George Shultz and the Rise of the Petrodollar

By Joyce Nelson, for COMER, June 2019 (updated Feb 10, 2021)

William Faulkner once wrote: “The past is not dead. It’s not even past.” That observation seems especially true of the tumultuous early 1970s, when monetary policy across much of the world was completely upended by the so-called “Nixon shocks,” the policy prescriptions issued by the Bank for International Settlements, and the demise of the Bretton Woods system. The shock waves from these seismic changes continue to reverberate to this day, especially because of the petrodollar, which emerged triumphant from the initial chaos.

At issue are the financial tools of Empire, which in July 1944 – even before the end of World War II – were quietly passed to the US in a series of meetings at Bretton Woods, New Hampshire.

The Bretton Woods System

At those meetings – officially called the United Nations Monetary & Financial Conference and presided over by the US – representatives from 44 nations (the Allied nations during the war) agreed that a new international monetary system would need to be based on the stability of financial exchange rates. Given that the US was emerging from WWII as the undisputed leader of the capitalist world, the participants at Bretton Woods agreed to make the US dollar the world reserve currency by pegging it to gold at the fixed exchange rate of $35 per ounce of gold. Other countries could exchange their currencies for US dollars and assume the gold would be there to back up the exchange. The US dollar was designated as the only currency that could buy gold.

The Bretton Woods conference also created the International Monetary Fund (IMF) and the World Bank.

According to William Krehm, there was an attempt at Bretton Woods to “dissolve” the powerful Bank for International Settlements (BIS), the Basel, Switzerland-based central bank for central banks, because of allegations that the BIS had “appeased and even collaborated with the Germans, before and during World War II.” But a “watered-down resolution” merely called for its liquidation “at the earliest possible moment.” That moment never came, and in fact the BIS “grew in power” and its corporatist “dogma” gained control over the IMF and the World Bank.

It’s important to note that since the 1980s, at least three books have documented the fact that the BIS acted as a money-funnel for US and British funds to build up Hitler’s war machine. But during and after the Bretton Woods meeting, the BIS eluded close scrutiny and emerged even more powerful.

The Bretton Woods system appeared to work for a time, but in the 1950s the US embarked on a series of military invasions and covert operations to expand its empire: in Korea, Guatemala, Iran, and eventually in Vietnam, Laos, and Cambodia. To fund these expensive incursions, the US was spending its gold while also printing more US dollars – something no other country was at liberty to do.

John Perkins, author of, Confessions of An Economic Hit Man and other books, has called this Bretton Woods system “a subtle global tax” imposed by the US corporatocracy. Because the US dollar reigned supreme, the US was able to buy foreign goods and services on credit, but when foreign creditors then used their credit (their US dollar reserves) to purchase US goods, they found that the value of their credit had...
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been diminished by inflation.

Perkins wrote: “During the 1950s and 1960s, credit purchases were made abroad to finance America’s growing consumerism, the Korean and Vietnam Wars, and Lyndon B. Johnson’s Great Society. When foreign businessmen tried to buy goods and services back from the United States, they found that inflation had reduced the value of their dollars – in effect, they paid an indirect tax. Their governments demanded debt settlements in gold.”

As a result, by the mid-1960s a number of countries distrusted the US dollar as the world’s reserve currency, believing that the exchange rate of $35 per ounce of gold was not only grossly unfair, but that the US didn’t have enough gold to back up all the money it was printing. In 1965, for example, France (led by Charles de Gaulle) announced that it wanted to exchange virtually all of its US dollar reserves for gold. By 1971, other countries were making similar demands, including Britain, Germany and Switzerland.

At the same time, by 1971 the Nixon White House was in a financial quandary: facing a high unemployment rate and a relatively high inflation rate, coupled with disappearing gold reserves and a dollar dropping in value compared to European currencies.

On Friday, August 13, 1971, Nixon and fifteen top-level White House advisors met secretly at Camp David to discuss this dilemma. It is likely that one of those present was George Shultz, who at the time was Nixon’s Director of the Office of Management and Budget.

The Rise of George Shultz

Trained as an economist, Shultz had taught at the Massachusetts Institute of Technology and the University of Chicago Graduate School of Business before becoming Dean of the Graduate School of Business from 1962 to 1968. During that time, Shultz was influenced by Milton Friedman and the “Chicago Boys” economic thinking (ensconced in the University of Chicago’s Department of Economics), which revolved around “free-market” neoliberalism. In fact, it was Milton Friedman who helped Shultz get appointed to the Nixon White House, first as Secretary of Labor (1969 to 1970) and then as Director of the Office of Management and Budget (1970 to 1972).3 No doubt, Friedman had high hopes for what would be done financially by the Nixon White House.

But after intense discussions at Camp David over that August 1971 weekend, Nixon emerged to break up the Bretton Woods system: announcing (1) that the US was abandoning the gold standard and that foreign governments would not be able to exchange their US dollars for gold; (2) that he was implementing a 90-day wage and price freeze to stop inflation; and 3) that he was imposing a 10 percent import surcharge to protect American products (lifted in December 1971).

These decisions (approved by George Shultz) infuriated Milton Friedman, who phoned the White House to complain – only to be told that the decisions were popular and seemed to be working.

But with the abandonment of the gold standard and the Bretton Woods system, the US dollar was a floating currency, not the tool of Empire that it had been. Moreover, having been stung by this unilateral US decision, much of the world was rejecting the US dollar post-1971. As Kei Pritsker and Cale Holmes have noted, “In order to avoid global loss of confidence in the dollar, the dollar needed to be tied to a new commodity, something equally as universally demanded” as gold had been previously.6

George Shultz would be central to meeting that new challenge. As Perkins noted, “Nixon’s team was not merely smart; it was cunning.”

The Oil Weapon

During the financial chaos of the early 1970s, Egypt and Syria simultaneously attacked Israel on October 6, 1973 (the Yom Kippur War), in retaliation for the Six-Day War of 1967 when Israel had attacked Egyptian, Syrian and Jordanian troops along its borders and captured new territory. The Six-Day War had humiliated and infuriated the Arab world, which knew that Israel could never have succeeded in that war without the financial and political support of the US.

In the October, 1973, retaliatory attack on Israel, Egypt took an important political step. According to John Perkins, “Knowing that strategically he was on shaky ground, Egypt’s President Anwar Sadat pressured Saudi Arabia’s King Faisal to strike against the United States (and therefore Israel) in a different way – by employing what Sadat referred to as ‘the oil weapon’. On October 16, Saudi Arabia and four other Arab states in the Persian Gulf announced a 70 percent
increase in the posted price of oil; Iran (which is Muslim but not Arab) in an act of Islamic solidarity joined them.”

Three days later, on October 19, President Nixon asked Congress for $2.2 billion in aid money for Israel. The next day, Saudi Arabia and other Arab oil producers in OPEC (Organization of Petroleum Exporting Countries) imposed a total embargo on oil shipments to the US.

Perkins has called this “a classic game of international chess,” and noted, “At the time, few people perceived the cunning behind Washington’s move [i.e., the October 19 aid to Israel], or the fact that it was driven by a determination to shore up a weakened [US] dollar.”

The effects of OPEC’s oil embargo were immediate and severe, with long line-ups at gas stations and, by January 1974, a quadrupling of the price of oil across North America and much of the western world, with fears of an impending new Great Depression.

According to Perkins: “We know now that the corporatocracy played an active role in driving oil prices to these record highs. Although business and political leaders, including oil executives, feigned outrage, they were the puppet masters pulling the strings. Nixon and his advisors realized that the $2.2 billion aid package to Israel would force the Arabs into taking drastic actions. By supporting Israel, the administration engineered a situation that generated what was the craftiest and most significant EHM [economic hit man] deal of the twentieth century.”

In other words, the US was about to use “the oil weapon” in its own strategic way.

The Puppet Masters

By that time, George Shultz had become Nixon’s US Secretary of the Treasury – a position he held from June 12, 1972, until May 8, 1974. According to the Zero Hedge website, the main problem the US faced at that time “was how to motivate other countries to hold and use US dollars.”

To address this key issue, the powerful Bilderberg group held a meeting (May 11-12, 1973) – five months before the Yom Kippur War – presided over by Henry Kissinger and including “an influential group of men: Lord Greenhill of BP, David Rockefeller of Chase Manhattan Bank [and top shareholder in Exxon], George Ball of Lehman Brothers and Zbigniew Brzezinski [US foreign policy advisor].”

Also present at that Bilderberg meeting were four Canadians: Anthony G.S. Griffin (chair of Home Oil Corp. and CEO of Triarch Corp.), Peter Lougheed (Premier of Alberta), Donald S. Macdonald (PM Pierre Trudeau’s Minister of Energy, Mines & Resources), and Albert E. Ritchie (former Canadian ambassador to the US). We’ll never know exactly what was decided at Bilderberg, but it was five months after their May 1973 meeting that the Yom Kippur War erupted, with the subsequent oil price escalation, followed quickly by Nixon’s aid to Israel, and OPEC’s retaliatory oil embargo.

John Hotson Vindicated

By David Gracey, 2021

At the first COMER meeting that I attended, some forty years ago, I met one of the founders, Professor John Hotson. It was there that I heard his dictum that no sovereign government should borrow from private banks when it had the option of borrowing from its own bank.

This was a revelation to me as I knew nothing of the history of the Bank of Canada under its first governor, Graham Towers. As COMERites know well, the BoC was used to fund deficits during the Depression and WWII and for many years thereafter. This practice ceased with the rise of monetarism and the agency of the Bank of International Settlements.

As inflation rose and the economy faltered, the Federal Reserve and the Bank of Canada jacked up interest rates in accordance with monetarist dogma. These punishing rates, in turn, caused deficits and debts to escalate. A study by Stats Canada found that 90% of the increase in the national debt during this period was – due to interest – much of it paid to private banks.

So, I wrote a letter to John Crow, then governor of the BoC, asking if the Bank could buy more government debt. He replied that it was impossible because it would excessively enlarge the balance sheet. The national debt continued to grow and led eventually to Paul Martin’s austerity policy, with its devastating impact on health and social programs.

Many decades have passed and the world has changed. To quote the Toronto Star, January 21, “central banks are buying massive amounts of government bonds, effectively printing new money to do so – and have poured $5.6 trillion US into the global economy.” This, of course, was in response to the coronavirus pandemic. Here in Canada our central bank has been purchasing $4-5 billion of bonds per week. Mr. Crow would be appalled to learn that the BoC now holds government bonds in excess of 20% of GDP – up from 5% before the pandemic.

As usual, the US was ahead of us. The Federal Reserve reacted to the 2008 financial crisis by creating several trillion dollars. Some were used to bail out financial institutions (including foreign ones), some to buy up dubious securities and some to purchase government debt. This saved the financial system without causing inflation. That success led many to advocate using the Fed to attack problems such as climate change and infrastructure deficits.

Fortuitously, New Monetary Theory (NMT) has come along to provide a rationale. Stephanie Kelton argues in her book The Deficit Myth that government money-creation is what we need to achieve full employment and reduce inequality. Some of the tenets of NMT are contentious, but it is clear that sovereign money has served us well during the present crisis.

The corporate media is not on board. Pierre Poilievre, the Tory finance critic, has accused Trudeau of using the BoC for nefarious purposes. The deficit hawks are fearmongering about the burden we will leave to our grandchildren. The banks don’t approve because it reduces the space for their own money creation. When the pandemic ends we can expect a strong push for cutbacks and austerity.

Fortunately, as economist Jim Stanford put it so well, “the genie is out of the bottle”. John Hotson was right. He and COMER deserve credit for helping to move the mountain. The challenge ahead is to ensure that this instrument is used for the benefit of all.

Our Comment

Dave Gracey, retired principal of an alternative secondary school in downtown Toronto, was one of the earliest to enlist in COMER, and has, over the years, submitted many pithy articles to the ER. He has been a tremendous supporter of COMER in every way.

Élan
Did OPEC walk into a trap set by Western oil companies and high finance? Perkins implies that is what happened, with the “puppet masters” engineering a situation that would pay off for them in the long run.

George Shultz’s Treasury Department sought help from John Perkins and others.

As Perkins has written, the US Treasury Department “came to me and other economic hithen and said, ‘Listen, you know, we can’t allow OPEC to blackmail us anymore. You guys gotta come up with a plan so this doesn’t happen again.’ We knew this plan had to involve Saudi Arabia because it had more oil than anybody else and it also, the House of Saud, was corrupt and corruptible.”

The plan that Perkins and other EHM came up with had several important features: the House of Saud (1) agreed to invest a large portion of its oil profits into US government securities (essentially lending money to the US); (2) allowed the US Treasury Department to use the massive interest from these securities to hire US corporations to westernize Saudi Arabian infrastructure; and (3) agreed to maintain the price of oil within limits acceptable to the corporate sector. In return, the US government promised to keep the House of Saud in power and sell weapons to it.

But there was another part of the 1974 “deal of the 20th century” that Perkins considered “very, very important.” The Saudis agreed that “they will never ever sell oil for anything other than US dollars. This happened in the early 1970s right after we had [gone] off the gold standard because we were bankrupt. Because we could not pay our debts to the European countries in gold, Nixon took us off the gold standard. And then we were stuck with the situation ‘why would anyone in the world use US dollars?’ So then we came up with this plan, which in essence put the dollar on the oil standard,” rather than the previous gold standard.

It was an incredibly important deal. After it was conceived, George Shultz left the Nixon administration to become vice president (and later, president and CEO) of the Bechtel Group, a huge engineering/construction company that had long been involved in Saudi Arabia but which (after the deal) subsequently received many lucrative construction contracts from the Kingdom.

Repercussions

This deal has had massive repercussions for US hegemonic ambitions.

As Pritsker and Holmes have explained: “Crude oil is the most traded commodity in the world; every country needs it. The petrodollar system requires every country to have US dollars on hand to buy oil. It keeps demand for the US dollar as high as it was when the dollar was the only currency that could buy gold. If a country needs oil, it will have to manufacture and export a tangible good of value, like a car or a refrigerator, to the United States, while the US can simply print or borrow paper dollars to use as immediate payment… The deal with Saudi Arabia allowed the US to continue being the only country able to print the world reserve currency and run massive deficits to become the consumer capital of the world.”

Russ Baker noted, in his 2009 book *Family of Secrets*: “As a result of the [1974-1975] deal, not only did Saudi funding for unauthorized American covert operations increase, but Saudi money also flowed to American friends of the royal family….

That strategy helped engulf the USSR in a war in Afghanistan during the 1980s, which contributed to the Soviet demise. As John Perkins has written, “The United States made no secret of its desire to have the House of Saud bankroll Osama Bin Laden’s Afghan war against the Soviet Union in the 1980s, and Riyadh and Washington together contributed an estimated $3.5 billion to the mujahideen.”

That same mujahideen later morphed into Al-Qaeda and ISIS, with recent horrifying results across the Middle East.

Petrodollar and Empire

Over time the US petrodollar system has spread beyond oil to the point where now it has become the reserve currency used in more than 80 percent of all global trade, including trade in most commodities. As a result, “America can continue exponential military expansion, record-breaking deficits and un restrained spending. America’s largest export used to be manufactured goods made proudly in America. Today, America’s largest export is the US dollar.”

The shift to the petrodollar allowed the US/UK oil industry and its large financial investors to gain huge financial leverage during the past fifty years in the expanding global economy.

As Pritsker and Holmes write, “As long as countries demand dollars, the US can continue to go into massive amounts of debt to fund its network of global military bases, Wall Street bailouts, nuclear missiles, and tax cuts for the rich. But what happens if countries catch on to the scheme and try to break free of the petrodollar system?”

We can look back and see the answer as it has played out in country after country which has dared to in any way challenge the petrodollar system. As has been noted, “Threats by any nation to undermine the petrodollar system are viewed as tantamount to a declaration of war against the United States of America.”

In 2000, for instance, Iraq began selling its oil for euros instead of dollars – a decision based on the fact that it had been under a brutal regime of sanctions for almost a decade and anticipated that the US would demand even more sanctions.

Only weeks after the shocking events of September 11, 2001, the US tried to pin the blame on Iraq, claiming that “weapons of mass destruction” had been found there. We now know that such claims were patently false. But in the lead-up to the new war on Iraq, the George W. Bush administration called on George Shultz to head up the Committee for the Liberation of Iraq – a group formed in 2002 by the White House to convince the public of the need for the war.

Shultz and the Committee made no mention of Saddam Hussein’s defiance of the petrodollar system, but instead focused on some vague “danger” Hussein embodied. As Shultz wrote in a September 2002 Washington Post op-ed: “If there is a rattlesnake in the yard, you don’t wait for it to strike before you take action in self-defense.” Naomi Klein later observed, “Shultz didn’t disclose to his readers that he was, at the time, a member of the board of directors of Bechtel, where he had served many years earlier as CEO. The company would collect $2.3 billion to reconstruct the country that Shultz was so eager to see destroyed.”

After the killing of a million Iraqis and the bombing of the country to rubble, Iraq returned to selling its oil in the US dollar and the petrodollar system was safe.

By 2010, many countries – Libya, Venezuela, China, Russia, Iran, Syria, India, Pakistan – were trying to escape from the US petrodollar system.

As Chris Hedges noted at the time, “To fund our permanent war economy, we have been flooding the world with dollars. The
foreign recipients turn the dollars over to their central banks for local currency. The central banks then have a problem. If a central bank does not spend the money in the United States, the exchange rate against the dollar will go up. This will penalize exporters. This has allowed America to print money without restraint to buy imports and foreign companies, fund our military expansion, and ensure that foreign nations like China continue to buy our Treasury Bonds.”

Economist Michael Hudson told Hedges in 2010 that foreign governments like China and Russia “don’t have any choice” but to recycle the US petrodollars “to buy US government debt,” and they are, in effect, “financing their own military encirclement.”

Muammar Gaddafi of Libya tried to implement a gold-for-oil plan in 2011, along with the introduction of a Libyan gold dinar as a pan-African currency. We know the brutal fate that was dealt to him, along with his country.

Similar efforts to abandon the US petrodollar – by Venezuela, Iran, Syria, and Russia – have been met by financial sanctions and US rage.

The petrodollar has become so powerful that now the US effectively can “control all electronic bank transactions and go after anyone who it believes is in breach of its rules.” Some geopolitical analysts have argued that it is this “unipolar world” that the Trump administration was intent on locking into place forever, even if it means another world war.

But according to Reuters, by 2019 even the European Union was investigating ways to get out of the petrodollar system, having convened “a wide-ranging industrial group to work on promoting the euro and fighting the monopoly of the US dollar in oil and commodities trading.”

Then in April, 2019, Reuters reported that Saudi Arabia itself had threatened to drop the US dollar for oil trades, unless the US cancelled a piece of pending legislation called the No Oil Producing and Exporting Cartels Act (NOPEC). Industry analysts rightly explained that such a move by the Saudis “would have strong reverberations for the greenback’s status as the world’s dominant currency.”

The pending NOPEC bill was never passed, but the scary question that arises is this: Would Saudi Arabia use a similar threat against the petrodollar in order to pressure the US to bomb Iran?

By mid-2020, the Covid-19 pandemic

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**Quotations on the Monetary System**

**THE INABILITY of the Colonists to get power to issue their own money permanently out of the hands of George III and the international bankers was the Prime reason for the revolutionary war. — Benjamin Franklin, “Founding Father” (1706-1796)**

WHEN a government is dependent upon bankers for money, they, and not the leaders of the government, control the situation — since the hand that gives is above the hand that takes. — Napoleon Bonaparte, Emperor of France (1769-1821)

**GIVE ME CONTROL of the nation’s money and I care not who makes the laws. — Mayer Amsheh Bauer Rothschild, founder of the Rothschild banking dynasty (1818-1874)**

I BELIEVE that banking institutions are more dangerous to our liberties than standing armies. Already they have raised up a monied aristocracy that has set the government at defiance. The issuing power (of money) should be taken away from the banks and restored to the people to whom it properly belongs. — Thomas Jefferson, third president of the US, auth. Declaration of Independence (1743-1826)

I AM a most unhappy man. I have unwittingly ruined my country. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated Governments in the civilized world — no longer a Government by free opinion, no longer a Government by conviction and the vote of the majority, but a Government by the opinion and duress of a small group of dominant men. — Woodrow Wilson, 28th president of the US, quoted after signing the Federal Reserve Act (1856-1924)

BANKING was conceived in iniquity and was born in sin. The bankers own the earth. Take it away from them, but leave them the power to create money, and with a flick of the pen they will create enough money to buy it back again. However, take that power away from them and all the great fortunes like mine will disappear, and they ought to disappear, for this would be a happier and better world to live in. But if you wish to remain the slaves of Bankers, and pay the cost of your own slavery, let them continue to create money. — Sir Josiah Stamp, Director, Bank of England, 1928-1941 (1880-1941)

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 the issue 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. — William Lyon Mackenzie King, Prime Minister of Canada, 1935-1941, in a radio address to the nation, August 2, 1935

MOST AMERICANS have no real understanding of the operation of the international money lenders. The accounts of the Federal Reserve System have never been audited. It operates outside of the control of Congress and manipulates the credit of the United States. — Sen. Barry Goldwater, Republican Presidential Candidate in 1964, (1909-1998)

**THE PROCESS by which banks create money is so simple the mind is repelled. Where something so important is involved, a deeper mystery seems only decent. — J.K. Galbraith, Economist (1908-2006)**

ANYTHING physically possible and desirable can be made financially possible. — Graham Towers, Bank of Canada’s founding Governor, in 1939 (1897-1975)

COULD anything be more insane than for the human race to die out because we “couldn’t afford” to save ourselves? — John H. Hotson, a founding member of COMER, Professor of Economics, U. of Waterloo, in 1993

**Our Comment**

This is an excellent arsenal of cogent comments, whose authoritative authors are an impressive source!
Recognizing COMER Supporters

We would like to thank past, present and future contributors who worked tirelessly on getting the COMER journal to print and also those who have managed COMER’s several websites over time: John Riddell, Larry Farquharson and Tony Koch.

A warm welcome to COMER’s new website team, Darko and Drazen Dodig. We’re confident that they can take us far!

Bob Good was an ever-ready supporter, along with his brother, as our cartoonist for many a COMER issue!

Since then, we have been lucky enough to add Ronnie Pereira to COMER, who’s excellent contributions have been much appreciated. Ronnie has donated several illustrations, including the one in this issue.

Paul McMurray, at his own expense and on his own initiative, has videotaped COMER’s conferences over several years.

Derrell Dular was one of COMER’s earliest members, and remained an active supporter even after he took on the leadership of the Seniors’ Alliance.

During COMER’s dormant period, after most of our small think-tank had died or been forced to withdraw due to illness, Derrell kept COMER on life support, driving Bill Krehm to his weekly lectures at OISE, and seeing to all the requisite materials.

He was most knowledgeable and generous and had a delightful sense of humour.

Among other things, he organized many successful conferences and meetings.

We are forever in his debt.

Thanks, and admiration for Judy Lewis, whose indefatigable research enabled us to share many, well expressed resources, and whose ever-ready, cheerful emails keep us all in touch!

Of course, there is no way that I could have carried on Bill’s COMER and ER project without Rita’s encouraging, cheerful, supportive, and oh so competent help!!

Thank you, Rita!

Dear Subscriber,

It is thanks to you that COMER has been kept available in hard copy, and found its way into corners — including public libraries — where its message has reached far and wide many who might, otherwise, have never heard the truth about money.

We regret that, without Bill’s financial support, we cannot continue to produce the hard copy.

Thank you for your steadfast support in spreading the word! Your contribution to COMER and to the cause has, over time, been considerable.

Stay well, hang on, and when we’re out of the lockdown, continue to add your voice to the growing throng recognizing the need for monetary reform!

Most sincerely,

Elan

In April 2019, David Hughes told me by email that oil companies extracting and producing in Canada pay their workers and their production costs in Canadian dollars, but they sell their oil for US dollars, “which is quite a bonus at current exchange rates.”

It’s worth recalling that the creation of the US petrodollar in 1974-75 took place at virtually the same time that the Bank for International Settlements (BIS) was insisting that countries like Canada (in order to join the elite, new “Basel Committee” of central banks), should stop using its publicly-owned central bank (the Bank of Canada) to make loans to the federal and provincial governments for infrastructure spending and instead borrow from the private-sector banks and pay them compound interest rates. Were these two monetary changes in Canada directly linked?

An (undated) “History of the Bank of Canada” published on the Prudent Press website states that during the 1970s oil shocks, the Canadian public “misattributed” their economic woes (including stagflation) to Bank of Canada policy; this erroneous public opinion (combined with BIS pressure) contributed to the Canadian government’s decision to change BoC monetary policy on lending, according to this “history.” The implication is that the media helped create this erroneous public opinion at the time. Prudent Press did not respond to emailed queries (and their “history” provides no author), so it is difficult to know the validity of their statements.

Nonetheless, the effect of both monetary changes was to transfer extraordinary power (and wealth) to the globalized financial sector. Obviously, more research needs to be done on the tumultuous early years of the 1970s, when so much of the economy was radically changed.

Joyce Nelson is the author of seven books, including Beyond Banksters and its sequel, Bypassing Dystopia, both published by Watershed Sentinel Books. She can be reached at www.joycenelson.ca.

Our Comment

And should it come to pass that crude oil is no longer, “the most traded commodity in the world” – one that, “every country needs” – what then?

Elan

Endnotes

2. Ibid., p. 29.
What’s Next, COMER?

By Judy Kennedy

We are at a point where a significant number of Canadians are now aware that our governments are beholden to the Kinder Morgans, the SNC-Lavalins, the Royal Banks, etc. Surprisingly, one group also under the global microscope is that of the central banks. At issue is their apparent autonomy from government oversight and accountability.

For many central banks, this may be their actual situation. Canada is unique among G7 countries in that the governor of the Bank of Canada (BoC) is answerable through the Minister of Finance to Parliament; that the Minister holds the BoC shares in the name of the Queen (i.e., us). This is now being widely noticed, as COMER’s lawyer, Rocco Galati reported at a press conference following the Supreme Court dismissal of their application for leave to appeal, ending this case’s 6-year journey through the courts. A number of COMER members attended as well as alternative media folks including journalists/authors Linda McQuaig and Joyce Nelson. Lawrence McCurdy filmed the session.

Constitutional (and tax) lawyer, Rocco Galati, repeated his message that, of his numerous challenges of government, many successful, this was by far his most important. He received hundreds of messages from across the globe as the case became known. Why? Because it challenges the legality of Government and of the BoC in failing in their constitutional and statutory responsibilities to implement the Bank of Canada Act — particularly in failing to make interest-free loans to the federal and provincial governments. The question of central bank authority is now being discussed globally: could that be in part because of COMER’s case? Yes!

COMER also claimed that Government has abdicated its responsibility in these matters by ceding it to private international organizations like the Bank of International Settlements (BIS), the 60-member club of central bankers who meet in secret and are accountable to no one. In 1974, the BIS required its members to curtail loans to their governments, forcing them to seek private funding from banks. No records of their meetings or directives were presented to the Finance Minister, nor to Parliament, in breach of the Constitution. Yet, the BoC complied, and since 1975, the federal debt has exploded, with interest payments flowing in, part, to the wealthy, whereas the BoC’s minimal charges would go back to the government.

Another breach of law claimed in this case arises from Government’s practice of removing all anticipated tax credits from the revenue total prior to reporting it to Parliament, usually resulting in a negative balance, incurring debt and more borrowing from private banks. This, says Galati is an example of classical taxation without representation. Unconstitutional!

The Bank of Canada vs. the Minister of Finance

The BoC’s history shows that in the case of two former governors who challenged his authority, it was determined that the Minister of Finance decides monetary policy. The Bank is charged with implementing these policies. Yet COMER’s co-founder, William Krehm, wrote in 1993, *A Power Unto Itself — The Bank of Canada*, showing how the executive of government is ceding its authority to the BoC governor and to international financial directors. This led to COMER’s legal challenge launched in 2011.

Summarizing the case’s history, Galati explained that on a motion to strike – government’s usual practice in these challenges – the facts are not in dispute: their legal import is. COMER lost at this lowest level on the question of justiciability, then won at the Federal Court — that the declaratory relief portion of their claim as to constitutionality and statutory compliance, could proceed, as justiciable. Government appealed this to the Federal Court of Appeal who approved it. So the case for declaratory relief proceeded on the merits at the Federal Court level where it was dismissed – by the same judge who had approved it the first time!

The Federal Court of Appeal dismissed COMER’s appeal of this last decision and the Supreme Court of Canada, which hears only about a tenth of its cases, chose not to hear it.

A prime function of the BoC has been to fund publicly-owned infrastructure projects (TransCanada Highway, bridges, the Seaway, wartime expenses). That this is no longer effectively its prime function is shocking. Galati notes that as the COMER case became known in political circles, the Trudeau government produced a privately owned and operated infrastructure bank (CIB) headed by the big names of the US financial system. Their projects will operate with fees, unlike the publicly owned facilities, with profits accruing yet again to the wealthy. Even PC MP Pierre Polièvre

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8. Ibid., p. 170.
9. Ibid.
10. Ibid., p. 171.
12. Ibid.
14. Quoted in Prinker and Holmes, op. cit.
15. Ibid.
16. Ibid.
20. Prinker and Holmes, op. cit.
24. Quoted in ibid., p. 280.
26. Ibid.
29. Perkins, op. cit, p. 163.
COVID-19, Climate Change and the Economy

By Margaret Rao

Nothing less than a global health crisis could stop us in our carbon footprint tracks and expose the (f)ailing globalized, corporate economy. The pandemic brought home just how connected and vulnerable we are to life-threatening viruses, the latest of which originated in bat populations. As humans increasingly encroach on wildlife habitats for land and food, we decimate whole ecosystems. In the climate crisis – weather-related events have reached a record high in 2020 – and we have created a perfect storm for systems collapse. Desperate times call for smart and humane solutions.

Public health leaders and essential lower-wage frontline workers, especially those in long-term care homes, who provide for our at-risk seniors, through their dedication and self-sacrifice, point the way forward to a wellness-based economy. The majority of lower wage workers in healthcare and other service industries are women of colour. Women of colour, Black and Indigenous women already experience systemic gender and racial inequities. Many working-age women (men too), also perform double and eldercare duty. Our new Finance Minister, Chrystia Freelander, stated: “The restart of our economy needs to be green. It also needs to be equitable; it needs to be inclusive.”

What better way to start a just and green recovery than by providing Canadians in need with a basic income!

Tackling income inequality is a first step to a healthier and economically secure society. NGOs such as Basic Income Canada Network, faith groups such as the Canadian Unitarian Council’s National Voice Team, economists and politicians of all stripes, have made an urgent case for a universal basic income. Pilot program studies have shown that economic support to low-income people is an economic multiplier because low-income people spend most of their income (purchasing power) putting it back into the local economy. Participants report having better health; some found higher paying jobs. Put another way, what is the price, in terms of social cohesion, we have already paid for income inequality? What is the cost of not addressing climate change and an unsustainable economy?

A guaranteed basic income would also counter the current social unrest by creating a sense of belonging and civic participation. The rise of right-wing populism, with its anti-immigrant, anti-elite anger and resentment, is linked to the rampant growth of economic inequality.

The federal government came to the rescue with a $2,000/month Canada Emergency Response Benefit (CERB) for those who lost income during the pandemic. The feds have launched a new Canada Recovery Benefit (CRB) in the fall and have promised reforms to Employment Insurance.

Where is the money coming from? The answer is the Consolidated Revenue Fund at the Bank of Canada (BoC). The BoC was nationalized during the Great Depression in the 1930s and did much to kickstart Canada’s economic recovery. The feds also provide financial aid to the provinces and territories, as well as the private banking/investment sector. Mark Carney, former Governor of the Bank of Canada and the Bank of England, has called on the financial sector to invest in environmental and social enterprises. The government can and must do better moving forward with monetary and fiscal (tax) reform. Canadians of all ages are calling for a wealth tax on the richest 10%. The government must also address the many tax loopholes and tax havens in Canada and offshore. Now is the time to build Canada (and the world) back better with bold, transformative policy changes!

Margaret Rao, is the past President and long-time member of the Board of Canadian Unitarians for Social Justice (cus.org); a member of ClimateFast, for a green and just energy and economic transition; a board member of CAN/Rac, Climate Action Network Canada; and a board member of COMER. Margaret is also a decades-long member of the Canadian Voice of Women for Peace (soupeace.org).
of a worldwide movement of central bank observer groups – the International Movement for Money Reform. One good news story noted that relating to the positive state of central banks, prior to 1974. Discussion continued around the illegality of the BoC’s membership in the BIS – without Parliament’s consent. An open association of public central banks would be different as it would involve a nation-to-nation treaty for the benefit of all as in human rights treaties, not as in nation-to-private investor treaties like the trade treaties. Emmett added, “Corporate strategies for assuming total control are debt and ‘free trade’. Reading NAFTA, you realize that it was less than free and not about trade.”

Galati touched on the difference between Government and Parliament which are two separate things. Without respect for the constitutional framework we will slip into a quiet dictatorship. We ask that Government do what the legislation requires it to do.

Ann Emmett added that we need elec-
toral reform to make fundamental change – to survive.

As I drafted this article, rereading A Pow-
er Unto Itself, an email announced that its author, co-founder of COMER, Bill Krehm had passed away. His huge contribution to the cause of Canadian democracy and its development will live on.

Judy Kennedy, retired lawyer and longtime member of COMER.

Getting COMER Insights to Ordinary People

By George Crowell

The issue that I wish to stress is the need to communicate the insights of COMER to ordinary people. It’s essential that people at the grassroots level come to understand the potential power of monetary policy to turn our economy around. It’s not enough for politicians to know about it. It’s important that they know. But even if they were fully committed to COMER’s program on their own, without support from people it would be very difficult for them to stand up against the tremendous pressures that can be exerted by the financial and corporate community against any who would want to change the present system.

I was told, when I launched out into trying to understand and explain the monetary policy – that that issue is far too esoteric and dull and boring and complicated for ordinary people. I accepted that as a challenge and it’s my view that it can be made very arresting and can get people’s attention. I don’t think I’m especially charismatic personally, but I think there’s something about the content of what’s at stake here that can really grab people’s attention.

We Depend on Social Programs

First of all, people are very concerned about their social programs at present; they are under heavy attack. A great many people are already suffering or stand potentially to suffer as these programs are cut. The first message that one can get across is that these cuts are not necessary. Even without raising taxes it would be possible through the change in monetary policy for us to continue to finance those programs and even to improve them.

It’s not surprising that most of us have little understanding of monetary policy. It’s outside our direct experience. Our experience with family and individual economics supports the argument that we have to cut spending. From our experience, when we go into debt our choices are very limited. We can either increase our income or reduce our spending or practise some combination of both. This fact makes us very vulnerable to the propaganda that, “taxes are already too high and therefore the only thing that’s possible is to cut spending.”

The fact is that governments, especially at the national level, have an additional economic tool, and that is monetary policy. Monetary policy, it seems to me, is intrinsi-
cally, extremely intriguing. Monetary policy has to do with the creation of money out of nothing! You start talking about that, and people pick up their ears.

The fact is that our banks create money out of nothing every time they make loans. They can do this more easily than if money could be picked off trees. You have to grow the tree and there’s only a limited supply of leaves, but all the bank has to do is write an entry in a book or even in a computer. Whoever benefits from the creation of new money has the same advantage as counterfeiters who have succeeded in passing off money that they have managed to print up, with much less trouble and considerably less risk.

We Permit the Banks to Profit

It’s unavoidable that somebody must benefit from the creation of new money. That’s an inescapable reality. The question is, “Who?” It seems to me it’s obvious, since we’ve agreed together that money is existence providing a free benefit.

All of these things are an indication of the enormous power in monetary policy. Paul Hellyer says that monetary policy is the most powerful of all economic tools. Most of us have completely overlooked this.

The question then is, after you’ve worked out the content of your message, how do you get it distributed? I have published in The CAUT Bulletin. That’s the Canadian Association of University Teachers, which has a circulation of thirty-five thousand. I have no idea whether anybody read this material. There was no comment whatsoever on the startling proposals that I presented there.

I said it’s totally unnecessary to cut spending for the university but there was no response whatsoever, not even from the economists, 90% of whom – or more – must have disagreed with the position that I was taking.

As a result of this, though, Cy Gonick of Canadian Dimension asked me to publish an article in their journal. I did get good response from that, as one would expect, because it’s an audience that’s open to that. I’ve now published in the Windsor Star and am getting some interesting response from that.

Continued on page 12
Canadian Sovereignty

By Jack Biddell

George Crowell invited me to Windsor to speak. It was a great opportunity. I met a wonderful group in that community and in Western Ontario where we have a lot of support largely due to the efforts of George. And I must add to that, the efforts of Vic Knight and his group.

How do we get our message across to the only people who can make it happen, the prospective voters of Canada? They’re the only people that the people who are benefitting from our present system are afraid of. I haven’t given up hope that we can succeed in this.

The tack I’m going to be taking personally in the next few months is that we must somehow reclaim our Canadian sovereignty. I deliberately use that term because “sovereignty” has been a word that we’ve all got sick and tired of hearing about and we all relate it to the terrible prospect that our whole country may tear apart.

Sovereignty is one of our greatest assets. It’s an asset that’s owned by every country in the world. Every country has certain inherent rights. They’re its sovereign rights. Canada has them, too, but Canada has been deliberately giving them away.

The Value of Sovereign Rights Varies

Now, if we can speak about sovereignty for just a minute. While every country has sovereign rights, it isn’t of the same value to every country. The countries to which it is by far the most valuable are those countries – and there are not very many of them – that have a wonderful natural resource base and a very skilled group of citizens. Together with its inherent sovereignty, that can provide for the citizens of such a country the highest standard of living that you can imagine.

What country do we know that has enjoyed that perhaps more than any other over a lifetime of most of us? That’s the one we have the great privilege of living in. But we’re giving away as fast as we can our Canada’s sovereign rights. And the principal sovereign rights – there are just three or four of them – one is to create your own money or control the creation of it. One is to control the range of your domestic interest rates. Another is to set your own trade and tariff policy. And the other is to protect your natural resource base for the benefit of your young and future citizens. Those are our most valuable sovereign rights and you all know what’s happened since the end of the ’70s. We’ve been progressively finding a way to get rid of them.

We gave away the right to create our money to the private banks to a far greater degree than we’d ever done before. We can always take it back if we can get the people to sense what’s happening. We gave away the right to handle our own tariff and trade policy in the Free Trade Agreement and the NAFTA. We gave away the right to set our own exchange rate policy in those same agreements. And when we dismantled the National Energy Policy and FIRA [Federal Investment Review Agency], we gave away the right to protect our own resources for our future children.

We’ve done it consistently, all in the interest of short-term profit. Now, short-term profits for whom? We all say, “For the big corporations. For the banks.” But really I think you have to look a little bit further, a little bit behind that.

We are engaged in giving it away, everyone of us who is an investor and who succumbs to the blandishments of the shills for the mutual fund industry, everyone who has entrusted his retirement savings to his pension fund trustees because they are the ones that are cheering. They’re making a name for themselves every year. “Look at the return I’m getting on your money for you.”

So much of that damned return is not money. It’s fictitious! It’s the tremendous increase in the so-called market value of the stocks on the stock exchange. Dividends haven’t gone up by any appreciable degree. Jordan said this morning that the price-earnings ratio is going out of sight. That’s because the stock market’s so-called values have just gone up tremendously and we’re all sitting back reveling in that.

Of course we’re entitled and we must save for our retirement, do the best we can. But we’d better recognize that it’s not the CEOs or just the CEOs of the big corporations or the banks; it’s our agents, the guys we are investing our pension-fund money and the guys in the mutual funds to whom we’re giving our savings. They are the ones that are driving our economy these days. They are the ones that are insisting that we continue to give away the inherent sovereign rights of our country and the future of our children and our grandchildren.

By Following the Lead of Other Countries, We Sacrificed Our Rights

It’s understandable, in large measure because one of the things we did, of course, to give away our sovereign rights was to jump on the bandwagon with UK and Germany and the US and push interest rates through the roof back in the 1980s. We who are all trying to save for our retirement thought that was wonderful. We were getting just a fantastic return! Government bonds were being issued at 18% in Canada. We thought that was wonderful. We are spoiled rotten!

We’ve come along a few years later and we can’t get that sort of return. Now we’re scrambling for it and putting our money in mutual funds. The same guys who are running those are insisting on the short-term profits and, to get those, we are enduring all the cutbacks which governments are now insisting on pursuing.

Those cutbacks are unnecessary. We have the ability in our sovereign rights to so conduct our monetary policy that those cutbacks are unnecessary. Where better could we spend our money than on educating our children and looking after the health of our population? But these are the immediate, easy things for the politicians to go after.

Of course it starts at the top, at the federal government. They cut back the provinces. What can the provinces do? They can’t see people starving in the streets, so they cut back the grants to municipalities, and so on. It’s all going the wrong way! We’re giving away our sovereign rights.

What can we do about it? We’re all familiar with the program the COMER group has worked out. There are three very important things that we have to do. We have to change monetary policy; provide our governments with an opportunity to do what we demand of them, get back to reducing their deficits. The only way they can somehow or other we have to appreciate that we’d better start putting pressure on the people that are causing these problems. They’re not the politicians; they’re just followers. They’re not the CEOs of the big companies, who, if they don’t do what their biggest investors – the mutual funds and the pension funds – want them to do, get their stock price up; get short-term profits; get rid of people in order to show a much better earning rate so you can get your stock price up… If they don’t do it, those CEOs are going to be out on their ear. They know that. So we’d better recognize that a large part of the problem is with us.
possibly do that – they can do it a little bit and in the short-term through firing people and selling off public property – but the only way it will ever work is to reduce the cost of our biggest single expenditure, the interest we’re paying on the debt. We’ve got to change monetary policy to do that. We know we did it before, back in 1939 and we’ve got to persuade the people that it can be done again.

Stop Borrowing from Non-residents

The other thing that we have to do is – and this is extremely important – we have to phase out our borrowing from non-residents because, so long as we continue to need loans from non-residents, there is no way we can retain our sovereign right of controlling our own domestic interest rates. This is an absolutely essential move; it’s part of the monetary policy that we must change.

Another thing that we must do is to try and minimize, eradicate to the extent that we possibly can, the wild speculation against our own sovereign currency. This was one of the major reasons that we developed the idea of the Financial Transaction Tax. That was not developed to try and help the Liberal Party of Canada or the Liberal Government of Canada live up to the promise in the last election.

It was [suggested] because it was an absolutely essential thing to do, because it has two effects. It will reduce the ability of those speculators that take a run at our currency at our expense any time they want to. The second very important thing it will do is to reduce the cost of living, the actual cost of living of all of our citizens. And if we can do the latter, then that will contribute very greatly to enable us to bring in a proposal that will enable us to share the jobs, provide what we really need to solve our problem, worthwhile jobs for our citizens who need them. It all fits together. I don’t think it’s too hard a sell.

Do we have a hope? I think we do. I think that, rather than trying to start a new political party right away or trying to persuade one of the “out” that they should adopt this because maybe it will get them on the “in,” we should still attempt to take a run at the government.

Our Comment

Jack Biddell was the retired Chairman of Clarkson Gordon, now Ernst & Young.

In the foreword to Jack’s book, A Self-Reliant Future for Canada, John Hotson cites Jack’s experience as a leading accountant and management consultant for many years, and supports Jack’s contention.

COVID-19 has presented us with an outstanding opportunity to “take a run at the government”!

A Sustainable Economic System

By Jordan Grant

Basically the same set of advisors who advised the Tories before and are now advising the Liberals in Ottawa. But there is a choice to be made. What I’ve found out, through my association with COMER and other people, is that there are other economists with other sets of ideas. It’s just that you don’t hear about them very much in the media.

The linchpins of a sustainable economic system have got to be full employment and social and environmental sustainability. With the kind of economics that we get out of the Bay Street spokespeople, sustainability just doesn’t fit into the value system of the standard neo-classical or conventional economic system. Bill Krehm talks a lot about value systems.

If we are going to use an economic system which gives us sustainability and full employment, forget about the economic system for a second, and think about people and what it is out there that needs to be done.

Thanks to technology, it’s obvious that we don’t need anybody to be working a forty-hour week in order to produce the goods and services that people need. We’ve got such high productivity that we can produce the basic needs without full employment. Yet how are we going to have people gainfully employed?

Well, we need more than goods. We need more than the standard set of services. Take a look at all the things out there that we do need; they tend to fall into things like cleaning up the environment, providing health care, providing education, providing for social needs, providing for the needs of the soul – the Arts, culture and leisure. Those are the things that generally are largely provided through the public sector and, instead of expanding the public sector to focus on satisfying those kinds of needs, we’re cutting back and concentrating on the private sector. The private sector, traditionally, has not been providing those sorts of services.

Look at the Past to Move Forward

Now, how do we get there? So much for “where do we want to get to in the future?” Some clues are in the past. I want to contrast several different years, and address the common concern about debts and deficits.

Going back to the middle of the depression, 1934, the unemployment rate by that time had reached a peak of about 25% and dropped down to about 15%, still way worse than it is today. Founded federal debt as a percentage of GDP – we keep hearing about how much we’re buried in federal debt and how it ties our hands – the funded federal debt at the time was over 90% of GDP. Today it’s around 60% or 65% excluding the pension plan contributions.

The percentage of federal revenue that was spent on interest – if you can believe it – was almost 50%. About forty-seven cents of every dollar of tax revenue went back out to pay interest on the debt. And also the interest on the debt held by non-residents was fully one-third. We hear today about global finance, about the fact that our debt is held by foreigners and how that binds our hands. It was one-third.

The comparable figures today are: unemployment compared to 15% is about 9.5%; the funded federal debt as a percentage of GDP is about 60%; the interest – versus 50% then we’re at about a third; and the percentage of federal debt held by non-residents is about 25% versus a third.

But then, later on in the ’30s, Hitler was marching through Europe and the governments, having failed to do much about the depression, were suddenly faced with something where they had no choice but to marshal resources in order to fight Hitler.

At that point they turned to their economic advisors and they suddenly started to hear new advice – particularly from Graham Towers, the first governor of the Bank of Canada.

When Towers testified before the Commons Banking and Commerce Committee – I believe it was called [that] at the time – he basically said: “You know, they’re basically asking, ‘Where can we get the money
And Towers said, “Money is not the problem.” He confirmed that, “Anything physically possible and desirable can be made financially possible,” that the limits are not the limits on how much money we’ve got but on the men, at the time – it turned out women got enlisted as well – material and knowledge. It’s all the physical resources that are out there; those are the limits. The limits aren’t the money. We can, you know, make the money available.

So the government took [this] to heart and launched into the war, began enlisting people into the army and cranked up the armaments industry, and so on.

So how was it financed? Basically what happened was that initially, in the first couple of years of the war, the Bank of Canada began to buy government-issued bonds to pay for the cranking up. Initially the Bank of Canada bought bonds. When the Bank of Canada buys bonds it is creating new money. It injected the money into the system. The government started spending it into circulation. Money started getting into the hands of people and then into the banks. Then, as people began to have incomes and began to be fully employed, they began to have savings.

The Importance of Savings is Misleading

We keep on hearing from Bay Street how important savings are and that we’ve got to encourage savings and so on, but what are savings? Savings are surplus income. You can’t have savings unless you’re making income beyond what your needs are. That’s what happened.

During the Second World War, from 1938 to about 1944, we dropped from about 11% unemployment down to 1.2% unemployment – it took about three years – and once the government got that circle going, through government expenditures to get money into the hands of the people. Then, the people had savings to continue to buy government bonds; the government, instead of running these huge deficits, began to run surpluses.

The other thing is that the percentage of the federal debt that was held by non-residents dropped from one third to about 7%. The debt itself jumped up to 120% – higher actually by the end of the war – but the debt isn’t what matters. What matters is the interest cost on the debt. The interest cost on the debt dropped from 47% down to about 12% [of GDP]. You know, if you’ve got a huge federal debt at zero interest, it doesn’t matter. The debt, to the extent that it’s financed by the Bank of Canada, just represents the money supply.

A Willingness to Pull Together Creates Opportunity

Certainly there were very drastic measures taken during the time. The whole country pulled together and it was willing to accept extraordinary measures to get the economy moving in order to fight the war. People accepted things like wage and price controls and rationing during the war, which are things it would be much harder to accept now. The same basic sets of tools could be used today in a less drastic and

Monetary Policy is the Key to Change

The Council of Canadians: Jordan Grant and I went to their 1994 annual meeting and Jordan worded and I seconded a motion to make, as part of their mandate, a resolution, which passed, to educate people on monetary policy. I’ve seen no indication – virtually no indication. Just lately the last Canadian Perspectives with an article by Duncan Cameron based on Ten Deficit Myths began to deal with that. But the Council of Canadians sends out frequent letters requesting funds to tens of thousands of people. These letters would be an opportunity to point out that the cuts are not necessary because a change in monetary policy could do that.

I urge all of you to use your connections with any organization whatsoever to urge them to get across this message that the funding cuts are not necessary. A change in monetary policy can turn things around.

When we become sufficiently loud to be heard they will try to ridicule us, to laugh us out of court. They may eventually enter into serious debate and if they do that, if they even try to ridicule us, that’s a good sign that they know that we’re something to be reckoned with. If they enter into serious debate, good! We can expect that, if we really become effective, there will be all kinds of threats: the Canadian dollar will drop; we’ll lose jobs; and so on. Things could get even worse.

I say this in order to emphasize again the extreme importance of having as many ordinary people as possible understanding monetary policy to the extent that they can not be pushed around by the media, so they are not influenced by the attempts of the media to refute our views.

COMER appreciates all that you’re doing along these lines, for we have a great deal of work ahead of us.

Our Comment

George Crowell was Associate Professor of Social Ethics (retired) in the Department of Religious Studies at the University of Windsor.

He devoted his retirement to the COMER cause – speaking, writing, and working to enlist others in the struggle for monetary reform.

He was one of COMER’s most staunch and effective supporters.

Indeed, the last time I saw him, he was on his deathbed – earnestly, deeply and clearly engaged in discussion of monetary policy and COMER’s way forward.

Thank you, George.
The Journal of the Committee on Monetary and Economic Reform

By Paul Hellyer

I consider it a great honour to be asked to write a piece for the final print edition of the illustrious and incredibly useful COMER magazine, the Journal of the Committee on Monetary and Economic Reform. I suspect the choice was awarded on the basis of age, since I have been around since the first edition was published many years ago.

Professor John Hotson, of the University of Waterloo, got in touch with me. He had heard of my interest in monetary reform and wanted me to join the COMER group that he and the intrepid Bill Krehm had established. It was tempting, but as a young member of Parliament I had already learned that any mention of government-created money would result in being cut to ribbons by the press gallery, especially by Charles Lynch who would gleefully shriek, “funny money,” at the top of his lungs. So John and I agreed on an informal relationship which allowed me to have the best of both worlds. We bonded beautifully, and became sufficiently close that when he died his wife advised me that I should have any or all of the books in his personal library.

We were all impressed by the wonderful job done by Graham Towers, the first, and arguably the best, Governor of the Bank of Canada. He was the genius who engineered what some of us labelled as the Canadian Precedent.

The Canadian Precedent

In 1938 there were no job openings in Canada – none! Then, in 1939, World War II began and it wasn’t long until everyone was either in the armed forces, or working in factories to build the tanks, trucks, airplanes and ships required to support a really magnificent war effort. Unemployment dropped to an historic low of one percent.

You may wonder where the Canadian government got the money to initiate this unprecedented economic miracle. The answer is that the Bank of Canada printed it. The Bank bought government of Canada bonds and paid them for with newly minted cash. The government paid the Bank interest on the bonds which then, because the government owned 100% of the Bank shares, was returned as dividends, with only the cost of administration deducted. In effect, it was near zero-cost money that produced such wondrous results.

The newly created money that the government spent into circulation wound up in the private banks, where it became what the economists called “high-powered money.” High-powered money was really “legal tender” money or “real money” that the banks could use as “cash reserves” which the law allowed them to leverage into bank loans equal to 12½ times their reserves. So if $10 million of what was literally government-created money was ultimately deposited in one of the commercial banks, the banking system was able to create an additional $125 million in book-entry or “virtual” money.

The commercial banks were able to lend this money to help businesses build factories, develop essential products, buy “War Bonds,” etc. These large infusions of first government-created cash, followed by bank-created credit, made it possible for Canada to be transformed in a few short years from a largely agricultural and resource-based economy into a significant mixed economy that included a strong manufacturing, industrial and scientific base.

What made this all financially possible was a sharing of the money-creation function between government and the commercial banks. That teamwork enabled Canada not only to play a larger-than-life role in the war effort, but also to extend the miracle into the post-war years.

Government-created money played a key role in many of our infrastructure projects like the great St. Lawrence Seaway development, the Trans-Canada highway, new airport terminals and port facilities. It also enabled the federal government to assist the provinces and municipalities with many of their major public works ranging from bridges to sewage-disposal systems.

Another marvellous benefit that government-created money helped make possible was the establishment of a social security network to help citizens in times of distress. Some of us who had lived through the Great Depression of the 1930s were determined that never again would someone lose their home, farm or life savings due to a serious illness of one of the members of the family. Nor would someone be left destitute because he or she was unemployed. All of these accomplishments were achieved without incurring any significant debt.

This system of money-creation sharing between the government and private banks worked splendidly for 35 years until 1974, when the Bank of Canada unilaterally changed the rules. As far as I know – and I and others have spent many hours of research without finding any evidence that would refute it – this was done without either advising or obtaining the consent of the Canadian government.

The Governor of the Bank of Canada simply put it into effect and didn’t tell the Canadian people until September, 1975, in a speech in Western Canada. Meanwhile he was in discussions with ten other Central Bank Governors concerning the establishment of the Basel Committee that became known as the Committee on Banking Regulations and Supervisory Practices at the end of 1974.

There was no mention that we were leaping into the arms of the Bank for International Settlements (BIS), with its plan to manage the World economy. Its policy of not allowing central banks to provide cheap money to their governments, was like a knock-out blow in boxing, from which we have never recovered.

Fallout from the Change in Policy

It took just a few years for the full fury of the blow to be felt. Wages and prices began to rise like a dog chasing its tail until the level of inflation became untenable. So the central bankers, who wore glasses too dark to see through, and were led by US Federal Reserve Chairman, Paul Volker, raised interest rates to a dizzy height and crashed the system to cause social and financial distress unequalled since the Great Depression. Not only did tens of thousands of people lose their jobs, homes and businesses in 1981-82, the Government of Canada was forced to pay more than 20% interest on its bonds – a rate at which the debt doubles about every four years.

Despite the disastrous results of using interest rates as an economic weapon, when inflation began to re-appear itself a decade later, the Central Bankers induced a second disastrous recession in 1990-91. All they proved is that Einstein was correct when he...
said that to do the same thing over again and expect different results is a form of insanity. A twelve-month wage and price freeze applying to everything except the fresh products of land and sea, would have reduced inflation to zero, without a single job being lost.

COMER, of course, was quite aware of the insanity and said so, loud and clear. Unfortunately no one was listening, but we never gave up. One of the most senior members, Dr. Jerry Ackerman, was a friend of Ellen Hodgson Brown, the author of Web of Debt, that explains just about everything money and banking, by forthwith taking the following action to benefit all Canadians:

1. The government of Canada should have the highest regard for Ellen, but I was incredulous. So I asked the research department of our Parliamentary Library to check. The answer came back that from fiscal 1974/1975, to fiscal 2010/2011, Canadian taxpayers had paid one trillion, one hundred million dollars in interest on federal debt alone, almost all of it unnecessary. Just imagine what that much money could have accomplished if it had been spent for useful pursuits! Obviously, an up-to-datefigure would be far greater.

A New Era

Of all the heavy-hitters for monetary reform few, if any, came close to the contribution made by Ann Emmett, the long-time president of COMER – whether it was making her home available, organizing meetings, or stepping up to the plate personally, and with COMER, as co-plaintiff when Bill Krehm agreed to finance a suit against the Bank of Canada for failing to meet the legitimate needs of its shareholders, the Canadian people.

One of the very few lawyers I have ever met who understands money and banking, the fabulous Rocco Galati, pleaded our case before the courts and made the government’s defense lawyer look like an amateur. COMER members and friends turned out in large numbers to cheer (virtually) the brilliance of our gladiator. In the end, however, the courts ruled against us. The justices upheld the literal reading of the Bank of Canada Act.

Their ruling didn’t prevent us from introducing thousands of people to the intricacies of monetary madness. Looking in the rear view mirror however, one might conclude that we were shooting at the wrong birds. It was the politicians who were the villains.

Another workhorse on the COMER team was the indefatigable George Croll-ell, supported by his wife, Donna. Few of his fellow monetary reformers knew that George was a Rev. Dr., having been ordained a Presbyterian minister before joining the Religious Studies Department at the University of Windsor. That is where I met him when he invited me to give a guest lecture on money and banking. It was the beginning of a life-long friendship, and of my profound appreciation of all the wonderful things he did without seeking praise or fame.

When my twenty-two and a half years as a member of parliament ended in 1974, I felt free to join COMER and collaborate freely with its many talented members. I got to know Bill Krehm on a first-name basis and my appreciation of his incredible life kept growing constantly. I also met two very active members of COMER, Ann Emmett and Jerry Ackerman, both of whom ran as candidates for my ill-fated Canadian Action Party.

Later still, I made inquiries about finding a bona fide economist with whom I could work in preparing a proposal for our federal government. I had ended the equivalent of a lifetime in partisan politics in the Spring of 2004 when I resigned as leader of the Canadian Action Party.

Since then I have had no further allegiance to any political party because the several issues that I consider critically important are not partisan issues. They are people issues, affecting the whole of humankind. So I don’t care which party “bites the bullet,” as the saying goes, I only hope and pray that some party will.

It wasn’t too long before I got a response to my inquiry. The president of the Kingston, Ontario Branch of COMER, Richard Priestman, phoned to say that they had a real economist. His name was Keith Wilde, and would I like to meet him? Would I? You bet I would! So, a meeting was arranged and I drove to Kingston to have lunch with this possible recruit. There are a few economists who are believers, but those who will stick their necks out and risk ridicule, are especially rare!

Richard introduced me to Keith, who had worked for the Bank of Canada briefly, and for the federal government for the remainder of his career. It didn't take long to establish that our views were very similar and that we were both monetary reformers who believed that government-created money was not only possible, but absolutely essential. After coffee, he summed up the discussion by saying: “At last, a politician who ‘gets it!’ I had the decency, or it may have been just common sense, not to reply: “At last, an economist who ‘gets it!’”

Keith and I worked well together and decided not to get hung up on definitions or rules. We would adopt something like the Canadian Precedent of 1939-74, but one that was more up-to-date and durable. Together with a few other COMER stalwarts, our objective was a comprehensive proposal to present to the federal government. After months of hard slugging, we finally came up with an agreed document called A Social Contract Between the Government and People of Canada. It was sent to Finance Minister James Flaherty on March 21, 2013, with copies to the leaders of the three opposition parties.

A Social Contract between the Government and People of Canada

In view of the fact that our present banking and financial system is unstable and unsustainable, we, the undersigned, on behalf of all Canadians, demand that the federal government use its constitutional power over all matters pertaining to money and banking, by forthwith taking the following action to benefit all Canadians:

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

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

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

By William Henry Pope, March 1996

For the 1962 federal election the New Democrats of Calgary North wanted Bertrand Russell as their candidate in the hope of winning against the Minister of National Defence on the issue of the nuclear-armed Bomarc. While Lord Russell had better things to do, I didn’t. While I was thus losing my first election, the Créditistes were winning some twenty-five or so seats in Quebec with such simple and sensible slogans as “What is physically possible must be made financially possible.”

So, on returning to Ottawa, where I had been working since 1959, for the leaders of the CCF/NPD as executive assistant, I began studying economics. Early on, I was fortunate in having a professor who knew his Maynard Keynes but couldn’t teach it. Thus he had his students read aloud The General Theory by the hour. Ever since, I can find such good bits as these with ease: “…one can almost hope…the technique of bank rate will never be used again to protect the foreign balance in conditions in which it is likely to cause unemployment at home” (Keynes, John Maynard (1936). The General Theory of Employment, Interest and Money (p. 339). London: MacMillan & Co. Ltd.).

Keynes looked forward to “the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital. Interest to-day rewards no genuine sacrifice…. The owner of capital can obtain interest because capital is scarce… there are no intrinsic reasons for the scarcity of capital” (Ibid., p. 376).

These ideas are not hard to grasp, though the thinking behind them does require somewhat more effort. Because this effort has not been forthcoming for more than thirty years, either from governors of the Bank of Canada or from officials of the Department of Finance, about a dozen of us formed the Cartier Circle in mid-1982 in the hope of influencing government policy in a direction more favourable to Canada. With not the slightest success.

Ten years ago, we expanded the Cartier Circle into the Committee on Monetary and Economic Reform (COMER), with about ten times as many members in Canada and the States. Our published comments on government economic policy – mailed free to every federal and provincial legislator – began as the quarterly COMER Comment in the summer of 1988, became a monthly in May, 1989, and adopted its present name, Economic Reform, in April, 1991.

In the summer of 1995, we decided to begin a series of short books – starting with this one – on aspects of economic policy in the hope of reaching a wider audience, always with the aim of bringing about, through public pressure, basic changes in Ottawa’s ruinous policies.


When I retired early from twenty years of teaching economics at Ryerson, to give me more time to write, the publishers seem to have decided that going to a thoroughly non-controversial text was worth a try. Thus the 6th (1993) Canadian edition came out without my name on it and with, so far as I could see, not a controversial word left in it.

It is still an excellent text for first-year university and I would use it in preference to any other if I were still teaching undergraduates. (I declare my interest; because of my earlier work, I continue to get a share of the royalties.)

But alongside Economics 6th (1993) and 7th (1996) Canadian editions by McConnell/Brue/Barbiero, I would use All You MUST Know About Economics, for in it I have revived all my criticisms of Ottawa, sharpened by six more years of observing the unholy mess being made of my country. Moreover, this present book includes all the 1995 data for GDP, money supply, national debt, trade, balance of payments, foreign investment, and unemployment.

This is more than just a niche book for the 10% or 20% of professors dissatisfied with the lack of criticism of government policies in first-year texts. It is also a book for COMER-ites, for those who have been getting Economic Reform and wish to have a short, readable text that will be a useful backgrounder to the monthly 8-pager.

Finally, and most importantly, it is a book for the general public: it is only the general public, acting in concert and with informed knowledge, that will be able by their votes to force Ottawa away from its disastrous path.

Acknowledgements

I am grateful to William Krehm, publisher of Economic Reform and of this book, for having asked me to do it and then for having furnished me so liberally with suggestions – especially for Chapter 5, Money.

I am grateful to Professor John Hargrove Hotson, late executive director of COMER and editor-in-chief of Economic Reform, for his assistance, especially in chapter 4, “GDP and Fiscal Policy.” It is to his memory that this book and all the books in this series are dedicated.

William Henry Pope
Uxbridge Ontario,
March 1996

Our Comment

Harry’s introduction is a helpful synopsis of COMER’s background, and a concise explanation of All You MUST Know About Economics.

The title, of course, stresses the valuable brevity of the book and the essential importance of its contents.

Élan
money stock required to keep the economy growing at its optimum with the number of job openings being roughly equal to the number of job seekers. He/she shall then acquire, on a predetermined schedule, shares from the federal government in exchange for cash up to 34% of that amount.

7. In the event of a disagreement between the Governor and the Minister of Finance in respect to the amount by which the money supply should be increased, or the rate of interest to be charged by the bank for overnight lending, the view of the Minister shall prevail. In any such case, however, a direction from the Minister shall be in writing and made public forthwith. This procedure is consistent with the principles of democracy, and should eliminate future cases of monetary and fiscal policies being at odds rather than working in harmony.

Signed: Jerry Ackerman, Paul Amodeo, Erik Andersen, Carol Bailey, David Banerjee, André Bernier, Erick Bittschwam, George Crowell, Arestia Dehmassi, Derrel Dular, Ann Emmett, Helen Ferreira, Connie Fogal, Claire Foss, Sarah Harrington, Paul Hellyer, William Krehm, Christopher Lambe, Chris Lang, Judy Lewis, John McMurray, Dennis Morrison, David Patrick, Richard Priestman, Susan Rawley, Hon. Alan Redway, Hugh Reilly, John Riddell, Sarah Sackville-McLauchlan, Michael Sinclair, Derek Skinner, Myra Sonnichsen, Victor Viggiani, Andrew Ward, Sydney White, Keith Wilde, Pierre Zgheib

The Best and Worst of All Possible Worlds

This formula has many advantages. It would provide governments with large amounts of money for seven consecutive years that would allow them to start capital projects and carry them through to completion. Then, in year eight and beyond, governments would have sufficient debt-free money to balance their books at reasonable levels of taxation. No more austerity budgets.

Perhaps most important of all, bank leverage would be reduced from 20 to 1, to 2 to 1, and the banks would no longer be our masters. Genuine democracy would be restored.

When this attractive package was sent to Conservative Finance Minister Jim Flaherty, it was not even properly acknowledged. The same was true for the other party leaders. Genuine democracy would be.

In the immediate years before Bill’s death, Derrel Dular an American expatriate did a lot of the heavy lifting and, by all accounts provided wonderful support to the aging team. But then, he too passed to his reward. The indefatigable Ann Emmett, after several years preparation of her house for sale, found a buyer she trusted enough to care for the castle she had shared with her partner Elizabeth. She was free to give up the presidency of COMER and move to a new apartment suitable for her advent as a nonagenarian.

I decided to write my final “last” book on the basis that if ever there is a time to introduce a fair and progressive banking system the post-pandemic crisis is the perfect launching pad. And no, I don’t like the solutions being incubated by others. The so-called “Re-set,” bitcoins, and all types of cryptocurrencies, are just more sophisticated ways for the rich to rob the poor of a fair return for their labour. Schemes to keep them in debt bondage are simply evil incarnate. Heaven forbid!

A small group has kept the COMER flag flying. One of the newest and most prolific is/was Adam Smith. Herb Wiseman, former information-officer of COMER, who seems to have been around forever. Just a few of the other names are as follows. Sean Sloan, Judy Lewis, Margaret Rao, Judy Kennedy, Jerry Ackerman, Patrick Cryan, Darko and Drazen Dodig, Rick Tufts, Paul McMurray, Tom Smarda, John Sanders, Ronnie Pereira, and more.

Without the guiding hand of a Hotson or a Krehm I sometimes get the impression from the avalanche of correspondence that a few of them might be trying to re-invent the wheel. Others, including Herb, are hearing the song of Modern Monetary Theory. These same ideas have been around for generations, but one can wish them luck with the new “modern” name.

There is an old practice of leaving the best wine until last. That is what I have done with COMER. In the last 15 plus years, Rita, the only name she is known by, is always cheerful personal assistant, she was Bill Krehm’s left and right arms facilitating the incredible output of this incredible man. Rita has also been a key to assist Ann over the past 8 years with the journals of the Committee on Monetary and Economic Reform. Along with Bill she has been the heart and soul of COMER, and when the patron died she modestly inherited responsibility for keeping the dream alive and current.

The Best and Worst of All Possible Worlds

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When this attractive package was sent to Conservative Finance Minister Jim Flaherty, it was not even properly acknowledged. The same was true for the other party leaders who had been sent copies. The government changed, and the day Justin Trudeau was sworn in as prime minister, I wrote him to suggest that he could become a great PM by adopting three or four long-overdue policy changes including introducing the Social Contract. There was not even a word of response. A trillion dollars down the drain that could have been used to improve hospitals and homes for the aged, affordable housing, urban transportation and other useful pursuits!

Instead, Trudeau and his Finance Minister, Bill Morneau, embarked on a rampage of neo-liberal developments and buying votes by putting Canada further and further into debt. Neither the PM nor the finance minister were aware of the Canadian Precedent and how it could be adapted to meet our needs. Instead they met clandestinely with representatives of Black Rock, the world’s largest investment company, presumably controlled by the Rothschild family. Black Rock was then allowed to help design an Infrastructure Bank that would allow them to convert some of their paper money into real Canadian assets. Joyce Nelson wrote about this “scandal” in COMER and one can gain a broad education on the hazards and evil consequences of neo-liberalism by reading Joyce’s books.

A Time of Mourning

One of the saddest days I can remember was a heads up from Rita that Bill Krehm had passed away peacefully on Friday, April 11, in his 106th year, and when and where the funeral service was likely to be held – followed by an informal one-day Shiva at the Krehm residence. My mind began racing through the years from the time Bill was just a distant father figure and co-founder of COMER to when I got to know each other and become friends and fellow boosters. Bill was one of the most talented men I have ever met. An author of several books, his mastery of music, mathematics, economics, languages and politics – was unique. Bill was a fantastic man of many talents who really was one of a kind.

Much more could be said, but I will just repeat the final paragraph written by our Interim Leader Larry Farquharson in his “Statement on the Passing of William Krehm.” “While Bill will be dearly missed, the substantive and powerful legacy of his life-long passion and dedication remains, and the mission and work his visionary colleagues put into motion so earnestly and with such foresight over 30 years ago, will continue through COMER and our commitment to carry forward the work Bill started.”
The Yin and the Yang of COVID-19

By Élan

YIN n. (in Chinese Philosophy)¹ the passive female principle of the universe contrasted with yang – origin Chinese “feminine, moon.”

YANG n. (in Chinese Philosophy) the active male principle of the universe contrasted with yin – origin Chinese, “male genitals, sun.”

The widespread discussion of COVID-19 reflects the Chinese Philosophy of Yin and Yang.

Balance is crucial, thus, out of crisis may emerge opportunity, in the universal operation of these two principles.

In one of the most interesting and wide-ranging discussions² I have read about on COVID-19, Martin Wolf, chief economics commentator of The Financial Times, was interviewed by Rory Clarke, chief editor of The OECD Observer.

During that interview, Wolf predicted that, “We are going to survive,” comparing COVID-19 to a “colossal storm which we know will survive – but don’t know what shape our ship will be in after it’s over.”

He cited our “lack of preparation,” and our “extreme failure to cooperate effectively globally.”

The interview elicited many suggestions that could promote new insights into future opportunities for meaningful changes – most notably – his advice to young economists: “Economics is incredibly important, but it isn’t enough…don’t think of this as…the tool through which all problems can be resolved that are relevant to human society. Human, social and political development is much more complicated than that.”

COVID-19 has made clear, the need for this holistic approach. The argument, for example, over which priority should take precedence – our health or the economy – arises out of the mistaken notion that we can’t have both.

What an opportunity to challenge the financialization of our economy that has left the REAL economy high and dry, and at the mercy of those with deep pockets and shallow values – usurping our democratic right to something better than what John McMurtry has described, in his book by that title as, The Cancer Stage of Capitalism.

One study, conducted by a team of seven people³, concluded that, indeed, “Prioritizing health could help rebuild economies,” and – with reference to specific data – that, “Rethinking health as an investment, not just a cost, could accelerate growth for decades to come.”

The truth about money-creation further attests to our democratic and sovereign capacity to meet our health needs without sacrificing our economy.

Could anything be more insane than that the human race should perish – because we couldn’t afford to save ourselves? (Dr. John Hotson)

The team researching the relationship⁴ between health and the economy concluded: “Our research leaves us with a strong conviction: improving health could be a societal and economic game-changer. As the world confronts the pandemic, it has a once-in-a-generation opportunity…to advance broad-based health and prosperity dramatically.”

The issues of crisis are perhaps far more obvious than the opportunities which they may create or illuminate.

The loss of human life world-wide – more than half a million Americans in less than one year – for example, is a dramatic wake-up call on many fronts.

COVID-19 has exposed a general lack of preparedness, and many structural weaknesses in our political-economical system.

Livelihoods have been wiped out, and in their stead, debt and social disruption have become a widespread threat.

In wide-ranging effects of the disease, along with coping strategies – like isolation, for example – have ruptured relationships and damaged psyches.

Arguments have developed, like that questioning priorities – notably that between health and the economy.

Donald Trump, for example, ignoring the advice of critics who warned that lockdown was necessary to protect lives, declared that, “We cannot let the cure be worse than the problem.”

The late Dr. John Hotson once emphasized that, “money is not the problem. It was a wonderful invention – right up there with fire, the wheel, and the steam-engine.”

The problem lies in the way money is created, and who gets to do that. John spent his life teaching the truth about money.

COVID-19 has demonstrated, once again, the validity and the successful exercise of our constitutional right to create money.

If we can do that to deal with COVID-19, we can do it to deal with other problems like inequality and environmental issues. It’s up to us to build on what we can learn from COVID-19, in framing future policies.

Endnotes
4. Ibid.

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Economic Reform

A brief review of several of the most interesting articles that I focus only upon those few articles which I found most interesting.

Breaking Loose from the Dead Hand of Market Theory

Most of the essays attempt to break loose from the dead hand of market theory. The latter views the economy as governed by the rationality of supply and demand on a fictitious self-equilibrating “pure and perfect” market. And yet, though they set out to free themselves from this stultifying model, the essays stop short of challenging the genetic code of conventional economics – marginal value theory that sees all price (and value theory) as determined by the perceived GNP to disclose the impact of healthy forests to recycle a modest degree of pollution (GNP2). The sum of these two adjustments yields GNP3, the net GNP. The unadjusted GNP currently used is labelled GNP4. Peskin, in fact, disaggregates the perceived GNP to disclose the impact on the environment. This is based upon addition of average costs plus a mark-up – the sort of calculation that businessmen and accountants employ rather than shooting for zero returns on the last unit produced, as conventional theory would have it.

But even so, Gross National Product remains a highly flawed statistic. To cite a single example, GNP ignores the household sector of the economy the services of which are unpriced. When a wife gets herself a job to help meet the mortgage payments, the family is likely to replace much homecooking with junk foods. But that replacement shows up as an increased GNP and hence greater well-being.

The Price Indexes are Key

Far more important than the GNP are the price indexes, which serve as master switches in the economy. Any upward movement of the Consumer Price Index will immediately be interpreted as “too many dollars chasing too few goods,” i.e., market inflation, and will spur the central bank to jack up interest rates.

But in our mixed economy higher prices could be brought on by some very different things. Legislation may have required industries to lessen their pollution of the environment, and the cost of this would have to show up in higher prices. The benefits, however, would be ignored by the CPI since the resulting cleaner air or water would neither be priced nor marketed but be available as common goods. Attempting to suppress such price movements with higher interest rates would only increase clean-up costs and all else and contribute to real inflation.

Clearly our price indexes must be unbundled to disclose the different real causes of any given price movement – much as Peskin has done with the GNP. There is a simple way of doing this. The index already includes the cost of environmental care in the higher prices of all the items in the basket of goods and services from which the index is calculated. Where such clean-up has been carried out by producers, its costs find their way into prices directly. Where a government has taken care of the clean-up (say by building a new sewage treatment plant), those costs will show up in prices substantially through taxation. All that is necessary to do, is to introduce a new item into the sampling of goods priced at zero. This new item is weighted according to the total expenditures on environment expressed as a proportion of the entire GNP. Solving the problem via cost, in fact, closely parallels the method of Peskin in disaggregating the GNP2.

Such a disaggregation of our price index would defuse much of the anti-social and anti-environmental bias that has brought the world to its present plight.
**Bringing Society into the Ecoeconomic System**

One of the most intriguing essays in the Costanza anthology is by Herman E. Daly of the World Bank, “Elements of Environmental Macroeconomics.” Daly makes the important point that the expression “optimal allocation” of resources as used by economists refers to the best use of resources within the economy. “Optimal scale of the whole economy relative to the ecosystem is an entirely different problem (a macro-macro problem). The micro allocation problem is analogous to allocating optimally given amount of weight in a boat. But once the best relative location of weight has been determined, there is still the question of the absolute amount of weight the boat should carry. This absolute optimal scale of load is recognized in the maritime institution of the Plimsoll line. When the watermark hits the Plimsoll line the boat is full, it has reached its safe carrying capacity.”

That certainly brings the relationship of the economy with the ecology into focus. But it still omits another vital subsystem – the internal short-term sustainability of society itself. If the distribution of worldly goods denies important sectors of society minimal living standards, strife could break out below deck. This could lead to drastic shifts of cargo, and in Plimsoll line might end up at a hazardous angle to the surface of the water. That would rule out any prudent conservation of the ecology and much else. That should be apparent from the current state of affairs in Somalia, Bosnia and other spots on the planet.

To the two systems that Daly handles with insight must be added a third – society itself. Economics, manipulating a very few flawed statistics in accordance with a largely irrelevant model, leaves little room for either society or the ecology. It is necessary to integrate both of these into our thinking.

This leaves us with three major subsystems to deal with – the ecology, society, and the economy. Our task is to devise a common code to make this possible.

The effort to create a discipline of ecological economics may be of help for teaching economists to deal with even the narrower economy. The paper of Paul Christensen, of Hofstra University: “Driving Forces, Increasing Returns and Ecological Sustainability,” is particularly rich in such leads. He cites P. Mirowski’s view that, “it was the idea of energy, transposed to utility, which provided the inspiration behind the neoclassical revolution. Neoclassicals simply substituted utility for energy in the equations of analytical mechanics. Treating utility like energy provided economics with a powerful metaphor for individual action, a rigorous set of mathematical techniques…, a theory of economizing (in the principle of least effort), and a theory of optimality.”

In fact, it was on this banana peel of analogy that economists slipped into the illusion that they were handling economics with the mathematical rigor that Newton had applied to the planets. But they were, on the contrary, casting off their last ties to the real world. Christensen writes: “Walras assumes that an individual good yields a flow of output just as ‘a field grows a crop year after year,’ and ignores the flows of materials and energy that are converted into a crop, and the energy needed in industrial processes…. In the field theory of production, output is obtained from varying combinations of input which are combined like objects in a picnic basket. Production techniques are defined not in terms of physical logic but by input proportion.”

“Biophysical organization approach to ecological economics starts from a recognition of the environmental, technological, individual and social resources and support systems of productivity…. We must make hard choices about the technologies and institutions we choose to employ. Obviously, market-based signals and policies will be vital in spurring these choices. But technological and social policies are also crucial and these cannot be meaningfully evaluated from an atomistic and mechanistic framework based on nineteenth century physics.”

Environmentalists, for their part, do not always look beyond the environmental subsystem in pursuing their conservationist concerns. Thus in their paper “Sustainability and Discounting the Future,” Richard B. Norgaard and Richard B. Howarth describe what they call, “The Conservationist’s Dilemma” with interest rates: “Faced with the pervasive use of discounting, conservationists have typically preferred lower discount rates over higher rates because lower rates favor the management of slow-growing trees, the protection of biodiversity, and the conservation of exhaustible resources. Yet conservationists have also argued for the use of high discount rates to make projects with deleterious environmental consequences appear uneconomic.”

Bryan G. Norton, in “Ecological Health and Sustainable Resource Management,” argues against “mystical concepts of holism…. I agree…that mystical concepts of holism are not very helpful in management decisions. How does knowing nature is sacred-as-a-whole tell us where to put the garbage? Worse, mystical holism is often associated with a dangerous ‘top-down’ thinking. If a superorganismic intelligence, with a good of its own, directs natural events, it is tempting to conclude that the part has value insofar as it serves the ends of a larger, superorganismic whole. It is this tendency that leads, with some justification, to charges of environmental fascism. But environmentalists have been careful to dissociate themselves from a view of ecosystem health that elevates ecosystem functioning above the basic rights of human individuals.”

**Reconciling an Operational Rationale**

The management of so complex a system requires an operational rationale that would allow us to reconcile the needs of the component subsystem. The example of entropy system as physics can be fruitful, though it is important to keep in mind that this is a useful analogy rather than a proof of anything per se. In a physical entropy system work can be done only if there is a potential difference between two energy levels. As work is performed by the system that potential difference is used up. Though heat is present wherever molecular motion occurs, heat will flow between two bodies only if they are at two energy levels. When that differential is run down, the “heat death” ensues – the remaining heat is not available to us, it becomes locked in entropy. We may utilize some of the remaining heat only by tapping in to another system – for example letting the locked-in heat of our first system flow into a colder system and thus consume the potential difference (negentropy) there. Similarly, negentropy, in one form of energy can be restored by drawing on the negentropy of a different form of energy – say gravity, electromagnetism, nuclear energy. We know this is so because of the work equivalence of different energy forms established by experiment.

In a complex entropy system that re-
quires the functioning of all component subsystems, care must be taken not to cannibalize one subsystem in the interest of another. For then the whole breaks down.

Such complex physical entropy systems are suggestive for our problem in modeling our ecoeconomy. The means and motivations that allow each system to function must be respected, and this can be expressed by analogy as quasi-potential differences. But it is important to note that they are not strictly interchangeable. In their proper places, however, they are all essential for the whole to function in a sustainable way.

An example may clarify the point. A highly competitive market may threaten a lumber industry with bankruptcy – the margin (or potential difference) between its costs and selling prices may have been eroded to the point of leaving no profit. It may seek to cope with that problem by shifting to clear-cutting public forest stands rather than selecting individual mature trees for felling. In this way the industry may lower its costs, and within a certain time horizon, may survive. But it has tapped the negentropy between the rate of cutting and the forest rate of regrowth. So long as the cut was below the forest’s recuperative powers, once the cutting caught up with and even exceeded the capacity for regrowth, the negentropy was being destroyed.

It may be that clear-cutting the forest was imposed by the fuel or job needs of the local population. Their minimum survival need could no longer be satisfied by the old forestry practices. Further jobs or further fuel could, for a while, become available by ravaging the forest – i.e., tapping the negentropy of the forest to restore the local communities’ dwindling negentropy. In the long run, however, that would be self-defeating since the destruction of an essential subsystem would eventually undermine the functioning of the system as a whole.

Within each of our three major subsystems there are many component subsystems vital for the functioning of the whole system. Each is subject to its own “entropy” build-up. For example, though we talk of the ecological subsystem, there are in fact, innumerable distinct subsystems within the ecology, and their entropy builds-ups may at times be at cross purposes. The CO₂ accumulation in the atmosphere is usually seen as contributing to the greenhouse effect. CFCs destroy the ozone layer, but on the other hand, seem to have a negative greenhouse effect. While destroying ozone layer negentropy (the maximum ozone destruction compatible with human survival, less the ozone layer destruction already achieved), they would seem to increase the greenhouse effect negentropy by contributing to cool rather than heat the atmosphere.

The case of economic growth illustrates the point in a more complex way. In order to keep our mixed economy functioning, growth is necessary to provide the aggregate demand that will make possible the investment to achieve enough employment. But once we have learned the severe limitations of exponential growth of our non-reproducible resource industries, it is clear that the economy cannot provide that growth by tapping the negentropies of the environment. Fortunately economic growth does not necessarily mean more automobiles, tin cans, or bubble gum. It could just well, take more environment-friendly forms such as nature hikes, adult education, and drama and concerts. These could be organized either for profit or by the public sector and fully respect the negentropies of the economy.⁹

To reconcile the essential subsystems we must qualify and reconcile the margins of tolerance of each. This is achieved by the analogy with physical negentropy.

Our Comment

Bill’s recognition that our accountancy must factor in the environment and society, reflects both his commitment to a progressive economic system that promotes intrinsic as well as monetary values, and to his appreciation of the need for systems thinking.

Élan

Endnotes

2. The formula for the adjusted Price Index would be:

\[
\sum_{n} \frac{P_n}{P_0} = \frac{w_1 P_1 + w_2 P_2 + \ldots + w_n P_n}{w_1 + w_2 + \ldots + w_n}
\]

3. Daly, p. 35.
4. Christensen, p. 77.
5. p. 78.
6. p. 82.
9. “Growth,” commonly used by economists, has fallen into ill repute with many environmentalists who favor “development” – a term that also casts a shadow with some. These are purely matters of terminology that can be settled by consensus.

Bookstore

If you are interested in acquiring any of the books below, please contact COMER Publications at comerpub@rogers.com.

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William Krehm
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