What We Must Learn from Social Credit

The following are extended excerpts from Understanding the Financial System: Social Credit Rediscovered by Frances Hutchinson (Jon Carpenter Publishing, 2010). A further discussion of this excellent work will be carried in a future issue.

In an attempt to understand the present-day institutions we need to scroll back in time. The two decades immediately following the First World War saw a remarkable challenge to the growth of corporate culture, politics and economics. Foreshadowing the environmental, peace, and anti-corporate pressure groups of the twentieth century, the world-wide Social Credit movement posed a serious threat to the hegemony of corporate international financial interests. Despite the determined opposition of salaried economists, party politicians and the national and international press, Social Credit publications were studied and debated by ordinary men and women seeking economic democracy in their respective localities. Throughout the UK, in the Dominions, in the USA and elsewhere, the attempt by the democratically elected Social Credit government of Alberta [1935+] to implement change in the social order was observed with the closest of interest. The very possibility of success posed a challenge to the corporate status quo, to such an extent that, in the Second World War era, as the following chapters indicate, the episode was airbrushed out of history. Throughout the later decades of the twentieth century the corporate world actively discouraged study of the academy: texts written by the founder of the movement, Clifford Hugh Douglas (1879-1952), by the Guild Socialist editor of The New Age, Alfred Richard Orage (1873-1934), and by many other contributors in the rich literature of the movement.

The Economics of Happiness

So successful has the silencing of Social Credit been, that the quest for answers to fundamental questions relating to the theory and practice of finance in economic systems across the world, is conducted without any reference whatsoever to Social Credit publications. In The Economics of Happiness, Mark Anielski poses several key questions.

• Why do economists, financial analysts, politicians and media fixate on growth measures (such as GDP or gross domestic product) as the key indicator of human progress?
• Why do economy and stock market indices have to keep growing if a community has achieved levels of material self-sufficiency and quality of life?
• What is money and where does it come from?
• Why is money always scarce?
• What’s wrong with a steady-state, subsistence economy which has achieved sufficiency and homeostasis?
• Why does free market capitalist economics look more like a cancer cell than the self-renewing life cycle of an ancient forest?
• What is driving our more-growth, more-consumption obsession?
• Why aren’t economists and our leaders asking hard questions?
• More growth of what? For whom?

Anielski faced these questions as an economist working in the Canadian province of Alberta, as senior advisor on green issues to the Government of China, and as practitioner and preacher of sustainable business practices. The Economics of Happiness goes a long way towards providing answers to the questions posed above, and is set to be a major test of the future. However, one can

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trace the identical questions back through each of the decades of the twentieth century, to the immediate aftermath of the First World War.

Writing when the Bolsheviks had but recently seized power in Russia, when the phenomenon of Hitler’s Nazism had yet to be conjured into existence and when Roosevelt’s New Deal was still a decade into the future, Social Credit founder Clifford Hugh Douglas observed:

“There are only two Great Policies in the world today – Domination and Freedom. Any policy that aims at the establishment of a complete sovereignty, whether it be of a Kaiser, a League, a State, a Trust or a Trade Union, is a policy of Domination, irrespective of the fine words with which it may be accomplished, and any policy which makes it easier for the individual to benefit by association, without being constrained beyond the inherent necessities of the function involved in the association, is a policy of freedom….

“The fanatical Labour theorist, who would deny the right to live to any person not engaged in orthodox toil, quite irrespective of the facts of wealth production; the Trust magnate who corners an essential article under the pretext of efficient production, are, no less than the mediaeval ecclesiastics who burned men’s bodies that their souls might live, practical exponents of salvation by compulsion.”

When these words were written, Douglas’ work had already made his name known throughout the UK. His two books published to date, Economic Democracy and Credit-Power and Democracy, were being used as university texts and were being studied by leading economic thinkers like John Maynard Keynes. In these, and in subsequent books, articles and speeches by Douglas, every one of Aianielski’s questions is fully and comprehensively answered. During the 1930s in Alberta, a democratically elected government sought to put Social Credit into practice.

Moreover, Douglas’ contemporary observations on the Russian economy under Communism, the financing of Hitler, and the New Deal anticipated the later writings of authors like Anthony Sutton. By the outbreak of the Second World War, Douglas and other prominent social creditors were household names. During the subsequent decades of the twentieth century, all knowledge of Douglas’s work faded from the academy.

The Era of Silent Spring

By 1959 C.P. Snow’s The Two Cultures and the Scientific Revolution was raising the key topic of the failure of communications between the sciences and the humanities. Rachel Carson’s Silent Spring was published in 1962. The Cuban crisis of the same year had alerted the world for a brief period to the fact that nuclear arsenals could indeed result in Mutually Assured Destruction. Students rebelled in 1968. Veblen’s The Theory of the Leisure Class, Tressell’s The Ragged Trousered Philanthropists, and Tolkien’s The Lord of the Rings. Yet nothing changed. The Vietnam War continued unabated until 1975. The so-called “Green Revolution,” the introduction of “improved” seed to Third World countries, had predictable and predicted effect of further driving small subsistence farmers off their land to swell the shanty towns surrounding the cities. As poverty and oppression increased, discussion of the causes of war, poverty and oppression was noticeable by its absence. “The Economy” was deemed to exist to create employment, so that people could go to work to earn the money to pay for all the good things in life.

In the 1970s and 1980s another scenario emerged on the fringes of the mainstream. Perhaps small might be beautiful. Perhaps there was no call for endless growth, with its inevitable destruction of the natural resources base of the soils. Maybe it was possible to think differently about the need to earn more and more money. Living without a car, growing one’s own vegetables and cutting down on consumer items as a whole could be less stressful not only on oneself, but on the environment and society in general. The idea of a basic income as an inalienable right for all citizens was floated. It joined up with the work of the Citizens’ Income Study Group that, in seeking an end to means-tested benefits, undertook statistical research into the feasibility of a transfer income from taxation under the auspices of the London School of Economics. The UK Green Party adopted the policy of a Guaranteed Basic Income for all as a necessary prior condition of a free, democratic society. A nice thought, said the economists and the politicians in chorus but economically it could not be done. Where, after all, would the money come from?

The “Ecosocialism of Fools”?
In the early 1990s, as my children left home, I registered for post post-graduate research in economics in an attempt to understand what exactly the economists were
teaching as the twentieth century was drawing toward its end.

To my astonishment, I discovered that a body of economic analysis and theory had existed since the early 1920s, capable of explaining the relationship between the real material economy of the production and distribution of goods and services, and finance which moderates economic activity. In all my general reading on the history of economic thought, politics and history, no mention of Social Credit had ever arisen. Yet there it was: a body of economic thought capable of envisioning a Basic Income, or National Dividend without increasing the frustrations of the transfer-tax system: an approach to economics which was anti-war, anti-growth and anti-wasteful consumerism.

It was at least worth investigating, if only to dismiss it as impractical and intellectually untenable. I completed my research, attending conferences of heterodox economists, having papers and books published and even teaching Social Credit economics to undergraduates under the title “An Institutional Analysis of Money.” It was suggested that the lectures could be formed into a further book, and in due course The Politics of Money co-authored with two feminist academics Mary Mellor and Wendy Olsen, was almost ready to go into print. At that point a curious event occurred. Derek Wall, a fellow Green Party member who was known to Mary Mellor and myself through the meetings of a national body known as the Red Green Network, circulated a draft copy of his article entitled “Social Credit: The Ecosocialism of Fools.” The title indicates the quality of the paper itself.

Ostensibly circulated “for comment,” the purpose of the paper was evident from the outset. It was written as a warning to named individuals that they were in danger of being fooled into advocating far-right fascism and anti-Semitism if they in any way promoted the study of Social Credit. David Korten and Herman Daly were cited as having unwisely endorsed Michael Rowbotham’s The Grip of Death “advocating social credit ideas, and Daly has provided articles for The Social Credit journal.” Leading members of the UK Green Party were named, alongside all who had taken up the theme or Social Credit in the UK, or collaborated in any way with those named individuals. Some eighteen months later the article was published in Capitalism, Nature, Socialism (CNS), Vol. 14, No. 3, September 2003, pp. 99-122, in a slightly altered form which gives the impression of the paper being endorsed by several individuals including Mary Mellor and myself.

As a result of the circulation of Watt’s draft article, my collaboration with Mary Mellor ceased. Her immediate reaction was to withdraw The Politics of Money from publication. I assured her that Clifford Hugh Douglas and his Social Credit colleagues were on the contrary vehemently opposed to fascism, anti-Semitism and any form of blinkered intolerance. But it was only my promise to thoroughly investigate the grounds for the allegations that persuaded her to allow the book to go forward for publication.

It has taken seven years of voluntary, unpaid research to establish the truth behind the writing of Derek Wall’s article and the reasons for its subsequent publication in a respectable academic journal in 2003. In January 2009 I started to write up the results of my researches in the form of this book. It is the story of the dedicated commitment of countless individuals in the quest for sane, alternative ways of running the economy for the common good of humanity. It is the story of an experiment in political economy which came close to becoming a practical reality in Alberta during the 1930s, and which remains an example for the future. It is also the story of an intriguing campaign by mainstream academia politicians and the press to discredit Social Credit in the UK, in Canada and world-wide.

Cock-up and Conspiracy

The basis of the disagreement between Mary Mellor and myself was that the former fully and wholeheartedly embraced the cock-up theory of history, and jumped to the conclusion that I was a simple-minded conspiracy theorist. I am inclined to believe that the truth lies somewhere between the two. Things do happen because we allow ourselves to be blown along by the force of circumstance, without seeking to understand what we are doing or where we might be heading. At the same time there is undoubtedly evidence that conscious decisions are being made behind closed doors by individuals who do not have the common good at heart. The point is illustrated by the following story:

“A young man is walking along the road dreaming and looking up in the sky without noticing where he is going. A family relative, a jaded and jealous uncle, for instance, who hates his nephew and wishes him ill, decides to hide in the bushes and throw a banana skin in his nephew’s path, so that he will fall and injure himself. The nephew then does fall and nearly breaks his back. Who is the more responsible for the victim’s injury, the one with the consciously malicious intention or the one who failed to pay attention to what he should have been doing? A comprehensive study of the event would seek to examine the reasons behind the jealous relative’s action and for the young man’s absent-mindedness.”

The story of Social Credit is one of the “nephew” picking himself up from the “fall” of the Great War and the following depression years and trying to take active steps to avoid falling on another banana skin.

The Threefold Social Order

A year or two after starting the research I came across the Anthroposophical and Camphill movements which flowed from the work of Rudolf Steiner, and immediately saw a connection. Both Social Credit and Anthroposophy, in their very different ways, have been major world-wide movements of “the people” which have been ignored by academia and the mainstream presses. During the year in which I wrote up my researches, I came across a considerable interchange of ideas between social crediters and the earliest proponents of Social Threefolding ideas (see chapter 9) in the UK during the 1920s and 1930s.

Rudolf Steiner (1861-1923) was an Austrian philosopher, literary scholar, major literary scholar, educator, architect, playwright, and social thinker. Initially recognized as a major literary critic and cultural philosopher, at the beginning of the twentieth century he originated the Science of the Spirit, known as Anthroposophy. As long ago as 1919, Rudolf Steiner wrote the following words:

“The economic aspect of life has to a great extent overspread everything, because it has outgrown both political and cultural life, and it has acted like a suggestion on the thoughts, feelings and passions of men. Thus it becomes ever more evident that the manner in which the business of a nation is carried on determines, in reality, the cultural and political life of the people. It becomes more evident that the commercial and industrial magnates, by their position alone, have acquired the monopoly of culture. The economically weak remain uneducated. A certain connection has become apparent between the economic and the cultural, and between the cultural and political organizations. The cultural life has gradually become one that does not evolve on its own inner
needs and does not follow its own impulses, but, especially when it is under public administration, as in schools and educational institutions, it receives the form most useful to the political authority. The human being can no longer be judged according to his capacities, he can no longer be developed as his inborn talents demand. Rather, is it asked, ‘What does the State want? What talents are needed for business? How many men are wanted with a particular training?’ The teaching, the schools, the examinations are all directed to this end. The cultural life cannot follow its own laws of development; it is adapted to the political and the economic life.”

The quotation forms part of the lectures and writings of Rudolf Steiner on the Threefold Social Order. First translated into English in 1920, his book, entitled The Threefold Commonwealth explores the relationship between the three spheres of society, the cultural, political and economic. Throughout his works Steiner insists that man is a spiritual being, not in a vague mystical sense but in an exact scientific sense. This being the case, a social system which fails to offer scope for the free activity of man’s spiritual nature will end in chaos. The spiritual is not something private, to be set aside from the mainstream currents of the life of society. Rather is it of central importance within all aspects of human social interaction. Without understanding the spiritual nature of humanity, attempts to reform the political and economic institutions of society will flounder and fail to meet human needs. It is absolutely essential to liberate science, religion and art, i.e., education in all its forms, from dependence upon the corporate political economy.

As Steiner explains, the three elements of society need to form a coherent whole in which each element operates to complement the others. The three spheres can be summed up as:

1. An economic system having to do with “everything which is requisite for man’s regulation of his material relations with the external world.”

2. A political or equity system dealing with “all that is made necessary in social life by relations between man and man.”

3. A cultural/spiritual or educational system covering “all that of necessity proceeds from the individual and must of necessity find its way from the human personality into the structure of the body social.”

Serious students of society in the present time will find themselves obliged to ask further questions about the author of the ideas cited here, and the multi-faceted movement of which he is the originator.

Work and Income

The following chapters introduce the reader to several key issues of the early 21st century in such a way that the inter-relationships between finance and politics, production, gender relations, work, income, farming, education, arts, sciences and all forms of human interaction become a little clearer. Inevitably, to sustain the argument, sweeping assumptions have been made as to the reader’s familiarity with “alternative” historical thought. I owe a great debt of gratitude to the early readers of the first drafts of these chapters for their forthright questioning of many unsubstantiated statements. One question, for example, was phrased as follows:

“Why, in fact, did the peasants throughout the nineteenth century have to move into towns for money wages? Was it the pressure of higher money wages than they could earn as farm labourers, or the promise of a better lifestyle?”

The question reveals a great deal about the standpoint of a reader, who has been conditioned by a mainstream education into thinking in terms of “progress from rural poverty to urban plenty.” From this perspective, Rational Economic Man, the hero of economics textbooks, migrates for “economic” reasons, that is, for the highest money wages made available through industrialization, This is, however, a teleological argument. The emergence of landless labour was a direct result of enclosures, which were undertaken on grounds of financial profitability, rather than the free choice of the “labourer.” Throughout long ages the right to use a piece of land, together with rights in the resources of commons and waste lands to provide for one’s family has been a fundamental human right. The power of moneyed interests to take the land from the people for commercial “development,” as when Shell used Ogoni lands in Nigeria, dates back to the dawn of modern times. From the outset, enclosure of the land has been a legal process, endorsed by the force of laws passed by the political sphere of society:

They hang the man and flog the woman,
That steal the goose from off the common,
But let the greater villain loose
That steals the common from the goose.

And men were, quite literally, hanged in considerable numbers, and their bodies left to rot, for attempting to steal food after having been driven off the land to make way for money-making adventures. Rudolf Steiner cites the English author Thomas More (1477-1535), on the subject of enclosure of land:

“So what happens? Each greedy individual preys on his native land like a malignant growth, absorbing field after field, and enclosing thousands of acres with a single fence. Result – hundreds of farmers are evicted. They’re either cheated or bullied into giving up their property until they’re finally forced to sell. Whichever way it’s done, out the poor creatures have to go, men and women, husbands and wives, widows and orphans, mothers and tiny children, together with all their employees – whose great numbers are not a sign of wealth, but simply of the fact that you can’t run a farm without plenty of manpower. And they can’t find anywhere else to live. Their whole stock of furniture wouldn’t fetch much of a price, even if they could wait for a suitable offer. But they can’t, so they get little indeed for it. By the time they’ve been wandering about for a bit, this little is all used up, and then what can they do but steal – and be very properly hanged?”

Thomas More, Steiner observes “found it necessary to draw attention to the fact that people exist who drive the rural population from the soil they have tilled to turn it over to sheep, the rearing of sheep,” having become a financially profitable exercise in early modern times…. The Evolution of “Economic Man”

Writing at the turn of the last century, the American institutional economist Thorstein Veblen traced the origins of the political economy of industrialization back to the earliest known forms of social interaction. In his first book, The Theory of the Leisure Class, Veblen conceptualized the evolution of the institutions of industrial society as arising from two distinct sets of skills and talents. These he labeled “instincts,” meaning learned patterns of behaviour and talents. The first group of behaviours, associated with caring, nurturing, parenting, provisioning, invention and education, he termed the instincts of “workmanship.” They are undertaken by women, engineers and practical men.

The second group of skills and talents are not concerned with survival, still less with the development of practical science and technology. Rather, they give “invidious distinction,” glory, power and status – to the
individual practitioner who acts according to his own selfish interests. Thus the “instinct of workmanship” provides intrinsic satisfaction, is co-operative in nature, and gives rise to technological development through the uncoerced exercise of “idle curiosity.” Such traits are useful to the community as a whole. Sportsmanship, including prowess in battle, on the other hand, requires no less effort on the part of the individual, yet gives only invidious satisfaction, involves waste of efforts and resources, and is a drain on the community as a whole. As human society has evolved, prestige has attached to the predatory and non-creative male-centered activities of war, sport, politics and high finance, whilst the procuring of the basic essentials of life has been avoided by high status males.

Nevertheless, in whatsoever form it might have taken throughout history, the “leisure class” has always remained dependent on the on-going existence of the natural world and the skills and parenting and workmanship which have continued to be practiced in the rural village by men with a practical turn of mind and by women. According to Veblen, the two basic traits of predation and workmanship were handed on from generation to generation as humanity passed through history. Hence economic affairs in early twentieth American century were not driven by notions of usefulness, but by social patterns left over from the tribal customs of prehistoric times. People set about the division of labour on grounds which had nothing to do with usefulness. On the contrary, warfare and hunting, which are wasteful of human resources, have been accorded high status. Meanwhile farming, cooking and provisioning, which are essential and useful, are considered of low status, to be undertaken by inferior men and women.

Urban Settlements

With urbanization, the counter-skills of predation, acquisition of material possessions and emulative consumerism came to the fore. However, the introduction of enclosures at the onset of modern time, empires and urban settlements depended upon the continued existence of a peasant-farming hinterland for supplies not only of food and other subsistence requirements, but also supplies of slave workers and soldiers. The enclosures were introduced so that the land could be used to produce wool, grain and meat for profit. Such practices not only denuded the land of its vitality, but in the process the acquired knowledge of soils, flora and fauna of generations of peasants was lost. To the present day surviving peasant communities across the world continue to be eliminated so that cash crops can be taken from the land to supply distant urban populations.

Evidence of banking in Ancient Greece appears early in the fifth century BC. Financial transaction were conducted by the holders of positions of authority in Greek temples and civic institutions, as well as in private dwellings. Financial transactions included loans, deposits, currency exchange and validation of coinage. From these very early times there is evidence of dealings in credit, whereby a money-lender would write a credit note for a customer making a deposit, allowing the client to cash the note in a distant city, thus avoiding the danger of carrying material wealth from place to place. Many bankers in the Greek city states were foreign residents or slaves, whose wealth enabled them to buy civic rights such as freedom and citizenship.

Evidence of credit-based banking practices has been detected from the fourth century BC across the Mediterranean world. When Egypt fell under Greek rule the numerous state granaries were formed into a network of grain banks, centralized in Alexandria; where accounts from all the state granary banks were recorded. Again, the banking network was used as a trade credit system, with payments transferred from account to account without the necessity for movements of wealth in kind. The banking practices developed by the Greeks were built upon by the Romans who perfected accounting and administration, whilst introducing laws and regulations. However, the Romans retained a strong preference for cash transactions, so did not develop banking much further. Legislation restricted the charging of interest once Christianity was accepted as the official religion of the Roman empire. After the fall of Rome banking disappeared in Western Europe, and did not re-emerge until the time of the Crusades.

The pattern for the development of a world economy was set in the ancient world. Powerful individuals like the Pharaoh in Genesis, on the advice of their prototype financial advisors like Joseph, commanded control over material resources like grain, which they predicted, according to inside information, were likely to be in short supply in the future. When the predictions proved accurate, the now highly desirable commodity could be sold for money. It is noticeable that in the Old Testament account, Joseph “collected” the grain over the seven years of abundance, placing the food from the surrounding countryside within each urban settlement. The suggestion of recompense to the farmers for their work in the fields is left open. Food would appear to have simply been commandeered. When famine raged, however, Joseph “sold the grain to the Egyptians.” Indeed, people came “from all over the world to buy grain from Joseph.” This raises a further question: what did the people use “to buy” the grain? The following chapters of Genesis make frequent reference to “money” being used as the means of purchase. Money would not as yet be “legal tender,” i.e., backed by law. As far as the story of Joseph in Egypt is concerned, money would have merely been another highly desirable commodity, most probably coinage of precious metal.

Kings and Jubilee

When the Hebrews moved into the Promised Land, authority lay with the prophets and the priestly class who arbitrated between God and His people. Prior to the coming of the kings and their powerful henchmen, the land was apportioned directly to the families who were to farm the fields and vineyards and pasture the live-stock. In due course of time, however, the people demanded kings, desiring to be like other nations in the vicinity who had kings as figureheads as well as priests their priests and priestesses. The request was granted. However, Samuel, the disapproving High Priest at the time, presented an accurate account of the disadvantages of monarchy so far as the common people were concerned. Samuel spelled out the rights of the king who would rule over the people:

“He will take your sons and assign them to his cavalry, and some will run in front of his chariots. He will use them as leaders of a thousand and leaders of fifty, he will make them plough his ploughland and harvest his harvest and make his weapons of war and the gear for his chariots. He will take the best of your fields, of your vineyards and give them to his officers and his servants. He will take over the best of your manservants and maidservants, of your cattle and your donkeys, and make them work for him. He will tithe your flocks and you yourselves will become his slaves. When that day comes, you will cry out on account of the king you have chosen for yourselves, but on that day God will not answer you.”

The people failed to listen, and Samuel’s prophesy was fulfilled. When people give
authority to secular rulers, they put themselves into a servile position. Nevertheless until the coming of industrialization, the rulers and their subjects were consciously aware of the fact that they remained dependent upon the land and upon the community that tended that land.

Colonization and Peasant Farmers

On the occasion of the sixth annual Zionist Conference held in Basle, in 1903, Franz Oppenheimer made the key observation that every nation depends on a mass of humanity being rooted in the soil it occupies and such roots are only struck by agriculture. At the time, the Jewish people had spent 2000 years as landless exiles in the nations of the world. Oppenheimer referred back to the ancient agricultural laws of the Hebrew people, handed to Moses on Mount Sinai before they entered the Promised Land. The newly conquered land was to be apportioned out to families under a complex system of rules. Basically, the Law guaranteed rural properties to the families to which they were originally allocated. If the family fell on hard times and was forced to sell the land, or even to sell themselves into slavery, such sales only stood until the fiftieth or “Jubilee” year, when slaves were freed and land reverted to its original owners. Somewhat different rules applied to contracts in respect of the sale of rights in urban areas.

Maintenance of equality of land tenure would appear to be the key to social stability in any state or area of political jurisdiction. Thus Zionists sought to restore the primeval agricultural laws of Israel, which allocated the land for all time to the tribe or village community, which for its part not only possessed it in fief from the nation as a whole. Under old systems of Common Law in Europe something similar had applied, offering advantages of individual property right in land, but free from its worst shortcomings. Land held in this way gives security of possession to farming families who, throughout history, have acted as the guardians of resource management which forms the true basis of the economy. “It bestows the home feeling in the fullest sense and forges an indissoluble link with the soil which roots the soul of the peasant in the fields he tills; but it precludes the mortgaging of the soil, which deprives the peasant of the fruits of his labour throughout all the countries under Roman Law and throws them into the lap of the landlord. Moreover, it precludes that proletarization of poor peasant folk who crowd into towns, inflating them to gigantic slums, morally and physically unsound, and by its offer of pittance wages for hired labour calls every horror of capitalism into the world.”

Private ownership of land on a massive scale inevitably results in a dispossessed people. One alternative is for local communities to lease out land to individuals on terms agreed by custom, under the general over-lordship of the State, thus eliminating the hegemony of finance.

For Oppenheimer, “peasant” agriculture, in the European sense of traditional patterns of Common Law land-holding, is a key factor in creating a viable political entity. Insightfully, he dismisses as impractical the idea of transporting a gigantic population of artisans, shopkeepers and peddlers from one place on the surface of the globe to another, and expecting them to continue to survive as artisans, shopkeepers and peddlers. A sound mix of urban and rural was essential to the problems of capitalist society, with its dispossessed rural population swelling the slums and shanty-towns of sprawling cities were not to be transferred to the new nation. Oppenheimer’s economic studies and observation of the European experience has led to the conviction that “he who would create towns must create peasants” who have a vested interest in the soil they cultivate. Having studied examples of “industry-centered land tenure” in the late nineteenth century, Oppenheimer observed that to build a State without a peasantry with security of tenure would be like “building a house from the roof downward.”

Landless Labour

Until the present day, the development of political and legal rights has been determined by the exercise of predatory activity involving the use of force. Historically, waves of conquest have flowed over settled farming communities, giving rise to a variety of parasitical ruling classes. However, until the agrarian and industrial revolutions, made possible by the evolution of the debt-based money economy, a permanent class of landless families, existing from generation to generation totally divorced from the means of subsistence and from indigenous culture, did not exist.

During recent centuries, where no viable peasantry existed, and only roving huntsmen who could not be subdued were to be found, would-be colonists had to resort to the importation from afar of a mass of slaves, as in the West Indies, South America, Mexico and the Southern States of the USA. The English-speaking colonies of America, Canada, Australia and New Zealand, however, were exceptional in human history in that once slavery was abolished, they were populated almost entirely by a landless underclass. Formed in this way, the United States of America has become one of the most powerful state-formations in all history. Within it, the landless masses are exploited by a ruling capitalist class, itself originating in landlessness, but has followed its “instincts” with enthusiasm. This presents something of a paradox. It would appear that the mass of men to be exploited imported itself by migrating *en masse* to escape intolerable conditions elsewhere. Divorced from land and peasant culture, and hence unable to sustain themselves, the masses sought out waged employment from capitalists who were only too willing to oblige.

Thus was achieved an illusory “freedom” to work for a money wage dictated by the self-appointed capitalist class capable of dominating the entire political economy through the scarcely-veiled use of force. In this way, was created a culture completely separated from the land, and hence inherently unsustainable. Prairie farming of European grains and cattle has resulted in the dust bowls of the 1930s and the on-going loss of topsoil….

CHAPTER 2: THE EVOLUTION OF THE CORPORATE WORLD ECONOMY

Glyn Davies’ fascinating account, *A History of Money* documents the use of money from ancient times to the closing years of the twentieth century, revealing the interplay between actors in the political and economic spheres and the financiers upon whom they relied for the necessary funding for their military or economic operations. According to conventional texts, however, bankers are rarely mentioned in connection with the development of political and economic affairs, whilst the unprecedented institutional changes which accompanied industrialization are rarely mentioned. According to most histories, life was nasty, brutish and short until technological changes that accompanied industrialization gave rise to the development of production and trade, leading to material progress and prosperity. Since progress was inevitable there was little point to questioning the morality or sustainability of big business. However, histories of money and banking reveal a very different story.
Debt and Usury

The moral association between financial debt-creation and corruption of social values was less obscure in the early days of the development of banking. Like Judaism and Islam, the Christian Church banned usury because the necessity to go into debt was a sign of misfortune. An individual normally fell into debt only when he had hit hard times, through sickness, crop failure or some other disaster. It was considered moral to lend, but immoral to benefit from misfortune by requiring the loan to be repaid with interest. The Medici and other bankers of the Italian Renaissance City States found various ways around the Church’s ban on usury such as disguising transactions as “international” currency exchanges between independent states. Banking practices were further developed by the Lombards, who argued that a money lender who financed a profitable trading venture had a moral right to a share of the profit.

The practice of taking a money reward for merely lending money is so central to the market economy of the present age that its justification needs to be closely examined. The Lombard bankers financed the merchant ships of Venice, Genoa and other Mediterranean ports, the key centres of world trade at that time. A merchant sending a ship out to India might make a profit equal to thirty times the money spent on the outlay. The Lombard bankers argued that if they financed a merchant they were putting their money at risk if the ship did not return. Furthermore, the money-lenders also argued that they could alternatively fund a profitable venture of their own with any potential loan.

This raises the question, how did the Lombard bankers acquire the finance capital to invest in risky but potentially highly profitable ventures? They were private individuals, not kings, emperors or other heads of state with the legal right to levy taxes. The question is key to an understanding of the corporate world order. The Lombard money-lenders were originally craftsmen and traders who employed other people to work in the weaving industry to produce goods for sale. The employment system came about from the desire of some private individuals to acquire material riches so that they could achieve worldly power over resources. Other people took the timber from the land and built the ships, farmed the land to produce food and raw materials, manned the ships which took the gold, spices and silks from the Indian countryside to sell in

the growing luxury markets in Europe and fought in foreign wars. From the outset, the growth of the money economy had virtually nothing to do with producing the necessities of life or conserving essential knowledge or resources.

The Development of Banking

The maritime centres of the Atlantic coast saw Antwerp, and subsequently the British seaports, become the new centres of trade on a worldwide scale in early modern times. The early bankers, the goldsmiths, invested in productive and trading ventures with the objective of building up their personal stores of wealth. They also invested in the State. Kings needed armies to enforce their claims to the throne. They were, however, notoriously unreliable in settling debts incurred in the process of destroying armies. Hence in 1694 a group of London merchant bankers secured their position by agreeing to loan to William III for the purpose of war, on the security of Parliament’s legal right to impose taxes. The Bank of England was not, however, owned or controlled by the King or Parliament, but by a group of six private individuals who stood to gain substantially from the National Debt so created.

Governments have been in debt to the bankers ever since. The Bank of England was from the outset a joint stock company, meaning that it had a legal identity in its own right. When the Government needed to raise new loans from the public, the Bank acted as its agent. Hence the loans required to fund the costly wars of the 18th century were in fact act underwritten by the citizen taxpayer. The world-wide development of merchant banking, and of financial ‘services’ has been well-documented. All that needs to be stressed here is the interplay between the trading activities of private groups of individuals (firms and corporations) and the creation of the legal framework under which such activities were allowed to flourish. Banking and dealings in money have always been debt-based and underwritten by legal statutes.

The 19th and 20th centuries saw unprecedented changes in the social order. As the agrarian and industrial revolutions progressed, developments in this financial world increasingly impacted upon the everyday lives of peasants in the rural homeland of the cities. Enclosure and the mortgage and sale of the land ended ages-old traditional rights of access to the land, creating a class of landless labouring families whose members had no means of support unless they were hired for money wages. Institutions of finance were crucially involved in the changes introduced in agriculture and industry. Hence debt-finance came to dominate policy decisions, not only in preparation for war but also in determining forms of financially profitable production. Military and industrial enterprises waited on the availability of finance for authorization to proceed, and increasingly such availability of finance was debt-based.

Surprisingly, in view of such massive change in the social order, the teaching of economic history in schools and colleges across the world has dwindled almost to zero. What remains provides at best a series of disjointed “sound bites” rather than a meaningful account of the transformation in everyday policy formation processes which have occurred over the past two hundred years. Without an understanding of the changes in political and economic institutions of society over the period of industrialization it becomes virtually impossible to envisage a sane approach to political economy which alone will facilitate the beginning of moves towards a three-folding social order.

With some notable exceptions, economic change has been attributed purely to the technical advances, i.e., to the introduction of agribusiness farming techniques and the technological inventions in industry and transport. The key factor in social changes of the industrial revolution, the development of financial institutions, is rarely, if ever, mentioned. Fortunately, electronic forms of communication have made information about these developments more readily accessible.

One excellent source of information on banking, finance and its international interconnections in the 19th and very early 20th centuries is the 1906 Jewish Encyclopedia, all twelve volumes of which are now available online. Drawing upon this material, it would appear that, at least in the early stages of enclosure, colonization and industrialization, international financiers were in the advantageous position *vis-à-vis* the indigenous populations of the individual countries of Europe and worldwide. The Jewish Encyclopedia (1906), here cited, provides a wealth of information on the central role played by named key people in the wars and industrial developments which prepared the way for the history of the twentieth century. The five sons of the Frankfurt-born Mayer Amschel Rothschild are an essential part of that story.
The House of Rothschild


Like the late twentieth century accounts compiled by Niall Ferguson, the research and publication of the Corti books was aided and endorsed by the Rothschilds. However, although Ferguson’s work contains a mass of detail, it is recounted at a journalistic pace so that the significance of the story for the 21st century is, to all intents and purposes, lost.

A mere couple of centuries ago, when the Battle of Waterloo took place in Belgium, the technologies which could support sophisticated financial networks were yet to be invented. The 21st century economy is regulated by a network of national state currencies which could not have been developed under the conditions of technology and communications which existed in 1815. At that time the Rothschild brothers were building up a network of communications between countries in which they chose to settle. But such communications still depended on horse-power on land, and wind-driven sailing ships at sea.

It is recorded that Nathan Rothschild, who had by then settled in London, engineered the situation so that he received news of Wellington’s victory at the Battle of Waterloo a full day ahead of the office government messengers. At that time, messages were carried by word of mouth, or on pieces of paper, written perhaps in code and sealed with sealing wax. Long-distance railways, telegraph, the internal combustion engine, steamships, electricity and electronic means of communication were all as yet to be invented. By the outbreak of World War I, a century later, a very different world had come into existence, one in which the money economy impacted on the everyday lives of people in every nation state across the world. The world had changed out of all recognition.

Corti’s first book contains detailed descriptions of the close relationship between the various members of the “single House” and the key players on the European stage of the early nineteenth century, including Napoleon, Wellington and Metternich. The second book takes up the story of the relationship between the Rothschilds and all the major figures in the history of Europe after 1830, and includes pictures of the opening ceremonies of railways in England, Austria and Germany, portraits of Napoleon III, Bismarck and Cavour. Although the second book purports to bring the history of the Rothschilds down to “the present day” (1928) it in effect ends at the 1870s with countries, ceaseing to maintain their international connections….

From a historian’s point of view. The two books are a delight to read, full of detail about the recorded lives of the Rothschilds and their relationships with the leading political figures in the Europe of the nineteenth century…. The reader is left in no doubt about the existence of a “House of Rothschild” which transcended the boundaries of the individual nation states of Europe while at the same time playing a key role in the wars and developments of the nineteenth and early twentieth centuries.

Neil Ferguson, a later apologist for the Rothschilds, recounts their pioneering work in banking and communications, laying stress on the ostentatious use of their legitimately earned fabulous wealth. He is dismissive of “conspiracy theorists” who have “misunderstood” the nature of the “network of private financial relationships with key public figures of Restoration Europe.” In a sense, the work of Corti and Ferguson lays the myth of the Rothschilds to rest. Yes, they existed, playing a key role in international affairs in the early decades of the nineteenth century. But by the twentieth century their riches and power had dwindled, and they took their place among the democratic masses of the twentieth century. The privatization of the control of public affairs through the control of finance is quietly presented as a fact of political life, while the very mention of the existence of international finance as a force in world politics is enough to bring forth the dreaded accusation of “anti-Semitism.”

On one page of the Ferguson book are the portraits of each of the five brothers painted around 1836 by the same artist, which are exchanged between the five Rothschild brothers on an almost daily basis.” It is possible to argue that by the twentieth century networks of contacts between powerful banking interest on an international scale ceased to exist. However, that seems unlikely.

In the work of historians like Corti and Ferguson, six men, all from the same family, are portrayed as playing a key role in the history of Europe, across international boundaries, in the first three decades of Europe, across international boundaries, in the first three decades of the nineteenth century. In total Mayer Amschel Rothschild had nineteen children, of whom only ten survived. The five surviving girls had no documented part to play in the story. Although her sons became fabulously wealthy, old Mrs. Rothschild remained in the little house in the Jewish quarter of Frankfurt where she had raised her family. Except as help-mates to the men the women were of no account in their own right.

Furthermore, there is documentation of the “development of the Rothschilds” private postal system which finally covered the whole of Europe and was used by friendly governments for forwarding confidential documents. The essence of international finance has been secrecy. It has operated behind the scenes, influencing wars, economic development and public affairs, generally without the need for public accountability. Moreover, Corti clearly states that “the Rothschilds played a part in the defeat of Napoleon at Waterloo.”

According to popular accounts, Nathan Rothschild used his early receipt of the news of Wellington’s victory, mentioned earlier, to his own advantage in his dealings on the London stock exchange. Whatever the truth of the matter might be, by the time Corti was writing, well over a century had passed, and the events had been told and re-told. In this instance Corti, an apologist for the Rothschilds uses a literary device which has since come into common usage. When an event becomes public knowledge, and the subject of open and informed debate, it becomes necessary to confuse and defuse the issue, by ridiculing or vilifying proponents of an open discussion. Here Corti is implying that Nathan passed the information to
the British Government, although he does not say so directly.

“The members of the British Government were enormously impressed by Nathan’s advance knowledge of such an important, and when this became generally known, the public, who were just beginning to learn of the extent to which Nathan was employed by the English Treasury, began to invent all manner of legends regarding the method by which Nathan had acquired his knowledge, and the manner he had exploited it. Some said that he had a private service of carrier pigeons, others that he had been personally present at the Battle of Waterloo and had ridden to the coast at top speed. In order to make the story more romantic, he was said to have found heavy storms raging when he reached the channel and to have crossed at the risk of his life. Nathan was also alleged to have exploited the news on the Stock Exchange, thus at one stroke creating the enormous fortunes of the Rothschilds.”

The trend was set. Information secretly obtained could be used by private groupings to advance their own interests, while at the same time influencing public policies to the advantage of the private group. The dust jacket of The Reign of the House of Rothschild spells out the “quite fantastic role played by the Rothschilds, at the height of their power, in weltpolitik.”

Absence Ownership and the Corporate State

The role of international corporations in the conduct of the political and military history of the 20th century has been thoroughly documented and does not need to be further rehearsed here. A new world order had arisen which constitutional government is government by corporations, themselves governed by the “absentee owners,” of business interests. As Thorstein Veblen had already observed in 1904:

“Modern politics is business politics. This is true both of foreign and domestic policy. Legislation, police surveillance, the administration of Justice, the military and diplomatic services, all are chiefly concerned with business relations, pecuniary interests, and they have little more than incidental bearing on other human interests.”

Furthermore, Veblen noted that, whatever their original interests might have been, the most powerful corporations such as J.P. Morgan and National City Bank operate across the full spectrum of industrial enterprise and financial institutions.

“The holding company and the merger with the interlocking directorates, and presently the voting trust, were the ways and means by which the banking community took over the strategic regulation of the key industries, and by way of that avenue also the control of the industrial system at large. By this move the effective discretion in all that concerns the business management of the key industries was taken out of the hands of corporation managers working in secrecy and at cross purposes, and has been lodged in the hands of that group of investment bankers who constitute in effect a General Staff of financial strategy and who between them command the general body of the country’s credit resources.”

In these circumstances, it is scarcely surprising to find that “a constitutional government is a business government” in which the money of the banking and business interest is the central feature of their control over the politics and government. The control of business interests over government is not, however, simply a matter of politicians being corrupted by corporate interests. As Veblen neatly observed:

“Representative government means, chiefly, representation of business interests. The government commonly works in the interest of the business men with a fairly consistent singleness of purpose. And in its solicitude for the businessmen’s interests it is borne out by current public sentiment, for there is a naive, unquestioning persuasion abroad among the body of people to the effect that, in some occult way, the material interests of the populace coincide with the pecuniary interest of those businessmen who live within the scope of the same set of government contrivances. The persuasion is an article of popular metaphysics, in that it rests on an uncritically assumed solidarity of interests.”

Public opinion is, as a result, slow to seriously question the situation. It remains content to assume that big business has at heart the general welfare of society as a whole. Furthermore, corporate business holds sway over the institutions of higher learning through its ability to control the flow of finance. Writing in 1918, Veblen observed that under the older American universities the governing bodies were almost exclusively drawn from the ranks of clergy and were guided by “devotional notions of what was right and needful in matters of learning.” However, “for a generation past…there has gone on a wide-reaching substitution of laymen in the place of clergymen on the governing boards. This secularization is entirely consonant with the prevailing drift of sentiment in the community at large, as is shown by the uniform and uncritical approval with which it is regarded. The substitution is a substitution of businessmen and politicians. So that the discretionary control in matters of university policy now rests finally in the hands of businessmen.”

During the nineteenth century the role of the ‘Robber Barons, in American society was publicly transparent. More recently, however, the educational establishment presents ‘both sides’ of the argument. Hence an on-line teaching guide presents students with a potted biography of John D. Rockefeller. He moved from rags to riches, becoming one of the richest men in the world in the oil business by founding Standard Oil, yet he gave away “half his wealth” in creating a university, an institute for medical research, and several foundations.

The teaching guide admits that, although some of his business practices were “good (he was organized and efficient), some were unethical. He put other companies out of business, prevented competition, and demanded kickbacks.” As can readily be confirmed, the teaching guide presents an accurate review of the ethical standards of a key corporate figure, albeit with the implication that such behaviour was justified by the results. “During the Gilded Age” students are told:

“John D. Rockefeller brought business practices to new heights – or depths, depending on one’s ethical standards. Amassing huge personal fortunes, often through unscrupulous means, Rockefeller dominated the entire oil industry. Rockefeller's Standard Oil was ruthless; it bought off politicians, made secret deals with railroads to obtain favourable rates, and destroyed the competition through bribery and corruption. Standard Oil became one of the most hated companies of its time, earning mammoth profits by preventing competition, keeping wages low, and setting prices high. By 1879 – a time when America’s appetite for oil to fuel its expanding industry was reaching new heights – Standard Oil controlled over ninety per cent of America’s refining capacity.”

Thus “alpha male” behaviour has secured finance, enterprise, politics, learning and industry to the service of the corporate world. Although individuals can no longer be so clearly identified as targets for discontent, the philosophical base of the key institutions of society has continued without deviation....
Dissent

The corporate world can tolerate a certain degree of dissent. Pressure groups demanding an end to poverty create the illusion that “something is being done at last,” whilst keeping the critics of the system busy raising funds, producing leaflets and giving out speeches which do not raise too many fundamental questions about the causes of poverty amidst plenty. Within the academy, apparent dissent serves the useful purpose of creating the illusion of academic freedom. Marxists can be tolerated because the powerless poor will never rise up in revolution at the injustices of corporate capitalism. In real life they will actually starve to death in their millions, as continues to be the case well into the 21st century. Labour will organize to obtain a better deal for workers as workers under capitalism, as Veblen observed over a century ago. Waged labour never organizes violent revolution. As Anthony Sutton and others have shown, only corporate elites have the resources to plan and execute violent changes of government. Capitalism, Communism and Nazism are bedfellows arising from the power base of the corporate elite.

The system can tolerate empty-headed dissent. It is content with dogmatic slogans, sound bites and idle speculation as to the causes of disasters, whether man-made, natural or “economic” (which falls into a category of its own). But it cannot tolerate dissent based upon the systematic and organized study of the social framework of the institutions which govern the social order. In the twentieth century students could be encouraged to read Machiavelli, since the truly powerful individual was a thing of the past. Would-be dictators like Hitler might study Machiavelli in order to become effective tools for their masters. But the systematic study of how corporate hegemony over the institutions of society might be countered and successfully reformed is, as yet, nowhere to be found in the institutions of higher learning.

A Machiavellian Scheme

In 1920 Eyre & Spottiswoode, a respectable London firm that was the King’s printer, published a remarkable document in which a scheme for corporate world control was outlined. Writing about the document in his fourth book, Social Credit, published in 1924, Douglas noted that the methods by which the enslavement it describes could be brought about could already be seen reflected in everyday experience.

“It was explained in that treatise that the financial system was the agency most suitable for such a purpose; the inoculation of a false democracy was recommended; vindictive penalties for infringement of laws were advised; the Great War and the methods by which it might be brought about were predicted at last twenty years before the event; the imposition of grinding taxation, more especially directed against Real Estate owners, was specifically explained as essential to the furtherance of the scheme. The methods by which the spurious democratic machinery and the journalistic organs of ‘public’ opinion could be enlisted on the side of such taxation, and an antagonism between the interests of the town and the interests of the Country could be created, with an accuracy of detail which can only be described as Satanic.”

The original document can be dated to the late nineteenth century. Published in English for the first time in 1920, The Protocols of the Learned Elders of Zion (hereafter referred to as The Protocols), was the subject of lively debate, but was soon withdrawn from circulation. Public discussion of the contents of the document was banned on the grounds that it was a “forgery” intended merely to foster pogroms. As Douglas further commented:

“It is quite possible that this document is inductive rather than deductive in origin, that is to say, that some person of great but perverted talents, with a sufficient grasp of the existing social mechanism, saw and exploited the automatic results of it. If that be the case, the world owes a debt of gratitude to that mysterious author. He was substantially accurate in his generalized facts, and the inductive prophecies are moving rapidly towards fulfillment (emphasis added).”

You may wonder why we are devoting so much space and attention to bring to light a long-suppressed key chapter of the world’s history. Or, worse still, being played in reverse. It is as though the six Rothschild master couriers even peddled their strategic dispatches to fishmongers enroute to Westminister and other capitals with only a bad, bad case of indigestion.

I need do no more than quote from an article of mine in Economic Reform of April, 2005 entitled “The Multi-frauds of Risk Management have begun unraveling”: “Much of this issue of ER is devoted to the frauds of risk management that in several areas of the economy have begun coming apart. One of these is the Canadian federal budget process that has been based on the belief that the government hiding assets – a criminal matter in the private sector – is an aid to virtue, so that, at the end of the year, some of this can be trotted out as proof of the finance minister’s ‘fiscal responsibility.”

“Private corporations have used unregulated derivatives – trades in an abstract feature of a security which is unregulated and can be kept off the books – to create the illusion of more demand for the security itself. These derivatives may deal in interest earned, or the exchange value of the currency in which the underlying currency is denominated, in calls or options or swaps in trades of these abstractions (‘swaptions’ is only a simpler sample of what is becoming the best rewarded high technology of our period).”

“Another such – the hedge funds that originally were the happy hunting ground of billionaires – are not being used by more modest investors who have cashed in their profits during the aging boom market. They have also became a favorite haunt of overextended banks that by their own admission are unloading much of their bad debt on unwary modestly wealthy folk who don’t know what to do with their winnings. Bankers are coming clean on such matters, since their consciences have been sensitized by the revelations of New York state prosecutor Eliot Spitzer. His subpoenas have achieved costly settlements by some of the greatest names of insurance for using derivatives ‘to aid their own results with the complex techniques that they pioneered and marketed over the past 25 years. Insurance has moved beyond its core business of insuring against fires and earthquakes’ to the damage by artificial overheating and tremors of their own making.

“As a result, leading Canadian bankers have moved in closed ranks from opponents of regulating derivatives to supporters of the idea. Canada’s banks have reached humiliating settlements running into several hundreds millions of dollars for having participated in the off-balance-sheet partnerships of Enron.”

The Risks of Risk Management

“The change of heart of our bankers on the subject of derivative regulation has not come inexpensively for the Canadian taxpayer.

“We should make clear that we are not against risk management as such. Like personal virtue it is as much to be recommend-
ed but devilishly difficult to achieve. Partial success towards the goal can certainly be reached by such policies as deficit budgeting by government so that during a recession a heightened degree of government spending for necessary capital purposes will help keep employment and economic activity higher. However, the risk management encouraged by hedge funds and other large financial corporations has precisely the opposite effect. It adds wind and bluster to the financial bubbles and increases the violence of the busts.


“The New York insurance Giant yesterday disclosed new subpoenas from New York Attorney General Eliot Spitzer’s office and the SEC. They seek information related to certain types of insurance arrangements and ‘AIG’s accounting for such transactions,’ the company said.

‘AIG added that it received the inquiries just after it reported its fourth quarter earnings last Wednesday and seemingly closed the book on two regulatory [items] that had lingered on unattended to for months.

“The new subpoenas show regulators’ mounting interest in a line of insurance products that was obscured just 16 month ago. But since regulators were caught off guard by billions of dollars of loans that have targeted financial services firms that allegedly aid corporations in financial machinations, Enron filed for bankruptcy court protection in December 2001.

“Specifically, the subpoenas relate to investigations of non-traditional insurance products and certain assumed reinsurance transactions and AIG’s accounting for such transactions,’ AIG said. Many non-traditional insurance products can allow users to inappropriately shift losses from the buyer’s balance sheet, aiding the bottom line in the short line while misleading shareholders and regulators.

“Last fall, AIG settled allegations that it had helped PNC Financial Services Group Inc., a Pittsburgh banking company, improperly shift liabilities off its books, and that it helped Brightpoint Inc., a Plain-

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A Century After his Birth, Marshall McLuhan Is Still Ahead of Us

By Oakland Ross, The Toronto Star (18/07): If Marshall McLuhan were alive today, there isn’t much that would surprise him – not the Internet, or Google, or Twitter, or WikiLeaks, or even the phone-hacking scandal now transfixing much of the UK.

“In broad outline, if not in precise detail, he predicted all of these and more.

‘Rereading him, I still get new insights,’ says Robert Logan, a former colleague of the Canadian media guru some now call The First Seer of Cyberspace. ‘The man was a total genius. If he came back today, on his 100th anniversary, he would say, “Yeah, that’s about what I expected – and people haven’t learned a thing.”

“Possibly, they never will.

‘Or maybe the heightened popular interest and critical attention being accorded McLuhan during this, the centenary of his birth, may yet help us fumble toward a clearer understanding of the parlous digital world that he anticipated and whose name he coined – the global village.

“McLuhan’s value today lies in applying his methods,’ says Mark Federman, former chief strategist at the McLuhan Centre in Culture and Technology at the University of Toronto. ‘It’s cool that he predicted the future, but what we should do is learn from his methods.’

“Those methods aren’t easy to summarize, much less emulate, and there is considerable disagreement among academics about the meaning of McLuhan’s often cryptic or even oxymoronic pronouncements – the future of the future is the present,’ for example, or ‘the effects come first; the causes, later’ – but there is no doubt the man’s stature and influence are firmly in the ascendant once again, after a long period of decline.

“More than anything else, it’s the frenetic expansion of the Internet in recent years that has renewed international fascination with the Canadian communications visionary who was born in Edmonton in 1911 and died in Toronto in 1980 at the age of 69. He would have turned 100 this coming Thursday.

“In North America, for quite a long time, he was considered the most overrated media guru of all time,’ says B.W. Powe, a former student of McLuhan’s and now a professor of English at York University. Powe recently returned from a European speaking tour that included talks on McLuhan’s work in Naples, Bologna and Barcelona, among other cities.

“McLuhan is still ahead of us,’ he says.

“McLuhan’s hotly debated star is likely as high now as it was during his glory years at the University of Toronto in the 1960s and 1970s, when he was busily charting the topography of an electronically connected world that was a looming reality then and seems nearly all-pervasive now.

“Wired magazine recently proclaimed McLuhan as its ‘patron saint,’ marking his posthumous return to the kind of celebrity he enjoyed three or four decades ago when he was a cult figure in Canada, the United States and much of the world – a dapper, erudite visionary who spoke in a Delphic, aphoristic style that seemed to owe as much to poetry as science.

“The most influential publications in the world – Newsweek, Time, The New York Times, among others – clamoured to promote his ideas and to parse his aphorisms in their pages.

“Then, as now, it often seemed his words could mean almost anything or, perhaps, almost everything.

“With any profound thinker who is ahead of us, there will be as many interpretations as there are people wandering in the desert,’ says Powe. ‘People forget his roots are in poetry, literature, the artifact of the word. He spoke poetically and aphoristically, and that leads to interpretation.’

“McLuhan’s best-known book – with the seemingly prosaic title Understanding Media – appeared in 1964 and soon gave birth to an intellectual cottage industry that brought together pipe-smoking professors and leather-jacketed students in university common rooms and lecture halls around the world: Understanding (or Misunderstanding) McLuhan.

“The debate goes on.

“This year, and especially this month, a new generation of scholars is joining its counterparts from generations past, as
McLuhanites around the world mark the century that has clocked past since his birth. They are holding discussions, listening to lectures, attending multimedia displays and generally reconsidering the theories of the man who became famous for proposing – among much else – that the medium is the message and the content is us.

“Born into a middle-class Alberta household, McLuhan was educated in Canada and later in Britain, where he studied at Cambridge University. He returned to North America in 1936.

“A decade later, he took up a faculty position at St. Michael’s College, a Catholic enclave at the University of Toronto. By then he was married – to Corinne Lewis, originally from Texas – and had converted to Roman Catholicism. The couple would eventually have six children.

“‘He was a mystic Catholic humanist,’ says Powe. ‘He was not an optimist but a man of hope.’”

Not an Optimist but a Man of Hope

“He was also fated to be a target of misunderstanding.

“As McLuhan’s fame and influence grew, it became common in the public mind to perceive him as a champion of the phenomena he studied – as an advocate of the digital revolution, for example, or a devoted citizen of the global village, or an ardent proponent of any medium that manages to be its own message.

“It wasn’t so.

“McLuhan rarely, if ever, advocated anything. ‘He wasn’t a champion of technology or opposed to technology,’ says Logan. ‘He was neither a technophile nor a Luddite. All he wanted to do was make people aware of both sides of the coin.’

“McLuhan himself went further.

“‘I am resolutely opposed to all innovation, all change,’ he once said in a television interview, speaking with a characteristically inscrutable tone. (Was he serious? Or merely teasing?) ‘Anything I talk about is almost certain to be something I’m resolutely against.’

“As for his predictions of an emerging global village of electronic connectivity – perceived by many as a sort of cyber promised land, an idyllic virtual oasis – McLuhan was under no illusions that our species’ digital destination would necessarily be agreeable or even tolerable.

“‘The global village is at once as wide as the planet and as small as a little town where everybody is maliciously engaged in poking his nose into everybody else’s business,’ he once said.

“With those few words, McLuhan effectively anticipated the ruthless phone-hacking culture that disgraced the News of the World, the British tabloid shut down by media magnate Rupert Murdoch earlier this month, with further consequences undoubtedly still pending.

“Some oasis.

“Another of McLuhan’s most famous insights – ‘the medium is the message’ or ‘the massage,’ as the concept is sometimes rendered – is also commonly misunderstood or not understood at all.

“Most people don’t get it,’ says Federman.

“While undoubtedly profound, the idea isn’t really that difficult to follow.

“For example, the first passenger airplane was certainly significant but not because of the specific individuals it happened to be carrying on any given flight. It was significant because it heralded the emergence of passenger aircraft – a new medium.

“Before you knew it, there were in-flight movies, airport limousines, frequent-flyer points cards, jet lag, 9/11, metal detectors, a war in Afghanistan, another war in Iraq, and a whole lot else.

“It’s the medium, in other words, and not the cargo, that constitutes the message.

“The same applies to cell phones, the Internet and all forms of electronic communication since Samuel Morse invented the telegraph.

“This may seem almost obvious now, but the insight had the force of a lightning bolt more than 40 years ago, when McLuhan divined the idea.

“He realized that electronic communications were a second Creation,’ says Powe. ‘Electronic technology has radically altered how the brain functions.’

“McLuhan may have possessed ‘uncanny prophetic abilities,’ in Powe’s words, but he was also a performer, a man who loved to devise riddles and games for public display, a penchant that was perhaps central to his genius.

“He was constantly at play,” says Logan. ‘Play, for him, was a serious concept.’

“Darth of a genius.

“‘He was generous, witty, engaging,’ says Powe. ‘He always began his classes with serious, engaging, and sometimes prophetic abilities,’ in Powe’s words, but he was also a performer, a man who loved to devise riddles and games for public display, a penchant that was perhaps central to his genius.

“‘He was constantly at play,” says Logan. ‘Play, for him, was a serious concept.’

“‘We took walks in the park. I would share ideas with him, but he just couldn’t get the words out. He knew he was never going to regain his speech. Beethoven went deaf, and McLuhan went mute.’

“On the final day of December 1980, Herbert Marshall McLuhan took his final breath, leaving behind a huge legacy of ideas – and no shortage of paradox.

“Surprisingly, The First Seer of Cyber-space had little use himself for the shiniest gadgets of the postmodern age.

“‘His television was in the basement,’ says Federman. ‘He didn’t drive a car. He avoided technology.’

“And yet, like Charles Darwin or Albert Einstein before him, he reconfigured our world.

McLuhan’s Words of Wisdom

• The medium is the message.
• The medium is the message.
• The effects come first; the causes, later.
• I can’t bear to read anything I have written.
• My statements are probes.
• Canada is the only country in the world that knows how to live without an identity.
• Art is anything you can get away with.
• Affluence creates poverty.
• Tomorrow is our permanent address.
• The trouble with a cheap, specialized education is that you never stop paying for it.
• We shape our tools and afterwards our tools shape us.
• I wouldn’t have seen it if I hadn’t believed it.
• I think of art, at its most significant, as a DEW line, a Distant Early Warning system, that can always be relied on to tell the old culture what is beginning to happen to it.
• There are no passengers on Spaceship Earth. Everybody’s crew.
• Anyone who tries to make a distinction between education and entertainment doesn’t know the first thing about either.
• Ads are the cave art of the Twentieth Century.
• All media exist to invest our lives with artificial perceptions and arbitrary values.

“For a fascinating video compendium presenting Marshall McLuhan live and in his own words (along with those of US novelist Tom Wolfe), visit www.marshallmcluhanspeaks.com.”
I first got to know Marshall McLuhan through my late wife, Gladys Cowan. In my Mexican exile a democratic leader in Guatemala, grandson in fact of one of the country's leading liberals from the Spanish yoke, phoned and urged me to come down. Only when I reached Guatemala City did he take me to his basement and explain to me why he had suggested that I come.

There was to be a coup against the dictator that midnight and one of the key artillery officers of the dictator had been kidnapped, and with a gun placed to his temple told his life would be spared if he directed the fire kitty-corner from the other pill-box against his own comrades. That he did with tears flowing down his face.

We crouched in my friend's basement awaiting the imminent artillery duel, waiting the combat to begin. In 15 minutes it was over. I left my friend's basement and in the darkness picked my way to the central square, where I found only a single dead soldier. The plan had been a complete success. I sent to TIME magazine where Henry Luce, who controlled TIME was getting bored with the routine war stories. He liked my reportage, fixed up my US immigration in no time flat, asked me where I would choose anywhere in Europe or the Americas. My heart was in Latin America and that I where I chose to represent TIME as correspondent.

Meanwhile, I went up to New York City to get to know the inner workings of the magazine. I chose Latin America, and then, when the mood changed I was given a most generous retirement pay. I was able, finally, to get back to Canada, and catch up on deeper economic studies.

My wife enrolled at the University studying French and Spanish literature. And there befriended a daughter of Marshall McLuhan. For quite a while I had been preoccupied by the way in which society's changing technology, shapes our general thinking. I had read the three volumes of Marx's Kapital by the age of fifteen. But the thought had come to me that Karl Marx's thinking in many basic ways reflected his having been born during the initial railway-building years. Surely his view of social development each social stage of development following the previous in foreseeable sequence, right to the terminal when all passengers got off with beatific smiles on their faces. All that went very well until 1848. when the proletariat threw up barricades in almost every European capital. But instead of carrying the day as the Marxian social map foretold, they were slaughtered mercilessly and many ended up in British exile, including Marx and his own family. As a result, he was never able to complete the second and third volumes of his Kapital. In 1870 the Prussian workers who had set up a revolutionary regime on the defeat of Napoleon III's government by the Prussians, were again executed mass-wise in the Père Lachaise Cemetery in Paris. With the blowing-up of his certainties, Marx was unable to finish volumes II and III of his Kapital. It was left to his life-long collaborator Friedrich Engels who did as well a clean-up job as he could under those trying circumstances. It helped rather than hindered that he had spent most of his adult years in his family textile factory in the British Midlands, whereas Marx learned about capitalism from economist reformers.

McLuhan had a keen flair of what technological change was doing to our doctrinaire certainties – at every level of human existence. With a genius for embracing the current state of the society, the family and even the universe in a single phrase, it is hardly surprising that journalists and advertising folk should have sensed the unique phenomenon of McLuhan. However, most of his academic colleagues, finding it hard disguising their envy, tended to grudge him the acknowledgment that he most definitely deserved.

The surgical precision of his most sparingly worded perceptions, is exemplified by his summation “The medium is the message.” What so basically transforms economic relationships, he quietly detected as basic to sexual relationships when he advised his charming five daughters about the new morality of the most delicate bridges of human relationships: “Don’t do anything I wouldn’t.”

Since I, with what were by comparison crude economists’ tools, was engaged in a very parallel restructuring of basic thought we at once appreciated what the other was up to. With a sympathy that even a few years later would be banned with loss of teaching posts, the University of Toronto in those distant blessed days lost little time in making available a special auditorium where every week or two pupils of all faculties were invited to hear thinkers of just about any faculty state the new paradigms that might be taking over in his special area. I was amongst those once or twice.

“The medium is the message” covered my views of my ever so differently struc-
Europe and the American Credit Appraisers Contradict Each Other on the Nature of Solvency

In its July 7 issue, The Globe and Mail’s “Report on Business” (“Europe assails ‘bias’ of debt raters”) sheds a glaring light on what is paralyzing the world economy: “Leaders complain new cuts by rating agencies based in the US are hampering efforts to solve crisis” by Janet McFarland, reports “Europe’s leaders are accusing the world’s largest credit-rating agency of bias in assessing the debt of troubled countries, renewing calls for the creation of a European rating Asia.

“The complaints were sparked after Moody’s downgraded Portugal by four notches Tuesday to ‘junk’ status, and Standard & Poor’s warned Monday it would consider it a ‘selective default’ if banks and insurers roll over about $42 billion of Greek debt – a move that could derail efforts to restructure Greece’s debt.

“German Finance Minister Wolfgang Schaeuble said Wednesday he was surprised by the decision to downgrade Portugal, saying he ‘can’t decipher’ the basis for the evaluation.

“We need to break the oligopoly of rating agencies,’ he told reporters in Berlin.

“The comments highlight long-simmering tensions between politicians and the three leading rating agencies, whose ratings are crucial to efforts of Europe’s troubled countries to ease their debt burdens.

“In the short run, policy makers need to keep Athens from being declared in default so Greek banks can continue to borrow from the European central bank.

“European leaders are struggling to extend Greece’s debt and win support for fiscal plans for Spain, Ireland and Portugal, while debt-rating agencies are assessing the efforts on behalf of private-sector lenders and bondholders who are being asked to participate in some of the refinancing efforts.

“Mr. Schaeuble’s concerns were echoed by European Commission president Jose Manuel Barroso, who criticized Moody’s for downgrading Portugal so soon after it received a bailout. He said the ratings move is fuelling speculation in financial markets this week.

“It seems strange that there is not a single rating agency coming from Europe,” Mr. Barroso told reporters in the European Parliament.

“It shows there may be some bias in the markets when it comes to the evaluation of the specific issues of Europe.’

“European Union Political leaders have talked in the past about creating a European debt-rating agency, but there is no concrete plan in place to do so.

“Lawmakers have butted heads with the rating agencies throughout the debt crisis, but even earlier criticized the firms for helping spark the financial crisis in 2008 by failing to adequately assess the risks of complex financial instruments.

“The credit-rating firms are now facing new regulations requiring registration as well as heightened standards to control conflicts of interest.

“Those new reforms, however, have not stopped European politicians from continuing to complain that the world’s biggest credit raters are primarily US-based, although they have local offices in Europe.

“Moody’s and Standard & Poor’s are US-based firms, while giant Fitch Ratings Ltd. is based in London and New York and is owned by a Paris-based company.

“They feel [the rating agencies] just don’t understand the process, and I don’t think most people would say that’s a fair criticism of the rating agencies as it relates to developed-country sovereign debt,’ said Mark Chandler, head of Canadian fixed-income strategy at RBC Dominion Securities. ‘They have a long track record on that.’

“Mr. Chandler said the credit raters are looking at the restructuring from the perspective of the private sector as policy makers continue to propose models to entice private banks and insurers to participate in Greece’s bailout.

“Ben May, European economist at Capital Economics in London, said that while the fight between European politicians and the major credit agencies has flared this week, it is not a new – or particularly dangerous – development.

“There have been comments like this seen over a prolonged period in the past,’ Mr. May said. ‘I’m not sure these are necessarily anything new, although there is an element of frustration.’

“The head of Standard & Poor’s in Germany, Torsten Hinrichs, defended his firm’s work, telling a radio interview he rejects the criticisms of the firm’s latest report on Greece.

“The assertions are completely made up out of thin air and factually wrong,’ he said. ‘They are either based on ignorance of the facts or are politically motivated comments (that) neglect the facts.’

“A Reuters report quoted Mr. Hinrichs saying S&P will not put 150 years of credibility on the line ‘to enable politically motivated push-ups’ of Greece.

“Moody’s said it is simply aiming to provide investors with fair information.

“Moody’s priority remains providing independent, objective assessments of credit risk on debt securities,’ a spokesman told Dow Jones.

“While politicians are clearly frustrated, there appear to be few calls from the private sector for a new European-based debt rating agency.

“Mr. Chandler said he has not heard of any demand in fixed-income circles for a new rating agency, and said it is hard to imagine it would have access to different information or better expertise to serve clients.”

Appraisal, as ever, turns out to be a process that will serve the politically decided goal of an empowered social group.

W.K.
A Canadian Equivalent to USA’s Sheila Bair

By Grant Robertson, The Globe and Mail (8/7/2011): “Having spent the past year drawing up new standards for global mega-banks doomed too big to fail, financial regulators will turn their attention this fall to debating requirements for smaller banks that are of national significance – a process that will have direct implications for Canada’s financial institutions.

“Canada’s major banks would shake the country’s financial system if any of them were to fail in a crisis, but most are not expected to be named to a list of about 30 systemically important financial institutions (so-called SIFIs) around the world, which will be established in the coming year.

“Under an agreement reached two weeks ago in Basel, Switzerland, the global SIFIs will be required by 2016 to hold as much as 2.5 per cent of additional capital on their books compared with their peers, which will serve as an extra buffer against a future financial crisis.

“Global regulators were in general agreement about putting extra requirements on the world’s biggest banks, but the next round is expected to be more contentious. There is much disagreement about how to treat banks considered systemically important to the well-being of their own countries.

“It’s going to be much more difficult to get global agreement on that,” Julie Dickson, the federal Superintendent of Financial Institutions, said in an interview. ‘It’s more of a national prerogative on how you want to deal with institutions in your country.”

“News stands for the world’s biggest banks have been the priority so far, given the global domino effect that would result if they were to fail. But Ms. Dickson pointed out that difficulties at medium-sized financial institutions can lead to international problems as well.

“British bank Northern Rock was not a large financial institution when it required a Bank of England bailout during the credit crisis, yet its failure would have been felt throughout Europe and potentially around the world.

“Circumstances also play a big role in whether an institution is systemically important,” Ms. Dickson said.

“In Canada, RBC has been mentioned as a possible candidate for the list of global SIFI banks. If RBC does not make that list, it would most certainly join Toronto Dominion Bank, Bank of Nova Scotia, Bank of Montreal and Canadian Imperial Bank of Commerce in a group of banks that would be deemed national SIFIs.

“RBC chief executive officer Gordon Nixon could not be reached Thursday, but Mr. Nixon has said he believes Canada’s largest bank is not large enough to be classified as a global systemically important bank. He is pushing for Canada’s major banks to be treated equally, on a national level.

“The list of global SIFIs could be a long time coming. In the next month regulators will issue a consultation paper on the proposed criteria for the list, which will look at how interconnected a bank’s operations are with other financial institutions, as well as its cross-border activity and the complexity of its assets.”

Exit “Too Big to Fail”

“When the debate turns to a national level, Ms. Dickson said, her preference is to not attach ‘too big to fail’ labels to any of Canada’s banks, but instead to introduce a system that would allow for an orderly resolution of a troubled bank, rather than propping it up with a bailout.

“Some countries may want banks deemed national SIFIs to hold more of a capital cushion. However, Canada is proposing a series of other measures to safeguard nationally important banks, such as the concept of bail-ins, where debt is quickly converted to equity to inject capital into the bank.

“It’s like an army of capital that is created,” Ms. Dickson said. ‘The doors of the bank are left open, they’re never shut. But other holders of debt, uninsured depositors, holders of senior unsubordinated debt, are converted into equity holders.”

“Contingent capital, which Canada put forward at global regulatory talks last year, is one form of bail-in, the Office of the Superintendent of Financial Institutions said. OSFI has already required Canadian Banks to draw up ‘living wills,’ blueprints for how the organization would be wound up and liquidated in the event of a default.

“Rather than label banks as too big to fail, which could lead them to seek bailouts, Ms. Dickson said her focus has been on figuring out how to contain the damage of a failure its operations. Canada has also laid the groundwork to create a ‘bridge bank’ in the event of default, which would assume the obligations of imperiled lenders and liquidate the assets.

“If you are talking about an institution that is very important, you need tools to deal with its exit from the system,” she said. ‘Otherwise, you will have no choice but to repeat what happened in the financial crisis, where governments had no choice but to bail out certain institutions.”

That, however, should ring even more important bells in our minds.

The New York Times (10/07, “Sheila Bair” by Joe Brown) quoted Sheila Bair: “They should have let Bear Stearns fail.” It was midmorning on a crisp June day, and Bair, the 57-year-old outgoing chairwoman of the Federal Deposit Insurance Corporation – the federal agency that insures bank deposits and winds down failing banks – was sitting on a couch, sipping a Starbucks latte. We were in the first hour of several lengthy on-the-record interviews. She seemed ever-so-slightly nervous.

“Long viewed as a bureaucratic backwater, the FDIC has had a tumultuous five years while being transformed under Bair’s stewardship. Not long after she took charge in June 2006, Bair began sounding the alarm about the dangers posed by the explosive growth of subprime mortgages, which she feared would not only ravage neighborhoods when homeowners began to default — as they inevitably did — but also wreak havoc on the banking system.

“The FDIC was the only bank regulator in Washington to do so. During the financial crisis of 2008, Bair insisted that she and her agency have a seat at the table, where she worked — and fought — with Henry Paulson, then the treasury secretary, and Timothy Geithner, the president of the New York Federal Reserve, as they tried to cobble together solutions that would keep the financial system from going over a cliff. She and the FDIC managed a number of huge failing institutions during the crisis, including IndyMac, Wachovia and Washington Mutual. She was a key player in shaping the Dodd-Frank reform law, especially the part that seeks to forestall future bailouts. Since the law passed, she has made an immense effort to convince Wall Street and the country that the nation’s giant banks – the same ones that required bailouts in 2008 and became known as ‘too big to fail’ institutions – will
never again be bailed out, thanks in part to new powers at the FDIC. Just a few months ago, she went so far as to send a letter to Standard & Poor's, the credit-ratings agency, suggesting that its ratings of the big banks were too high because they reflected an expectation of government support. If a too-big-to-fail bank got into trouble, she wrote, the FDIC would wind it down, not bail it out.

“Yes, that was necessary,” Bair said. “But they certainly could have been less generous. I’ve always wondered why none of AIG’s counterparties didn’t have to take any haircuts. There’s no reason in the world why those swap counterparties couldn’t have taken a 10 percent haircut. There could have at least been a little pain for them.’ (All of AIG’s counterparties received 100 cents on the dollar after the government pumped billions into AIG. There was a huge outcry when it was revealed that Goldman Sachs received more than $12 billion as a counterparty to AIG swaps.)

“Bair continued: ‘They didn’t even engage in conversation about that. You know, Wall Street barely missed a beat with their bonuses.’

“Isn’t that ridiculous?” she said.

“John Podesta, who headed the Obama transition team, was another Democrat that Bair had known forever. ‘I just thought there had been too many people who had been too close to the financial situation for too long,’ Bair told me. ‘I thought we needed a fresh perspective.’

“Instead, Obama turned to Geithner. It was no secret by then that Bair and Geithner had a frosty relationship; inevitably stories leaked out that Geithner was trying to push her out. But the stories were wrong. Bair’s support for mortgage modifications made her enormously popular with Democrats; when she told Podesta that she would step down early if that’s what the President wanted, he said no: Obama wanted her to stay.

“What has been discouraging is that the Obama administration hasn’t done much better on the loan-modification front than the Bush administration did. Early on, the President told his staff to talk to the FDIC about how to set up a loan-modification plan. The FDIC had a wealth of experience, in part because it operated IndyMac for nine months until a buyer was found. It used that time to work on mortgage modifications with IndyMac borrowers and came up with a template for a program it felt could work nationwide. ‘They did talk to us,’ Bair said of Obama’s staff, ‘but I always had the sense they were talking to us because the President wanted them to.’

“Getting the banks to make large-scale mortgage modifications is no different today than it was in 2007 – next to impossible. The servicers still lack the economic incentives to modify mortgages; it’s easier in most cases for them to foreclose, which also generates fees, while modifications don’t. As Bair herself discovered during the IndyMac experience, changing that attitude requires dogged effort. ‘I ended up having calls with our servicers every Friday, to get a status report on what they’d done that week on loan modifications, just to keep the pressure on,’ Bair said.

“I think the President’s heart is in the right place,’ Bair told me. ‘I absolutely do. But the dichotomy between who he selected to run his economic team and what he personally would like them to be doing – I think those are two very different things.’ What particularly galls her is that Treasury under both Paulson and Geithner has been willing to take all sorts of criticism to help the banks.

Helping Banks “Too Big to Fail”

“The second key issue for Bair has been dealing with the too-big-to-fail banks. Her distaste for the idea that the systemically important banks can never be allowed to fail is visceral. ‘I don’t think regulators can adequately regulate these big banks,’ she told me. ‘We need market discipline. And if we don’t have that, they’re going to get us in trouble again.’

“In the early wrangling over what became the Dodd-Frank bill, ‘resolution authority’ was not a prominent part of the agenda. Then in March 2009, AIG filed documents showing that it had set aside $165 million in bonuses for its traders. The public anger over these bonuses was enormous. One day in the middle of the furor, the President summoned Bair to the White House. When she arrived at the Oval Office, Geithner and Lawrence Summers, Obama’s top economic adviser, were sitting on the couch – and the seat next to the President was empty. That was where she was supposed to sit. As the President vented his frustration over the AIG bonuses, Bair saw her opportunity. ‘This doesn’t happen with our process,’ she told the President. ‘We have a resolution process that we’ve used for decades, and when we put a bank into receivership, we have the right to break all contracts, we can fire people, we can take away bonuses and we don’t get into this kind of problem.’ The President quickly signed on to the idea of having Dodd-Frank include the ability to resolve giant bank-holding companies and other systemically important financial institutions like AIG.

“That was the easy part. Dealing with the Treasury Department was, as usual, the hard part. The original white paper outlining the financial reforms it wanted from Congress included a section calling for the government to be able to legally ‘resolve’ the big banks. It had the FDIC running the process, which clearly made the most sense; the agency had been doing it for so long, it had the process down to a science. That’s why bank depositors scarcely noticed when the FDIC shuts down their bank on a Friday and reopens it under new management on a Monday morning.

“Weeks passed. About an hour before the President was set to announce the reform package, FDIC officials, including Bair, were shown the latest copy of the white paper. According to Bair, ‘The resolution authority had completely changed.’ While the FDIC still had an important role, its authority had been seriously diluted – now the Treasury and the Federal Reserve would also have to sign off before a bank could be wound down. From Treasury’s point of view, this was completely reasonable. After all, any wind-down would require short-term lending from the Treasury, so it wanted some say in the process. But Bair felt strongly that this was yet another example of her – and her agency – being undercut by other regulators.

“So she fought back; and in typical Bair fashion, she did so publicly. When called to testify before the House Financial Services Committee about the new resolution authority, she bluntly told Barney Frank, then the committee chairman, that, as she put it to me: ‘It still doesn’t resolve the large bank-holding companies. We would like the authority to do that.’ In the final Dodd-Frank bill, Treasury’s oversight role was diminished – and the FDIC had the authority to manage a failing too-big-to-fail bank.

“Even so, there are many people who remain convinced that the government will never have the nerve to let an important institution actually fail. Indeed, the big banks currently have a much lower cost of capital than their smaller brethren precisely because the bond market doesn’t believe they will ever be allowed to fail.

“Bair has spent much of the last year trying to convince the country – and Wall Street – that the FDIC is up to the task.
Jim Rankin, in *The Toronto Star*, June 14, 2011, writes:

“On the first seriously hot morning of a late spring, Ron gave his walk-up bachelor apartment on St. Clair Avenue West a serious sweep, despite the heat and fact that he otherwise keeps it immaculate.

“It’s already 30 degrees,” said Ron, 57, mopping his forehead with a cloth. “I need a fan, I think.”

“But it is home — and has been since December, when the John Howard Society helped find him the place. Other than the fan, it has what he needs: a small kitchen, TV and pull-out bed. He’s added a few personal touches, like mirrored lettering on the wall that says, “Live, Love, Laugh.”

“I feel good about myself,” said Ron.

“Since the age of 17, Ron, a recovering heroin addict, estimates he has been in and out of jail about 40 times, spending a total of 20 years incarcerated. The longest stint was 2 1/2 years in a federal penitentiary for a string of drug-fueled break-and-enters.

“Ron, who agreed to be identified by his first name, believes he would not have cycled in and out of jail so many times had he had a place to live during the gap between being released and finding a place of his own.

“The John Howard Society of Toronto is hoping a transitional housing program already successful in Ottawa will stop the cycle earlier for other released inmates and, in turn, save taxpayers’ money — and make Toronto safer.

“In an effort to persuade governments to invest, the society commissioned a cost-benefit analysis of the program, which provides just-released inmates a room in a controlled facility where they can live up to a year before permanent housing is found.”

**If Ex-prisoners were Helped to Rehabilitate**

“The study, funded by the Toronto Community Foundation, looked at existing research and applied it to what could be saved….

“Looking at a number of variables and costs associated with inmates in a previous study, including average number of trips to jail, average jail stay, cost of incarceration ($142 per day), plus costs to victim, the justice system and the cost of administering the program, the study found the program could save a bundle.

“Per-person savings for homeless ex-prisoners were estimated at $350,000. For ex-prisoners convicted of serious offences (those subject to what is called an 810 order) the savings were put at $109,000.

“The homeless group, often suffering from mental illness and addiction, are more likely to cycle in and out of jail, thus the greater savings.

“We had anecdotal evidence that there would be a cost savings to the taxpayer but it’s one thing to have anecdotal evidence and another to have pure economic proof,” says Greg Rogers, executive director of the John Howard Society of Toronto.

“The study actually exceeded what I thought it would say in savings.”

“The results are to be officially released Tuesday. The report was prepared by Ontario consulting groups Open Policy and Chronicle Analytics.

“People who are going to call them a bum, they are really going to be tone deaf to any cost-benefit analysis no matter how much it pays because they think it’s the wrong people (getting support),” says Open Policy’s John Stapleton, a report co-author.

“The logic of cost-benefit analyses is sometimes trumped by feelings, which are often used by politicians who talk tough on crime and punishment.

“You sure learn quickly that it’s not about saving money,” says Stapleton. “The public is willing to pay for things, even if it costs them more.”

“Ron is on a methadone program and gets by on disability payments.

“He grew up in Toronto and has a Grade 12 education. He worked as hairdresser and handyman and was married. His wife died eight years ago from cancer. That’s when he got heavy into pills.

“He liked at one point to combine Valium and beer. Doped up, he says he once wandered into a No Frills grocery store, where he opened a chocolate milk container, drank it, and ate some cookies. Thanks to his criminal record and release conditions, the incident landed him in jail.

“The pills make you do stupid things,” said Ron. “When you get out of jail, you don’t have very much. I’ve been in and out quite a few times. It ends up costing the taxpayers a lot of money.

“But over the past five years, things have gotten a lot better. I stopped doing all this foolishness. I’m 57. That’s enough.”

“Using the study’s daily jail cost of $142, Ron’s total incarceration cost for his estimated 20 years in jail comes to $1 million.

“There is currently funding in Toronto independent initiatives of two great women in the civil services of the two major North American countries. It is a deep concern – doubtless with deep biological roots, for women and mothers to be concerned about the survival prospects of their families. Surely then, not only should psychologists and mathematicians be brought in. The Lord knows that there are plenty of them available because of alleged budgetary problems. In fact there remains no accountability and hence no budget worthy of that name. What is being left out is the concept of prepaid human capital — “the most important investment a country can make.”

*William Krehm*
Pay The Piper! Call The Tune!

If we are to call forth the sweet strains of a better world, then we must be prepared to pay the piper; for, he who pays the piper does call the tune!

Fortunately, this is something that we are quite capable of doing. The money is there for whatever it is that we need money for. Alas, the choice of how to spend it, is not. That choice is in the hands of the money-lenders.

The struggle over who should control a nation’s money system has been going on for centuries. Its history is a most instructive cautionary tale. Thomas Jefferson, for example, addressed this issue early in the history of the United States. Without so much as a crystal ball, he warned:

“If the American people ever allow the banks to control the issuance of their currency, first by inflation and then by deflation, the banks and the corporations that will grow up around them will deprive the people of all property until their children will wake up homeless on the continent their fathers occupied. The issuing power of money should be taken from the banks and restored to Congress and the people to whom it belongs. I sincerely believe the banking institutions having the issuing power of money are more dangerous to liberty than standing armies.”

And lo! It has come to pass. (For a compelling documentary on how this prophecy has been fulfilled see Michael Moore’s, Capitalism: A Love Story)

The good news, is that we have a bank of our own, you and I. It’s our central bank. It’s called the Bank of Canada. We bought it during the 1930s — a time when the Great Depression had educated the public to a level of consciousness and concern about banks and banking that would serve us well today.

As early as 1925, J.S. Woodsworth, then the Independent Labour Party Member of Parliament for Winnipeg North, and one of only two MPs who held the balance of power crucial to the Liberal minority government of Prime Minister, William Lyon Mackenzie King, called for a nationalized system of banking, and government control of the issuance of currency and credit, with the removal of this power from private corporations. He contended that money supply should be managed for national interests rather than private profit, saying that, “in this we face the larger question as to whether or not Parliament is to be sovereign, as to whether or not the people are to be sovereign, or whether we have not had our liberties filched from us without most of us having been aware of what has taken place.”

Whoever Said that Canadian History Was Dull?

In 1933, the Bennett government appointed a royal commission on banking – the Macmillan commission. One of those who appeared before the Macmillan commission was Gerald Grattan McGeer, representing the Vancouver, New Westminster and District Trades and Labour Council.

McGeer was a highly accomplished lawyer, counsel to the BC government during the freight-rate cases of the 1920s. His brilliant success had resulted in “significant reductions in rates and corresponding increases in commercial activity.” Those cases had convinced him that money and its mismanagement were at the root of the problem, and had drawn his attention to economics, especially in money, banking and interest. That concern was further stimulated by the Great Depression, whose cause he traced to faulty monetary policies.

McGeer’s report on the Macmillan Commission included a devastating criticism of the commission itself, and of the “indecent haste” with which it was proceeding. He suggested that the Commission could be likened to a “thieves’ kitchen court, in which the wrong – doers were both upon the Bench and in the jury box.” He pointed out, for example, that under the ministry of one member of the Commission, Sir Thomas White, PC, KC, MG, Vice-President of the Canadian Bank of Commerce, and Canadian war-time Minister of Finance, war-time rates of interest charged to government for credit loans were increased by 50%.

Also included in his report were excerpts from the British Macmillan Committee on banking credit and finance (same Macmillan!), excerpts which McGeer believed reflected the minority views of such other notable members of that committee as John Maynard Keynes, and which supported his own.

Finally, he enclosed the outline of a plan for Canada, entitled, “The Conquest of Poverty.” In it, he explained how “public
credit [was] used to support the most pow- erful predatory monopoly in finance that has ever been organized,” and argued that “legal tender money and the purchasing power medium of exchange, whether it be money or credit, transferred by cheque, is... a creature of law and its creation and circulation constitute the exercise of a supreme prerogative power of governmental authority.” In the course of time, “he predicted, ‘the system of more equitably distributing national income will be perfected. But, in the meantime,’ he stressed, ‘we must get started.’ His performance at the committee won much public acclaim and wide publicity.”

Three of the five members of the Commission supported the creation of the Bank of Canada. While there was little opposition in the Commons to creating the Bank of Canada, important issues remained to be settled. Two of these were key. Should the bank be privately or publicly owned? Who should have supreme authority on monetary policy, the government or the bank? The ensuing struggle for ownership of the Bank of Canada is a buried tale that bears out Santayana’s observation that, “those who do not remember their history are doomed to repeat it.”

The Bank of Canada opened in 1935. In August of that year, in a radio address to the nation, Prime Minister, Mackenzie King, said:

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

To this Abraham Lincoln would have added that “the privilege of creating and issuing money is not only the supreme prerogative of government, but it is its greatest creative opportunity.” In an address to Congress, a few weeks before his assassination, Lincoln outlined principles not unlike those expressed in the Bank of Canada Act and predicted that by the adoption of these principles...“money [would] cease to be the master and become the servant of humanity,” and that, “democracy would rise superior to the money power.”

Colourful, controversial, relentless, indefatigable, and a powerful orator, McGeer championed the cause of monetary reform through a publicly owned bank, operated by the Canadian government. He stirred national debate on the subject. “From him, more than any other man of his time, [the public] learned about the awful power of money.”

Finally, in 1938, thanks in no small part to Gerry McGeer, Prime Minister Mackenzie King, in accordance with his political insights, and his well honed skills in the “art of the possible,” led his government to “nationalize” the Bank of Canada.

In Canada, it seemed for a time that the question of who should create the money – the state on behalf of all the people, or the private banks in their own interests and that of their preferred clientele – had been decided. Money-creation was shared by the government, through the Bank of Canada, and the private banks. The system served us well. It helped finance World War II and more urbanized high-tech world.

And yet from the slashes in high technological programs that could expose the blindness of untrammeled greed that has taken over – the realization of the suicidal course that this imposes on our society. It is high time not only to retrieve our history and its lessons, but organize the reclaiming of our society for survival. We could make use of mathematicians and astrophysicists left unemployed by slashing our space programs to examine what passed for the elementary maths that are supposed to support the complete takeover of our society by speculative capital. For example of turning around a proposition and considering it still valid. For example: if I shoot myself in the head. I fall dead. From that you cannot conclude that if I fall dead, I have suicided.

Surely with the reduction of our space travel programs, there will enough highly trained mathematicians and astronomers available to judge that because there is too much demand to be satisfied by the available supply of, you can conclude that when prices rise, there has been an excess of demand. It could have been that more investment is being made in non-market programs, and unless you recognize that, and responding to that need with more direct government investment, society will be pushed to its doom.

One of the lessons of the original Social credit movement recognized and dealt with such problems. That is what makes Frances Hutchison’s new contribution a most important book to be read and pondered.

William Krebm
The Ruinous Cost of Treating Our Investment in Human Capital as an Expenditure

Having clamped down the costs of running a modern economy and assumed with doctrinal blindness that all higher prices can be relegated to too much demand and too little supply, our government is getting into predictable trouble. The point it shuts its eyes to, is that a modern economy has to make investments that are not market-determined.

These are determined by the cost of taking care of its ever more expensive human capital. This consists of our government’s direct non-market-determined investments such as human capital, which is not determined on any market, but is financed directly by our governments. It includes not only the education of the labour force but the expenditures needed to keep it properly urbanized and healthy.

This I and an entire French school of economists ascertained has to be seen as investment – treating it as an “expense” will be white-caning their way in attempting to balance their budgets.

Ignore that detail and try ironing out such imbalances with higher interest rates, and our governments are embarked on endless troubles. The have, in fact, nothing to do with the prices of goods and services. This has to be seen as investment – treating it as an “expense” will bewhite-caning their way in attempting to balance their budgets.

“The Harper government may have vowed that cutting the debt would not lead to higher user fees, but documents show that as many as a dozen departments that charge user fees propose price hikes; national park entry, fishing licenses and camping among affected services.

“The Harper government may have vowed that cutting the debt would not lead to higher user fees, but documents show that as many as a dozen federal departments plan to raise these fees – including Parks Canada.

“The department responsible for Canada’s national parks will soon release its proposed user fees for next year, ranging from entry and camping to the cost of fishing licenses and the use of hot pools.

“A Parks Canada official said camping fees – which have been frozen since 2008 – are too low and that the increases are likely to be in with inflation and the cost of living.

“The agency is also planning to charge private businesses quite a lot more to renew licenses on park properties.

“Austing Canadians and industry to pay more for government services appears to be one way federal departments are managing the wave of cost-cutting demands as the Harper government attempts to erase Canada’s $32.3 billion deficit.

“Government departments that charge user fees – the federal government takes in about $1.8 billion a year in this way – recently outlined their future plans in reports to parliament.

“Treasury Board President Tony Clement has said that higher user fees would not form part of the government’s deficit-fighting plan, but The Globe and Mail reviewed some of the reports and found that 13 government departments are preparing to update their fees.

“Most of the 13 that are planning to ‘change’ their user fees have not yet provided detail proposals. Only the Canadian Food Inspection Agency is using language in its proposal that suggests its fees will decrease, while the rest either explicitly state or imply that fees will rise.

“Among those with detailed proposals, the Parole Board of Canada is planning to increase the cost of a pardon to $631 from $150. That was almost universally panned in a recent public consultation. Canadians who e-mailed responses called the hike excessively punitive and warned it would make it harder for convicted felons to clear their names so that they can find work.

“Health Canada is also planning to more than double fees for drug and medical device companies to help cover the cost of safety regulation.”

The flaw in this official reasoning is that our price level is exclusively determined by the market. In fact, the greatest lesson to come out of World War II, was that the most dynamic investment that a country can make is not market-determined at all, but in human capital. Since this – like so much of our history that we have dire need to save the current market-inspired rush into the next atomic war – has been so thoroughly suppressed that we must at this point recount it.

After two atomic bombs led to the devastation of Japan, followed shortly afterwards by the collapse of Nazi Germany, Washington sent many hundreds of economist to Japan and Germany to study the extent of the damage and from it to foretell how long it would take these great trading nations to resume such roles again.

Some sixteen years later one of these Theodore Schultz wrote a crucial essay on how wrong he and his colleagues had been. This he attributed to the fact that they had concentrated on the physical wartime destruction, and overlooked the fact that the talent human capital had come through the war virtually intact. And then in a stroke of sheer genius he concluded that human capital is the most important investment a government can make. For a few years Schultz was feted, decorated, and then completely forgotten. We attach a note of life and achievement, since his work is more needed than ever to prevent the extinction of our culture in the next atomic war.

Without Schultz’s great conclusion, our civilization is being pushed to its doom by the suppression of all that was learned during the Depression and the immediate quarter of a century thereafter. Treating the investment in human capital as just another debt calling for suppression by higher interest rates, deprives humanity of anything that could be mistaken for serious accountancy even the dark. Canada’s Auditor General attempted to make the point. But under Washington’s practical dictation our Prime Minister Brian Mulroney over-rode him.

Ignore the growing importance of human capital, and treat is a debt to be suppressed by higher interest rates, in an age when the rapid urbanization of the world is increasing apace, is to call for disaster.

Confuse capital investment by government for debt can lead nowhere but the next final atomic disaster.

We carry a brief note on the late Theodore Schultz whose great contribution must be brought to the fore again.

William Krehm