function of the degree of market competition an idealized competitive market is a piece of theoretical fiction which post-Keynesians can do without.<sup>6</sup>

The major point is what we all know and experience in our daily lives when we walk up main street – that real world prices are administered to the market [say through at least in an *ex post* sense  $p = AVC (1 + MU\%)$ ]. As such those prices are not market clearing prices of neo-classical price theory. But the issue is: What determines the markup? Many retailers customize price. In effect there are no final price lists except those that emerge after customers have been cajoled or urged to pay more than the original contract price. On customized prices see also the Report of the Annenburg Public Policy Center, titled: *Open for Exploitation*.

The life of business is war and war leads to death of some businesses; only in death are they in equilibrium (some even doubt an equilibrium even in that state). War is for the increased bottom line profit that is claimed by those that survive.

The war is against consumers – who become trapped, and against local retailers – whose markets are invaded, by the outside marauding or preying firm.

Mainstream economics always seeks the equilibrium between conventional demand and supply conditions with excess profit eliminated. But this turns out to be a *dumbing-down pipe dream*.<sup>7</sup> (Some would say *day-dream* others *ugly nightmare*.) It is designed by the disciplinolatrics held by the gatekeepers (mainstream economists) protective of the systems ideology of exploitation. The effect is to keep students from facing the truth – and from the realization that *the alternative to mainstream economics is, in fact, the truth*. It seems to follow that

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universities may be opening themselves to joint action court cases when students realize what is being done to them.<sup>8</sup> The harm goes beyond the classroom.<sup>9</sup>

11. I came to appreciate something of John Nash only late and then mainly through an emotionally charged movie titled and based on the book *A Beautiful Mind*.<sup>10</sup> As I understand it Nash was concerned with governing dynamics, or as I put it, general dynamics; that he was averse to working under the constraining assumptions that some of his math colleagues required to get the answers they wanted; and he upset what Adam Smith (and, based on Smith, what the Economics profession) said in advocating the individual's single minded, unconstrained, pursuit of self interest. Specifically, I take it that Nash means that members of society could benefit most by working together for the collective interest.

Note that in the terms of my analytical framework, governing or general dynamics is analogous to and is replaced by the words of multi-dimensional trans-disciplinary analysis. (See my political economy table, Table 1, and the associated definitions of terms found in my *The Capitalist Development of Canada*.) Avoidance of constraining assumptions is met in my analytical framework because it is open-ended. At no point does it constrain thinking to the a priori assumptions needed by mainstream economics. No mind is put in a box and told what to think.

Working for the collective interest, in my framework is replaced by the terms community-minded behaviour. Each individual fully realizes himself or herself within community, with out doing injustice to others. Social Democrats would argue that they had the importance of collective action for the public good figured out long before John Nash and would therefore assert, sight unseen, that the mathematics of this non-soldier must be correct, and they would, in this regard, take him as one of their own.

Too, in Chapter 13 of *The Capitalist Development of Canada* numerical illustration of basic Keynesian macro models suggests that furthering the interests of the least well-off (increasing the wages of lowest paid, say) advances the interests that society has in higher levels of output and employment.

The Moral content is found in: “For I was hungry and you gave Me food; I was thirsty and you gave Me drink; I was a stranger and you took Me in; I was naked and you clothed Me; I was in prison and you came to Me. Assuredly, I say to you, inasmuch as you did it to one of the least of these My brethren, you did it to Me” (Matthew 25:35-40). So I assert that I have assembled an analytical framework that is multidimensional trans-disciplinary, open ended and it is right. It avoids the criticism that Wootton made of mainstream economics (see above). It seems to me a worded version of governing general dynamics, it invites more including “chaoses” of the sort that are found in the “Arab Spring” and the various demonstrations that are taking place around the world as people seek to realize a start at democracy (or extend what they do have) in their countries with basic free elections. Full democracy (economic + political) is a long way off there as here at home.

### Endnotes

1. The citations from Burke and Robbins are from Barbara Wooten (1938), *Lament for Economics*, London: George Allen and Unwin Ltd.
2. From Smith, J.W. (2000). *Economic Democracy: The Political Struggle of the Twenty-first Century*. Armonk, New York: M.E. Sharpe.
3. I think this can be found in the film *Rising Sun*.
4. This statement was asserted in the 1960s by and in a graduate class at Queen's University that I attended given by former Royal Military College instructor and famed econometrician T.M. Brown, who later went to the University of Western Ontario.
5. See Glasbeek, Harry (2002). *Wealth by Stealth: Corporate Crime, Corporate Law, and the Perversion of Democracy*. Toronto: Between the Lines.
6. Lee, F.S. (1994). From Post-Keynesian to Historical Price Theory. *Review of Political Economy*, VI:3, 311.
7. Wooten, Barbara (1938). *Lament for Economics* (pp. 31, 32). London: George Allen and Unwin Ltd. Wooten provides the short verse:  
If all the world were apple pie  
And all the sea were ink,  
And all the trees were bread and cheese  
What should we do for drink?  
And then she says “...there is no reason to suppose that this strange poetic fancy is linked with the prosaic world of common experience in any way which would make the study of one likely to throw light upon the workings of the other. But the economists...have settled down quite complacently to exhaustive analysis of a world hardly less fantastic than that pictured by our poet; and here, it is suggested, lies a simple convincing explanation of their deplorable imperfections in the role of either prophet or doctor in actual situations.” The first rule of doctors in treating patients is: *First Do no Harm*.
8. On the change that takes place in students after exposure to mainstream economics, see Robinson, Joan (1965). Teaching Economics in *Collected Papers*, Vol. 3, 1-6. Oxford: Basil Blackwell. Originally in *Economic Weekly (Bombay)*, January 1960.
9. Gould, Ellen (March 2010). *First do no Harm: The Doha Round and Climate Change*. Briefing paper, trade and investment series: Canadian Centre for Policy Analysis.
10. Nasar, Sylvia (1998). *A Beautiful Mind*. See also Nasar, Sylvia (2011). *Grand Pursuit: The Study of Economic Genius*. New York: Simon and Schuster.

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# France Subsidizes Youth Hires

By Sylvie Corbet, Sarah Diloranzo, *The Globe and Mail*, August 30, 2012

The French government wants companies to hire young people so much that it's offering to pick up the tab.

Socialist president François Hollande told his cabinet Wednesday he wants to wage a war on unemployment and unveil a plan for the government to pay most of the salaries of tens of thousands of young people to be hired next year.

Unemployment in France is 10 per cent, but nearly 23 percent for those under the age of 25. Many European countries are struggling with similar imbalances: In Spain, youth unemployment is more than 52 per cent; it's 34 per cent in Italy.

European employers are especially reluctant to hire young people because restrictive labour laws make it hard for companies to lay off workers. In France, young people typically work at a series of unpaid internships

before landing a full-time job, or can only get short-term contracts for years on end.

Few countries are approaching the problem in the way that France is. Italy and Spain have proposed modest tax breaks for companies that hire people just entering the work force, but have focused more on fundamental reforms of the labour market that they hope will address the root causes.

Under France's new plan, companies that hire a person between 16 and 25 for at least a year will have to pay as little as 25 per cent of the salary. The government hopes to create 100,000 of these "contracts for the future" next year, and another 50,000 in 2014. It has promised to pay its share of the employee's salary for three years.

The government will give preference to young people hired from poor urban or rural areas hit hardest by rising unemployment. Certain sectors will also be favoured, such as medicine and digital or green technology.

"We are waging a battle for jobs," Mr. Hollande told his cabinet, according to government spokeswoman Najat Vallaud-Belkacem. "It's the No. 1 challenge of our mandate."

The government estimates the program will cost €3 billion (\$2.8B) next year; it did not detail costs for later years. Some economists were skeptical about the approach.

"Making the structures of the economy more competitive and better performing is what really has to drive the thinking [in countries such as Spain, Italy and Greece]," said Nicolas Veron, an economist affiliated with the Brussels-based think tank Bruegel. "It's not about targeted programs; it's about the structure of the [labour] market."

While countries such as Spain and Italy have recently passed wide-ranging labour market reforms to regain waning investor confidence in their economies, France has so far been able to put off those kinds of tough decisions.

Investor confidence in France has remained relatively strong in part because of the sheer size of the economy – it is the euro

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Budget from page 2

a private bank owned and controlled by the world's central banks which were themselves private corporations.

"Each central bank...sought to dominate its government by its ability to control Treasury loans, to manipulate foreign exchanges, to influence the level of economic activity in the country, and to influence cooperative politicians by subsequent economic rewards in the business world."

In December 2011, this charge was echoed in a lawsuit filed in Canadian federal court by two Canadians and a Canadian economic think tank. Constitutional lawyer Rocco Galati filed an action on behalf of William Krehm, Ann Emmett, and COMER (the Committee for Monetary and Economic Reform) to restore the use of the Bank of Canada to its original purpose, including making interest free loans to municipal, provincial and federal governments for "human capital" expenditures (education, health, and other social services) and for infrastructure. The plaintiffs state that since 1974, the Bank of Canada and Canada's monetary and financial policy have been dictated by private foreign banks and financial interests led by the BIS, the Financial Stability Forum (FSF) and the International Monetary Fund (IMF), bypassing the sovereign rule of Canada through its Parliament.

Today this silent usurpation has been so well obscured that governments and voters alike are convinced that the only alternatives for addressing the debt crisis are to raise taxes, slash services, or sell off public assets. We have forgotten that there is another option: cut the debt through the use of publicly-owned banks that return the interest to public coffers.

Cutting out interest has been shown to reduce the average cost of public projects by about 40%. Game over: we win.

*Ellen Brown developed her research skills as an attorney practicing civil litigation in Los Angeles. In Web of Debt, her latest of eleven books, she turns those skills to an analysis of the Federal Reserve and "the money trust." She shows how this private cartel has usurped the power to create money from the people themselves, and how we the people can get it back. She is president of the Public Banking Institute, <http://PublicBankingInstitute.org>, and has websites at <http://webofdebt.com> and <http://ellenbrown.com>.*

## Our Comment

We applaud enthusiastically everything that Ellen Brown has noted above. For it is not only the *financing* of the government debt that is at fault, but that and the financing of government debt is an important detail. Still more important is an adequate understanding of the essential asset – human

capital – that must be financed because otherwise the central bank will find itself with a seemingly impossible burden of debt.

Unless that is clarified governments will go on with no serious accountancy and the Bank of Canada and other central banks will seem to be running up a mountain of financing of questionable assets. What would still be missing could be the recognition of human capital – the heritage of investment in health; education is a key, indeed the most important social investment – and the Bank of Canada would appear to have financed, what is not worthy of finance. Indeed, the Bank of Canada along with the Government of Canada would be in a questionable state. Our most basic difficulty is that our governments have abandoned the notion of human capital.

The upshot of that – no government in this world today has a set of books that distinguishes between what is investment in human capital, and what is sheer avoidance of what ancient Greece taught the world millennia ago but has been buried today.

Where there is no serious accountancy, no bank – above all central banks – would go crooked and go bust.

Without adequate accountancy that would recognize human capital, you cannot have serious central or any other banking. Time to wake up and stop yawning.

W.K.

zone's second-largest – and also the fact that its neighbours are worse off. But experts warn France will eventually also have to face the need for economic reforms.

The proposal needs to make its way through parliament, but Mr. Hollande's Socialist party has a solid majority there and the issue was a major campaign promise.

Mr. Hollande has staked his credibility on driving down unemployment and encouraging growth, all while meeting strict budget deficit targets. It's unclear whether he can manage all three – especially since the economy's fate is largely tied up with

Europe's wider debt crisis and the well-being of its neighbours.

A French business association panned the idea. "The jobs for the future are only a Band-Aid, if a necessary Band-Aid, in the face of a government that every day shows itself more incapable of overcoming the difficulties our country is confronted with," said Guillaume Cairou, president of a national entrepreneur's association and chief executive officer of consulting firm Didaxis.

"How can they not see that this cost is extremely high for the government, even while we should be reducing our deficit?"



**Our Comment.** It is amazing witnessing the unique lessons of classical Greece – that investment and debt are not a simple two-way match as over a tennis net. Rather, any initiative its government might take was seen as leading to responses from every conceivable direction, and even from adjacent planets. This in fact, led to a recognition of the dominating importance of human capital, supreme in ancient Greece, but stamped out today. Until we retrieve it, we will be rushing blindly and greedily into ultimate disaster. *W.K.*

## Rocco Galati's Presentation at COMER Meeting

*A summary by Connie Fogal*

The meeting took place at OISE on September 8, 2012.

The judicial process is not a unique tool to raise issues. The process arises out of the political reality of the time. It is a lightning rod. There is no such thing as a failure in a court application on matters of profound significance. The failure would be in not stepping up to raise issues.

The November 13, 2012, a motion was set for mid July originally but was adjourned by the court, which is good for the cause of the case because in summer no media would pick up on it due to summer slackness and holidays. By November they will be interested.

This motion of November 13 is not the case. It is the first hurdle in arguing the case. The first thing the government does is bring a motion to strike the case, i.e., get rid of the case. The government fights on procedural grounds. The government says: "You cannot bring the case," "It is not for the courts to decide," "If the court can decide, then the parties have no standing," "If they have standing, there is no cause of action," "If there is an action, it is so weak that it will fail."

The government's position is: there is no reasonable cause of action, the Charter of Rights is not engaged, the case is outside the court's jurisdiction, the parties have no standing.

In constitutional legislation one needs to understand the underlying political evolution and analysis. Courts are the product of society. When globalization was not on the agenda, courts heard economic/financial cases regularly. They did not resist determining the issue in the 1950s and '60s. The courts heard economic/financial cases easily,

but now, with globalization, government is protecting against the arguments. Therefore, the courts are slow to respond. Today if one goes to court on an economic or financial issue there is resistance. The resistance we get is due to the "emperor's" or "dictator's" interest. Courts tend to follow.

The scope of the legal challenge: three issues are intertwined.

1. The government's refusal to do with the Bank of Canada what it was set up to do.

In 1937 the Bank provided interest-free loans to the federal government, the provincial government and to municipalities, e.g., for public works, schools, hospitals, as long as the amount did not exceed  $\frac{1}{3}$  of the budget and it was repaid in one year. This practice stopped in 1974 when the Bank of Canada joined the Bank of International Settlements.

This first issue, then, is the government's abdication of its constitutional duty to enforce and apply the legislation.

2. The failure of the Minister of Finance to direct the Governor of the Bank of Canada.

The Governor of the Bank of Canada reports to the Minister of Finance on Bank of Canada meetings. If there is a dispute between the Minister of Finance and the Governor of the Bank of Canada, with the approval of Cabinet, the Minister can direct the Governor what to do. The Bank of Canada is our bank, not the Governor's.

3. Budgetary Process.

The ritual formality every year of the knock on the door of the House of Commons is a constitutional requirement. Parliament cannot approve spending for the fiscal year until the "Queen" explains to the MPs the agenda of what the money is to be

spent on. If the MPs do not approve the budget, the government falls.

The origin of this principle is from sections 53 and 51 of the Magna Carta – that there shall be no taxation without representation.

The budget contains critical information from the Minister of Finance of what actual revenue is collected by government and what money is given back to taxpayers. This is important because if the Finance Minister says we have revenue of \$200 billion dollars, but we need 240 billion dollars, then the deficit of \$40 billion gets added to the nation's debt.

However, the reporting is not accurate because the unrevealed practice is to transfer tax credits back to corporations which form a large part of the \$40 billion deficit. This is important because if the MPs knew about the tax credits, they might not give the credits to the corporations and therefore not need a deficit.

The lawsuit is important because since 1974 when the Bank of Canada stopped issuing interest-free loans to our governments, as a country, we have been hooked by force on interest and debt that does not need to be there.

The deficit is what we pay in interest on accumulated debt. Since 1974 the federal government debt alone has risen to 1.1 trillion dollars.

The Bank of Canada lends to commercial banks at  $\frac{1}{4}$  of 1%. The commercial banks then lend the money to the government and to the public at much higher rates.

This practice and policy is dictated by banks in Europe. We have relinquished our sovereignty to foreign private banks. This is a planned conspiracy detrimental to our sovereignty.

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# The Distant Background that has Overtaken the Dominant Role in Catalonia Today

*An excerpt from the book Barcelona by Robert Hughes, pages 168 to 184.*

*No et casis amb cap ferrer,  
Que sempre hauras de rentar:  
Casat amb un mariner,  
Que ja va net de la mar.*

Don't marry a smith  
You'll always have to clean him:  
Marry a sailor  
Who comes clean from the sea.

## VIII

Folklore and customs change slowly, and endure; politics move faster. Barcelona moved through the fifteenth century like an angry invalid, badly sick, refusing to lie down.

The last member of the house of Barcelona to sit on the throne of Catalunya and Aragon was Martí I (the Humanist), who died in 1410 and left no legitimate heir. The task of finding one was taken on by the papal pretender in France, the antipope, Benedict XIII, who was spurned by most of Christian Europe but still accepted by Aragon. He summoned a conclave. After much debate on the merits of six candidates, it finally chose a Castilian to take the Crown of Aragon. He was Ferdinand of Antequera (1380-1416), son of Juan I of Castile and Elinor of Aragon. Some of the Barcelonese participate supported him, but the election was rigged. This choice became known as the Compromise of Casp, after the town where the antipope's committee sat. From now on, the kingdom of Aragon and Catalunya was ruled by Castilians.

The deadly plague epidemics, the collapse of the rural economy, the failure of banks: these were reducing the Crown of Aragon to impotence, even as the fortunes of Castile rose. Plague struck again and again through the fifteenth century, and by 1497 the population of Catalunya, which had stood at perhaps 600,000 before 1350 and 430,000 in 1365, was down to 278,000. All thought of Mediterranean empire was now fantasy. In trade, Genoese capital was beating the Barcelona merchants hands down in the eastern and western Mediterranean alike. Alfons IV of Catalunya (1396-1458) imitated his predecessors' dreams of imperial glory; he did manage to conquer Naples

and even installed his court there, styling himself Master of the Mediterranean. But he was not master of Catalunya and Aragon, and the old sense of close compact between the monarch and his people, on which so much had rested, died before he did.

In Barcelona, the hostility of Busca to Biga cracked the civic consensus apart when, in 1453, the Busca finally managed to take over the Consell de Cent and expel most of the patricians from municipal office. In the country the nobles (and the big-city businessmen who owned land) were horrified to find that Alfons IV was earning his nickname, the Magnanimous, by siding with the peasants. Realizing that rural unrest had to be defused if Catalans were to eat, Alfons suspended the "six evil customs" of peasant taxation, the *remences*, in 1455. Such an outcry rose from the *prohoms* that he reinstated these taxes in 1456 and then, the year after that, canceled them again. By now the conservative patricians were already to break with this vacillating do-gooder, but he died in 1458 and left the throne to his son, Joan II. Joan, however, was also soft on peasants, and the conservatives pinned their hopes on the son of his first marriage, Carles, prince of Viana. Father and son disliked each other so much that Joan II had Charles arrested and imprisoned in 1460. This grotesque mistake caused a constitutional crisis. What right had a Spanish king, who reigned by agreement with Catalan *consellers*, to imprison their favorite candidate – son or not? Then, most inopportunistly, Carles died. The word got out that Joan II had poisoned him. The princeling was laid out in state on the Saló del Tinell, and a bizarre scene ensued: Knights rode their war-horses up the steps and around the catafalque, roaring and sobbing, trailing their banners on the stone floor and flinging themselves from the saddle in transports of loyalty and grief.

In 1462, a civil war broke out that lasted ten years – a confused melee between the monarchy and the ruling class in the course of which most of the long-hoarded contractual bonds between throne, Generalitat, and Consell de Cent were ruptured. Joan II won, but it was a Pyrrhic victory. He died in 1479 and left the throne to his next son, Ferdinand II (the Catholic) (1452-1516). And it was Ferdinand who, by marrying the

future Isabella I of Castile, brought Catalunya definitively under Castilian sway and wrote finis to the long independence of the principate that had begun, six hundred years before, with Guifré the Hairy. From then on, Catalunya was part of Spain and, with its trade shrinking and its empire in decline, a dependent part at that. By marrying Isabella, the prince of Aragon and Catalunya had created a supermerger of Aragon and Castile, with Catalunya thrown in. Starting with Ferdinand, the kings of Aragon and Castile distanced themselves from Catalunya and its local problems which were of less weight – offensive, and well-nigh incredible, though this seemed to some Catalans – than those of Spain as a whole.

The symbol of this withdrawal was a new office: that of the viceroy or lieutenant general of Catalunya, whose fortified town house prudently equipped with corbelled circular lookdowns at the corners of its roof for pouring oil on troubled Catalans, stands in Plaça del Rei and now houses the Archives of the Crown of Aragon. Next to the Palau de Lloctinent is a high arcaded watchtower, anachronistically called the Mirado del Rei Martí (it was built in 1555, nearly a century and a half after Martí the Humanist died). Presumably it received this name because the viceroy's men wanted to seem the benign legacy of a Catalan king, rather than the observation post of a Castilian one.

In Barcelona, Ferdinand inherited a stagnant capital, plunged in financial gloom. "Today no trade at all is practiced in this city," ran a memorial from its councilors, "not a bolt of cloth is seen; the clothworkers are all unemployed and the other workers the same." Nevertheless one of Ferdinand's first acts was to install the Inquisition, that black tool of Castilian religious terror, in Barcelona. It was his invention; Pope Sixtus IV instituted it in 1478 at his and Isabella's request. The purpose of the Inquisition was to root out Muslims and Jews. Earlier Spanish monarchs had not worried too much about racial purity (*limpieza de sangre*, as it was called in Castile); high Christian families had intermarried with Jewish ones. And Catholic princes had formed pacts and alliances of convenience with Muslims throughout the Middle Ages, without incurring social odium or facing ac-

cusations of treason. Toward the end of the fifteenth century this changed dramatically. The Inquisition was a political as well as a religious instrument. Its range of terror was unbounded, since its controlling council, the Suprema, was directly appointed by the Crown and its powers overrode all regional governments and divisions. To be Jewish was heresy, to worship Allah a crime, and “pure blood” the sine qua non of any career. The Inquisition’s task was to discover how much undesirable blood a person might have, to issue certificates of purity (without which no public office could be held), and to force Muslims and Jews to convert to Christianity. Those who abjured Islam and embraced the cross were known as *moriscos*, and Jewish converts were called *converses* or *marranos*. The alternatives to conversion were flight or trail and death, usually by burning alive, in one of the spectacular autos-da-fè, or acts of faith, that the Inquisition staged to remind Spaniards of the impending terrors of the Last Judgment.

Few Muslims lived in Barcelona, but many Jews did, and they were part of the backbone of its financial life. Thus when the Inquisition arrived in Barcelona – its Tribunal sat in rooms of the Palau Reial that are now given over to the Museu Mares; in 1820 these were sacked and burned by indignant liberals – its immediate effect was to push the city’s economy closer to the brink, because all the Jews in Barcelona who could afford to move did so rather than convert: they closed their businesses, packed what they could, and fled north to France, taking with them much of the liquid assets of the city’s depleted business community.

Ferdinand died with the blood of Spanish Jewry on his hands, if not his conscience; the control of Catalunya was a minor aspect of the administrative problems of the great empire of Castile and Aragon, which now included the lands discovered in the New World by Christopher Columbus, and had devolved upon the Hapsburg emperor Charles V. Over the next two centuries the stream of gold and silver from the Spanish colonies in America would swell the economy of Castile. Catalunya was shut out of this immense plunder. Indeed, it is unlikely that it could have taken advantage of it had it been given the chance: its commercial fleet was now too feeble to sustain transatlantic trade. There were Catalan priests, soldiers, and freebooters among the conquistadores, but all the tons of treasure that were annually shipped back across the Atlantic went directly to Cádiz and thence

to the Hapsburg coffers in Madrid.

Nevertheless Barcelona did benefit from the stream, derivatively, because it was now part of the greater state of Castile and Aragon. In any case its civic metabolism was too strong wholly to break down under economic crisis, and so was its belief in itself – however irrational that belief may sometimes may have looked from Castile. Trade went on, the guilds flourished and even expanded, and industry, particularly the wool and cotton trades, continued to grow. The burghers enlarged their town houses and commissioned their altarpieces, now in a refined International Gothic style strongly influenced by Flemish prototypes, showing Barcelona glittering behind saints, Virgin, and themselves. The picture of absolute decrepitude is somewhat amended if one looks at the buildings: there was enough free money around in the late fifteenth and early sixteenth centuries, for instance, to build most of the Hospital of the Holy Cross in the Raval (Carrer de l’Hospital 56), one of the largest charitable foundations of its kind in Europe. The handsome sixteenth-century guildhalls – those of the shoemakers and the coppersmiths, which were dismantled to make way for the Via Laietana and rebuilt in Plaça de Sant Felip Neri – bear ample witness to the prosperity of their members. There is not much Renaissance architecture of distinction in Barcelona, compared with its immense fund of Gothic, but this does not mean that the city lacked a humanistic culture. Its literary side had been particularly strong since the fourteenth century, Gradually Catalans – some of them, anyway – came to entertain the idea that there was such a thing as *noblesa* of letters, a sense of culture that descended along a literary tradition, rather than bloodlines; its prototypes lay in texts lie Castiglione’s *Blood of the Courtier* and especially in Erasmus, whose works enjoyed a huge vogue throughout Spain in the 1530s.

You did not have to be born noble; you could *become* noble. This idea, of course, meshed well with the long-standing belief of patrician city families that they did, indeed, constitute an aristocracy, quite as much as the *noblesa castral*. And in some ways the roles of the groups were reversing. Country lords, through the sixteenth century, came in increasing numbers to the city, there to live off their rents under more sophisticated conditions than were afforded by some windy, cavernous, and isolated family fort surrounded by pigsties and muttering peasants in the Ampurdan. At the same time

properties were being bought by the *ciutadans honrats*, “city burghers,” to fulfill their own ideas of squirearchy.

This led to a curious revival of chivalric culture in Barcelona. Needless to say, the ancient order of the Catalan knights no longer had much practical use by the 1560s: cannons and harquebuses had brought a new level of deadlines of warfare and rendered the man in the steel suit a ceremonial anachronism. In 1571, a fleet of galleys largely manned by Catalans under the command of Don Juan of Austria, bastard son of the Hapsburg emperor Charles V, had taught that lesson to the Turks at Lepanto. But in the age of gunpowder, chivalry returned to Barcelona in a decorative, *sportif* form. Annual tourneys were held from 1565 on – charges, armor, pennons, ladies looking on, and wooden-tipped lances. It was a preview of the nostalgic mania for chivalry that pervaded the culture of the Catalan Renaixença three centuries later. It was accompanied by the same jockeying for titles among the bourgeoisie.

The Catalans had always been interested in what the English were up to – there are, for instance, late-twelfth-century frescoes in the church of Santa Maria in Terrassa that depict the murder of Thomas á Becket in Canterbury in 1170. But now the desire to be *molt Anglès* gave Barcelona a new saint: the patron of Barcelona’s perennial Anglophilia and, more generally, the result of the new interest with which Spain in general, having an emperor who reigned over the north as well, was looking at northern Europe.

This is Saint Jordi – Saint George, whose armored figure, spitting the dragon on his lance, came to infest the walls, altars, chimneypieces, ceilings, pediments, escutcheons, tiles, capitals, stained-glass windows, plumbing details, printed menus, and chocolate wrappers of Barcelona from the late sixteenth century on. Probably he never existed (hagiographers have long been divided on this), but, if he did, he was martyred in the fourth century at what is now the Israeli town of Lod (ancient Lydda). Presumably no Catholics, and Catalan ones least of all, speculated that he might have been a Jew. His cult rose first in England and reached Barcelona later. He had been associated with Catalo-Aragonese chivalry quite early – Pere I (the Catholic) founded an order of the Knights of Saint George I, and Pere III (the Ceremonious) favored devotion to him. But there were no relics of him in Barcelona, no church was dedicated to him, and he seems to have lacked a widespread cult until the late sixteenth century, when he came in, as

warriors should, with a vengeance and took the city by storm. The chapel of the Generalitat enshrines a fine small silver figure of Saint George, a reminder that it was the Generalitat itself that promoted his cult: in 1574 it got Pope Gregory XIII to issue a plenary indulgence for prayers on the feast day, April 23, and in 1667 Clement IX made Saint George's Day a holiday throughout Catalunya.

It was this chivalry-obsessed city that Cervantes saw, recuperating after the battle of Lepanto. He wrote a litany of praise to it, which now seems to have had an ironic edge. If so, the Catalans have always ignored it. To them, it is obvious truth, though of course it is nice to hear it from a Castilian once in a while:

*Barcelona, honor of Spain, alarm and terror of enemies near and far, luxury and delight of its inhabitants, refuge of foreigners, school of chivalry, and epitome of all that a civilized and inquisitive taste could ask for in a great, famous, rich and well-founded city...school of courtesy, travelers' rest, protector of the poor, home of the brave, vengeance of the injured and happy meeting-place of close friendship.*

Nevertheless, despite the sophistication, the later sixteenth and seventeenth centuries remain known to Catalans as La Decadencia. Partly this was because the culture of Barcelona was slack; it has no late Renaissance or baroque buildings to compare with what was being built in Italy or in other parts of Spain; when Castile was up, creating its Golden age in the seventeenth century, Catalunya was down. In painting, it produced nothing but late, provincial reruns of what had been done better elsewhere; there was no Catalan equivalent to Velázquez, Ribera, Zurbarán, or El Greco.

But more fundamentally, there was the political question of rights. The decline of the institutions of Catalan independence was well under way by the seventeenth century. "If not, not" was a phrase no one dared use with Hapsburg Viceroy, and Catalunya's absorption into the kingdom of Castile meant that its local *furs* and *drets*, however ancient, began to lose their primitive force. Rights, as far as the Hapsburg monarchs in Madrid were concerned, were issued at the royal will; there was nothing permanent or irrevocable about them. "Pactism" was not in their vocabulary. The past traditions and present desires of the provinces must bow before the interests of a united, integrated Spain, centered on Castile.

Such, in particular, was the view of Felipe IV's formidable minister of state, Gaspar de

Guzmán, count-duke of Olivares (1587-1645). This brilliant, driven authoritarian, both quixotic imperialist and pragmatic organizer, had set out to transform the political face of Spain. His plan was to create a uniform system of laws, military levies, and taxation that would apply everywhere, no matter what the still-powerful local Corts of Aragon, Valencia, and Catalunya might say or want. Many realms, but one law. Olivares was not so naïve as to imagine that this could be done all at once, by fiat. More offices must be given to powerful men from the provinces; the closed shop of Madrid preferment must be opened, and the king must get out into the country, showing himself to his subjects, creating loyalty. There would be opposition, he realized, so the process must be done by stages. Olivares thought that a good way to start would be to create a kind of Military bond among the various provinces of the Hapsburg empire – the Union of Arms, which would produce a tributary standing army of 140,000 men. For the Hapsburg realm was facing bankruptcy: the Thirty Years War, which broke out in 1618, was bleeding it white. In 1624 Olivares wrote down his quotas. The core of the new army would come from Castile and the Indies – 44,000 men. Valencia would raise 6,000, Milan 8,000, Aragon 10,000, and Portugal, Naples and Catalunya most of all: 16,000 men apiece.

If this was meant to be the thin end of the wedge of unification, the Catalans received it as a hammer blow. Olivares apparently did think Catalunya could spare that many conscripts to fight in a foreign war. He had been badly misinformed by his own viceroys, who had shown nothing but arrogance and incompetence in dealing with Catalan problems and had given Olivares the impression that Catalunya had a population of one million, whereas the true figure was closer to three hundred thousand. The rural counties of the province were still depopulated and exhausted. Banditry, known as *bandolerisme*, was rampant; the country roads of Catalunya swarmed with rapacious footpads organized in gangs, some with the glimmerings of a political agenda, others just out of what they could steal from travelers and farms. *Bandolers* even raided the outskirts of Barcelona itself, and some city traders made a percentage laundering loot for them. One memorable day in 1613 a bandit named Barbeta, who had a Robin Hood-like renown, managed to hijack a whole mule train laden with silver on its way to the Hapsburg bankers – and stood there

in the road, handing ingots to the peasants. The *bandolers*, like the early Mafia in Sicily, did a lot of dirty work that *ciutadans bonrats* wanted done but would not touch. If Catalans were too weak to protect themselves against this epidemic of ruffians at home, why should they be rounded up to fight in Madrid's war abroad?

Felipe IV made a royal progress to Barcelona, staged-managed by Olivares. In his presence the Corts was assembled for the first time in twenty years. Carrots were dangled: Barcelona would have new Madrid-financed trading companies after it joined the Union of Arms. These blandishments failed. The Catalans would not cooperate. Felipe IV, stiffly bemused by his subjects; mulishness, returned to Madrid; Olivares issued new orders to the viceroy to raise money and men by all means possible, however grinding.

In 1635 war broke out between France and the Hapsburg Austrian empire. A good part of the border between France and Spanish Hapsburg territory lay in Catalunya, and the Catalans seemed disinclined to fight; it was almost as though they welcomed the French (as indeed many of them did). Since Spain was more desperately short of money and men than ever, Olivares redoubled his efforts to squeeze the Catalans and proposed to launch his main attack on France from Catalan territory, thus leaving these fractious provincials no choice about which side they were on. But in 1639 the French moved first and captured the fortress of Salses in the Roussillon, Catalan territory. Olivares besieged it with a force largely made up of press-ganged Catalan troops, while his viceroy in Barcelona, the fuddled count of Santa Coloma – Catalan himself and a detested quisling – struggled to wring more taxes and military levies from the groaning provinces. All pretense of respect for Catalan autonomy went by the board as Olivares, through Santa Coloma, imposed what amounted to martial law on the province. The siege of Salses was a long, nightmarish bungle, although the French surrendered after six months. By the spring of 1640 everyone in Catalunya who had not hated Olivares before, this time included the *noblesa* – which had lost many sons and fathers under the walls of Salses – hated him now. Even the Catalan clergy, usually slow to protest, turned against Olivares and the king; their leader was Paul Claris (1586-1641), canon of Urgell, who had become president of the Generalitat in 1638.

Olivares was so pleased with the viceroy at Salses that he failed to see it had brought

Catalunya to the verge of rebellion. He decided to go on with the Union of Arms. He would keep Castilian troops in Catalunya to force a meeting of the Corts, which (or so Olivares assured his monarch) would repeal the constitutions that impeded the full levying of Catalan troops to defend the Hapsburg empire. He therefore ordered that the Salses army should be billed on Catalan farmers and townspeople until the Corts convened.

Francisco Maria de Melo, a Portuguese officer in Felipe IV's army – and not, one may assume, especially biased in favor of the Catalans – described the behavior of the *tercos*, or troops, once they were let loose on the countryside to forage for themselves. “There was no outrage that they did not consider licit,” he noted,

*They ranged freely around the country without treating it any differently from occupied territory, trampling its crops, stealing its livestock, oppressing its villages... the officers of the royal troops, infected by the same lack of restraint and the same ambition, neither restrained the soldiers nor gave any compensation to the peasants... All the outrage and discontent of noble and plebeian alike was centered on the oppression of their Fatherland; at times the mourning and unutterable sorrow bore witness to endless death and disaster.*

This truly solipsistic error set off a general rising known (because its main force was the peasantry) as the Guerra dels Segadors, the Reapers' War, a patriotic bloodbath that lasted until 1652.

It was sparked by Santa Coloma's arrest of one of Pau Claris's fellow deputies on the Generalitat, Francesc de Tamarit. At once the countryside rose in arms; a band of enraged rebels marched straight into Barcelona, broke into the prison and freed him. Olivares, at last realizing that he had a revolution on his hands – another front in Castile's desperately overextended wars – tried to pacify the Catalans, but it was too late. In June 1640, Barcelona was full of casual laborers, sickles slung in their belts, hoping as usual to hire themselves out for harvest work at its central labor market. They began to riot. City workers joined them. Guards fled for their lives as the mob turned on the viceroy's palace and the ministers' houses, sacking and burning them. Santa Coloma, hoping to find a boat and sail to safety, hid in the shipyards of the Dressanes, but the crowd winkled him out, chased him down to the waterside and bashed him to death on the rocky beach.

Over the next few years, most of the

province dissolved in anarchy. The failure of Catalunya was that it could not make common cause with Aragon or Valencia. If the three states of the ancient kingdom of Aragon had combined against Castile at this point, they could probably have beaten back the enfeebled Hapsburg forces and re-created their old power bloc. But all three were rendered incapable of doing so by their deep-seated provinciality and mutual suspicions. Instead, Pau Claris, who had emerged as the charismatic leader of the Catalans in the first year of the war, pointed them toward an alliance with the French, who were only too happy to intervene. The Generalitat proclaimed a new court-king of Barcelona: Louis XIII of France. The French army marched into Barcelona and, with the Catalan forces, inflicted a severe defeat on the Hapsburg army upon the hill of Montjuic.

The Reapers' War was finally settled by compromise. Most of the French army withdrew from Catalunya by 1648, taking the province of Roussillon for their trouble; that was the end of Catalan territory north of the Pyrenees. Henceforth they were execrated by pious Catalans for “desertion.” Felipe IV's forces starved Barcelona into surrender in the autumn of 1652 – which was lucky for them, as they hardly had the strength to muster a direct assault on its walls. Felipe IV had no wish to take revenge on the defeated city: he still needed its allegiance and its taxes. So against the advice of counselors in Madrid he insisted on leaving the Corts and the constitutions in place, and there was a general amnesty. The *ciutadans honrats* went back to business, having learned one particularly important lesson from the war: that peasants, their social inferiors, were dangerous, unreachable and needed to be repressed. The people who suffered most and gained least from the Reapers' War were the reapers themselves.

The Reapers' War is remembered as one of the archetypal struggles of Catalan independence, and so it was, but it was a dreadful time to live through, and the province emerged from it, inevitably, in even worse shape than it had been under Olivares, whose political career was destroyed by it. It left behind it a trail of devastation and one perennially popular anthem, “Els Segadors,” which was, however, written in the late nineteenth century:

*Ara ès hora, segadors!  
Ara ès hora d'estar alerta!  
Per quan vinqui an alter juny,  
esmolem ben bè les eines!*

*Bon cop de falc!  
Bon cop de Falc,  
si el blat ens volen prendre!  
Bon cop de falc!*

Now is the hour, reapers,  
The time to be on your guard!  
For when June comes round again,  
we'll sharpen our tools well!  
A good sickle-cut!  
A good sickle cut  
if they want to take our wheat!  
A good sickle-cut!

## IX

The Catalans had defied the weak rule of the Hapsburgs and emerged, battered, with their basic institutions intact. They were not so lucky with the Bourbons, fifty years later.

It would be cruel and unusual punishment to immerse the reader deep in the details of the War of the Spanish Succession. But since it led directly to the conquest of Catalunya and the destruction of its political forms, it requires a brief sketch. Much simplified, what happened was this.

Carlos II, monarch of Spain and last king of the house of Hapsburg, died in 1700: a pathetic creature, half-mad, convulsed with fits and surrounded by charismatics and confessors. His two barren marriages had produced no Hapsburg heir. Four major powers, England, Holland, Austria, and France, were scheming well before his death to install their candidates on the Spanish throne.

England and Holland were set against an Austrian or a French successor. Accordingly, they backed a Bavarian prince, Joseph Ferdinand, grandson of the infanta Maria Teresa.

Austria wanted another of the infanta's grandsons, Archduke Charles, son of Holy Emperor Leopold I.

France supported a prince from its house of Bourbon: Philippe d'Anjou, grandson of Louis XIV, the Sun King.

Carlos II himself favored the Bavarian Joseph Ferdinand, but his German queen – a termagant, who believed she could bully the ailing monarch as she chose – wanted the Austrian pretender, Archduke Charles.

There seemed to be no solution to this lock, and so, even before Carlos's death, the major powers signed a secret treaty to divide the Spanish realm among all three. But this was leaked to Carlos, who, whatever his deficiencies as a king, would not see his realm dismembered. He immediately flew into a

rage and declared for his choice, the Bavarian candidate, Joseph Ferdinand. This was in 1698. But next year, with abominable timing, Joseph Ferdinand died. That left the Austrian and the Frenchman and Carlos in 1700 willed his state to the latter. France was the most powerful state in Europe; a French king of Spain would unite the two realms and save the peninsula from political dissolution. Six months later the last Habsburg monarch died, Philippe d'Anjou, first of the Spanish Bourbon dynasty, made his triumphal entry into Madrid in April 1701, taking the name of Felipe V.

England, Holland, Austria, and Savoy viewed his accession to the throne with horror. They saw the union of France and Spain producing a menacing superstate with instant hegemony over Europe. They declared war, meaning to throw Felipe V off the Spanish throne and replace him with Archduke Charles of Austria. Such was the War of the Spanish Succession that convulsed Europe from 1701 to 1714.

Catalunya backed the wrong side. It had its reasons, most of them bad. In effect, its ruling classes had been bought off by the Hapsburgs' relative magnanimity in the fifty years since the Reapers' War, and Catalunya, on one of its pendulum swings between obstinate revolt and nest-feathering obedience to external rule, had displayed an effusive loyalty to them. But more than that, a deep popular loathing of France now came to be shared by *ciutadans honrats*, when they saw what Felipe V's political proclivities were. (The views of the Catalan aristocracy no longer mattered; in the past two centuries all its daughters had been married off to Castilian nobles like the dukes of Medinacoeli and taken the family estates as dowry, so that the *noblesa castral*, deprived of breeding power, was to all intents politically extinct.) Felipe I and Olivares had been unable to impose centralized rule on the province – Madrid's coffers and army were too enfeebled for that – but Felipe V was an iron-willed centralist, born and bred. He had inherited his grandfather Louis XIV's near-religious passion for the centralized state, all its strings of power running straight back to the monarch and his ministries. During thirteen years of war he steadily reconstructed Spain along centralist lines. Still, Felipe V wanted amicable relations with the Catalans if possible and was prepared to go a long way to gratify them: at first, anyway.

In 1702 he paid a state visit to Barcelona. The Catalan Corts was convened, for the first time in generation, to swear allegiance

to him – its last session had been thirty years before, and in indifference and complacency it had allowed itself to lapse. The king unfurled what amounted to a program of Catalan autonomy. He gave back to Catalunya the countries of Cerdanya and Roussillon, north of the Pyrenees. He described the principality as “free and independent” and spoke of a “Catalan nation,” united by ancient custom and a common language with Valencia and the Balearics. He declared Barcelona to be a free port, whose ships might trade (on a restricted basis) with the Spanish colonies in the Caribbean.

The Catalans mulishly refused to believe a word of this, and so there was no way of knowing whether Felipe V would have honored his promises. Irrked by the lack of response among his subjects, he tightened the ratchet of power by appointing, as viceroy, a singularly arrogant and stupid Castilian noble, Francisco Fernández de Velasco, the duke of Frías, whose blunders soon destroyed any disposition Catalunya had to believe Felipe V's promises.

The Catalans now wanted the Hapsburg pretender, the archduke Charles, more than ever. In a ceremony in Vienna in September 1703, Charles was proclaimed Charles III, king of Catalunya and Aragon as well as Castile. By 1705 he seemed to be winning the war, and the Catalans formally declared their loyalty to him. They also naïvely signed a treaty with England, Perfidious Albion promised to support their war against the Bourbons with its Mediterranean fleet, but (not for the first or last time) it was to renege on the deal. That November Charles III entered Barcelona with his composite multinational army, and at first things went well for him. He marched from Barcelona to Madrid, but the *madrileños* hated Charles as much as the Catalans loathed his rival, and his attempted coup failed. Felipe V counterattacked, drove Charles back to Valencia, and defeated his army there at the battle of Almansa in the spring of 1707. The badly mauled Charles recoiled to Barcelona, and Felipe showed Catalunya what lay in store for it by depriving Aragon and Valencia of all their liberties and rights.

This only stiffened the resolve of the Catalans, who, having so imprudently entered the war, fought on to its end with an almost kamikazelike heroism that transcended all questions of *seny* and self-interest. They had no one to turn to. Charles III beat a dignified retreat north from Barcelona in 1711, leaving his wife behind as regent. In 1713 the war-weary English government made peace

with France and with Felipe V, leaving Catalunya in the lurch. In March 1714 Charles (who had now, through the unexpected death of his brother, become Holy Roman Emperor Charles VI and could deal with the Bourbons as an equal) signed a peace treaty with Felipe V. Only Catalunya was left, fighting on without its big allies for a lost cause. And of Catalunya, by the summer of 1714, only Barcelona still held out against the Bourbon army, which, due to the disappearance of British ships, was supported by a naval blockade of the port as well.

The city had only about ten thousand soldiers, whose numbers were soon whittled down by gunfire, famine, and disease. But every citizen who could carry water to the walls or throw a rock was united with them in an agonized fanaticism that mounted during the months of the siege. Every male over the age of fourteen was issued arms by the Catalan commander, Antoni de Villaroel. The Bourbon army was led by the bastard son of James II of England, James Stuart, duke of Berwick (now duke of Liria as well, for his services in crushing the Hapsburg force at Almansa seven years before). Extraordinary moments of bravery were witnessed, particularly when the fifty-four-year-old Rafael de Casanova I Comes, a lawyer and the last *conseller en cap* of Barcelona, raised the standard of Saint Eulalia and led a last-moment counterattack from the walls on the last day of the siege. Villaroel repeatedly threatened to resign his command because the citizens of Barcelona refused to listen to any of Berwick's offers of clemency in return of surrender; and the Council of One Hundred – which now controlled all civil power in Barcelona, since the Diputació had just voted to dissolve itself – was so flown with religious exaltation that it issued a formal order making the statue of the Virgin of the Mercè commander in his stead. But although she had saved Catalunya from a plague of locusts in 1687, she could not produce the necessary miracle now.

### Our Comment

To begin with, let us make clear that the question and the bogus “solution” would never have arisen if the redistribution of wealth and capital had not been pinched and distorted to the point that capital became an untenable monopoly.

Now that the language of prime sovereignty has taken over in Cataluña, not only has Catalan elbowed out Castilian as the prime language of Cataluña, and brought relationships ignored for centuries into priv-



ileged positions, once again, bringing with it traditions of five millennia to the fore, and reducing Castilian once again to the limited role of a secondary language.

In distant Aragon far to the north is the mountain peak Tibi Dabo – referring to the Good Lord in Heaven “I Shall Give To You.” In 1938 from an adjourning peak I watched the German Nazi planes practicing their bombardment technique on Tibi Dabo, while in Barcelona itself, the sup-

posedly peace-loving embargo on arms to Catalunya had in fact made it possible for the Soviets, the French, the British and the Nazi Germans to sell their armament to the besieged Catalans at high bonus prices.

Today all that has changed and Catalan after a couple of centuries has become once again the privileged language and culture of Catalunya. That makes the language a specially privileged medium, the tongue that had held Spain and much of southern

Europe in awe and thrall for thousands of years. How it lost that position and has regained it today is one of the great achievements of our age. To properly grasp its importance we must transport our minds back some five thousand years to the heights of Tibi Dabo. That will help us grasp the importance of the new recognition of the message from Tibi Dabo, preserved intact from its ancestral background.

W.K.

## Daikin Breezes into US Market with Goodman deal

*By Yoshiyuki Osada, The Globe and Mail, August 30, 2012*

Osaka, Japan – Daikin Industries Ltd. will buy Goodman Global Inc. for \$3.7 billion (US), gaining greater access to a recovering North American housing market and making the Japanese company the world's largest maker of heating, ventilation and air conditioning systems.

Daikin has long been interested in its Houston-based rival, but delayed takeover talks after Japan's devastating earthquake and tsunami last year and then later due to uncertainty over the global economy.

The deal will strengthen Daikin's business in duct-type air conditioners, where ducts are used to ventilate buildings, the prevalent technology used in the United States, analysts said.

“They've tried for so long to break into the US residential air conditioner market with their ductless technology, but it's just not happening, so acquiring into that market is the only way to go,” said Edward Bourlet, a machinery analyst at CLSA Asia Pacific Markets in Tokyo.

Daikin derives less than 10 per cent of sales in its major air conditioning segment from the Americas, where rivals include Johnson Controls Inc.'s York, Lennox International Inc. and Ingersoll-Rand PLC's Trane.

The Japanese Company helped by a strong yen, will pay \$3.7 billion in an acquisition that will allow it to overtake top-ranked Carrier brand maker United Technologies Corp. as the world's top HVAC maker.

Goodman, which recorded 2011 sales of about 2.1 billion, is a low-price competitor, so the deal may put some pricing pressure on the HVAC industry, said analyst Rob Wertheimer of Vertical Research Partners.

“It's not that easy to enter North America,” he said, noting that the US market

of air conditioning dealers and installers is highly fragmented. The deal gives Daikin access to about 900 distributors.

For US peers, a new bigger rival is a slight negative, said Edward Jones analyst Matt Collins, although global competition is nothing new for large diversified manufacturers like United Tech's Carrier brand.

“Carrier has been restructuring for the last five years, taking out almost half its factories and streamlining its work force, so it's not as if they've been sitting back enjoying the ride,” Collins said.

Recent signals of a US housing recovery probably sweetened the deal for Daikin,” he added.

Daikin will not turn to equity markets to fund the deal but uses loans, cash reserves and will tap a bond issue of about \$635 billion, a company official said earlier on Wednesday.

Daikin aims to complete the deal, which is Japan's third-biggest so far this year, in the fourth quarter. The Japanese company expects \$340 billion in strategic and efficiency benefits from the purchase in three years.

Backed by the strong yen, outbound mergers and acquisitions by Japanese firms had a total value from more than \$46 billion in the year to date, slightly higher than the same period in 2011, when outbound deals hit a record for the calendar year.

Hellman & Friedman bought Goodman Global in October 2007 in a deal valued at \$2.65 billion.

The deal with Daikin is the latest in a string of sales for the private equity firm this year, which included offloading its holdings in photo agency Getty images Inc.

The acquisition comes more than two years after Goodman Global files for an initial public offering in May 2010. The company withdrew its IPO registration later

that year, and a source at that time said it had explored a possible sale to Daikin and other potential buyers.



**Our Comment.** Our financial system is wholly preoccupied with extracting maximum profits with a minimum exposure of monetary capital. But while wholly obsessed with that, we are missing the irreparable costs to society in denying the even more crucial importance of the neglect currently shown human capital. It is entirely possible to reverse physical capital investments. But that is not remotely the case with human capital. Make it impossible for gifted students from impecunious families to continue their studies when they are ready for them and you have lost human capital precisely when it is most crucial for society's future that it be saved. In a world that in one way or another seems tottering on the verge of ultimate disaster, our financial megagamblers are gambling big with the wiping out of humanity itself.

That is notable not only in the world's hopelessly deficient educational system for talented but penniless youngsters, but in the shoddy silence about the great lessons of ancient Greece, that responsible relationships simply cannot be turned around, because the effect of any proposition gets reflected not only from almost any point on the compass, but even from the phase of the moon itself. Ignore that, you have no serious accountability. There is not a government in the world today – including that of modern Greece itself – permitted to deal with the problem. The upshot: our contemporary world is being run without serious accountability. Continue along that path, and there should be serious concern about the survival of humanity. W.K.

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# Correspondence

Dear Mr. William Krehm,

I hope that you enjoyed your stay in Barcelona and that you had a nice trip back to Toronto.

It was certainly a pleasure meeting and hearing you that August afternoon here in Barcelona. Your talk on your remembrances of the Spanish Revolution gave me new light for my study, and I am very grateful that you agreed to explain them to me.

Also of interest was hearing your views on economics, a field that I don't handle very well. As I told you, even if one doesn't agree with your views in economics I think that your books should be in the libraries, and I am pleased to receive them to include them in the library where I work and integrate them into the Catalan universities collective catalogue.

Regarding your experience in the Spanish Revolution, you will recall that we agreed to continue our mail exchange on this question, and also to ask for copies of the documentation that you have on this.

On the first point, I am preparing a new questionnaire that I shall send you in the next days.

On the question of the documents, you sent me previously a copy of your book *Spain: revolution and counterrevolution*, and copies of your collection of the POUM journal *The Spanish revolution*. What I am interested now is mainly in letters and reports that you made in that time, and also in photographs.

In the book by Michael Petrou *Renegades: Canadians in the Spanish Civil War*, he interviewed you and refers sometimes to letters and reports by or on you that he says are in Libraries and Archives Canada and also in the Thomas Fisher Rare Book Library in the University of Toronto, although these seem to be uncatalogued. I wonder if you have also this material, or any related to the Spanish Revolution, so I could make copies. Any written or graphic documentation that you could provide, I am sure that will be of great interest for my research.

Well, this is all for now. I shall prepare a little questionnaire that I shall send you the next days.

With my warmest greetings,  
*Sergi Rosés*

*All these and many more, are being sent to our friends and comrades in Barcelona, where*

*the revival of the ancestral Catalan language is one of the most portentous happenings in the world today. W.K.*



Good afternoon,

Recently, I began following a local election campaign, interested in the views of all the candidates, so that I am able to make an informed decision as to who should be a representative.

One of the candidates claims he is involved in a "think tank" called the Committee on Monetary and Economic Reform and seems to be touting this as part of his platform. After searching the internet for more information, I came across your site, but am unable to determine exactly what this "committee" is. Is this committee indeed an economic "think tank"? Is it an advocacy group? Or is it simply an online magazine, selling memberships and publications?

Just trying to be an informed Canadian. Thanks for your help.

*Jennifer*

COMER – the name is short-form for the Committee for Monetary and Economic Reform. Having studied the authors of ancient Greece we noted the following: Socrates, the founder of the school wrote nothing – he was put to death for the questions he asked. But as for the disciples space considerations restrict me to a single one – Plato – who deduced from Socrates's questions, that important questions asked cannot be handled by simply turning the question around. They can be detected in every conceivable direction, indeed, even from the current phase of the moon. Such analysis had never been attempted before, and it had ushered in a golden age for Greece. Unfortunately, Athens was conquered by the Turks, and who then were succeeded by a series of dictatorships. When I first visited Athens approximately a half-century ago, the results of the Turkish rule were clearly evident. The heavy-handed treatment of the Parthenon on the mountain had still not been cleaned up and the sole museum in Athens was still not cleaned from Turkish dirt and dust.

Various Europeans had occupied strategic islands and the mainland itself. It was from readings of the ancient Greek authors, beginning with Plato, that I noted

the great fallacy that had marred the contemporary treatment of our great Greek heritage. This I converted into a program that would enable the modern world to take over the incredible Greek heritage and sent it to an advanced French publisher *La Revue Économique*, noted for its independence of thought. The answer came almost by return mail accompanied by a cheque – the French franc equivalent of \$200 US, if memory is not paying its tricks on me. More important was the number of invitations that started pouring in – Cambridge University in Britain, that declared itself particularly impressed by notion of the expression of the "social lien" – which is simply not marketed but serves to finance the "social lien." I received invitations to come and explain my new ideas from at last 8 university economic departments from France to Tokyo.

That at once drew a letter from John Hotson, a very prominent member of the Economic Department of the University of Waterloo. Waterloo University thanks largely to Hotson became the virtual home base of COMER for a couple of decades. It brought over from France, the initiator of the French publication, with me doing the translation from and into French. I spent at least two years responding to invitations to visit and explain to the local economic research groups, what the "social lien" was all about.

Unmistakable evidence was coming in on all sides that the powers in the saddle were taking a firm stand that the monopoly of speculative banking was increasingly determined to tighten, rather than relax its grasp. The European framework provided the mayor sites where this worked. Favorite settings for such a program were provided by a programmed download of all the lessons learned from classical Greece. The setting was adapted to the desired goal despite notable handicaps a most difficult rite of passage arose from the fact that it was the Barcelona harbour defeat of the old regime had been put down by the anarchist forces who rallied the forces to defeat the counter-revolutionary schemes. So much so, that the Spanish army forces set up an armed force of its own directly across the Ramblas that ran between.

But matters did not end there, because the British Independent Labour Party which had brought an entire armed force that was crucial in holding the Aragon front. It established itself exactly across the Ramblas highway from the POUM so that it could keep the government forces in its sight. The

ILP military forces sent originally to the northern Aragon front was thus of key importance in saving many lives including my own. For I had come to attend a Trotskyite Conference, but the conference for lack of attendance did not take place and I was staying on to visit a few of the countries who had expressed interest in the horizons I had explored in the *Économique Revue* piece.

I learned a great deal about anarchist politics. It was a time when not even a breathing spell was granted those who questioned the status quo. Undoubtedly my life was saved by the British Independent Labour Party under the leadership of Fenner Brockway. Waiting in Europe for a resumption of the conferences, I noted the depth of clashing interest between the Marxists and the anarchists – a situation across much of southern Europe.

Historically, anarchism has played a key role throughout much of Southern Europe. There was little love lost between the two. It was the anarchists in the harbour regions who put down the army's attempt to take over. The situation was further entangled by the international arms boycott of Spain and its wars. That however, lured the European powers into some badly thought-out interventions. The anarchists used their honesty won prestige by questioning the world power brokers. Throughout the world there was a growing rift between orthodox Marxist, and those seeking other approaches.

Marxists of all shadings suffered severely from the fact that Karl Marx had been born just as the tracks of Germany's railways were being laid. That left Karl Marx with a badly mistaken view: he took it for granted that like the railway, the world economy, too, was predictable where and when it would deliver its passengers at what proper stations. Instead, though the expected revolution broke out in 1848, the foretold victors found themselves overwhelmed. Marx and his family fled to Britain as refugees. He and his family had to set up their home in the modest Soho district, and scrounge to make ends meet.

The great Karl Marx simply could not find the means and conviction to publish volumes 2, 3, and 4 of his *Das Kapital*, he had to leave the task to Friedrich Engels who, having laboured in his father's textile factory in Britain, had a more realistic insight on how capitalism works. And, to make his exile still more unbearable, Marx's favorite daughter, who had become a charming soap-box orator in the park a stone-throw from Buckingham Palace succeeded because

she was being double-crossed by her lover, in fact, very much as her father was by history. It was actually worse than that: even when the side that Marx was on was losing, they ended up finding their comrades executed – as happened in the cemetery of Père Lachaise in 1871.



Re: *The Devil's Derivatives* by Nicholas Dunbar (2011)

When the financial corporate world can convince some of the human race that 'Trust us we know what we're doing,' and the subject is the most nefarious games played, next to war, in history, it is time to get educated, fast, right?

Considering reading Nicholas Dunbar's *The Devil's Derivatives*, if you would know how the banks and money men can manipulate the common man's money and some not so common, to play in their orchestrated sand box, at great cost to the players and great profit to the gamblers.

When higher maths, calculus and such can be used to insure against loss for those who live by gaming the hedging, short selling money, commodities markets, (like food, fuel, weather, and water and power, other peoples life insurance, stocks and bonds, world currencies, etc.) would this not turn on those who lust for wealth, great gobs of it?

This book explains the hows and why and gives examples of the when and who and where.

It is my belief that when people, at least some people, get tired of being shafted by the big guys, who can even manipulate the so called regulators in to letting them 'do their own thing' or self-regulate, (example IROC, FINRA, and the Financial Services Authorities, {incorporated}), is it not time to 'follow the money' and learn from these games and how they work? *This book really, really helps.*

It is like as if, should a crisis be necessary to impose your will financially on the world, so that humans are subservient, again, you need a whole lot of super complicated games to impoverish them, kill their pension plans, and savings and nest eggs, with derivatives and such.

If you would learn from bad, bad, corporate entities, like Goldman-Sachs, and Enron, etc. instead of cursing them; *read the book!*

This book helps, and with *explained* Jargon!

*Rene Moreau*

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# Drifter Known for Menace Is Charged With Raping Woman, 73, in Central Park

*By Wendy Ruderman and Nate Schweber, The New York Times, September 14, 2012*

A drifter who hailed from the South and spent most of his adult life in and out of prison on a grab bag of felonies, including kidnapping and abduction, was arrested on Thursday and charged with the rape, beating and robbery of a 73-year-old woman in Central Park.

The suspect, David Albert Mitchell, 42, was nothing if not distinctive. His body was a canvas of dark, mythical tattoos: a grim reaper, dragons, Nordic warriors, castles and "some kind of deadly insect," said Paul J. Browne, the Police Department's chief spokesman. Other tattoos included two teardrops under Mr. Mitchell's left eye and one small teardrop below his right.

Mr. Mitchell, a parolee from Virginia who arrived in New York City in July, found his way to Central Park, where he almost immediately inspired fear in park regulars, one of whom he threatened with a knife on Aug. 20, the authorities said.

"He's a psycho," said Ayrton dos Santos Jr., known as the mayor of Strawberry Fields, a section of the park where a memorial to John Lennon attracts throngs of tourists. "He pulled a shank on me and said, 'I got no problem taking this knife and plugging it into you and spattering blood all over this circle in front of all these people.'"

Video surveillance images of the suspect were distributed by the police on Wednesday afternoon, hours after the attack on the woman, a bird-watcher who the police said had been brutalized just before noon Wednesday on a wood-chip path not far from Strawberry Fields. By nightfall, three

rookie police officers patrolling the Upper West Side recognized the suspect from a grainy photograph and apprehended the man only blocks from the park.

On Thursday, the victim, her face still swollen and bruised, picked out Mr. Mitchell in a lineup, Mr. Browne said. Prosecutors charged Mr. Mitchell with predatory sexual assault, rape, criminal sex act, robbery and criminal possession of stolen property. They also charged Mr. Mitchell, who went by Keith, with menacing in the knife-brandishing episode.

As officers escorted Mr. Mitchell from a Special Victims Unit building on Thursday, he spit in the direction of an assemblage of news reporters.

Early Friday morning, Mr. Mitchell was arraigned in Manhattan Criminal Court and ordered held without bail.

The heinous nature of the crime surprised New Yorkers, chilling even veteran members of law enforcement.

"Central Park is a well-policed precinct, with low crime," Mr. Browne said. "This attack, the viciousness of it, the fact that it was in broad daylight, stands out as an anomaly in many respects, including that it was the only rape in Central Park this year."

The police said the victim had been scanning the treetops for birds, carrying a professional camera with a zoom lens in her backpack, when Mr. Mitchell appeared. Mr. Mitchell, the woman told police, posed a calculating question: "Do you remember me?"

The woman pretended that she did not, though she instantly recognized Mr. Mitchell as the man she photographed some nine

days earlier in the forested Ramble when she caught him masturbating. In that first encounter, Mr. Mitchell ordered her to delete the image. She refused, and he tried unsuccessfully to wrest the camera away from her before she ran off. She did not report the encounter to the police, Mr. Browne said.

On Wednesday, Mr. Mitchell threw the woman to the ground, battered her with his fists and raped her, the police said. He fled with her backpack, which contained her camera, they said.

Mr. Browne said he did not know whether the camera that Mr. Mitchell stole was the same one she had used to photograph him. Investigators recovered the photo from the woman's computer on Thursday, Mr. Browne said.

The three officers, Emanuel A. Rodriguez and Steven F. Ourelio, both 26, and Sicelin Ortiz, 23, had been on the force since January. The officers usually patrol the Washington Heights area, but on Thursday they were among those sent to the area near the park in search of the rape suspect, Mr. Browne said.

They spotted Mr. Mitchell walking on Amsterdam Avenue, near 77th Street, where he was taken into custody.

Mr. Mitchell had an extensive criminal history. The authorities in West Virginia charged Mr. Mitchell with murder and sexual assault in January 1989, though a year later he was found not guilty, Mr. Browne said. He spent about a decade in a West Virginia prison after he was convicted of robbery in July 1990. Soon after he was paroled in 2000, he was convicted of larceny and spent another 13 months in prison, according to the West Virginia Parole Board.

In February 2004, he was sentenced to just over eight years in prison for abduction and kidnapping in Tazewell County, VA.



**Our Comment.** Would it not have made more sense to have kept Mr. Mitchell out of circulation permanently? *W.K.*