

# Scimonoce

another way to look at economics

by **Andy Turnbull**

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The Numbers Game

Revisited

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## PREFACE

At a PR lunch an editor told me how much she liked the articles I had written for her.

The conversation turned to racial and national stereotypes and I said there was a reason for the Canadian myth that Newfoundlanders are stupid.

I was going to tell her about traditional Newfoundland humor, in which the person who tells the joke is always the butt. In most humor the joker tries to make someone else look stupid but in Newfoundland -- in the old days, at least -- that would be considered bad manners. In Newfoundland humor, the humorist pretends to be stupid.

I saw one classic exchange of wit while I was helping a friend change a flat tire. A couple of locals stopped to watch.

One said we didn't have to change the tire. Couldn't we see that it was only flat on the bottom? Instead of changing it we could just turn it half way round, and ride on the part that was not flat.

The other said that wouldn't work because the tire would just roll down to the flat side again. Besides turning the tire, he said, we would have to jam the wheel so it couldn't turn while we drove. He said we should drive wedges between the brake and the brake drum to stop the wheel from turning.

The first local didn't think that would be enough. If you want to stop a wheel from turning, he said, the best way is to drive nails through the brake drum and into the brakes.

My friend joined in with the joke, asking the local's advice on what size nails to use and so forth. It was a hilarious exchange of outrageously stupid ideas, all offered deadpan and accepted as though they were serious.

I was going to tell the editor about this and suggest that other national stereotypes might also be based on misconceptions, but I didn't get the chance. When I suggested that there might be a reason for the myth that Newfoundlanders are stupid she left the table. She hasn't talked to me since and she froze me out of the magazine she worked for then, and another that she moved to later.

As I spoke she was listening ahead and guessing what I was going to say. When her guess about what I was going to say conflicted with her fine-honed sense of political correctness she walked out, and she never did find out what I was talking about.

As John Stuart Mill wrote in *A System of Logic*, “the greatest of all causes of non-observation is a preconceived opinion.”

This book contains some different ideas but they are neither right, left nor center. If I thought any established view of economics was valid I would not have bothered to write mine. If you have an argument against my ideas I'd like to hear it, but please try to understand my ideas before you decide why they are wrong.

I've never met economist Robert Heilbroner but I owe him thanks because his book *The Worldly Philosophers* sparked my interest in economics. I've also been awed and inspired by the writing of Jane Jacobs, James Burke, Desmond Morris and John Kenneth Galbraith. I never met them either but, by writing books and/or hosting TV series that I found informative and fascinating, they all contributed to this book.

And I thank author Terry Pratchett, who writes about the only truly rational world in the known universe. He does not tell his readers much about economics, but his work gives you a sense of proportion.

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# THE PROBLEM

## WHY?

Why would a layman who never finished university write a book on economics and, if he did, why would you read it?

We both have the same reason -- because it's obvious that something is wrong. In the summer of 2012 four European countries nearly had to repudiate their debt, several others were in trouble and the United States was technically bankrupt, with debts totaling more than the country is worth. The financial crisis is no longer top of the news, but it's still there.

It's obvious that 'qualified' economists have screwed up -- big time -- so I might as well take a shot. It's not as though I could do much worse than the professionals have done.

In 1984 *The Economist* magazine asked four former European finance ministers, four chairs of multinational companies, four Oxford students and four London garbage collectors to predict the next 10 years' inflation, growth rates and sterling exchange rates. When the predictions were checked, ten years later, the garbage collectors tied the company bosses for the most accurate predictions. The finance ministers were the least accurate.<sup>1</sup>

I am neither chairman of a multinational company nor a garbage collector but, on the other hand, neither am I a finance minister. I'm a semi-retired reporter, editor and freelance writer who spent more than

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<sup>1</sup> Myers, David G, *Intuition, its Powers and Perils*, Yale University Press, New Haven and London, 2002, p 158.

forty years listening to pundits and have learned that too many of them don't know what they are talking about. Nearly 20 years ago I began looking into things for myself, and I developed some ideas of my own.

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## THE BACKGROUND

One early economist was Francois Quesnay, a physician at the court of Louis XV. In the 1760s most people thought wealth could be measured only in silver and gold but Quesnay said it was the result of production. In his view the only true production was agricultural and, he said, craftsmen and artisans only modify goods that have already been produced.<sup>2</sup> We think differently now, but Quesnay's insight was the first step in the development of a new view of the world.

Adam Smith took the next step in his classic book *The Wealth of Nations*, published in 1776. He said labor is the source of wealth and the wealth of a nation is the material goods that everyone, rich or poor, uses or consumes in his or her daily life.

Unlike Quesnay, Smith included the work of craftsmen and artisans in his definition of wealth but he did not include intangible goods -- such as a singer's song or a lawyer's brief, for example.

More than 100 years later the English economist Alfred Marshall argued that anything useful must be counted as wealth, and that anything that people are willing to pay money for must be considered useful. He once summed up his position up with the statement that "a lawyer's brief is just as real as a sack of potatoes."

That's true in one sense, but only in one sense. A lawyer's brief is just as real as a sack of potatoes but while the potatoes are a positive

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<sup>2</sup> Heilbroner, Robert, *The Worldly Philosophers*, Touchstone, Simon and Schuster, NY, Fifth edition, pp 47-49.



benefit -- they are real and anyone can eat them or sell them -- the lawyer's brief has value only in a specific context.

It could be worth quite a bit of money to one party in a lawsuit, but that money will be taken from the other side. A lawyer's brief may argue for a redistribution of wealth, but it can't increase the total.

A nation of farmers could get along without lawyers, but a nation of lawyers without farmers would starve.

In a country with both farmers and lawyers, consider what would happen if one group or the other had a really good year, and either the farmers or the lawyers were to double their production. If the farmers produce a bumper crop of potatoes our cost of living will go down, but if the lawyers double their production of briefs our cost of living will probably go up.

The more potatoes we have the better off we are, but too many lawyers' briefs would be a disaster.

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## THE TROUBLE WITH NUMBERS

Potatoes have real value and so do lawyers' briefs, but we can eat potatoes and we can't eat lawyers' briefs. The difference is obvious but when we count only numbers, we don't think about what they mean.

Marshall himself recognized that some things that have economic value can't be counted as wealth. In *Principles of Economics* he wrote:

“Services and other goods which pass out of existence in the same instant that they come into it are, of course, not part of the stock of wealth.”<sup>3</sup>

Economist Simon Kuznets, who worked for the U.S. Department of Commerce knew that too. When the Senate asked for an estimate of national income he added up all the cash transactions in a year. When he presented it to Congress in 1934 he said it could not be taken as a valid indicator of the welfare of the nation; but the politicians didn’t listen. They liked the idea of a simple number, and they called it the ‘gross national product’ or ‘GNP.’<sup>4</sup> We now use a slightly different number; the ‘gross domestic product’ or ‘GDP’ but the difference between the two is not significant in this context.

The difference is that while GNP counts the transactions of companies owned by citizens of a nation, GDP counts the transactions of companies located in a nation. If an American company owns a mine in Africa, for example, the mine would contribute to the American GNP and the African country’s GDP. The GDP has the advantage that it disguises foreign ownership, but it is even less accurate than the GNP as a measure of national wealth.

If a small country had a lot of oil wells, for example, but the wells were owned and managed by foreigners who commuted from another country, that country could have a healthy-looking GDP even if all the natives were unemployed and starving.

Kuznets later became a professor at Harvard and, in 1962, he argued in an article in the *New Republic* magazine that national accounting in the U.S. needs to be re-thought.<sup>5</sup> He won the Nobel Prize for

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<sup>3</sup> Marshall, Alfred, *Principles of Economics*, ninth edition, edited and with notes by C.W. Guillebaud, Macmillan and Co. for the Royal Economic Society, London, p 56.

<sup>4</sup> Kuznets’ development of the GNP is described in the article “If the GDP is up, why is America Down?” by Clifford Cobb, Ted Halstead and Jonathan Rowe, on pages 59 to 87 of the Oct/95, *Atlantic Monthly*. Kuznets is mentioned on pages 62 and 67.

<sup>5</sup> Kuznets, Simon, “How to Judge Quality” *New Republic*, Oct 20/62, p 69.

economics in 1971 but politicians, media and most economists still ignore his concern about the GDP.

Wassily Leontiev, also a professor at Harvard and winner of a Nobel Prize in economics, also had questions. During World War II he developed the 'input-output' measurement of national accounts that turned the United States into the most efficient production machine the world has ever seen and that is now used by most industrialized countries, but he deplored the trend to what he described as 'mathematical economics.' In a letter to *Science* magazine he wrote --

“The King is naked ... but no-one taking part in the elaborate and solemn procession of contemporary U.S. academic economics seems to know it, and those who do don't dare to speak up.”

Later in the same letter he wrote --

“page after page of professional economic journals are filled with mathematics formulas leading the reader from sets of more or less plausible but entirely arbitrary assumptions to previously stated but irrelevant theoretical conclusions”

.....and still later....

“econometricians fit algebraic functions of all possible shapes to essentially the same set of data without being able to advance, in any perceptible way, a systematic understanding of the structure and operations of a real economic system”<sup>6</sup>

That's the opinion of a Nobel laureate who is recognized as one of the leading lights of the 'science' he criticizes!

Mathematicians should understand numbers better than anyone and Norbert Wiener -- the inventor of the science we now call 'cybernetics' (and also a Nobel laureate) -- also questioned modern economics. He was not an economist himself but he considered the attempts of economists to use mathematics to be ridiculous.

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<sup>6</sup> Leontiev, Wassily, letter, *Science*, vol 217, July 9/82, pp 104-105.

-- "just as primitive peoples adopt the western mode of denationalized clothing," he wrote, "and of parliamentarianism out of a vague feeling that these magic rites and vestments will at once put them abreast of modern culture and technique, so the economists have developed the habit of dressing up their rather imprecise ideas in the language of infinitesimal calculus ... any pretense of applying precise formulae is a sham and a waste of time."<sup>7</sup>

We can see the problem with both the GNP and the GDP if we consider what they include.

According to the American Lung Association diseases caused by auto exhaust cost the United States \$40 billion a year.<sup>8</sup> That's an addition to the GDP, but not a benefit. After the Exxon Valdez oil spill, company officials told the world that it had added more than a billion dollars to the economy of Alaska.<sup>9</sup> Would it be a good idea to sink a few more tankers?

Crime also contributes to the GDP. In Canada Paul Bernardo, who raped at least 14 women in the Toronto suburb of Scarborough and who kidnapped, tortured, raped and killed two teen-age girls in St. Catharines, increased the Canadian GDP by the tens of millions of dollars it cost for the police investigation, the cost of medical and psychiatric treatment for the victims who survived and the cost of his trial and the media frenzy that accompanied it.<sup>10</sup>

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<sup>7</sup> quoted in by Herman Daly and John Cobb Jr, in *For the Common Good, redirecting the economy toward community, the environment and a sustainable future*, Boston, Beacon Press, 1994, p 31.

<sup>8</sup> Mittelstaedt, Martin, Green GNP, "Environmental disaster as fiscal blessing," *The Globe and Mail*, Mar 30/91, p D10.

<sup>9</sup> Dubrowski, Jerry "Exxon says crude oil spill a windfall for Alaska," *The Globe and Mail*, May 9/91, p B1.

see also Lush, Patricia "Report on the environment -- How an oil spill can come out looking good," *The Globe and Mail*, June 8/93, p B19.

<sup>10</sup> Jenish, D'Arcy, "Locked up for Life" *Maclean's*, Nov 13/95, p 68.

Watson, Russel, "Sex, death and videotape, Canada, the murder of the year," *Newsweek* May 29/95, p 53.

In fact he is still contributing because a ‘special’ prisoner like Bernardo needs protection from other prisoners and is very expensive to maintain. If you believe in numbers, Paul Bernardo was and is a productive member of society.

In the United States Jeffrey Lionel Dahmer murdered 17 men and boys and compounded his crimes with rape, dismemberment, necrophilia and cannibalism. He added tens of millions of dollars to the American GDP before he was beaten to death, on November 28, 1994, by another inmate at the Columbia Correctional Institution.<sup>11</sup>

Randall Brent ‘Randy’ Woodfield, AKA ‘the I-5 Killer’ or ‘the I-5 Bandit’ contributed to the general welfare with multiple robberies and sexual assaults, and may have killed as many as 44 people, in Washington, Oregon, and California. Now in the Oregon State Penitentiary he is also the subject of a book and a movie, both of which added to the GDP.<sup>12</sup>

James Holmes, the 24-year-old student who killed 12 people and wounded 58 at the premiere showing of a Batman movie in Aurora, Colorado, will add tens of millions to the American GDP. The students who shot and killed 12 students and a teacher at Columbine High School also contributed.<sup>13</sup>

And if these people deserve statues on Wall Street, what about the terrorists who flew a couple of airliners into the World Trade Center? The attack of 9/11 triggered two wars that pulled the United States out of a recession and increased the GDP exponentially. If the GDP were a valid measure, Osama Bin Laden should be an American hero.

On the other hand let’s imagine that some mechanical genius were to invent a gizmo that would sell for \$1.98 and make your car go twice as far on a gallon of gas. We would all save money and because we would burn less gas the air would be cleaner but, because the GDP

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<sup>11</sup> [http://en.wikipedia.org/wiki/Jeffrey\\_Dahmer](http://en.wikipedia.org/wiki/Jeffrey_Dahmer).

<sup>12</sup> [http://en.wikipedia.org/wiki/Randall\\_Woodfield](http://en.wikipedia.org/wiki/Randall_Woodfield).

<sup>13</sup> <http://news.nationalpost.com/2012/07/25/graphic-james-holmes-was-a-man-with-a-plan/>

would decrease, we would have to consider that genius to be a public enemy.

My examples are grotesque but they are real, and they prove the point. Any system that counts sadistic psychopaths and terrorists as positive economic factors and wonderful inventions as negative, is obviously worse than useless.

But economists, politicians, government officials and media analysts tell us that bigger numbers are good news. Some people believe them because we all want to believe that things are getting better.

They are getting better for some people. While most of the economy is failing the super-rich and businesses that cater to them are doing very well. Small houses are a drug on the market but multi-million dollar estates are snapped up as soon as they become available and sales of 'super-cars' -- some of them costing more than a house -- are booming. It looks very much as though we are falling into the kind of economic tailspin that I call Hobson's spiral.

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## HOBSON'S SPIRAL

John Hobson was a Victorian-era English scholar who wondered how England, in his day the wealthiest country in the world, could have some of the most miserable poverty in the world. He realized that if the poor were too poor, the country as a whole could not prosper.

He argued that the economy depends on consumption and that if the poor have no money they can't consume. On the other hand if the rich are too rich they can't consume all they can afford, so the total level of consumption will drop and the economy will slow down.<sup>14</sup>

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<sup>14</sup> Heilbroner, Robert, *The Worldly Philosophers*, Touchstone, Simon and Schuster, NY, Fifth edition p 193 et seq. This excellent book also outlines some of Adam Smith's and Alfred Marshall's ideas.

In Hobson's day a few Englishmen were fabulously wealthy but most were poor and many lived in absolute poverty.

In the modern world the United States is both the richest and the most unequal country in the developed world. In 2003 the wealthiest one percent of Americans received more money than the lowest 40% and, literally, the rich are getting richer and the poor poorer. In the 30 years from 1979 to 2009 the income of the top one percent of Americans grew by 275%, more than seven times as much as the income of the remaining 99%. U.S. government census statistics show that more than 40 million Americans live in poverty.<sup>15</sup>

Some people argue that poverty in the United States is not the same as poverty in other countries. Poor Americans, they say, have cars, television sets and refrigerators.

Yes, but the problem is not so much total wealth as relative wealth. A poor family living on a farm among other poor farmers may be happy, but a poor family camped in a cardboard box beside a parking lot full of hundred thousand dollar cars is not likely to be. A minimum wage worker might like his job, but he might not be pleased to know that the CEO of the company, who works only one day a week, makes tens of millions of dollars a year and that the CEO's son, who is still in school, drives a \$100,000 sports car.

Most people want to 'fit into' society, but when wealthy people flaunt their wealth, and the media admires the rich and denigrates the poor, the poor are not likely to be happy

Or healthy. Studies show that social inequality is associated with lower life expectancy, higher rates of infant mortality, shorter height, poor reported health, low birth weight, AIDS, and depression. They may have cars television sets and refrigerators but black men in Harlem are less likely to live to the age of 65 than are men in Bangladesh who have no cars, television sets or refrigerators.<sup>16</sup>

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<sup>15</sup> <http://www.census.gov/prod/2011pubs/acsbr10-17.pdf>.

<sup>16</sup> Wilkinson, Richard and Kate Pickett, *The Spirit Level*, Allen Lane/Penguin, London, NY, 2009, p 80-81.

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## THE FORD EFFECT

Hobson offered a theory but he could not prove it because he could not raise minimum wages himself. Henry Ford could, and he used the flip side of the same idea to kick the United States into the greatest industrial boom in history.

In 1913 minimum wages at Ford were \$2.07 for women and slightly more for men. Early in 1914, Ford decreed that the minimum wage for anyone in his factories would be \$5 a day.<sup>17</sup>

That was a bold stroke and, many people thought, a crazy one. One newspaper cartoon of the day showed a charwoman coming to work at a Ford factory in a limousine while Ford, dressed as a janitor, swept the sidewalk.

But Ford was no fool. Like Hobson he realized that the economy depends on consumption and that if the poor have no money they can't consume. He believed that if his workers had more money some would use it to buy cars, others would use it to buy houses -- and provide work for house builders who could then afford to buy cars -- and so-on.

And he was right. When Ford raised his minimum wage he started the American industrial boom that lasted until 1929. The First World War was also a factor in the boom but, whatever Ford's contribution to the national prosperity, there is no question about the effect on his own company. The pundits thought Ford would go broke but, instead he became the world's leading auto-maker.

Now we are reversing the Ford Effect but most of us ignore the signs of poverty that surround us because we don't want to see them. If I

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<sup>17</sup> Nevins, Allan, *Ford, the Times, the Man, the Company*, Chas Scribner & Sons, NY, 1954. Chapter XX, "The Five Dollar Day" starts on p 512.



can convince myself that economic losers are lazy, or that they failed to keep up with the times, I can pretend that I'm in no danger myself.

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## **WHERE'S THE PROBLEM?**

Some economists, bureaucrats and other bafflegabbers tell us our economic woes are a “temporary adjustment to world market conditions.” That's hogwash. The changes we see are steps in our change in status, from leaders of the first world to members of the third.

We're going down the tube, but why? Where is the world going in the 21st century?

Some pundits say that unemployment is caused by ‘new technology.’ The theory is that people have no work because factories are automated and machines make most of our goods.

Not so. If that were the case we would not need to import manufactured goods from low-wage countries.

Some factories are automated and machines make some goods but we use and consume so much more than our ancestors that there should still be lots of work to go around.

Modern car factories have lots of robots, for example, but today's cars are so much more complex than the cars of earlier years that there are still more man-hours of work in a modern car than in an old-fashioned one. Besides, we have more cars than our parents did and we replace them more often.

The robot that landed on Mars did not replace a human worker. Many of the jobs robots do are new, and they should not create unemployment in a modern culture.

So where is the problem? We have a lot of problems but one of the most important is that politicians, civil servants and economists try to manage the country with in a so-called 'science' that is based on a series of fallacies. Any one of them could lead us astray, and together they make a real mess of everything.

They can't see what they're doing because modern economists have been schooled to look at the world in a specific way, and to assume that the world they have been trained to see is 'real.' Like professionals in any field they have to accept the tenets of their faith because their status rests on the presumption that what they believe is true. If they question what they have learned, they must also question their position in the world.

So they don't question. In the foreword to the third edition of *The New Industrial State* John Kenneth Galbraith refers to ---

“a sizeable group of economists who unhesitatingly associate whatever they have been told to believe in their youth with absolute scholarship. Anything alien to such installed belief is deficient.”

He also says -- “the approved methodology wonderfully protects and perpetuates error.”<sup>18</sup>

And again — “specialization within the subject matter of economics keeps scholars from any need to reflect on the truth or the larger role of the subject. The good scholar is the man who sticks tightly to his last, declines any concern with the truth or error of the system of which his work is part. And such concern, since it offers the difficult task of offering more satisfactory alternatives, can usually be attacked as deficient in methodology or proof.”<sup>19</sup>

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<sup>18</sup> Galbraith, John Kenneth, *The New Industrial State* New American Library, 1979, foreword to the third edition, p xi and xii.

<sup>19</sup> Galbraith, John Kenneth, *Economics and the Public Purpose*, Houghton Mifflin, Boston, 1973, footnote on p 8, quotes pages 403-406 of the second edition of *The New Industrial State*.

When they finish school professionals may consider their education complete. In his *General Theory of Employment, Interest and Money* English economist John Maynard Keynes wrote ---

“There are not many who are influenced by new ideas or theories after they are twenty five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest.”<sup>20</sup>

Keynes himself may have suspected that economics was off track. In his preface to the *General Theory* he wrote:

“ -- if orthodox economics is at fault, the error is to be found not in the superstructure, which has been erected with great care for logical consistency, but in a lack of clearness and generality in the premises.”<sup>21</sup>

Exactly. The fault is in the one place that professional economists will never look. As Keynes suggests, they may try to refine the superstructure of their discipline but they will not question the premises.

I question the premises.

As far as possible I make no moral judgments on any of these topics. When I say that this or that condition produces this or that effect, I make a statement of fact.

I think that's important because many of the statements I make will disturb some people. The moral implications of these statements

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<sup>20</sup> This is said to be Keynes' most famous quote, but it's also one of the hardest to track down. The reason is that it's in the 1936 and 1947 editions of *The general theory of employment, interest and money*, MacMillan, London, but, apparently, not in later editions. It's possible that Keynes changed his mind, but more likely that his publisher considered the yowls of outraged academics, and the possible effect on the acceptance of Keynes' work as course texts.

see also [http://www.public.iastate.edu/~pol\\_s.251/16jan.htm](http://www.public.iastate.edu/~pol_s.251/16jan.htm)

<sup>21</sup> Keynes, *The general theory of employment, interest and money*, MacMillan, London, 1936, preface, p v.

disturb me too -- that's why I'm writing the book -- but I write about causes and effects, not about morals.

And I write in plain language because I believe the credo of Ernest Rutherford, the English scientist who discovered and was the first to split the atomic nucleus and who won the Nobel Prize for chemistry in 1908.

“If you can't explain what you are doing to the woman who cleans your laboratory,” he told his students, “the chances are that you don't understand it yourselves.”<sup>22</sup>

If Rutherford was right I have to assume that some established and famous economists do not understand economics. I'm sure that some people who read this will decide that I don't know much, but that's life. All I ask is that you keep an open mind, and that you think about my arguments rather than compare them with established dogma.

And take heart -- it's not all doom and gloom. The doom and gloom are there because we have to recognize the problems before we can fix them but if we recognize them we can fix them.

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<sup>22</sup> I read this quote years ago, and have used it as a motto ever since. I haven't been able to find a reference for it, but I would like to. Because the information is not likely to be controversial, I don't mind using it without a specific reference. It appears, with slight variations, at several places on the internet.

# THE ROOTS OF THE PROBLEM

## MIDAS' MISTAKE

The first fallacy of economics is the assumption that money has value. I call it *Midas' Mistake*.

There was a real king named Midas but the name usually refers to a mythical character in Greek legend. The mythical Midas wished that everything he touched would turn to gold, and his wish was granted. Everything turned to gold -- including his wife and daughter and the food he tried to eat.

Midas forgot that money -- even gold -- has no value of its own. It's just a token we use to count the production and consumption of the goods and services that Quesnay and Smith and Marshall recognized as real wealth, and it has value only when it represents real wealth.

In the simplest kind of economy goods are traded directly -- one of my fish for some of your berries, or whatever. The rate of exchange depends on how many fish I have and how many berries you have, and how much you want fish and I want berries.

But as economies developed some goods were accepted as standards of value, to the point where they were used as money. At one time Roman soldiers were paid in salt, the Maya of Central America used cocoa beans as currency and Chinese traders pressed tea leaves into cakes that were used as money in some areas.

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## **SYMBOLIC MONEY**

These first forms of money had real value. Roman soldiers used salt themselves, the Maya used cocoa beans and Chinese traders brewed tea. After the concept was established some people accepted money that had only symbolic value. Natives on the South Pacific island of Truk used huge stones as money and many Indians of central North America used wampum made of seashells. Neither the stones nor the seashells had much practical use but, because they were hard to get, they were considered valuable.

Symbolic money is the standard today but some standards are so well established that we forget they are only symbolic. Even gold and silver are symbolic, because for practical purposes they have very little real value. Unless I make high-tech electronic gear and need gold to plate electrical contacts, I have no more real use for a pound of gold than for a pound of waste paper.

But whether it has real value or not, any kind of money is useful because it's widely accepted, it's easy to store and it keeps indefinitely.

If I catch a fish I must eat it or trade it before it spoils. To trade it I must find someone who has something I want, and who wants a fish.

But anybody with money can buy my fish, and anybody who has anything I want will accept money. If I don't want anything right now, I can keep the money until I need it. In effect the value of the fish is stored in the money until I need it.

At one time I might have kept gold in a strongbox but now we keep money in countless forms. I may keep it as art or gold or jewels, as paper in my pocket, as an account in a bank or in deeds that represent ownership of property.

Conceptually, they are all the same. Once we accept the concept of symbolic money, we also accept all the symbolic forms we can agree on.

But whatever its form, symbolic money has no value beyond our agreement to accept it. It's just a token and the real wealth is the fish or the berries or the shoes or the helicopter that it represents.

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## SAY'S LAW

If money represents goods, then all the money in an economy should be just enough to buy all the goods in that economy. That's Say's law, named for the 18-19th century French economist Jean Baptiste Say, who thought the value of the goods produced in a given system would always be balanced by the amount workers were paid to produce them. Because the workers would have enough money to buy all the goods on the market, all the goods would be sold and all the workers would have work.

We honor that idea as the 'principle of supply and demand.' When goods and money are in balance, prices are normal. When goods are plentiful or money is scarce, prices drop. When money is plentiful or goods are scarce, prices rise.

The balance is maintained because goods are continually being produced and consumed. As we eat one farmer's potatoes, another farmer is producing another crop. As my shoes wear out, someone is making a new pair. The economy is big, and consumption and production balance out.

In actual fact the money remains while the goods come and go but, for conceptual purposes, we can pretend that money is created as goods are created and that it decays as the goods are consumed. As Adam Smith argued, the worker who creates the goods creates the wealth.

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## BENEFIT and COST GOODS

But not all goods are wealth. The potatoes that Alfred Marshall spoke of are wealth because they offer an unqualified benefit that anyone can use. A lawyer's brief may help decide the ownership of wealth but the wealth it gives to some is taken away from others. It has no practical value outside its context and nobody can eat it or wear it or live in it. It may be as desirable as a winning lottery ticket, but it does not increase the store of wealth shared by the community.

Obviously the farmer's potatoes and the lawyer's brief are two different kinds of 'goods' and we have to distinguish between them. The potatoes have real value and if a farmer produces a bumper crop of potatoes our cost of living will go down, but if a lawyer produces more briefs our cost of living will probably increase.

Goods like potatoes and computers and automobiles and canned peas are an economic benefit to the community. Other goods, such as lawyers' briefs and singers' songs and the services of the policeman who walks the beat may produce social or other benefits, but they are economic costs. Let's describe the two types of goods as *benefit* and *cost* goods.

As a general rule we could say that if an increase in the supply of a good or service would reduce the overall cost of living, that good or service is a *benefit*. If an increase in the supply of a good or service would increase the cost of living, that good or service is a *cost*.

*Benefit* goods are wealth. *Cost* goods may be desirable and they may have cash value, but they are not wealth.

There is a caveat here because the benefits of *benefit* goods may be conditional. If a farmer gets a bumper crop of potatoes from his regular fields, our cost of living goes down. If he buys downtown Toronto and bulldozes the buildings to create new fields to grow more potatoes, then corners the market and is able to sell them at an inflated price, our cost of living will go up. In the same way one practical car



in my garage is a *benefit* but a collection of impractical cars would be a cost. Special cases exist and we must acknowledge them, but they do not invalidate the idea.

Note that we lump goods and services together in this context. The distinction is between *cost* and *benefit* goods, and both categories include both goods and services.

Most material goods are *benefits* but some, like public monuments for example, are *costs*.

Some intellectual goods -- like designs for new machinery, some computer programs and books on farming -- are *benefits* but others -- like most of the services of lawyers, are *costs*.

Many government services are *costs*, but some are benefits. High-end medicine like heart transplants -- may be *costs* but low-end medicine like general sanitation and flu vaccines are *benefits*.

But while we categorize goods and services as *cost* or *benefit* we have to remember that just because something is an economic *cost* rather than a *benefit* does not make it less desirable. In economic terms I might consider your heart transplant a *cost*, but if I need one myself I would consider it a *benefit*.

An economy that produced only *benefit* goods could survive but it would be boring. One that produced only *cost* goods might be interesting but the inhabitants would have no food, clothing or shelter. We need a combination of *benefit* and *cost* goods, and the ratio of one to the other is crucial.

A surplus of *benefit* goods is no problem but it is a waste. Many *cost* goods improve the quality of our lives, and we might as well have all that we can afford.

But too many *cost* goods is an economic disaster. When we see them as numbers in the GDP *cost* goods are the same as *benefit* goods but in real life they are *costs* and, if we produce too many of them, we will go broke.

*Cost* goods are not wealth but the people who produce them consume wealth. If they do not produce wealth themselves then the wealth they consume must have been produced by others. Much of our wealth is shared through the process I call the *cascade*. This is often considered to be part of the process economists call the *multiplier*, but it is in fact quite different.

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## THE MULTIPLIER and THE CASCADE

The concept of the *multiplier* has often been attributed to English economist John Maynard Keynes but Keynes himself attributed it to R. F. Kahn, writing in the *Economic Journal* that Keynes edited.<sup>23</sup> The idea has also been attributed to English/American economist Sir Ralph Hawtry.

The multiplier exists because one person's expense is another person's income. A farmer who grows potatoes, for example, has to buy a tractor and fuel and seed and fertilizer and other equipment and supplies to work with. Because he buys them he makes work for the people who produce them. Because most of these goods are themselves benefit goods each one produces its own multiplier, and the effect is compounded.

Before a tractor is manufactured people have to make the parts for it and before they can do that someone has to make the steel. Before that other people have to mine the coal and the iron ore, and before that someone has to make the mining machines, and so-on. The multiplier goes back as far as you care to track it, and it creates benefit goods at every step.

And the farmer must also feed, clothe and house himself and his family. If he spends 90% of his gross receipts on business and living expenses then he will pass on 90 cents of each dollar he earns to

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<sup>23</sup> Keynes, *The General Theory of Employment, Interest and Money*, MacMillan, London, 1936, p 113.

others. If they all spend 90% of their income each will pass on 81 cents of the farmer's original dollar to others, and so forth. If everybody spends 90%, then each dollar the farmer is paid for his potatoes will produce \$10 in new business in the economy.

But consumers who buy the potatoes in stores pay much more than the farmer received when he dug them out of his field. The increase in price from the field to the store is the result of the process I call the *cascade*.

After the farmer brings the potatoes in from the field someone is paid to inspect and grade them. Someone else trucks them to a processing plant where other people wash them and package them in five and ten-pound bags, then someone else hauls the bags to a store where clerks put them on display and cashiers check them out.

Each operation adds value to the potatoes, because it's more convenient for a consumer to buy them washed and packaged at a store than to buy them direct from the farmer. Each operation also adds cost, because all the people who process the potatoes have to be paid.

But while we have more people working and earning money, the cascade produces no more potatoes and no new wealth has been created. The cost of the potatoes has increased and they have become more useful, but we still have only the potatoes that the farmer dug out of his field.

The *multiplier* creates new wealth, but the *cascade* just distributes wealth that has already been created. The cashier who checks potatoes out of the store earns money and she will pass some of it on to others, but her salary is part of the cascade created by the farmer's potatoes, and the money she spends is a continuation of the same cascade. Conceptually, the money she earns and spends represents a share of the farmer's potatoes.

This does not denigrate the cashier's role. She performs a valid function and she earns her share of the cascade, but when we measure the economy we must distinguish between the creation of wealth and

the transfer of wealth. Both are valid functions but they are also distinct functions.

The *multiplier* is a side-effect of the production of wealth. The *cascade* is produced by the distribution of wealth.

When we import goods we get a cascade in our own country, but the multiplier stays in the country where the goods were produced.

If we did not distinguish between the multiplier and the cascade we might say that a lawyer's brief produces a multiplier too, because it creates work for a judge and for law clerks, secretaries, bailiffs and others.

But no wealth has been created. Like the cashier in the supermarket, the lawyer shares in the wealth produced by others. We know that a nation of farmers could get along without lawyers, but a nation of lawyers could not get along without farmers.

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## DIFFERENT DOLLARS

The dollars the cashier and the lawyer spend look like the dollars the farmer is paid for his potatoes but in fact they are quite different. That may sound strange but the idea that some dollars can be different from others is not new. American bankers, for example, call the money they deposit in Federal Reserve banks *high-powered money*, because the amount they can lend to their customers is based on the amount they have on deposit in the Fed.<sup>24</sup>

Money created by the production of goods must be considered to be different from the money generated by the cascade. Let's call the money created by the production of wealth *root* dollars, and the money generated by the cascade *derived* dollars.

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<sup>24</sup> Greider, Wm, *Secrets of the Temple*, 1987, Touchstone, Simon and Schuster, 1987, NY, p 62.

The *root* dollars the farmer is paid represent the creation of new wealth. The *derived* dollars the cashier is paid represent the transfer of existing wealth from one person to another within the economy. Both are valid functions but the creation of wealth increases the total amount of wealth in the economy, and the transfer of wealth does not.

We also have a third type of money that I call *imagined* dollars. This is legal money but it is literally created by imagination.

When you borrow from a bank the bank actually creates much, sometimes all, of the money it lends you. Banks in the United States have to have some money because the amount they can lend their customers is determined by the amount they have on deposit in a Federal Reserve bank but Canadian banks don't have to have any money at all. More about that later.

When you borrow money the bank writes a cheque or credits it to your account, and the money is created at that point. The bank may not actually have the money, but that's okay if enough money will come in from deposits and repayment of other loans to cover the cheque.<sup>25</sup>

Like *derived* dollars, *imagined* dollars are not created by the production of goods. Unlike *derived* dollars, *imagined* dollars can start a cascade.

*Derived* dollars can't start a cascade because they are already part of one, and when *derived* dollars are passed from hand to hand the movement is a continuation of a cascade that has already been started. *Imagined* dollars are new to the system and, because they are not part of an established cascade, they start a new one of their own.

That creates a serious danger because *imagined* dollars do not represent real wealth and dollars derived from *imagined* dollars do not represent real wealth.

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<sup>25</sup> If that's confusing, read on. We'll get into the operation of banks later.

Because they do not represent real wealth, *imagined* dollars upset the balance of goods and money that keeps prices stable. Most economists think that, because bank loans and credit sales are balanced by debts and because in theory they will eventually be paid off in real money, they make no difference to the economy.

That's true, up to a point. It's no big deal if I buy a car or a TV set on credit, but what if I borrow a billion dollars?

The money is new and, even if I will repay it some day, it's here now and it upsets the balance. The long-term effect of a big loan will depend on what I do with the money.

If I use a billion *imagined* dollars to build a factory or a block of apartment houses or a fleet of fishing boats I create new wealth. We have more money in the economy but we also have more wealth, and the balance between money and material wealth is maintained.

In this case the *imagined* dollars act like *root* dollars and in effect the loan just shifts the sequence slightly to create the money before, rather than after, the goods are produced.

But what if I use a billion *imagined* dollars to buy goods that already exist? Suppose I borrow them to buy apartment houses or a factory or a fleet of fishing boats that someone else built ten years ago? Now we have an extra billion dollars in circulation, but no new wealth has been produced.

Further, because this billion dollars is new to the economy it creates a cascade that, in effect, multiplies it. In the end we may have several billion new dollars in the economy, but no real wealth has been created.

The balance between wealth and money has changed and all money will lose enough value, through inflation, to restore it. There is no conceptual difference between using a billion *imagined* dollars to buy an asset that already exists and printing a billion extra dollars to pay our debts.

A single billion-dollar loan would not make much difference to a national economy but we are not dealing with a single billion-dollar loan. As wheeler-dealers buy, take over and merge companies, big banks issue dozens of multi-billion dollar loans in a year. Because imagined dollars create a cascade, the total effect will be tens or hundreds of billions of dollars.

The flood of money creates inflation, which gives the borrower a bonus that makes it easy to pay the loan off. Because the borrower profits from inflation he can pay off the first loan and borrow another billion, to buy another established business and start another round of inflation.

Further, because wheeler-dealers who buy and sell companies tend to buy and sell established companies rather than start new ones, they seldom create any real wealth to balance the new money they pour into the system. Because their manipulations devalue all our money, the wealth they gain creates poverty for everyone else.

If I borrow to build something new the bank advances money on my production and the ultimate result will be more wealth to be shared by all. When I borrow to buy existing property the bank agrees to share everybody else's production with me. That's not fair, because the bank does not own the production it offers to share.

Governments know that unlimited loans by banks can upset the economy and they try to control the creation of money through the interest rates set by central banks. In times of inflation the interest rate is raised, to slow borrowing and the creation of money, and in times of recession the interest rate may be lowered.

The idea sounds good but it assumes that the problem is a surplus of money. In fact it may be caused by other factors, such as a surplus of imports or of cost goods and a shortage of locally-made *benefit* goods. In fact a high interest rate may exacerbate problems by pushing entrepreneurs away from long-term projects that will benefit the economy and into fields that will produce a faster return.

If I want to sell *gibblegooks*, for example, it might take me a year or so to build a factory to produce them, to design the product and to

train workers to make them. Imported gibblegooks may cost more in the long run, but if I choose to import them I don't have to design them or build the factory or train the workers and I can get a faster return on my money.

When interest rates are high a fast return is more important than a high return, so I will import gibblegooks rather than make them.

That's counter-productive because one of our problems is that we import too many goods that we should make for ourselves. The high interest rates that are supposed to reduce inflation almost certainly have a negative effect on employment and, if they encourage imports over local manufacturing, they will not stop inflation.

Some pundits think tax cuts spur business and create wealth, but that's not necessarily so. Tax cuts may spur retail trade but if the goods we buy are imported, an increase in retail trade bleeds money out of the country.

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## **CHAUNCEY'S CONUNDRUM**

Some people pretend that tax cuts for the wealthy spur growth, because the wealthy use the money they save to start new business. That's bafflegab.

The fact is that when rich people have money to spend they tend to buy existing companies and automate the factories, or close them down and have the goods made overseas. When they do start companies they tend toward operations like Enron, which make big profits without actually producing anything.

Let's consider the case of *Chauncey deSilverspoon*, heir to the deSilverspoon billions and holder of an MBA degree. He wants to start a business and market research shows a real need for a new and improved *squump*.



Chauncey doesn't know much about squumps but he hires an engineer to design the best squump in the world. Because he wants to do it right he hires two engineers. One is the former chief engineer for the world's leading manufacturer of squumps, the other has never designed a squump before.

The experienced man designs a new squump that is essentially the same as the one his former employer makes. Because Chauncey wants a new one, and he wants it to be the best in the world, the designer adds some bells and whistles. The new man, who has no experience with squumps, checks into the literature and uses all the latest techniques to design a squump that is essentially the same as all the squumps already on the market.<sup>26</sup>

Chauncey has spent a small fortune on the two designs but, since he doesn't know much about squumps, he can't judge between them. Since they're about the same anyway, he flips a coin to choose one to go to prototype.

Now he has to hire a machinist, a welder, a sheet metal worker and an electrician to build the prototype. Because they need precise plans to work from he has to pay the engineer to prepare them and, because it has to be right the first time, everybody does everything by the book.

Chauncey has spent a pile of money and he has a prototype squump that is essentially the same as every other squump in the world -- with the exception that his has so many bells and whistles that it's heavier, costs more and is more likely to break down than the others. Now to go into business he will have to build and equip a factory, hire machinists and all that stuff. It's going to cost millions, and poor Chauncey has very little chance of success.

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<sup>26</sup> Remember the 'all-new' *Ford Edsel* of the 1950s? Except for some cosmetics it was identical to the Ford Mercury of the same year. At about the same time as Ford spent millions of dollars to design the Edsel, English designer Alex Issigonis designed the *Austin Mini* with the engine mounted sideways to drive the front wheels. The Edsel is remembered only as a multi-million dollar blunder but the Mini provided a template for most of the cars we use today.

Joe Blow, on the other hand, might be able to start something new. He started as an apprentice *squump-wiggler* ten years ago and is now an old pro. Because he's wiggled a lot of squumps he knows exactly how they break down, he knows exactly what they don't do as well as they might and he's got some ideas about how they might be changed.

His break comes when the company he's working for decides to dump an old lathe, and Joe buys it. The lathe has to go because it's old and not as fast or as accurate as it could be, and modern industry demands tools that get it right the first time. Joe knows that if you take your time and work carefully the old lathe will still do as good a job as a new one, and he offers the company \$1 more than the scrap dealer would pay for it.

Now Joe has a lathe and the remains of a *Nadir* brand squump that was not worth repairing. In the evening he makes some new parts for the old squump but, rather than follow the original pattern, he puts some of his own ideas into it.

Then he adds some more of his ideas and changes this and that. Because he's just fooling around and it doesn't cost much he makes several different types of parts and he changes some parts that were not broken and he winds up with a new squump that is much better than the original.

When he shows it to his friends they like it and one, who needs a squump, buys it. Because people ask for them Joe makes another, and another and so-forth. By the time he's up to number ten his squumps are much better than anything on the market and, with some friends to back him, he gets some more old machines and starts production, in his garage.

Eventually he might do as well as Soichiro Honda, the son of a blacksmith who left home at 15 to work in an auto repair shop. In 1946 he adapted some war-surplus small engines to power bicycles, in 1949 he made a motorcycle and in 1963 he made a car. Now the company he founded makes more than three million cars and trucks a year plus an assortment of motorcycles, ATV's, outboard motors, lawn mowers, trimmers, generators, pumps, snow blowers and the motors that power dozens of other products.

North Americans might argue that Honda had an advantage because the Japanese government supports and helps to develop Japanese industry. That's true -- and wouldn't it be wonderful if our governments supported and helped our small industry?

But even if he had government support Chauncey deSilverspoon could not do as well as Honda because he never learned to make things. He might buy the Nadir Squump Works and replace most of the people with automatic machines, or close the factory and hire someone to make squumps in some other country, but he can't make a squump from scratch.

Chauncey can't even back Joe Blow because he doesn't know enough about squumps to be sure that Joe's is better than others. Instead he will hire an 'expert' who will compare Joe's squump with the Nadir, which is the industry standard. If Joe's is not exactly like the Nadir, there must be something wrong with it.

The expert may like Joe's better but, because he is an 'expert' rather than just somebody who uses squumps, he can't afford to say so. If he calls it wrong Chauncey may sue, but if the expert's judgment is in line with conventional wisdom the suit will not go far.

Businessmen can run established companies but, in most cases, it takes someone with hands-on experience to develop anything new. In the mid 1970s Stephen Wozniak was a junior engineer at Hewlett Packard and also a member of the Homebrew Computer Club in Cupertino, California. As a hobby he designed a new kind of computer with fewer chips than conventional models and, as a loyal employee, he offered it to Hewlett Packard. Because the company was not interested in the ideas of a junior engineer Wozniak teamed up with Stephen Jobs, another member of the club, to make the computer they called the *Apple*. You may have heard of it.

Clessie Cummins worked as a chauffeur before he founded the Cummins Engine Company, which makes diesel engines. After he retired he invented the 'retarder' that helps trucks slow down on hills. It's an add-on to a diesel engine but the businessmen who ran the Cummins Engine Company after Cummins retired thought they knew

better than their founder. They refused to buy the idea, and Cummins had to sell it elsewhere.

It's now made by Jacobs Vehicle Systems Inc, and truckers call it the 'Jake Brake.' There's one on almost every Cummins truck engine -- and also on most other makes -- but the Cummins company has to buy them from Jacobs.

Most of the businesses that really count in this world were established by hands-on tradesmen rather than businessmen. John Deere was a blacksmith. Henry Ford was an apprentice machinist and Walter Chrysler and George Westinghouse were mechanics. Elisha Otis, the Wright Brothers, the Dodge Brothers, Ransom Olds, John D. Rockefeller, Stephen Jobs, Bill Gates and others who built big productive companies were all middle class, at best. Unfortunately, current economic policies tend to enrich the wealthy, and destroy the middle class.

We all handle money every day but few of us really understand it. We don't have to, in our daily life.

But when we look at the economy we have to remember that money is not wealth. It's just a token, and the real wealth is the food we raise and the goods we manufacture. Because of the numbers game we count money, rather than the wealth it represents, and we lose sight of reality. When we give up our farms and factories to go into businesses that produce only *cost* goods we get bigger numbers, but we give up the source of our wealth and we condemn many of our fellow citizens to poverty.

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## **WASTE AND GAMBLING**

Most politicians seem to believe that money is real wealth and it is partly because of this that they find it easy to justify waste.

What does it matter that they waste money if the waste produces a *multiplier* effect that creates wealth for the whole economy? If that were true, waste would be a positive virtue!

Governments pretend to know that we can't afford endless waste but they have not learned the most important lesson, that dollars are not wealth. If they were, we could print a few million of them for every citizen and we could all retire.

Everybody knows that won't work but, because we play *The Numbers Game* we don't see that the over-production of cost goods has the same effect. Real money represents real wealth and any money that does not represent real wealth devalues the money that does.

If we count only the numbers all money looks like wealth and several American and Canadian state and provincial governments hope that lotteries, casinos and slot machines will produce wealth and bring them the revenue that taxes can no longer produce. Even some local governments once believed the theory that casinos would be an 'economic engine' to produce wealth in their community, but it didn't happen. In fact, studies show that they drain money away from legitimate business and create economic hardship in the towns where they are located.<sup>27</sup>

If the billions of tax dollars that governments collect from casinos and gamblers was root money it would be good news, but casino profits are not root dollars. Because casinos produce no real wealth the dollars governments collect from them are *derived*. Casinos redistribute wealth, but they add nothing to the economy. In fact, research shows, they do considerable harm.

Midas thought gold itself had value, but he was wrong. Governments and others are just as wrong to think that the money they print has real value.

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<sup>27</sup> Grinols, Earl L and David B Mustard, "Business Profitability versus Social Profitability: Evaluating Industries with Externalities, the Case of Casinos," *Managerial and Decision Economics*, 22: 143-162, (2001).  
see also Earl L Grinols, "Casino gambling causes crime" *University of Illinois Institute of Public Affairs Policy Forum Vol 13, #2, 2000*.

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# THE FINANCIAL INDUSTRY

## THE FUNCTION OF BANKS

The core of our economic system is banks, most of which are private and some of which serve only their own interests. Since the disastrous economic crash of 2008, many of us see them as enemies of the community they pretend to serve.

But banks that stick to banking can provide valuable services for their customers. The history of banks as we know them dates back to the 13th century, when some merchants began buying and selling bills of exchange as a defense against highwaymen.

Instead of carrying gold from one city to another a traveler could buy a bill of exchange from a merchant in one city and sell it to an agent of that same merchant in another city. The bill of exchange was easier to carry than gold and, because it had the traveler's name on it, it was of no use to a robber.

Some merchants also accepted valuables for deposit but deposit banking as we know it may have started in 17th century London, where some goldsmiths accepted money and valuables for safekeeping.

They also made loans and, because most loans were taken in the form of credit rather than lump-sum cash, they could lend out more money than they actually had on deposit. As long as they were able to meet depositors' demands for money the system worked well, and it became the key to industrial development.

Large-scale development was not possible without banks because in the days before banks there was very little cash money. Aristocrats could build things because they owned land and could order serfs to work for them, but aristocrats had no use for industry. They needed castles and weapons for their private armies and perhaps a mill for their estate, but if the serfs or the peasants wanted something, that was not the aristocrats' problem.

But the common people had problems. If a village had no mill, for example, even farmers who owned their land had to bring their grain to the lord's mill. That was a problem because the lord's mill served the lord's farms first and, with no competition, it could and often would charge free farmers extortionate rates.

Every village wanted its own grist mill but in the days before banks few ordinary men could afford to build one. A common man could build his own mill if he could raise the money -- but where to get the money? In the world before banks there was very little actual money in circulation, and a whole village could not raise enough cash to build a mill.

But because it can lend more money than it has on deposit, even a small bank can finance a mill. Let's look at the construction of a new mill in the village of Gooblegoo. This is a poor village, partly because local farmers have to haul their grain 20 miles to the village of Bumblerum and pay a small fortune to get it milled.

There isn't enough money in the whole of Gooblegoo to pay for a mill but three years ago local boy Jack Lender came back from London, where he had worked in one of the newfangled banks, and he established the Bank of Gooblegoo. He didn't have much capital but he didn't need much, in those days, and now he's doing all right. He still doesn't have enough to build a mill, but that's no problem.

This year another local boy, Joe Miller, has come home with ten years' experience working at the mill in Bumblerum, and he wants to build his own mill in Gooblegoo.



The local currency is Googoos (Gg) and Lender agrees to lend Miller 1,000 of them. As it happens he has only Gg496 on deposit but that doesn't matter because he won't even have to pay out that much.

Miller needs land for his mill and he buys a riverside lot from John Farmer for Gg200. Farmer takes Miller's cheque to the bank where he applies part of it to his mortgage on the farm, and the rest to the money he owes Jack Mason for work on his house. That puts Mason in the black, so he can use his share to pay off the loan he took to buy a new horse and wagon. Miller has spent Gg200 of his loan, but so far not one Centigoo of cash has actually left the bank.

Now Miller hires Mason to build the building for his mill, Peter Carpenter to finish the interior, Bill Wheelwright to make the wheel and so forth, and he pays them all with cheques on his account at the bank.

Because most of them owe money to the bank and they all have savings accounts they deposit their cheques in the bank and write others to pay their debts. They take some money for immediate expenses -- groceries and beer, perhaps -- but most of the money never actually leaves the bank.

In effect the people of Gooblegoo co-operate to build the mill in return for Miller's promise to mill their grain in the future, and the bank brokers the deal.

That's a valid function because there isn't enough money in the whole village to pay Farmer, Mason, Carpenter, Wheelwright and the others in cash. Miller can and will pay for the mill by milling grain, but that will take years and the tradesmen who build the mill have no grain to be milled.

Without the bank there could be no mill. Through the bank people can co-operate to build the mill and, over time, everybody who uses flour will pay for it.

For convenience we pretend the bank had money to lend but in fact there is no real money and the bank is actually a broker for the

community. When the bank lends Miller enough money to build his mill, it acts as an agent for the farmers who want a local mill.

The bank makes a profit on the deal but that's fair, because it provides a service and it takes a risk. In this case Lender must be able to judge the local need for a mill and Miller's ability to run it. If both are in place the mill will be a success but if Lender misjudges the need -- or if a drought or some other problem wipes out the next few crops of wheat or if the mill catches fire and burns -- Miller will go broke and Lender will be on the hook for the money. His risk is greater than Miller's because if the mill fails Miller will go from broke to bankrupt, but Lender may lose an established business.

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## PROBLEMS WITH BIG BANKS

The Bank of Gooblegoo performed a vital service and, through most of the 19th and 20th centuries, banks in the United States were powerful engines of economic development.

That was partly because many of them worked under state charters which did not allow them to operate across state lines.

When a farmer in Boondock, Iowa, put his money into the *Boondock State Bank* the bank had to find a use for that money in the state of Iowa. Because of that, budding businessmen in Iowa could find the capital they needed -- and that's why the United States has major industries in almost every state.

Interstate operations by American state banks were enabled in 1984, by the *Riegle-Neal Interstate Banking and Branching Efficiency Act*, which allowed interstate mergers between 'adequately capitalized and managed banks,' subject to certain conditions. Other restrictions on banking were repealed in 1999 by the *Gramm-Leach-Bliley Act*.<sup>28</sup> It's

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<sup>28</sup> [http://en.wikipedia.org/wiki/Bank\\_Holding\\_Company\\_Act](http://en.wikipedia.org/wiki/Bank_Holding_Company_Act)

too soon to tell, but this may give the U.S. the kind of bank problems Canada has.

Canadians have a problem because most Canadian banks have federal charters which allow them to operate anywhere in Canada. Because they can move money around the country, they have been more of a hindrance than a help to development in some areas.

Like the farmers in Boondock, farmers in Elk's Elbow Saskatchewan keep their savings in the local bank, but the local bank in Elk's Elbow is a branch of the Bank of Halifax.

Because the bank has a national charter it can move money from province to province and, because the branch in Elk's Elbow is small, the local manager has not much authority. When the *Elk's Elbow Eclectic Eggbeater Co.* needs a big loan, the local branch can't help him.

To get a big loan a businessman from Elk's Elbow has to go to the bank's head office in Toronto but the vice president there doesn't want to take a chance on some small business way off in Saskatchewan. The bank can use the Elk's Elbow deposits in Toronto and if someone in Elk's Elbow wants to start a business, he can come to Toronto to do it.

The fact that the best investment might be in Elk's Elbow is irrelevant. The bank's officers are in Toronto and they find it hard to conceive of any business, other than logging, mining or oil, that could prosper outside a big city.

Because big city businessmen have access to the banks they can also take over businesses in outlying areas. The *EEEE Co.* is a good business but, because it's located in Elk's Elbow, it can't borrow the money it needs to expand.

Enter *Torontosaurus Corp*, a conglomerate that already owes the Bank of Halifax several hundred million dollars. *Torontosaurus* knows the Elk's Elbow business is good and -- partly because it's already in hock to the bank -- it can borrow enough money to buy *EEEE* and to finance the expansion.

But *Torontosaurus* may build the new *EEEE* factory in *Bongobongo*, where the peasants work for five cents a day and there are no environmental laws. If the people of Elk's Elbow had been able to keep their money in a local bank they could have kept the town's leading industry, but national banks tend to channel everything to national centers.

Now Canadian banks are taking the next step. Having grown rich by funneling the savings of small town Canadians into big cities they are moving into the global market to lend Canadian capital to foreign businessmen who will use it to open mines and build factories to put Canadians out of work, and to buy Canadian assets that Canadians can no longer afford.

The banks call this 'progress' but the rest of us might have another word for it.

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## **FREE MONEY**

Banks have always been able to lend more money than they actually have and some banks don't have to have any money at all.

American banks have to keep some of their own money in a Federal Reserve bank, and the amount they can lend their customers is based on their balance at the Fed.<sup>29</sup>

But since July of 1994 Canada has used a "zero average system" under which banks don't have to keep deposit reserves. They have to maintain accounts in the Bank of Canada and in theory they deposit when they can and withdraw when they need money but, rather than

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<sup>29</sup> Greider, Wm, *Secrets of the Temple*, 1987, Touchstone, Simon and Schuster, NY, 1987, p 61.

actually keeping money there, they just have to maintain an average balance of zero in the account.<sup>30</sup>

If they have a reasonable cash flow, in other words, they don't have to have any money at all. Banks have always been able to 'create' money but in a reserve system they have to have seed capital of their own to make it from. In a zero-average system, they can make money from thin air.

And they make billions of dollars of it. In fact most of Canada's national debt is imagined dollars created from nothing by Canadian banks, and that's a sore point with Paul Hellyer.

He was a cabinet minister in one of Prime Minister Pierre Trudeau's governments, perhaps best known as the man who merged our three armed forces into one. In 1969 he resigned from the cabinet over a matter of principle.

Hellyer points out that while private banks can create money the government's own 'Bank of Canada' can also create money -- and that the Canadian people don't have to pay interest on money created by the Bank of Canada.

Most of the national debt is compound interest on borrowed money, Hellyer says, but if the money had been borrowed from the Bank of Canada the interest -- trillions of dollars since Hellyer made his proposal -- would have been payable to the government of Canada.

The Bank of Canada did not have enough money to finance the federal government but neither did the private banks. They created imagined dollars to lend to the government, and the Bank of Canada could have done the same.

In the spring of 1993 Hellyer hired Ottawa-based economics firm Infometrica Ltd. to calculate the effect on the Canadian economy if the federal government had adopted and maintained the policy that he had recommended in 1969. A computer simulation of the economy

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<sup>30</sup> *Bank of Canada Review*, Sept, 1991 p 25, "Notice concerning the implementation of monetary policy in a system of zero reserve requirements."

showed that if the policy had been adopted in 1978 we would have had an extra 870,000 jobs and \$50 to \$80 billion less debt in 1985. Extrapolation of the same scenario to 1992 showed a saving of about \$220 billion in the federal debt.<sup>31</sup>

Thomas Jefferson had something to say about private banks' ability to create money, in 1816.

“If the American people ever allow private banks to control the issue of their currency, first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children wake up homeless on the continent their fathers conquered.”<sup>32</sup>

Mayer Amschel Rothschild, the founder of the Rothschild banks, also had something to say on that topic.

“Allow me to issue and control the money of a nation’ he said, “and I care not who writes the laws.”<sup>33</sup>

The banks' ability to create money is a real problem for Canadians who want to save, because banks that can create their own money don't have to pay fair interest on savings. Why should they rent your money when they can create their own money for nothing?

But because banks don't pay interest on savings, people who keep their savings in a bank lose money to inflation. That's why most of us are driven to the stock market and to mutual funds in order to save for our old age.

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<sup>31</sup> Hellyer, Paul, *The Evil Empire*, Chimo Media, 1991, pp 68-70.

<sup>32</sup> [www.monticello.org/site/jefferson/private-banks-quotations](http://www.monticello.org/site/jefferson/private-banks-quotations).

<sup>33</sup> This quotation can be found on dozens of websites.

## THE STOCK MARKET

On one level the stock market is a great idea. On another it's a disaster.

If there were no Bank of Gooblegoo Miller might have offered shares in his proposed mill to the public. If Farmer wanted a local mill more than he wanted his riverside field he might have traded the land for part ownership of the new mill and Mason, Carpenter, Wheelwright and others might have cut similar deals. The end result would have been about the same -- the villagers cooperate to build the mill -- with the difference that instead of Lender brokering the deal, Miller has to do it himself.

Most people date modern stock brokerage from the 12th century, when Flemish brokers began to buy and sell bills of exchange in an open-air market in front of the house of the Van der Buerse family in the Belgian city of Bruges. By the early 1600s shares of the Dutch East India Company were being traded at the 'bourse' -- a word derived from the name Van der Buerse -- in Amsterdam and in 1773 London stock traders who had previously been meeting in coffee houses, moved into their own building. The first American stock exchange was established in Philadelphia in 1791 and the next year a group of merchants and brokers began trading under a tree at 68 Wall Street. In 1817 the New York brokers decided to organize formally as the New York Stock and Exchange Board and, in 1863, the New York Stock Exchange adopted its present name.

Stockbrokers helped finance the industrial revolution but the stock market is a dangerous place for most of us, for several reasons.

One is that we don't have enough time, facilities or expertise to research investments properly. Jack Lender knew the local market in Gooblegoo and he could take the time to study Joe Miller and his proposal, but most of us know very little about the stocks we invest in.

If the local newspaper and my friendly stockbroker both tell me that Brea-X is developing a huge gold mine in Indonesia I have no way to check on it, and I may invest a significant portion of my life savings in that mine.<sup>34</sup>

The two things I know for sure about Brea-X are that someone was paid to write the newspaper and magazine stories about it and that, whether the stock goes up or down, my broker will collect a commission for selling it to me.

Now we know that Brea-X was a swindle. In theory the agents of the stock brokerage that underwrote Brea-X checked it out first but it's obvious that if they were not part of the swindle, they must have been incompetent. The law does not hold them responsible but the facts are that the brokerage that employed them made profits, and that people who trusted them lost money. Some lost their life savings.

If a company like Brea-X had to borrow money from a bank, the bank would make sure there was gold in the ground before it approved the loan. The broker's agents who inspected the mine did not have to make a thorough inspection because the brokerage did not plan to invest its own money and, even though the mine was a fraud, the brokerage still collected commission on the stock it sold. It would be a bad idea for a brokerage to float too many frauds but, as long as it doesn't lose its reputation, a fraud can be as profitable as a real mine.

The stock market began as a mechanism through which investors could support the efforts of entrepreneurs but it has evolved into a casino in which gamblers bet on the fortunes of one enterprise or another. They can win their bets by backing a winner but they can win even more by choosing a loser -- or perhaps by arranging for an enterprise to lose -- and 'selling short.' Players on the stock market can also gain by spreading false information about the prospects or

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<sup>34</sup> Brea-X, was a fake gold mine in Indonesia. Canadians invested about \$3 billion in it before the bust. Newspaper stories about the collapse include "Brea-X Gold a Bust" in the *Toronto Sun*, May 6/97, p 4, and "Felderhof's Big Fall," by Dana Flavelle, in the *Toronto Star*, p E1, May 9/97. An investor who knows more than most, and who made a fortune selling Brea-X short, told me that the agents sent to check the mine spent two weeks in a Jakarta whorehouse, at Brea-X expense.



performance of this or that enterprise, by using 'inside information' or even, as several recent examples in both the United States and Canada have shown, by outright fraud.

But perhaps the most serious offense of the stock market is that it makes profit the only measure of business success. Henry Ford made billions, but he is remembered for his accomplishment of mass-producing automobiles, rather than for the fortune he made. Thomas Edison became wealthy, but he is remembered for electric light and the phonograph, rather than his wealth. George Eastman is remembered for camera film, Alexander Graham Bell for the telephone, Elisha Otis for his elevator, John Deere for his plow and so-forth. All these men made fortunes but, in every case, the money was a secondary accomplishment. Many modern billionaires, on the other hand, have never made any real contribution to society and some are parasites who have done real harm.

With billionaire gamblers as models, tens of thousands of ordinary people also try to get rich by gambling on the stock market. Most day traders lose in the end but a few can and do make considerable fortunes by speculating on futures, buying on margin or selling short. These are all legal gambits and they are considered respectable but, like the billionaires, they add nothing to the economy and are essentially parasites.

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## **HOW THE MARKET FAILS**

Like banks, stock markets began with a valid function but they have outgrown that function and now they may do more harm than good.

There is no question that companies need money to go into business and that they may need more money to expand. People want to invest their money, and the stock market gives them a place to do it.

But the stock market does not help start-ups of small companies. People who actually start companies get their money from savings, or

by borrowing. When a company is doing very well it may 'go public' on the stock market to raise money for expansion, but honest development of that type represents a very small share of the stock market's business. Most of the action on the stock market is the buying and selling of stocks of established companies.

Even when the market launches a new issue it is usually an established private company 'going public' or a new venture by an established company.

Because they list big corporations and not small companies stock markets steer investment toward big companies and away from small ones, and away from wannabe businessmen who need money to get started.

There is an obvious need for a mechanism to help inventors and small businessmen raise money to develop new ideas, but the stock market is not it. Rather than help inventors and small businessmen to build something the market helps promoters raise money to buy and destroy small businesses, and large companies to automate and get rid of their employees.

'Venture capitalists' and banks may offer to back small business but the offer may be a hollow one. Banks like to bet on a sure thing, and a business plan may be a sure thing because it contains no new ideas. Any half-decent businessman who can raise a small down payment and get a franchise for a big-name hamburger stand can get backing from a bank, but a genius with a new idea may not.

Another problem with the stock market is that most of the money gained or lost on stocks does not represent real wealth. When stocks go up the dollar value of the paper increases but the increased price does not represent real value. Like other *imagined* dollars stock market profits are valid if they are used to produce new capital goods, but if they are used any other way they will cause inflation. Most of the people who make their living in the stock market do not use their profits to create new capital goods.

Some stock gains reflect expected growth. If a company has a new product or a big contract investors may expect it to grow and they

may then bid up the price of the stock to the value they think it will reach in the future. That makes sense for the investors but their profits are still *imagined* dollars and, because the company will still have to borrow money to finance the actual growth, the *imagined* dollars created by the increase in the price of the stock is not balanced by an increase in real wealth.

There is more money, but there is no increase in real wealth. If money is a token that represents wealth the ultimate effect of a rise in the stock market is a decline in the value of money.

Even if the stock market did no real harm it would be a problem because it lures thousands of exceptionally capable men and women into work that does not produce real wealth. People who trade stocks may make big profits for themselves but, for the most part, they are more likely to destroy real wealth for the economy than to create it.

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## MUTUAL FUNDS

The stock market is a dangerous place for an individual investor, and if I can't spare the time or don't have the expertise to watch it carefully I can join a group of investors with a hired manager to handle my money. A lot of people think that way and mutual funds manage huge amounts of capital.

But mutual funds are highly competitive multi-billion dollar corporations in their own right, and the only standard they have for success is to get the highest possible return on their money. That's a problem because many mutual funds are so very big that they can afford to invest only in very big companies, and big companies don't often produce good returns.

If a fund has \$5 billion to invest, for example, it can't afford to buy stock in a company that is worth only \$5 million. Because the fund is just investing, not taking over, it does not want to buy more than 10%

of any given company and 10% of \$5 million is \$500,000. That's only one-tenth of one percent of the total value of the fund, and the fund managers don't have time to research and track holdings that small. Even \$5 million -- 10% of a \$50 million company -- would be only one percent of the fund total and too small for efficient management.

So a multi-billion dollar fund wants to invest in big companies -- with total worth in the hundreds of millions or billions of dollars -- and that creates another problem because very big companies can't grow very fast. A million-dollar company might legitimately double or triple its value in a year but a multi-billion dollar company can't. The price of the stock might double, but it's most unlikely that the real value of the company would increase that much.

But mutual funds need growth and the only way they can get it out of the very big companies they buy into is by encouraging managers of those companies to work for short-term profits rather than long-term value. It's not impossible to get both but it is unlikely and hot-shot 'turn-around experts' who move from company to company know they can produce better short-term profits if they skimp on long-term plans.

The easy way to increase the profits of a company is to gut it. If you shut down research and development, cut back on customer service and use cheaper materials the profits go up for a while. The company itself will go down in a few years but that's no problem to a manager who can move on to another company before the results of his work show.

When a corporate rapist moves in the profits go up, for a while, and the price of the stock goes up with them. When the rapist moves on the insiders know it's time to sell, and leave the suckers holding the empty shell of what was once a solid and profitable company.

In a world in which speculators and profiteers are seen as respectable citizens, this kind of rapacity is seen as good business practice.

The perfect scenario for the mutual fund manager is to buy into a company just before a corporate rapist takes over and sell just before he leaves. To serve his own and his clients' best interest, the manager

of a big mutual fund must be a predator on the economy and an enemy of society.

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# **FREELoadERS AND EASY RIDERS**

## **THE MANAGERIAL REVOLUTION**

The development of the stock market and of mutual funds also led, almost inevitably, to the development that James Burnham called the 'managerial revolution.'

Once a friend of Leon Trotsky and one of the leaders of the American Trotskyist movement, Burnham was disillusioned by the Nazi-Soviet pact of 1939 and, after the invasion of eastern Europe by Stalinist Russia, he turned to the extreme right. During WWII he left his job as professor of philosophy at NYU to become head of the Political and Psychological Warfare department of the Office of Strategic Service -- the forerunner to the Central Intelligence Agency. After the war he wrote for *The Freeman* magazine and, in 1955, he helped William F. Buckley found the *National Review* magazine.

In 1941 he argued, in *The Managerial Revolution* (originally published by John Day, NY, 1941, also available in a Penguin edition published in 1962) that, after the Russian revolution banished capitalists from Russia, the managers that replaced them were even more rapacious. At that time the wealthiest 10% of Americans collected about 35% of America's national income, but (according to Trotsky) 11 or 12% of Russians took about 50% of Russia's national income.

The managers took over because any large organization needs a leader and, after the revolution, there was no effective way to control the

men who managed the huge state-owned corporations that took over Russian companies. Private industry is subject to an automatic control -- if it goes too far astray it will go bankrupt -- but Russian state corporations were not required to make a profit and they could lose money indefinitely.

The managerial revolution came to the United States when companies went public and were sold to millions of stockholders. Because the ownership was so wide-spread it had no effective control, and the hired managers could do what they liked.

In 1932 a study by economist Gardiner Means and author Adolf Berle found that about half of all American corporations were controlled by their management, not their owners.<sup>35</sup> In 1963 a study by Robert J. Larner found that of the 200 largest corporations in the United States, 169 were controlled by their management rather than by their owners.<sup>36</sup>

But the control is by management in general, not by individual managers because, as John Kenneth Galbraith discovered when he was deputy head of the U.S. Office of Price Administration during World War II, no single person actually runs a large organization. Instead, information is gathered and analyzed, and decisions made, by the staff that Galbraith describes as the 'technostructure' and the job -- indeed the only option -- of the titular head is to approve it.<sup>37</sup>

As management consultant Peter Drucker observed, "No institution can possibly survive if it needs geniuses or supermen to manage it. It

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<sup>35</sup> The study is reported in Means & Berle, *The Modern Corporation and Private Property*, published by Transaction Publishers, Edison, NJ and referred to by J.K. Galbraith and Nicole Salinger in *Almost Everyone's Guide to Economics*, Houghton Mifflin, Boston, 1978, p 55.

<sup>36</sup> Larner, Robert J., "Ownership and Control of the 200 Largest Nonfinancial Corporations, 1929 and 1963," *The American Economic Review*, Vol 56 No 4, Pt 1, (Sept 1966, p 777 et seq.

<sup>37</sup> Galbraith, John Kenneth, *The New Industrial State*, third ed, New American Library, 1979, pp 60-63.

must be organized in such a way as to be able to get along under a leadership composed of average human beings.”<sup>38</sup>

Top executives of modern corporations don't own them and don't really have much to do with running them but they collect wages and stock options often running into the tens of millions of dollars a year. Their pay is set or approved by the board or directors but the directors are appointed by the executives, who also decide what board members will be paid for their trouble. In some cases consultants are called in to determine a 'fair' rate for the executives but the consultants know that consultants who recommend high rates of pay are called in more often than those who recommend low rates of pay.

Writing in 1978 Galbraith notes that one business executive who headed a company that was not doing very well was paid nearly \$916,000 for a year's work but Cyrus Vance, doing the much more responsible and difficult job of being Secretary of State, (and doing it very well, Galbraith says) earned \$66,000.<sup>39</sup> In the modern world the President of the United States is paid \$400,000 a year -- a sum that vice presidents of most medium-sized corporations would sneer at. In 2004, the ten best-paid corporate executives in the United States got an average of \$59 million each.<sup>40</sup>

This despite evidence that high pay for top executives is counter-productive.

In an article on leadership in the August/September 2007 issue of *Scientific American Mind* magazine psychologists Stephen Reicher of the University of St. Andrews in Scotland, Alexander Haslam of the University of Exeter and Michael Platlow of the Australian National University in Canberra cite financier J.P. Morgan, who said the only

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<sup>38</sup> Drucker, Peter, *Concept of the Corporation*, Transaction Publishers edition, 7th printing, 2008, Rutgers U, Piscataway, NJ., p 26. (First published by The John Day Co, NY, 1946.

<sup>39</sup> Galbraith, John Kenneth and Salinger, Nicole, *Almost Everyone's Guide to Economics*, Houghton Mifflin, Boston, 1978, p 112.

<sup>40</sup> Sowell, Thomas, *Economic Facts and Fallacies*, Basic Books, NY, 2008, p 141.



common feature of the failing companies he worked with was a tendency to over-pay top executives.

They also quote writer and professor Peter Drucker who wrote in *The Frontiers of Management* (Dutton, 1986) that "Very high salaries at the top .... disrupt the team. They make ... people in the company see their own top management as adversaries rather than as colleagues... and that quenches any willingness to say 'we' and to exert oneself except in one's own immediate self-interest."

In an experiment Reicher, Haslam and Platlow created work teams, in some of which the leader was paid the same as his followers while in others he was paid twice or three times as much. They found that while high pay did not appear to increase the leader's efforts, high pay for the leader did appear to diminish the followers' efforts.

Some CEO's are not actually expected to manage the companies they 'head.' Instead, they are hired as skills to boost the price of the stock and convince pension, mutual and hedge funds to buy it.

In this role they may provide real value for wheeler-dealer stockholders who buy in before the price goes up and get out before the crash. In the never-never land of the financial industry the big money is made by speculators who buy and sell stock at the right time, and never produce anything of value.

After Burnham lost his faith in Communism, he still predicted the failure of Capitalism. Like Russia, he predicted, the United States would be taken over by managers. So far, the prediction appears to be on track.

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## CATERING TO CHISELERS

Nobody likes to pay taxes and some very wealthy people and corporations don't pay their share. Quarterly reports of the *Bank of International Settlement* show that, since the early 1980s, about half of all international banking assets and liabilities are routed through offshore financial centers and about a third of all multinational corporations' *Foreign Direct Investments* go through tax havens. There is no reliable measure of individual tax avoidance and evasion but it is estimated conservatively to be somewhere between \$US 800 billion to a trillion a year.<sup>41</sup>

A study by economist James Henry for the British-based *Tax Justice Network* estimates that wealthy people around the world keep between \$21 and \$32 trillion in tax havens, and that they avoid about \$280 billion in taxes. The report notes that the lost taxes are a serious problem for the 139 'developing countries' whose citizens had hidden between \$7.3 and \$9.3 trillion by 2010.<sup>42</sup>

In general, a tax haven can be defined as a jurisdiction with laws that make it easy for non-residents to do business there and that offers legal secrecy to their business. The business need not actually take place in the tax haven but, because it is recorded there, it is deemed to have taken place there and is not liable to taxes in the jurisdiction where it actually took place.

The idea may have developed in the American states of New Jersey and Delaware in the late 19th century. They were not tax havens in the modern sense but they developed the idea of 'easy incorporation'

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<sup>41</sup> <http://www.historyandpolicy.org/papers/policy-paper-92.html>. The author, Ronen Palan, is a professor of international political economy at the department of Political Science and International Studies at Birmingham University.

<sup>42</sup> "Rich hold \$32 trillion in offshore tax havens," *Toronto Star* July 23/2012, p A3.

which allows lawyers to set up ‘paper companies’ that can be then be sold to a buyer who can begin trading virtually the same day. The idea developed in the 1880s, because restrictive laws made it a slow process to incorporate a company in most states.

Because New Jersey needed money the legislature eased state laws, and imposed a franchise tax on corporations with headquarters in New Jersey. The idea was copied by Delaware with the *General Incorporation Act of 1898*.

Britain developed idea further with the concept of ‘virtual residency’ which allows a company to incorporate in Britain without paying tax. In 1929 a court case decided that while the *Egyptian Delta Land and Investment Co. Ltd.* was registered in London it did not have any activities England and was not liable to British taxation. The decision was important because it applied to the whole of the British Empire including Bermuda, the Bahamas and the Cayman Islands, British Virgin Islands, Turks and Caicos, Gibraltar and Hong Kong.

By the early 1990s, there were more than sixty tax havens in the world. About half of international lending and at least one-third of all international Foreign Direct Investment is routed through them and they have become an important instrument of tax avoidance worldwide and a serious drain on national economies.

In the United States both the Clinton and the George W. Bush administrations knew they were losing tax revenue to offshore corporations but their response differed. The Clinton administration was one of the drivers of the multilateral efforts against tax havens, but Bush Jr. withdrew support from the program.

When Paul Martin was Canada’s Minister of Finance a Commons committee urged the government to rethink its generous treatment of tax havens. In 1994, Martin took action.

“Certain Canadian corporations,” he said in his budget speech, “are not paying an appropriate level of tax. Accordingly, we are taking measures to prevent companies from using foreign affiliates to avoid paying Canadian taxes which are otherwise due.”

But Martin didn't shut down all the tax havens. He kept Barbados open and his own business, Canada Steamship Lines -- which used to own five companies in the African nation of Liberia -- set up nine shell companies in Barbados, eight of them with "headquarters" at the same lawyer's office.<sup>43</sup>

According to a *CBC News*, 'Disclosure,' program, Canadian companies have about 1,700 'affiliates' in Barbados. In the year 2000, these companies brought \$1.5 billion tax-free dollars back home. A *Statistics Canada* report released in March of 2005 says that by 2003 Canadians had hidden about \$88 billion in offshore tax-havens, an increase of five fold since 1990.<sup>44</sup>

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## LAWYERS

Modern lawyers are more genteel than the highway robbers and mercenary guards of earlier days, but many of them perform similar functions. Like the robber barons of old some lawyers set up shop on the highways of commerce and collect tribute from all who do business, while others offer to guard us from predators. If you refuse tribute to one lawyer you risk attack by another -- or perhaps by your own lawyer now working for someone else.

Some lawyers operate like highwaymen, using the courts as weapons of robbery. When a friend of mine rear-ended another car on Toronto's Don Valley Parkway a few years ago there was no damage to either car, and no one was hurt. My friend and the other driver agreed that nothing had happened.

But it seems the other driver had second thoughts because my friend later learned that her insurance company paid more than \$40,000 in

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<sup>43</sup> *CBC News* Disclosure, "Anchors Away, A Taxing Dilemma," broadcast: April 1, 2003.

<sup>44</sup> Eric Beauchesne, "\$88B Flees Canada" *National Post*, Mar 15/05, p A1.

damages for that accident. Her agent explained that even though there were no actual damages the plaintiffs were represented by a lawyer who specializes in suing insurance companies. The insurance industry has learned from sad experience that it may be cheaper to pay off even an obviously fabricated lawsuit than to fight it.

It's even possible that the people who collected 'damages' from my friend's 'accident' were not involved. The *New York Transit Authority* often finds that when a bus is involved in an accident the claims outnumber the seating capacity of the bus.

People who see or hear about the accident may say they were on the bus and register claims. In one famous case 32 people registered claims after an accident in which the bus involved was out of service and carried no passengers.<sup>45</sup>

Fake claims are so common that transit authorities have a name -- 'ghost riders' -- for people who claim to have been on a transit vehicle involved in an accident and another -- 'runners' -- for the shills who listen on police radio frequencies for reports of transit accidents and go to the scene to distribute lawyers' brochures. If the runners get to the scene in time, they can be ghost riders themselves.

Honest lawyers deplore frauds but they profit too, because honest people have to hire a defense against frauds. As in the old days, the man who defends you against a robber may be the robber himself in a different guise.

Predatory lawyers and phony lawsuits can even destroy big companies. In the spring of 1995 American lawyers forced the multi-billion-dollar Dow Corning company into bankruptcy.<sup>46</sup> About one percent of Dow Corning's total business was the production of about 750,000 jelly-like breast implants for women who had lost a breast to disease or who just wanted to look better.

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<sup>45</sup> *ABC News Special*, The Trouble with Lawyers, Jan 2/96, host John Stossel.

<sup>46</sup> "Dow Corning Files Chapter 11; Breast Implant Litigation Too Costly, Company Says," *Chicago Sun-Times*, Tuesday, May 16, 1995, Late Sports Final Edition, Financial section, p 45.

But in January of 1992 the U.S. Food and Drug Administration imposed a moratorium on the use of the implants. Lawyers across the country smelled blood, and some advertised in local newspapers to find women who had implants and who might be persuaded to file claims against Dow Corning.

The company was not worried because it carried more than \$250 million insurance, but hundreds of thousands of women filed claims saying the silicone breast implants caused illnesses such as rheumatoid arthritis and autoimmune disease.

In fact tests by the Mayo Clinic and other reliable medical facilities found that women with breast implants have the same incidence of diseases as women without implants but, with 750,000 implants in use, a lot of women with implants also have diseases. Lawyers encouraged any woman with an implant and a disease to blame the disease on the implant.

And the truth is no defense against lawyers. It would have been so expensive to fight the cases that Dow Corning offered a 'global' settlement of \$105,000 to \$1.4 million to each claimant, depending on her health and age.

That would have cost the company more than \$4 billion but it would have limited the lawyers' take and many of them urged women to continue their lawsuits. One Houston lawyer pursued more than 1,000 settlements outside the global settlement.

In May of 1995, after a federal judge said the \$4.2 billion that Dow Corning had committed to settle the claims would not be enough, the company filed for voluntary bankruptcy.

The breast implants were a tiny part of the business and the company offered them only as a public service. Nobody ever proved that any of the implants harmed anyone but a business worth billions of dollars was destroyed. The lawyers who did the damage made millions, and their gains are recorded as a contribution to the gross domestic product of the United States.

Some lawyers pretend to be white knights who protect the defenseless, but many court cases work out better for the lawyers than for the people they pretend to represent.

In January of 1993 ABC Television's *20/20* public affairs show tracked some of the lawsuits that destroyed the multi billion dollar Johns Manville Corporation and six other companies that made products that included asbestos.<sup>47</sup>

This is not an exact parallel to the Dow case because there is solid evidence that asbestos does cause health problems, and that some companies continued to use asbestos after they knew of the problems.

But still, the defendants paid millions for their mistake and most of the money was collected by lawyers. Most of the 500,000 people who sued for damages got only a few thousand dollars each, but the lawyers who orchestrated the lawsuits got millions.

*Keene Corporation* has more than 4,000 employees making hundreds of assorted products, but it made the mistake of buying a small company that had once made asbestos ceiling tiles.

The company cost \$8 million to buy and the litigation over a product it did not even make when Keene bought it cost more than \$530 million. Plaintiffs got about \$210 million of the settlement, and lawyers collected about \$350 million.

Lawyers do well out of lawsuits but the rest of us pay. In an ABC news special *The Trouble With Lawyers* first broadcast Jan 2 of 1996, reporter John Stossel says that several American lawyers make more than \$10 million a year and the best-paid lawyer in the US received more than \$90 million in fees in 1996.<sup>48</sup>

That's good business for the lawyers but it's hard on their victims and, one way or another, we are all their victims. Lawsuits for 'slip and fall' accidents cost the city of New York about \$200 million a year, and Stossel says the cost of lawsuits and insurance adds \$100 to the

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<sup>47</sup> Johns Manville lawsuits, ABC News, program *20/20*, Jan 13/95.

<sup>48</sup> ABC News Special, *The Trouble with Lawyers*, Jan 2/96, host John Stossel.

price of the average football helmet, \$500 to the price of a car and about \$3,000 to the price of heart pacemaker.

My examples are American, because there is more information available on American lawyers. American media has studied the problem of lawyers and Canadian media has not. One Canadian example I have is based on personal experience.

In the Toronto co-op where I live, a personality conflict in one committee escalated into a legal process that cost the co-operative several thousand dollars.

A former member of the committee, who was a lawyer, decided to threaten other members with a lawsuit. She told the co-op manager that the decision cost her nothing, because the lawyer who launched the suit for her did it as a 'professional courtesy.'

But because she chose to sue, other members of the committee might have had to hire lawyers to defend themselves. Because the suit was so obviously unfair, and because some of the committee members could not afford to hire lawyers, the co-op paid its own lawyer to answer the first lawyers' letter and the suit was dropped.

But then the member-lawyer wanted 'mediation.' That would normally be free, through a federation of co-operatives, but because the trouble-maker was a lawyer, it cost the co-op \$500. It seems that any case that involves a lawyer creates special problems, and the mediation center charges extra to cover them.

By the time it was over several people had been subject to considerable tension for several months and the co-operative had to pay several thousand dollars because of the lawyer/member's spite. That didn't please the lawyer/member either, because she had intended to attack her victims personally.

There was no judge, no jury and no trial but, because she was mad at some of her neighbors, she thought she should be able to saddle them with thousands of dollars in legal bills at no cost or even serious inconvenience to herself. If the co-op had not stepped in some of her victims would have had to incur debts they could not afford.



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## **SPECULATORS**

One legal form of predation is speculation. Nearly 40 years ago a new copper mine was opened near Kamloops, BC, then a city of about 50,000 people. While the mine was being developed a friend of mine sold his house in Kamloops for about \$15,000. Before he moved it had already been re-sold for a profit of nearly \$10,000.

A speculator had come to town and put down payments on nearly every house that was for sale -- including my friend's.

With the mine opening people needed houses, and the speculator ran the prices up to suit himself. He made about \$100,000 profit -- five or ten years' income for a middle-class man, in those days -- for an investment of less than \$100,000 for a couple of months.

The speculation was legal but it was an economic sin because the \$100,000 did not represent new material goods. In fact the speculator may do more harm than -- for example -- a burglar, because if a burglar steals your property you will work to replace it, and the money still represents material goods. A burglar may take your wealth, but he does not attack the money supply of the nation.

Because there were no goods produced the \$100,000 this speculator got had to come either from the savings of others or from devaluation of the whole country's money supply. In fact it came from both because people who bought houses had to pay more for them and, when prices rose, the value of all our money dropped.

Legitimate trade is a win-win transaction because both sides gain from it. Like other forms of predation, speculation and financial manipulation are win-lose transactions. When a speculator wins, somebody has to lose.

A speculator might argue that he took a gamble and won. He bet his money on the housing market in Kamloops, and he made a profit. By the same token a mugger in a back alley might argue that he takes the chance that his victim might turn out to be tougher than he is, or armed, or that the mugger himself might be mugged before he gets out of the back alley.

The argument doesn't wash but, in spite of that, most of us accept speculators as respectable members of society. Economist John Maynard Keynes made a fortune by speculation in the futures market, and most of the world admired him for it. Neither Keynes nor anyone else seemed to worry about his effect on the economy.

Speculation in Keynes' day was a relatively small business but now it's one of the biggest in the world and, because many modern speculators trade in the money that keeps our system working, it's more dangerous than ever before.

Every day thousands of speculators around the world buy and sell billions of dollars worth of dollars, yen, marks, pounds sterling and so forth. They may hold them only a few hours but if their trades can make exchange rates rise or fall, and if they are in the 'right' position when it happens, they can make fortunes.<sup>49</sup>

They gamble with the lives and hopes of billions of people and they force governments of countries to spend hundreds of millions of dollars to 'defend' their currencies. Because the money traders profit by billions of imagined dollars that deflate the value of other dollars, we all lose. A few years ago the Swiss-based *Bank of International Settlements* estimated that money traders handled about \$640 billion a day. Economists say that about ten percent of their trades are for commercial purposes, and the rest are pure speculation.<sup>50</sup>

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<sup>49</sup> Korten, David C, "The Failures of Bretton Woods," *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996, p 28.

<sup>50</sup> Barney, Richard and John Cavanagh, "Electronic Money and the Casino Economy," *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996., p 110.

Some currency traders make bit profits and some take big losses. In 1995 England's Baring's Bank was broken by one of it's own currency traders, who lost more than a billion dollars in a couple of days.

The most important difference between old-time piracy and modern financial manipulation is that piracy used to be sanctioned by a king or a government only if it was practiced against citizens of another country. Pirates were not allowed to prey on their own countrymen, and many of them worked for the welfare of their own nations. That's why Sir Henry Morgan and other pirates were knighted.

But most speculators and other financial manipulators prey on their own countrymen and they are in fact enemies of their own people. Governments don't interfere partly because some governments, like some banks and other financial institutions are takers, preying on of the people they pretend to serve.

Every economy has some predators and some are useful. A healthy economy can afford the useful predators and even a few that are not, but every economy has a limit because all predators live on their prey. When there are too many predators the prey will be wiped out and the predators will starve.

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## ***MAKERS AND TAKERS***

In *The Forest and the Sea* biologist Marston Bates suggested that life forms could be sorted into three groups that he described as producers, consumers and decomposers.

Producers -- mostly plants -- produce food, mostly by photosynthesis. Consumers -- mostly animals -- eat either producers or the fruit or seeds they produce or, if they are carnivores, other consumers. Decomposers -- mostly bacteria -- decompose dead producers and consumers.<sup>51</sup>

I divide human society into the two economic groups that I call *makers* and *takers*, each of which has two sub-groups -- *traders* and *agents*.

*Makers* make (or mine or gather or grow) the goods we all use in our everyday lives. The farmer who grows potatoes is a maker and so is the man who makes his plow and so forth. *Makers* work in craft shops and in factories, and on farms and ranches and fishing boats. They are the people who support us all.

*Takers* take things from the *makers* who produce them. Robbers are takers and, in days of yore, so were the aristocrats who demanded tribute from farmers and villagers in areas they dominated. We don't call the aristocrats and their soldiers robbers but they produce nothing themselves and they take what they want by force or by threat of force. Even the commander and soldiers of a defensive army are *takers*, because they can demand what they want and the villagers must provide it. If they don't the army could take it anyway, or it could quit and leave the village open to take-over by another army.

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<sup>51</sup> Bates, Marston, *The Forest and the Sea*, New American Library, NY, 1961, p 117.

In the modern world we have governments. Some of these pretend to be democratic, but they are still *takers*. If you question that; stop paying your taxes and see what happens.

*Traders* don't make the goods they use and they live on the produce of others, but many of them perform a valuable function because goods gain value when they are taken from one place to another -- even if only from the workshop to the market. Most *traders* can be seen as a sub-group of *makers* -- they don't actually create wealth but they facilitate the making of it -- but some of them exploit their connection with *takers* to control trade for their own benefit, and must be seen as a subset of *takers*.

In days of yore most *agents* were commoners who worked for aristocrats as stewards, tax collectors and so forth. Many of them must be categorized as a sub-set of *takers* because while they may not take goods in their own name, they do take them. This group also includes priests who are supported by an army or who demand a 'tithe' or other tax from their flock. At some times and places priests were the ultimate and often the greediest, power in the land. Some *agents*, on the other hand, probably help *makers* by negotiating access to raw materials, or perhaps protection from rapacious *takers*. In the modern world, *agents* may work for either *makers* or *takers*.

As we make these distinctions we must remember that they describe functions, not people. A soldier is a *taker* while he is on duty but when he is off-duty he might grow food, which he might sell in the market. If he also works occasionally as a tax collector or administrator he might at different times be a member of all four groups -- a *taker*, a *maker*, a *trader* and an *agent*. If we were trying to judge people this man would be difficult to categorize but because we are trying to describe economic functions we have no problem. At any given time, he is what he is at that time.

At one time *takers* were, by definition, criminals. In later years they made the rules and their rules made some forms of taking legal. Now, many of the brightest and potentially most productive people in the land spend most of their lives developing new and marginally legal ways to take the products of *makers*.

Our modern economy is so complex that the line between *makers* and *takers* is blurred, and it's blurred still more by the fact that a modern economy could not function without some people who could be seen as *takers*, but the distinction is still useful. We need all four groups in a working economy but the higher the percentage of *makers*, the more wealth there will be for all to share. *Takers* and *agents* generally do well for themselves but, because they do not actually produce wealth, the more of them we have the less wealth we will have in the community as a whole.

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## TOO MANY *TAKERS*

Over the past 40 years we have seen a rapid growth in the number of *takers* in the North American economy, and a decrease in the number of the *makers* who support us all.

We have survived the increase in *takers* so far, but the balance has been destroyed. Our economy is failing now, and unless the balance between *takers* and *makers* can be re-established, there is no hope for it.

We try to control some *takers*. If a mugger robs someone in a back alley, if a burglar robs a house or a gunman holds up a bank, we demand that the police hunt him down.

But our culture does not even try to control financial *takers*. We have some laws to protect one speculator from another, but no laws to protect a victim from a speculator or the general public from taker lawyers.

If we count only the numbers, *taker* businesses look good. Some *takers* move a lot of money, and the results look good in *The Numbers Game*.

But the numbers do not represent real wealth, and they don't contribute to the general welfare.

Because there are *takers* in the world we need tame *takers* on our side, but their job is to protect us from the *takers* outside. When governments allow predation among their own citizens, we all lose.

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# LEARNING THE WRONG IDEAS

## ARISTOTLE'S AUTHORITY

Most of what I've been writing about is obvious, when you think about it, so why doesn't everybody see it?

The answer is that most of us don't think about most things. Instead we 'study' them in school and assemble sets of beliefs which, as Keynes, Galbraith and others have observed, we may accept without question for the rest of our lives.<sup>52</sup>

I call this problem *Aristotle's Authority*. Born nearly 400 years before Christ, Aristotle was a star student in Plato's Academy and, later, founder of his own Lyceum. He got much of his reputation by writing about Plato's ideas but his most important 'edge' was that he had been Alexander the Great's tutor and that, as an adult, Alexander kept in touch with him. While Alexander was on his rampage of conquest

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<sup>52</sup> "There are not many who are influenced by new ideas or theories after they are twenty five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest." This is said to be Keynes' most famous quote, but it's also one of the hardest to track down. The reason is that it's in the 1936 and 1947 editions of *The general theory of employment, interest and money*, (MacMillan, London), but, apparently, not in later editions. It's possible that Keynes changed his mind, but more likely that his publisher considered the yowls of outraged academics, and the possible effect on the acceptance of Keynes' work as course texts. see also Galbraith, John Kenneth, *The New Industrial State*, third ed, New American Library, 1979, foreword to the third edition, p xi.



people who wanted to get ahead believed what Alexander believed, and that was what Aristotle had taught him.

Among other things that included the Ptolemaic assumption that planets and stars are supported on concentric crystal spheres that surround the earth. Most of Aristotle's ideas were guesswork but, because he was the 'authority,' they were accepted as fact for more than 1,000 years.

In the early 1500s Polish astronomer Copernicus proved that the Earth and other planets must orbit around the sun but, knowing that the Catholic church approved the Ptolemaic system, he presented his theory as a 'mathematical trick' that made it easier to predict celestial events. Everybody knew that the sun orbits around the Earth but astronomers -- including Catholic priests, all of whom studied astronomy as part of their training -- based their calculations on the 'pretense' that the Earth orbited around the sun.

But some of them didn't believe the myth and in 1600, more than 50 years after Copernicus' death Dominican Friar Giordano Bruno was burned at the stake for arguing that the Earth actually does go around the sun. A few years later Galileo Galilei was tried and sentenced to house arrest for essentially the same crime.

Over the years most of Aristotle's misconceptions have been corrected but most established authority still resists new ideas. As a general rule, most of the attitudes and ideals of the power elite in any given organization are at least a generation behind the norm.

This may be partly because it takes so long for an individual to join the elite. To start with a future leader gets his or her training in school, where students absorb the ideas of teachers. In most cases the teachers are people who themselves did well enough in school to get paper qualifications, but who were not good enough in the real world to join the elite.

After have been programmed in school students go out to the real world where, if they can ape the views and behavior of the current power elite, they may be accepted as 'management trainees.' If they go 20 or 30 years without challenging the views of the elite they may

themselves join that group, but by then their ideas will be hopelessly stuck in the past.

This is not surprising when we remember that primates and other social animals learn from higher-status members of their social group, but tend to ignore members of lower status. In 1952 Junichiro Itani and Masao Kawai of Kyoto University in Japan studied a group of about 70 Japanese Macaques on Takasakiyama, a seaside mountain and, later, on the island of Koshima.

On Koshima they fed them sweet potatoes, which were left on the beach where they became covered with sand. A young female learned to take her potatoes to a nearby stream where she washed the sand off them and, after a while, young males and older females imitated her -- but senior males never learned the trick. They did not seem to resist learning -- they just didn't notice what the junior members of their band were doing.

In another experiment young members of a troop were given caramels and, slowly -- the young males and all females learned to eat caramels -- but the older males never did. Compare that to a third experiment in which a senior male of one troop was the first to eat wheat, and within four hours all members of the troop were eating wheat.

When the potato-washers of Koshima were offered wheat it was scattered on the beach and the older monkeys patiently picked grains of wheat out of the sand. The same young female that had first washed her potatoes picked up a handful of mixed sand and wheat and rinsed it in the stream, where the sand sank and the wheat floated. Again, all females and young males learned the trick, but older males did not.<sup>53</sup>

Konrad Lorenz reported an experiment by collaborators of Robert M. Yerkes who taught a low-ranked chimpanzee to use a complex banana

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<sup>53</sup> The most readily available descriptions of these studies are included in Robert Ardrey's *The Social Contract*, Atheneum, NY, 1970, p 126-9.

see also McCarthy, Susan, *Becoming a Tiger, how baby animals learn to live in the wild*, HarperCollins, NY, 2004, p 213 and Lancaster, Jane B. *Primate Behavior and the Emergence of Human Culture*, Holt, Rinehart and Winston, NY, 1975, p 45-6.

dispenser. High-ranking chimps took bananas from him, but did not watch to see how he got them.

Then the experimenters taught a high-ranking chimp to use the dispenser. Others watched him, and all learned to use it themselves.<sup>54</sup>

In the eyes of a student a teacher is an alpha but to an adult -- especially to a high-status adult -- a young research scientist may be seen as of lesser status. It follows that to many people the teachings of a schoolmaster or, better still, of the long-dead theorist that the schoolmaster cited, may outweigh the discoveries of a modern scientist. Thus we have former U.S. president George W. Bush -- a man of high status while he held office, but not famous for his intellect -- who considered it appropriate to have his political staff edit the reports and even the conclusions of scientists who worked for the federal government.

He believed that myths handed down from neolithic shepherds are more valid than modern science, and that the president must know better than any scientist.

It must be hard for alphas to change because first they must be willing to admit that most of their lives have been based on a mistake, and that most of their past decisions were wrong. By Galileo's day no sane man could seriously believe that the stars were points of light on huge crystal spheres that surrounded the earth, but church leaders who claimed to be infallible could not afford to confess their mistake.

Even if he knows the truth, a member of the elite may find it convenient to support a falsehood. In *The Affluent Society* John Kenneth Galbraith devotes a whole chapter to the concept of conventional wisdom. He argues that the man who tells people what they already believe will generally get more public approval than the man who tells them something new.<sup>55</sup>

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<sup>54</sup> Lorenz, Konrad, *On Aggression*, 1968 printing, University paperbacks, Methuen, London, p 37.

<sup>55</sup> Galbraith, John Kenneth, *The Affluent Society*, second ed, 1970, New American Library, 1979, pp 33-42.

The man who spouts conventional wisdom may be wrong but, because he tells his audience what it wants and expects to hear, he will be approved. In the long run he may be proved wrong but, since he may be dead before that happens, it makes more sense for an authority figure to support an accepted falsehood than a novel truth.

Many of us believe in the superiority of the printed word over personal experience -- even the experience of experts. Monks who copied manuscripts in the middle ages often copied obvious mistakes in those manuscripts, because they were trained not to question the written word.

In the modern world a scientist who designed and tested cold weather clothing for the Canadian Armed Forces, and who trekked and camped in the arctic as part of his job, told me his wife would take the advice of a women's magazine over his laboratory results when she bought winter clothing for their children. The magazine's advice was based on advertisers' claims but, because it was in print, the woman thought it was more credible than her husband's research and practical experience.

Millions of people will accept an advertiser's printed claim over the findings of a scientist and many of us will accept the 'facts' we were taught in a primary school -- or even in Sunday school -- over results of modern research. Some people consider 'education' more valid than real-life experience and many assume that a student who spends three years at university is 'educated' but one who takes four years of classes and apprenticeship to become a mechanic is not.

We honor and reward education and we disdain practical knowledge but, in some cases, the workers with the practical knowledge have the more demanding jobs. Consider, for example, the difference between a medical doctor and an automobile mechanic. The doctor spends a long time in school but the mechanic's apprenticeship is more practical than the medical doctor's schooling, and it takes almost as long.

Doctors work with two basic models that have not changed for tens of thousands of years, that can tell you where they hurt and that will repair themselves if given half a chance. Mechanics work with dozens

of models that change every year, that can't tell you what's wrong and that will not repair themselves.

Some modern doctors accomplish miracles but in times past many medical practitioners did more harm than good. In modern times we know that some totally un-trained people have been able to masquerade as qualified doctors and get away with it. Some mechanics probably fake their qualifications too, but it's easier for a doctor than for a mechanic to fake success.

Medicine is easy to fake because even if a doctor's treatment makes you feel worse for a while you will feel better as the effects wear off, and you may think you are cured. We find it hard to tell because humans are almost infinitely adaptable, and we can get used to discomfort.

It's hard for a mechanic to fake a repair because our cars either work or they don't. A mechanic may sell me parts or service I don't need or he may pad the bill but if my car does not start I will know it, if it burns too much gas I will know it, and so-forth. A lot of people take better care of their cars than they do of their bodies, possibly because we watch our cars from the outside and we are more aware of their performance.

Most people would say that an airline pilot has a more responsible job than a truck driver but, again, consider the facts.

Mechanics check the pilot's plane before every flight. He takes off and lands only from airports designed or approved for his plane and, while he flies, supervisors and assistants track him on radar and warn him of problems. In a ten-hour flight the pilot has to be very careful for ten or fifteen minutes around take-off and landing, but he can relax and even sleep most of the rest of the time.

A truck driver has to check his own truck before each run, and he has no help on the road. He is in constant danger of being cut off or sideswiped and, even on a ten-hour drive, he can't afford to let his concentration slip for a minute. A truck accident is not generally as serious as a plane crash but it is much more likely and, whether we

realize it or not, a truck driver takes responsibility for hundreds of lives every day.

I don't say that a mechanic deserves more respect and more pay than a doctor, or a truck driver more than a pilot, but I do suggest that our attitudes toward all of them could use some adjustment.

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## **IMPORTANT JOBS**

If you really want to judge what jobs are worth, think what happens when people don't do them.

Politicians go on vacation for months every year, and nobody notices. When Ontario civil servants went on strike for several weeks in the spring of 1996, few people were inconvenienced. When company presidents take time off the work goes on, but when junior clerks are sick, things go wrong.

When doctors go on strike people postpone cosmetic surgery and worry about what would happen if they have an emergency, but when garbage collectors go on strike we all have a serious health problem. If airline pilots strike tourists' vacations are interrupted but if truck drivers strike, cities run out of food.

We depend on people with practical training to make our world work, but theoretical learning is still considered better than practical knowledge. It has been that way since before the dawn of civilization.

Some time in pre-history men and women who developed special skills in the technology of the day -- arrow making or flint knapping or basket weaving or whatever -- began to specialize in the work they did best. Most of them taught their trade to their children as they worked, and sometimes to other children who were interested.

Possibly about the same time other people began talking about gods. The artisans obviously contributed more to society than the priests,

but the priests had more prestige because they interpreted the will of the gods. In most religions it seems that what the gods wanted most was for the people to support the priests in luxury.

The best hunters and warriors became soldiers and they held most of the real power, but priests had power too. In many cultures they studied the stars and developed a calendar to tell farmers when to plant their crops. In Egypt, Peru and other areas they developed surveying techniques and mathematics so they could supervise the construction of canals for irrigation. Priests told fortunes, learned to read and write, treated sick people and interpreted laws.

And they taught students -- originally priests-in-training and later the sons of the wealthy. Some of the illegitimate sons of nobles were taught enough to serve the priests as lay brothers or scribes.

All of them were privileged and, through most of history, students were an exclusive group. Partly because admission to school was restricted, education became a ticket to the elite and anyone who could get an education could then get a soft job in the service of some noble. Because educated people shared exotic knowledge with other educated people they were entitled to well-paid positions in which they did not have to do much work.

But beyond reading and writing, education did not have to include any practical knowledge. Civic administrators in ancient China were chosen by an exam in which they were required to write a poem. Their work was judged on poetic quality and penmanship, neither of which is important to the job of administration but both of which are important to administrators who were themselves chosen for their poetry and penmanship.

Educational qualifications also filtered senior administrators in the British Empire, but British standards were slightly different. In most cases an applicant would be hired for a good job if he came from an exclusive school, and for a lesser job if he came from a lesser school.

The system made selection easy because relatively few people went to exclusive schools, and it worked because colonial rulers don't have to

know or understand much anyway. If actual knowledge is required, they have underlings to provide it.

The stonemasons who built the cathedrals of the middle ages were brilliant engineers with an intimate understanding of mathematics and other sciences, but they learned their trade by apprenticeship rather than in school. Possibly in a bid to gain prestige they developed arcane rituals -- some of which persist to this day in the fraternal order that grew out of the original guild -- but they never achieved the power or prestige of either nobles or the church. They could not, because they had to work for either nobles or the church.

After the industrial/scientific revolution, practical knowledge had more meaning. A lord could tell a peasant what crops to plant and a priest could tell him when to plant them, but both had to bow to a working mechanic's knowledge of machines.

That must have hurt the pride of clerics and aristocrats -- especially since many of the early English technicians were religious dissenters who studied technology because they were forbidden to hold a post in government, the civil service or a university.

But the upper class still held the power and they set the standards. The lower classes might learn useful things and understand the world, but the people who owned the world did not feel any need to understand it. Many of them flaunted their ignorance of technical matters.

In later years students at the English universities of Oxford and Cambridge were allowed to study science, but it was understood that they would never put it to practical use.

Now the big deal in education is computers, and we all hear about the lack of computer-trained craftsmen. That's a half-truth.

We hear there is a lack of machinists to run numerical-controlled machines, for example, and the promoters of 'education' tell us we need more computer training. They miss the point that the need is for machinists, not for computer programmers.



We have lots of unemployed programmers, but very few unemployed machinists. Many modern machine tools can be controlled by computers but they are still machine tools and the man who programs the computers must know what the tools can do, and how they do it. He must, in other words, be capable of running the machine himself.

If the programmer can't do the job himself he can't program a machine to do it, but a man who can run the machine can learn to program it. Some industrial robots are programmed by 'walking' them through the job they are to do. In a 'walk through' a man who knows the job guides the robot, and the robot memorizes the moves. The man must know the job very well, but he doesn't have to know anything about programming.

Industries are founded and built by people who can make things, not by administrators. The Wright brothers never finished high school but they learned to make and repair bicycles, and they hand-built the engine that powered the first airplane.

Vic De Zen, founder of the billion-dollar Royal Plastics group that now spreads around the world, is a tool and die maker. So is Frank Stronach, founder of Magna International with 24,000 employees and sales of more than \$4.5 billion a year.

When Thomas Edison went to school his teacher thought he was 'addled' and, after three months of formal schooling, his mother taught him at home. As a young adult, he sold candy and newspapers on trains before he became a telegrapher.

We've already mentioned Henry Ford, Walter Chrysler, George Westinghouse, Elisha Otis, John Deere and others. None of them had much education and if they had to lead a Greek army through Asia they would probably make the same mistakes Alexander the Great did. On the other hand, most modern students could learn more by studying their lives than by reading about kings and conquerors.

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## USELESS TRIVIA

Some schools pretend to teach 'practical' subjects but I question the wisdom of trying to learn any practical subject in school.

If we want to study ancient Greek literature we go to school, because there is no practical use for a knowledge of ancient Greek literature and scholars who know nothing else have no way to make a living but to teach school.

But the study of -- for example -- marketing is quite different. Anyone who is good at marketing can make much more money in private industry than he can as a school-teacher and, because of that, we have to assume that people who teach marketing in schools probably do it because they are not good enough to succeed in real-life marketing.

The school won't know about that, of course, because teachers are hired by administrators who may not themselves understand the subject to be taught and who are not qualified to judge the teacher's qualifications. Some students may realize that their teacher does not know what he's talking about but, if they want to pass the course, they will pretend to respect him.

Even if the teacher was once good enough to make it in a real world he is not in the mainstream of the business and I have to assume he is not current. Years ago a friend of mine was 'retrained' at government expense, as an 'instrument mechanic.' There was a need for instrument mechanics but none of the 20 students in my friend's class got jobs after graduation, because the type of instruments they were trained to service were obsolete before the course began. A man who had not kept up with his field had found a way to recycle his obsolete knowledge, as a teacher.

It is also possible that a teacher of marketing knows his subject well, but there are no jobs for marketing grads so he has to teach school. When we have a surplus of *experts* the ones who can't get jobs may become teachers and turn out more *experts*.

In most cases we could learn more and better as apprentices or understudies than as students. If I want to learn marketing, for example, do I want to spend three years studying it under a teacher who may not be good enough at marketing to get a job in it himself?

I would do better to start as a trainee in a good marketing firm or in the marketing department of a big company. If the company is willing to hire me I know they think there will be work for me as a marketer. Because I will see my teachers' success as marketers in the real world I will know how well they understand marketing.

That's the ideal but when 20 people apply for one opening in a marketing firm and 19 of them have degrees in marketing, the one that has no degree is not likely to get the job. That's a pity because he might have the best natural talent and the 19 who have degrees may have learned nothing useful. In fact the school may have given them misconceptions and wrong ideas which could make them less useful than someone with no training at all.

A former accountant told me about the students she used to hire. In most cases, she said, high school students were brighter, showed more initiative and learned faster than students who were part way through courses in accounting.

As a journalist I have been personally appalled by the trend to specialized schooling for reporters. In days gone by most newspapers and magazines trained their own reporters, on the job. There wasn't much unemployment among journalists in those days because newspapers trained only the reporters they could use, and the supply of trained reporters generally matched the jobs available.

Now reporters are trained in schools of journalism. Because they can collect grants and tuition for every student the schools lure more and more students into their courses and, each year, they graduate far more 'trained' journalists than newspapers can hire.

Most journalism grads will never get jobs in 'their' field, and most of those who do will work for low wages. As a reporter on a small-city newspaper nearly 50 years ago, I bought a house for slightly less than

one year's salary. Now, a young reporter on a small-city paper might be hard-pressed to buy a new car on one year's salary.

In a perfect world the schools would train only enough students to fill the need, but that's obviously impossible. As long as schools offer free choice of courses we have to expect students to sign up for the courses they think will lead to the top jobs.

And even if we could limit the openings in school no-one knows exactly how many jobs and what kind of jobs are open now, let alone what will be open three or four years in the future.

With cheap education almost any student can train for almost any job and most students like to think they will get the jobs they train for. That's a nice dream but the sad fact is that there are not enough soft and 'interesting' jobs to go round, especially in an economy that is failing for lack of productive workers.

Personally, I would like to be president of General Electric. Dozens of schools offer training that might qualify me for the job but, unfortunately, General Electric already has a president.

Hundreds of good companies need skilled workers but they're hard to find because most of our schools are training wannabe company presidents. If manufacturers did their own training things would be different, because students would face reality much earlier.

In today's world you can spend several years and tens of thousands of dollars training to be president of General Electric before you find out they already have a president -- and by the time you face reality it may be too late to retrain.

In a world of apprenticeship training you could wait until they are ready to hire a trainee for the president's job, or you could start work tomorrow as an apprentice machinist.

The training you get as an apprentice may be better than you would get in school because schoolwork is always make-believe but the training of an apprentice is real. Students in school don't have to be serious about either their projects or their choices because most of

what they learn in school has little bearing on real life and in many courses they can fake their way through exams. For some, at least, the habit of faking things persists. Apprentices work and learn in the real world, and the decisions they make in training are real.

In a dynamic economy training as a machinist could lead to the president's office -- as it did for many of the leaders of the past. In his book *Adventures of a Bystander* management guru Peter Drucker reports that in the 1930s, 40s and 50s -- when General Motors was the world's leading car-maker -- most GM executives started as factory workers. The few who had university degrees did not talk about them.<sup>56</sup>

But in a world of formal schooling, practical training is a dead end. If university graduates control management they will make sure no non-graduate rises to their level.

And we maintain the myth that our unemployment problems are caused by lack of education. If everybody had a degree, school promoters say, we would not have unemployment.

Maybe so, but in October of 1997 a survey of universities by *The Economist* magazine found that in 1995 about 40% of Canadians and 35% of Americans went on to post secondary education compared with 25% in France and 10% in Germany. From 1985 to 1994 the percentage of Canadians who got post secondary education rose from about 30% to nearly 40% but in Sweden it kept steady at about 18% and in Germany it dropped.<sup>57</sup>

But how does our 'educational advantage' show up in wages? The *Canadian Labor Congress* defines 'low pay' as less than two thirds of the median wage for a full time job. According to a survey by the

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<sup>56</sup> Drucker, Peter, *Adventures of a Bystander*, Harper and Rowe, NY, 1979, pp 259-260.

<sup>57</sup> "Survey of Universities" insert in *The Economist*, Oct 4/97. Page 4 of the survey shows numbers on what percentage of each population attends tertiary educational institutions, page 6 reports the percentage of graduates. Because both numbers are given in bar charts, my numbers are approximate -- based on my reading of the charts.

Congress 23.7% of Canadians and 25% of Americans are ‘low paid’ but only 13.3% of Germans and 5.2% of Swedes. Somehow, the correlation between university education and high wages does not seem to work the way it’s supposed to.<sup>58</sup>

So where do we get the idea that more education leads to higher wages? We learn it in school!

Education is big business and conventional economics makes it look like an important part of our economy, but many of the people who have contributed most to our real wealth have had relatively little formal education. Educators tell us that education is a good thing, but the evidence of the real world shows that, in many cases, practical training is better.

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<sup>58</sup> “Workers in low wage jobs in 1997” *The Economy* Vol 9 #4, fall 1998, section III.

## PLANS, PLANNERS AND PLANNING

One of the dogmas taught in most schools is the need to plan, and the superiority of any planned program over the un-planned. Most teachers and many of their students believe this, in the face of overwhelming evidence to the contrary.

The most common problem with plans is that the people who make them often have too much confidence in their plan and not enough information about what they are planning. This may be inevitable, because in the modern world many of the people who make plans often have no practical experience and the people with the most experience are not in a position to make plans.

That's at least partly because plans are made by people with seniority and, as Galbraith, Keynes and others have observed, most people stop learning long before they attain seniority.

The 'safety manager' of a trucking company once told me that he often drove at less than the speed limit in the middle of three lanes on the Queen Elizabeth Highway from Toronto to Hamilton, to catch trucks from his company who passed him on the right. The man had a degree in personnel management but he didn't know that trucks are not allowed to use the left lane on the Queen Elizabeth, and that passing on the right is allowed on multi-lane highways in Ontario. Because drivers from his company recognized his car they would not pass him, and he created a rolling road-block that delayed, and sometimes endangered, thousands of other drivers.

The generals who led the British army in the First World War knew how wars should be fought, and nobody had authority to tell them different.

They should have known what machine guns could do because in the *Battle of Omdurman* in Sudan in 1898, Dervish infantry charged an Anglo-Egyptian force that was armed with six Maxim guns. The

British army lost 28 men in that battle, the Egyptians lost 20 and the Dervish lost 11,000.<sup>59</sup>

But sixteen years later British generals ordered their own troops to charge, time after time, against German machine guns. They hadn't learned from the Battle of Omdurman, and they didn't even learn from the slaughter of their own army. Some soldiers who refused to charge were shot as 'cowards.'

In the 1950s and 60s various aid agencies, including the *United States Agency for International Development* planned to help the people of the Sahel, an area of semi-arid land along the southern edge of the Sahara desert, by drilling a series of deep wells. When the rains began to fail nomads in the area moved their herds to the wells and, because they seemed to have an endless source of water, they increased the size of their herds.

Soon there were 6,000 cattle in the area and they had plenty of water, but experts say there was just enough grazing to support about 600 head. As they drank at the wells the cattle trampled the ground hard, so it could not absorb water if rain fell and soon each well became the center of a small desert, 40 or 50 miles square.

In five years from 1955 to 1960 the number of cattle, sheep and goats in Mali increased by about 800,000 and after 1960, when more wells were drilled, the total of livestock increased from 5 to 16 million. In droughts the cattle still have water from the wells, but they die of hunger because there is no grazing land.<sup>60</sup>

In the 1970s the *Food and Agriculture Organization* of the United Nations estimated that about 800 million pounds of pesticides were used each year in under-developed countries, mostly for cotton and fruit and vegetables grown on large plantations as cash crops for export. This sounds like a good idea but it ignores the fact that pesticides kill predators as well as pests and that -- because there are

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<sup>59</sup> Ellis, John, *The Social History of the Machine Gun*, Pantheon Books, 1975.

<sup>60</sup> Claire Sterling, "The Making of the Sub-Saharan Wasteland," *Atlantic Monthly*, May 1974, pp 98-105, quoted by Lappe, Frances Moore & Collins, Joseph, in *Food First, beyond the myth of scarcity*, Houghton Mifflin, Boston, 1977, p 40.



more pests than predators -- the pests are more likely than the predators to develop immunities.

That happened in the Canete Valley of Peru, where they began using pesticides on the cotton crop soon after WWII. By 1956 the fields were so over-run with pests that production had to be stopped.

Insecticides were first used in Egyptian cotton fields in the 1950s, and by 1965 yields were dropping by 35% per year. The use of pesticides has also been linked to decreased yield of cotton in Nicaragua, Honduras and Mexico.<sup>61</sup>

In modern North America we saw an example of bureaucratic planning in Toronto when, in 2008, the city council approved a plan to introduce 'ethic street food' to Toronto and appointed a bureaucrat from the city's health department to run it. Vendors who accepted the new licenses were required to buy standardized food carts -- designed by a committee of bureaucrats from health, fire, licensing and economic development offices, none of whom had any experience with selling food from carts. The new carts cost \$30,000 each, weighed more than 750 pounds, could not be towed by a car and took two people a total of four hours a day to load and unload from a truck or trailer. They did not have enough counter space to prepare food, and many of the freezers were defective.

Saddled with unworkable carts the vendors were then assigned locations -- chosen by bureaucrats on the basis of 'perceived pedestrian traffic' but no actual research, advice from professional vendors or actual pedestrian counts -- for which they were expected to pay up to \$15,000 a year rent. Within two years, most of them out of business and some were bankrupt.<sup>62</sup>

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<sup>61</sup> M. Taghi Farvar, "Relationship between Ecological and Social Systems," speech delivered at EARTHCARE conference, NY, June 6, 1975, quoted by Lappe, Frances Moore & Collins, Joseph, in *Food First, beyond the myth of scarcity*, Houghton Mifflin, Boston, 1977, p 50-51.

<sup>62</sup> <http://www.thestar.com/news/article/863050--why-toronto-s-street-food-program-is-in-shambles>

We've seen the result of civic and social planning in the public housing developments in New York, Chicago and other cities that cost tens of millions of dollars and destroyed hundreds of working businesses and thousands of jobs to build instant slums and breeding grounds for crime.<sup>63</sup>

The 'great experiment' of prohibition in the United States gave us large-scale organized crime. In Canada, a plan to register and control all firearms created a black market that made hand-guns -- formerly hard to get and seldom seen in Canadian cities -- readily available and widely used.

We have seen the well-meaning agricultural experiments that introduced the poisonous cane toad to Australia, the Asian ladybug to the United States and other disasters around the world.

We seldom hear about planning disasters because, in most cases, the people who make the plans report the results -- and it's often easier to cook the books than to admit a mistake.

But some mistakes can't be hidden. In January of 1999 seventeen of the 27 member states of the European Economic Community introduced a new common currency -- the *Euro*. Planners assured is that by facilitating international trade it would bring prosperity to all but by 2012 at least four nations were bankrupt, and most had economic troubles.

Economists are still trying to explain the failure of the Eurozone countries but Jane Jacobs, the writer/philosopher who wrote several books about economics, explained it in *Cities and the Wealth of Nations* -- published in 1984 while the Euro was still a distant dream.<sup>64</sup>

A national currency, she explained, offers an automatic alarm system and partial control of a nation's economy. The alarm system works

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<sup>63</sup> Jacobs, Jane, *Dark Age Ahead*, Random House, NY, 2004, p 142.

<sup>64</sup> Jacobs, Jane, *Cities and the Wealth of Nations*, Random House, Vintage Books, NY, 1984, p 180.

because if the nation is not productive or competitive, international markets discount the currency and this provides a warning.

It's also a control because devaluation makes the country's exports cheaper -- and therefore easier to sell -- to international markets, and it makes imports from other countries more expensive and less attractive to citizens of the un-competitive country.<sup>65</sup>

Still, the planners of Europe developed a common market and a common currency, and people around the world are now paying the price. The logical cure for many of the problems is to return to national currencies but economists and pompocrats whose jobs depend on the Euro argue that that would be a disaster.

Some rulers in the past tried to plan economies. In the late 17th and early 18th centuries Tsar Peter the Great tried and failed to industrialize Russia. Starting in 1917 Communist idealists tried again, with questionable results, and China's "Great Leap Forward" of the 1960s was a disaster. In the 1970s The Shah of Iran virtually bankrupted his country with a failed plan to 'modernize' it and, in the modern world, we have seen the fiasco of Bush the younger's attempt to 'bring freedom' to Afghanistan and Iraq.

The most outstanding example of successful modernization and efficient industrialization in the modern world is offered by Japan, which went from a medieval economy in the 19th Century to a modern power that won the Russo-Japanese war in 1905, was beaten only by superior numbers and the atomic bomb in 1945 and is now one of the world's great industrial powers.

But the Japanese don't plan much because, according to Prof Tadeo Umesao, director of the *National Museum of Ethnology* in Kyoto, they believe in the principle of 'guided drift.'

Instead of planning, he explained (in his keynote speech to the Organizing Committee 8th International Industrial Design Congress, in Kyoto in 1973), the Japanese approach is to decide generally the

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<sup>65</sup> Jacobs, Jane, *Cities and the Wealth of Nations*, Random House, Vintage Books, NY, 1985, p 163.

direction you want to go and encourage anything that seems to lead in that direction.

Rather than the steady cumulative pursuit of a single goal, he said, Japan follows a succession of makeshift policies. Even during the Meiji revolution there were no clear goals and no one knew what was going to happen next. He described Japanese history as ‘a succession of moments where one wrong step could have entirely changed the course of events and where the people just made it through with spur of the moment expedients.’<sup>66</sup>

One American who understood that common sense trumps plans was the late Dwight D. Eisenhower, General commanding allied forces in Europe during WWII, later president of Columbia University and, still later, President of the United States.

While he was president of Columbia the grounds-keepers complained that students ignored paved paths on the campus and trod their own paths across the grass. They asked Ike for an order that students walk on the paved paths, but they didn’t get it.

“Tear up the paths,” he said, “and pave the routes that students walk on.”

Having said all this I have to concede that it would be difficult to manage a large operation without plans. The point I want to make is that plans are fallible, and plans that can’t be adjusted and changed in the go are dangerous.

It’s also wise to remember that in many cases, plans work much better for the planners than for the people whose lives or work are planned.

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<sup>66</sup> Umesao, Prof Tadeo, *Soul and Material Things, vol 1*, Six Speakers, Congress Report Committee, Japan Organizing Committee for ICSID “73, Kyoto 1975.

# THE RAPE OF THE THIRD WORLD

## *RICARDO'S RATIONALE*

One classic example of planning gone awry is the so-called 'global economy.' Believers call it the wave of the future but actually it's just the old colonial economy in a new form.

In colonial days England and France told colonists what raw materials to produce and which finished products to buy. Before the revolution the thirteen colonies were not allowed to produce steel and, while Montreal was ruled by France, a man who tried to make hats there had his shop broken up by agents of the king.<sup>67</sup>

The new imperial powers are the trans-national corporations, some of them so big that they can make or break small countries by deciding where to buy their raw materials and make their finished goods and that dominate markets with enormous advertising power.<sup>68</sup>

Trans-nationals are privately held, some are richer and more powerful than many supposedly independent countries and they are accountable to no one. Not even to their own shareholders, because

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<sup>67</sup> Bliss, Michael, *Northern Enterprise*, McClelland and Stewart, Toronto, 1987, p 56.

<sup>68</sup> Mander, Jerry and Goldsmith, Edward, eds, *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996.

their stock is so widely held that any individual shareholder can safely be ignored. Each of the 15 biggest trans-nationals has a gross income bigger than the GDP of any one of 120 independent countries.

The 350 biggest trans-nationals control about 40% of the world's merchandise trade and their sales are equal to about one third of the GDP of the industrialized countries.<sup>69</sup> They can't be controlled by national governments because if one government tries to control a trans-national, the corporation can move to a country with a more cooperative government.

Some people see the big trans-nationals as economic cancers, growing out of control and stifling other corporations and even national economies.

Many trans-nationals are based in the United States, Japan and England but others are based in Switzerland, Germany, France and Canada. The country of origin does not matter much because trans-nationals are, in effect, sovereign states in their own right.

And they all live by *Ricardo's rationale*. David Ricardo was an early 19th century English economist who took one of Adam Smith's ideas farther than Smith did.

In the opening paragraphs of *Wealth of Nations* Smith describes a workshop in which ten men make pins. The operation is divided into steps, each man performs one step and, together, they make more pins than they could if each man worked alone.<sup>70</sup>

Smith's pin-makers were efficient because they divided the work between them and each man specialized in one job. Ricardo suggested that communities and whole countries should specialize and produce only the goods they could produce more efficiently than any other. Even when two countries could produce the same kind of goods, he

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<sup>69</sup> Hines Colin and Lang, Tim, "In favor of a new protectionism," printed in *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996, p 489.

<sup>70</sup> Smith, Adam, *Wealth of Nations*, Everyman's Library edition, Alfred A. Knopf, NY, 1991 printing, p 1, 2.

said, each one should produce the kind of goods in which it has a “comparative advantage.”

“Two men can make both shoes and hats,” he wrote, “and one is superior to the other in both employments; but in making hats he can only exceed his competitor by one fifth or 20 per-cent, and in making shoes he can exceed him by one third or 33 percent. Will it not be in the interest of both that the superior man should employ himself exclusively in making shoes and the inferior man in making hats?

“Thus even if one community can make every product more efficiently than another, it should specialize only on those items it produces most efficiently, in relative terms, and trade for others. Each community, and ultimately each nation, should specialize in what it does best.”<sup>71</sup>

The rationale looks good at first glance and, because of that, many people never give it a second look.

It’s obvious, for example, that Florida has a ‘comparative advantage’ over Canada’s Yukon Territory as a place to grow oranges, and that it makes more sense for Canadians to buy oranges from Florida than to grow them in the Yukon. For people who live by imports, it makes sense to import anything we can buy cheaper abroad than make ourselves.

But Ricardo’s rationale assumes that the only value to be considered is profit and it ignores all other standards. His attitude is best summed up in his famous *law of wages*, which states that ....“The natural price of labor is that price which is necessary to enable the laborers, one with another, to subsist and perpetuate their race, without either increase or diminution.”<sup>72</sup>

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<sup>71</sup> Ricardo, quoted in *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996., p 220, in essay by Morris, David, “Free Trade, the Great Destroyer.”

<sup>72</sup> Ricardo, David, *Principles of Political Economy and Taxation*, Everyman’s Library edition, Dent, London, 1965, based on Ricardo’s third edition, published in 1821, p 52.

Ricardo assumed that poor people should live on the edge of starvation, with no hope for more than survival, and that unemployment was no problem as long as rents and profits could be maintained at a level that encouraged investment.

The colonialization of India's cotton industry was one example of Ricardo's rationale at work. In the 18th Century India produced some of the finest cotton goods in the world and the fore-runners of the *British East India Company* made fortunes by selling Indian cotton to England and other European nations.<sup>73</sup>

About a hundred years later England's industrial revolution developed steam-powered spinning wheels and looms. With them the new mills could spin and weave Indian cotton cheaper than India's village-based textiles industry.

Now England bought raw cotton from India and offered finished cloth in return. The cash price of the cloth was cheap, but the secondary price included the destruction of India's local industry and unemployment for millions of spinners and weavers. Local Indian princes and governors wanted to ban the import of English cloth but the British East India Company had an army to enforce its version of free trade.

English cloth was allowed free access to India but Indian cloth imported to England was subject to tariff. The British East India Company even taxed Indian cloth sold in India, and imposed a special tax on household spinning wheels.

At one time the company ruled most of India but its rule was so abusive that in 1784 the British government took control. Other Asian nations were allowed to retain nominal independence but they were forced to accept manufactured goods from England or from another European power.

Through most of the 19th century Europe and the United States had free access to the resources of the world, and were able to flood non-

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<sup>73</sup> Lande, David, *The Wealth and Poverty of Nations*, W. W. Norton, NY and London, 1998, p 154.



industrialized countries with mass produced products that were cheaper than the products of traditional craftsmen.

Partly because they could not compete with European industrial power and partly because Europeans would not allow it, most countries outside Europe and the United States were not able to develop much modern industry of their own. It was because of this that most of the national inequities of the modern world developed.

Paul Bairoch, director of the *Center for International Economic History* at the University of Geneva, estimates that about the year 1750 per-capita GDP was about the same in most countries around the world. The common people of Europe were not as well off as the common people of Asia, but the difference was not significant.<sup>74</sup>

By 1900 the world was divided into industrial -- mostly Europe and North America -- and non-industrial countries, and per-capita GDP was about three times as high in industrial as it was in non-industrial countries. By 1938 the disparity was about four to one and by 1950 about five to one.

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<sup>74</sup> Bairoch, Paul, *Disparities in Economic Development Since the Industrial Revolution*, London, Macmillan, 1981, pp 4-9, quoted in *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996. p 233, in David Morris' essay "Free Trade, The Great Destroyer."

## GOOD INTENTIONS, BAD RESULTS

Our modern 'global economy' got its official start at an international economic conference at the Mount Washington Hotel in Bretton Woods, New Hampshire in July of 1944. Henry Morgenthau, U.S. Secretary of the Treasury and president of the conference, said the intention was to create "a dynamic world economy in which the peoples of every nation would be able to realize their potentialities in peace."<sup>75</sup>

The conference organized the *World Bank* and the *International Monetary Fund*, and paved the way for the *General Agreement on Tariffs and Trade*. For more than 50 years the bank and the IMF have pressured third world countries to forget about self-sufficiency and to concentrate on production for export.<sup>76</sup>

Since then world trade has grown exponentially, but many poor countries are poorer than ever before. From a ratio of about five to one in 1950 the disparity in per-capita GDP between rich and poor countries rose to seven to one in 1970, eight to one in 1977 and about 18 to one and still rising in 1996.<sup>77</sup> In 2004 the United Nations Human Development Report estimated the GDP per capita in countries with high development was about 21 times the GDP of less-developed

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<sup>75</sup> Korten, David, "The Failures of Bretton Woods," in *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996., p 20.

<sup>76</sup> The way the World Bank and other agencies distort the development of the third world is described in several sections of *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996. Part one, "The Multiple Impacts of Globalization" and part three, "Engines of Globalization" are especially valuable. The book is published by the Sierra Club, and many of the writers cite first-hand research or experience.

<sup>77</sup> Bairoch, quoted in *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996., p 223. Also cited by Korten in *When Corporations Rule the World*, p 18.

countries, in purchasing power parity measured in United States dollars.<sup>78</sup>

This is not because the people of the industrialized countries are getting richer. In fact our average incomes are falling. In the country that considers itself the richest in the world official statistics show that about 15% of the total population lives in poverty and that doesn't include millions of people who live on old-age assistance and millions more on disability pensions. Americans who made more than \$100,000 a year earned more last year, but the bottom 60% of households saw their income fall, and about 50 million people have no health insurance.<sup>79</sup>

Incomes in the third world are falling even faster than ours. In the fall of 1999 a TV news story reported that more than 1.3 billion people in the third world worked for wages of less than one dollar a day.

But promoters of the global economy keep trying. Since 1995 regulations of the *World Trade Organization* have given private corporations the right to challenge 'nontariff barriers' that conflict with their 'right' to trade around the world. Challenges are judged by a closed council in Geneva.

*WTO* regulations do not allow governments to buy from their own citizens in preference to foreigners, and they could annul some environmental and health regulations.

Critics of the organization say the *WTO* will over-rule American clean air laws that ban the import of goods made by methods that harm the ozone layer of the atmosphere. Even though American fishermen are not allowed to use drift-nets that kill porpoises, the *WTO* may not allow the United States to ban the sale of fish from countries that allow the use of drift nets.

In the summer of 1998 Canada's federal government agreed to allow the use of *methylcyclopentadienyl manganese tricarbonyl* as an

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<sup>78</sup> [http://en.wikipedia.org/wiki/International\\_inequality](http://en.wikipedia.org/wiki/International_inequality).

<sup>79</sup> "Poverty rate rises in America" by Annalyn Censky @CNNMoney September 13, 2011.

additive to gasoline. MMT, as it's usually called, is illegal in the United States because it is known to cause damage to human nervous systems. It was illegal in Canada until the federal government submitted to the threat of a lawsuit by Ethyl Corporation, and Canadian law has been changed to allow it.<sup>80</sup>

After details of the new trade agreement were worked out in the Uruguay talks individual governments had to decide whether to accept or reject them. In the fall of 1994, when the U.S. Congress was about to vote on the agreement, a group headed by lawyer Ralph Nader offered a \$10,000 donation to charity in the name of any congressperson who would swear that he or she had read the 500-page document and could answer ten simple questions about its contents. There were no takers.

When the vote was delayed until December of 1994 Colorado Republican Senator Hank Brown took the challenge. He read the document, answered the questions, and then called a press conference to tell the world why he would vote against the agreement.

He supported free trade, he said, but having read the agreement he did not think the United States should accept it.

On Dec 1 1994 Congress approved the agreement by a wide margin, even though the evidence indicates that most of the members who voted for it did not know what was in it.<sup>81</sup>

Nader and others say that in effect the agreement hands over control of the world economy to trans-nationals, to run as they will.

Boosters of the global economy say it will 'optimize' production and allow global corporations to take full advantage of the 'economies of scale' possible in a world market. In fact economies of scale for most industries can be optimized in relatively small factories, and many

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<sup>80</sup> McArthur, Keith "NAFTA ruling goes against Ottawa," in *The Globe and Mail*, Nov 14/00, p B1.

<sup>81</sup> Nader, Ralph and Wallach, Lori, GATT, NAFTA and the Subversion of the Democratic Process, *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996, p 92.

trans-nationals optimize profits by producing goods in countries where labor is cheap, where there are no unions and where environmental controls are slack.

Most of the so-called 'economies of scale' that big companies offer are related to marketing, not production. A big company may not be able to produce goods cheaper than a small company but, because it can afford more advertising, it can sell more.

In fact many of the advantages of companies in the global market are achieved by manual workers who squat on grass mats in crude huts. Their 'comparative advantage' is that they are not able to demand a living wage.

An article in the March 30/98 issue of *Time* magazine says that Nike pays workers \$3 a day to make shoes that sell for \$100 and more a pair in the United States. With sales of \$3.77 billion, Nike sold nearly half the athletic shoes in the United States in 1997. Wages are probably up since then, but they are still low by American standards.

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According to a story in the Dec 15/96 *Toronto Star*, a skilled teen-age craftsman in Pakistan was paid one dollar to hand-sew a soccer ball that sold in Europe for \$80. One European company planned to sell two million made-in-Pakistan soccer balls in 1997-98.<sup>83</sup>

A survey released in October of 1996 by the government of Pakistan and the *International Labor Organization* estimated that about 3.6 million children from five to 14 years old were working full-time in Pakistan alone. In Bangladesh an estimated 80,000 children under 14 years old, most of them girls, work at least 60 hours a week in garment factories. In India an estimated 55 million children work,

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<sup>82</sup> "Can Nike Get Unstuck?" by Bill Saporito, *Time*, March 30/98, p 32-37.

<sup>83</sup> "Pressure deflates child labor in soccer ball plants," *Toronto Star*, Dec 16/96, final, p A12.

see also "Ministers meet over child labour: 250 million children work," By Norbert Hahn, *Deutsche Presse-Agentur*, Feb 24/97.

"Work is no ball for children," by Tahir Ikram, *The Guardian*, Jan 13/97, p 12.

many of them as bonded laborers, under atrocious conditions. Former Indian chief justice P. M. Bhagwati has testified that he saw young boys working 14 to 20 hours a day. If they do not please their masters they are “beaten up, branded, with red hot iron rods and even hung from trees upside down.”<sup>84</sup>

A UN survey estimates that there are 150 million child laborers in Asia, 80 million in Africa and 17.5 million in South America, Some of the children have been sold outright, others are ‘rented’ for wages paid in advance to their parents or to labor contractors.<sup>85</sup>

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## SLAVES TO THE MARKET

The global market is also a factor in the revival of slavery. Tens of millions of third world children, some of them slaves, make clothes and toys for the children of the first world. We pretend we don’t know about this but whether we admit it or not, the slave trade flourishes in the modern world.

An article in *National Geographic* magazine says that in the heyday of black slavery in the United States an adult male slave cost the equivalent of \$40,000 in modern money, but child slaves now sell for an average of \$35 each in India. Writer Andrew Cockburn estimates that there were about 27 million slaves in the world in 2003. Many of them produce the products that we buy in discount stores.

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<sup>84</sup> Hahn, Norbert, “Ministers meet over child labour: 250 million children work,” *Deutsche Presse-Agentur*, Feb 24/97.

see also Korten, David, *When Corporations rule the World*, Kumarian Press and Berrett-Koehler Publishers, 1995, p 232.

see also Ikram, Tahir, “Work is no ball for children,” *The Guardian*, Jan 13/97, p 12.

<sup>85</sup> “New UN survey doubles the number of child laborers, 250 million slave for others, labor agency calculates” *Toronto Star*, Nov 21/96 final edition, p A19.

And some have other uses. Cockburn says a teen-aged East European girl, suitable for use as a sex slave or prostitute, costs about \$1,000 in some Western European countries. He estimates that the 27 million slaves in the world include 100,000 to 150,000 in the United States.<sup>86</sup>

That's just the count of illegal slaves. In some countries, including the United States, tens or hundreds of thousands of people are legally enslaved.

Prisoners in many areas have to work for their keep, and the modern trend is to turn prisons and reform schools over to private enterprise. According to a report in the Washington DC-based *Counterpunch* newsletter (Jan 1-15, 1997), there were more than 100 private prisons in the United States at the time of publication.

Inmates in these prisons were paid as little as 17 cents an hour to produce car parts, clothing, furniture and computer circuit boards for major American companies. The newsletter says one American company shut down a plant in Mexico to use the cheaper labor of San Quentin prison.

When private citizens control the freedom of other citizens and can make them work for little or no pay, it's slavery no matter what they call it.

Most of this slavery is supposed to have a term -- as the debt slavery of earlier years had a term -- but prisoners with life sentences will be slaves for life. Others may be too, because prisons can charge prisoners for offenses committed in prison and sentences can be extended. Is there any question that a private corporation that makes a profit from slaves may be tempted to keep them at work rather than release them?

Even when there is no direct economic benefit the legal system has been known to convict innocent men and send them to jail. When prisoners have a positive economic value we can expect to see more

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<sup>86</sup> Cockburn, Andrew, "21st Century Slaves," *National Geographic*, Sept/03, pp 2-25.

people imprisoned. Already, the *Counterpunch* newsletter says, some private prisons have been accused of refusing time off for good behavior and even of losing the paperwork for prisoners who are supposed to be released on parole.<sup>87</sup>

Worse, the system can send innocent people to jail, for the profit of the prisons and of the courts that sentence them. In August of 2011 former Luzerne County, Pennsylvania, Judge Mark Ciavarella Jr. was sentenced to 28 years in prison for accepting a million-dollar bribe in return for sentencing children to a pair of private juvenile detention centers. The Pennsylvania Supreme Court has overturned about 4,000 convictions of children as young as ten years, many of them first-time offenders.<sup>88</sup>

According to *MSNBC*, Ciavarella and a second judge, Michael Conahan, were accused of taking more than \$2 million in bribes from the builder of the Pennsylvania Child Care and Western Pennsylvania Child Care detention centers and of extorting hundreds of thousands of dollars from the facilities' co-owner.<sup>89</sup>

Reporter George Monbiot of *The Guardian* wrote that one 15-year-old girl was sentenced to three months for creating a spoof web page ridiculing her school's assistant principal. A 13-year-old boy was sentenced for 'boot camp' for trespassing in a vacant building and a 14-year-old girl was sentenced to 11 months in prison for slapping a friend during an argument, after the friend slapped her. Two judges were paid a total of \$2.6 million by companies belonging to the *Mid-Atlantic Youth Services Corp*, owner of the private jails.<sup>90</sup>

The children sentenced by former judge Mark Ciavarella Jr. may not have had to work as slaves, but they are proof that the system can go wrong. One might even suggest that the profit margin of slave labor

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<sup>87</sup> *Counterpunch*, [www.counterpunch.org/](http://www.counterpunch.org/), Jan 1-15, 1995.

<sup>88</sup> <http://www.nytimes.com/2011/08/12/us/12brfs-Ciavarella.html>.

<sup>89</sup> [www.msnbc.msn.com/id/44105072/ns/us\\_news-crime\\_and\\_courts/t/pennsylvania-judge-gets-years-kids-cash-case/#.T\\_rci459ndk](http://www.msnbc.msn.com/id/44105072/ns/us_news-crime_and_courts/t/pennsylvania-judge-gets-years-kids-cash-case/#.T_rci459ndk)

<sup>90</sup> <http://www.guardian.co.uk/commentisfree/2009/mar/03/prison-population-titan-jails>



could be one of the reasons that, with 4.6% of the world's population, the United States boasts more than 22% of the world's prisoners.<sup>91</sup> Author Jeremy Rifkin calculates that 2% of the potential male American work force is in jail. He says that countries in the European Union average 87 prisoners per 100,000 population, but the United States has 685 per 100,000.<sup>92</sup>

Business aims to make a profit, and the cheaper the workers the higher the profit. The quality of slave workmanship may be questionable but if goods are cheap enough, and backed with lots of advertising, they don't have to be well made or even well designed.

Many big stores would rather stock heavily-advertised goods than high-quality goods because heavily advertised goods are easier to sell and low-quality goods have to be replaced more often than high-quality goods.

Most of our stores sell goods imported from third-world countries, and apologists for the global market tell us that when we buy goods from a third-world country we drive wages in that country up. That's bafflegab.

Supporters of globalism pretend that third-world economies can duplicate the boom that swept the United States after 1914, when Henry Ford raised minimum wages in his factories from \$2.07 to \$5 a day. Many people thought he was crazy but Ford knew that if his workers had more money some would use it to buy cars. Others would buy houses, and provide work for house builders who could then afford to buy cars, and so-forth.<sup>93</sup>

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<sup>91</sup> Cole, Jack, "End Prohibition Now!" [www.leap.cc](http://www.leap.cc) cites Roy Walmsley, *World Prison Population List*, (Fourth Edition) (London, England, UK: Home Office Research, Development and Statistics Directorate, 2003), p 1, from the web at <http://www.homeoffice.gov.uk/rds/pdfs2/r188> and *U.S. Census Bureau, Population Division*, from the web at <http://www.census.gov/main/www/popclock.html>

<sup>92</sup> Rifkin, Jeremy, *The European Dream*, Jeremy P. Tarcher, New York, 2004, p 53, 82.

<sup>93</sup> Nevins, Allan, *Ford : the times, the man, the company*, Scribner, New York, 1954.

Ford's '\$5 day' kicked off the American industrial boom that lasted until 1929. Modern pundits tell us that third-world economies will take off if we buy their goods, but that's wishful thinking.

Ford sold his cars in a domestic market, and the more money Americans made the more cars he could sell.

But the people who make down-filled jackets, snow boots and high-priced toys in southeast Asia will never buy those goods themselves, and their employers know it. More, employers and governments know that buyers from the first world are always looking for a cheaper source and if wages in one country are allowed to increase, buyers will take their business elsewhere.

If they were selling goods in their own economies employers in the third-world would have reason to pay their workers high wages but, because they produce only for export, they have reason to keep wages and benefits low.

Some politicians use the global economy as an excuse to take friends and potential supporters on luxury tours of the world. The theory is that the businessmen-supporters go to sell their goods abroad, but these trips also give them a new opportunity to buy goods abroad or to move abroad themselves. I know of one Canadian company that got so many foreign orders on a government-sponsored tour that it decided to build an Asian factory to fill them.

World trade is also good for ship-owners, and it helps merchants increase their profits because they can buy goods at third-world prices and sell them at first-world prices.

But in most ways, the global economy is a disaster for most of the world. It has already wiped out much first-world production of consumer goods, some North American mines have lost business to third world competition and we can compete in the global paper and lumber markets only by raping our forests.

The global market helped destroy the fishery of the Grand Banks. Once the richest fishing grounds of the world the Banks could support

the pressure of Spanish and other fishermen fishing for their home markets, but not for the world. Fishermen who caught everything they could for sale in Africa, Asia and other global markets, helped destroy the fishery.

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## FARMING IN THE GLOBAL MARKET

Global markets are fickle and countries that depend on them are always in danger. That's a serious problem for about 100,000 farmers who used to produce about 95% of world's vanilla on the islands of Madagascar, Reunion and Comoros, in the Indian Ocean.<sup>94</sup>

Natural vanilla is very expensive because the flowers have to be hand-pollinated and the seeds harvested and cured by hand. It used to sell for \$1,200 a pound and it provided 10% of the export earnings of Madagascar and 66% of the earnings of Comoros.

But the three islands lost out when gene-splicers in California learned to produce commercial quantities of vanilla in laboratories. In 2010 top quality natural vanilla from Madagascar was selling for about \$11 a pound.<sup>95</sup>

Canadian and many American farmers have also suffered from the rise of the global market. I saw the start of that process back in the early 1960s, when I worked as a newspaper reporter in Belleville, Ontario. In less than ten years before I came to town a California-based company bought nine of the ten canneries in Prince Edward County, south of Belleville, and closed them all. By the time I got to town

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<sup>94</sup> Rifkin, Jeremy, "New Technology and the end of jobs," *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996. p 111.

<sup>95</sup> <http://www.globalpost.com/dispatch/africa/091109/madagascar-vanilla-economic-downturn>

most local stores sold vegetables canned in California, and many of the farmers in Prince Edward County had gone broke.

Since then we have seen another change. Now most of the stores in Canada and the northern States sell 'fresh' fruits and vegetables from California, Mexico and points south. We like to think that year-round fresh vegetables represent an improvement in our standard of living, but in fact most canned vegetables contain more vitamins than most of the so-called 'fresh' vegetables sold in most stores.<sup>96</sup>

The difference is that canned vegetables are cooked and canned within a couple of hours after they are picked, while so-called 'fresh' vegetables may be two or three weeks old by the time a housewife buys them from a store. Most vegetables lose half of their content of vitamin C, and some other vitamins, in two days after picking. Canned vegetables retain more than half of most vitamins.

This is also a loss to the economy, because many working farms and farmers have gone bankrupt. That sounds like a small matter because farms are a small part of a modern economy -- but they are a key part.

Only 3% of the population of the United States lives on farms but the food and fiber industries, which depend on farm crops, employ 22% of the work force and make up 20% of the GDP. Obviously, the goods grown by the 3% are a crucial part of the economy.<sup>97</sup>

And the loss of local farms may threaten us with famine. We know that cyclical climate change is playing havoc with crops in some areas and that the El Nino current in the Pacific Ocean is a recurring threat to the farm areas we buy our food from. If the scientists are right we may see widespread crop failures and starvation on a continental scale within a few years. If either California or Mexico loses crops, many of us will go hungry.

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<sup>96</sup> Edwards, M C, Hall M N, Murphy, M C and Pither, N, "Technical Memorandum #571" published by Campden Food and Drink Research Associates.

<sup>97</sup> *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996., 110, Rifkin, Jeremy, "New Technology and The End of Jobs."

Natural disasters occur, but most of them are geographically limited and the problem that destroys a crop in the southern United States, Mexico or South America might leave other areas untouched.

There is also the possibility that the cost of oil or some other problem might make drive a radical increase in freight rates, making food that is shipped a long way too expensive for many people.

These are considerations for those of us who live in the real world, but not for economists. In his article “The cost of combating global warming: Facing the tradeoffs” in *Foreign Affairs* 76.6 (Nov/Dec 1997): pp 8-14, one professor of economics — who shall be nameless because I’m writing this to illustrate a point; not to shame him — wrote:

“Agriculture is practically the only sector of the economy affected by climate, and it contributes only a small percentage — three percent in the United States — of national income. If agricultural productivity were drastically reduced by climate change, the cost of living would rise by one or two percent, and at a time when per capita income will likely have doubled.”

No problem, in a world in which tens of millions of people are already on the edge of starvation. If “agricultural productivity were drastically reduced” we would have a global famine, but there would be no serious harm to the economy. Hmmm...

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## KNOWLEDGE INDUSTRIES

Bafflegabbers tell us the loss of farming and industry is not important because we have passed through the industrial revolution and are now in a 'post industrial' phase of development. Now we are too advanced to make things for ourselves so we can work in 'knowledge industries' and leave the production of physical goods to the people that poet Rudyard Kipling once described as "lesser breeds without the law."

That's supposed to be good for them because it gives them work, and good for us because it leaves us with the nice clean 'knowledge industries.' It sounds good, but it's not.

The truth is that since the beginning of time, every industry has been based on knowledge. Hunters and gatherers need knowledge to hunt and gather the food they eat, to avoid poisonous plants and dangerous animals, and to find shelter. Neolithic axe-makers had to know where to find the best stone and how to work it, and neolithic traders had to know where the best axes were made and where they could be sold.

In earlier days knowledge really was worth something, because it could be kept secret. The Romans who paid fortunes for Chinese silk could not make their own because they thought silk grew on trees. Japanese and other Asians knew about silkworms but they did not know the secret of unwinding the cocoon without breaking the strand of silk. For hundreds of years Europeans thought steel was a rare and exotic metal that could be found only in secret Asian mines, and they paid fortunes for swords and tools made of Damascus and other Arabic and Asian steel.

One of the most valuable bits of 'knowledge' in human history was Abraham Darby's discovery, in 1709, that he could smelt iron with coke. Up to that point iron was smelted with charcoal and, because of that, it was very expensive. Iron smelted with coke was so cheap that

Darby was able to make iron pots to compete with brass. That discovery was one of the key developments that led to the industrial revolution.

Darby's 'knowledge' was literally world shaking but it was valuable because Darby was able to use it to produce material goods.

Many of the old secrets were worth a king's ransom in their time and they were the foundations of monopolies. By contrast most of the 'knowledge' that modern 'knowledge industries' are based on is common to the world, and a 'knowledge industry' in one country has no special advantage over an 'industry' selling the same 'knowledge' in another.

But modern bafflegabbers tell us that knowledge itself will some-day be valuable, even if every other country shares it and we have no way to put it to work. The theory is that we will think deep thoughts and that, somehow, the physical goods we need to sustain life will appear.

But it doesn't work that way. Even people who work in so-called 'knowledge industries' need food, clothing and shelter, and we have to get them somewhere.

If you want food we either grow it ourselves or trade it for other products. If you want a car we either make it or trade for it and if we don't have the products to trade, we have to borrow money to pay for imports.

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## **A POST INDUSTRIAL ECONOMY?**

Some apologists say that we have gone beyond normal industry to a so-called 'post-industrial economy' that is based on services and 'information' rather than on physical products. That sounds very progressive and futuristic but it doesn't wash. I am a typical North American and I spend much more on food and physical goods --

including the apartment I live in and on manufactured goods -- than I do on 'services' or so-called 'information.'

As an urban Canadian aspiring to middle-class status I buy a new car every few years, I spend a couple of thousand dollars a year on clothes and I have a couple of computers, a scanner, TV, stereo and other electronic toys.

My apartment comes with stove and fridge, and I also have a microwave oven, blender and other toys in the kitchen.

I spend about \$17,000 a year on rent, most of which goes to pay for a building made of manufactured components, and probably \$10,000 a year on other manufactured goods. My wife pays for her own clothes, and spends about \$10,000 a year on food for the two of us.

Between us we spend perhaps \$40,000 a year in the industrial and the pre-industrial economies. From 'knowledge' industries I bought the word processing program I use in my computer. It cost me a couple of hundred dollars, eight or ten years ago.

Other people may spend more on computer programs and such but the numbers still don't work out. We all spend most of our money on agricultural and manufactured goods, and if we don't grow and make the products ourselves we have to import them.

That means we have to pay for them, but how? In Canada we sell our resources -- our country -- to foreigners. the States borrows a lot and is hopelessly in debt.

If it were true that one dollar is as good as another we could live on the so-called 'service economy' but the fact is that services and trade do not create wealth and as we spend wealth without creating it, we all get poorer.

Service industries include low paid jobs like washing cars and high paid professions like law and accounting, but they all have two things in common. They do not produce the goods we need to survive and, for the most part, they do not produce goods that we can sell to other countries.



We can't build national wealth by taking in each other's laundry.

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## **ROBBING THE THIRD WORLD**

The global economy is also a disaster for the third world because it enables foreign-controlled export-based development to pre-empt real development.

Real development for a third world country would come from the ground up. Every country needs farms and factories to make farm tools, roads and vehicles, clothes and houses and furniture.

But every country needs farms and farm tools and roads and vehicles and clothes and houses and furniture that are appropriate to the country, and to its stage of development -- and third world countries won't get them through the global economy. That's not a prediction, it's history that we have already seen around the world.

It happened when Europeans developed tea, rubber, oil-palm, sugar and coffee plantations in Asia, Africa and the Caribbean, and Americans developed parts of Latin America. I've seen some of the American coffee and banana plantations so I'll write about them and the 'banana republics' they created.

Lowland farming in the tropics is a specific technique and it's only in the past few years that white men began to understand how well some Central American natives developed it. For a long time we thought they all used 'slash-and-burn' agriculture, in which they cut and burned a patch of forest and then planted crops for a few years.

Now it turns out that some Central Americans had developed very sophisticated high-intensity agriculture in which small patches of forest were turned into giant food baskets. White men didn't notice the small farms because they looked about the same as the rest of the

forest and we never saw people working them because the Indian farms were self-sustaining and they didn't have to be worked.<sup>98</sup>

White men didn't see the native agriculture but some saw an opportunity to grow bananas for the American and European markets. They chased the natives out, burned and bulldozed the forest and the native farms it contained, and established huge plantations. When the locals objected, some of the planters installed tame governments and the term 'banana republic' was born.

The plantations 'developed' banana republics in their own way, with railways and electric power and modern buildings, but the development was confined to the plantations and to a few areas of the main cities. Because their farms were destroyed people had to buy food, but only people who worked for the plantations could afford to buy food and many of the others went hungry.

Because plantations dominated the countries most of the local culture was lost. People stopped making stone and wooden farm tools because the steel tools that were thrown away or stolen from plantations were obviously better, but the local people did not open mines and build smelters and forges to make their own steel tools. Like colonial people everywhere, they learned to depend on imports.

After more than 100 years of 'development' most Latin American countries have a prosperous modern surface but in many of them it is only a surface. The cities may look modern but they depend on imported technology -- on elevators, wiring, lighting and other accessories made in the first world -- and some countries that have modern cities would be unable to build or maintain a modern village without imports.

Wealthy people in those countries import more first-world luxuries than most people in the first world can afford but millions of others

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<sup>98</sup> Turner B.L. and Harrison, Peter D. "Prehistoric Raised Field Agriculture in the Maya Lowlands," *Science*, 213, July 24/81, p 399.  
see also Coe, Michael D, "The Chinampas of Mexico" *Scientific American* July/64, p 90 - 98.

live in huge slums without sewers, clean water, or hope for a reasonable future.

The slums are growing fast, in many areas, because more and more people are being pushed off the land. In some areas that's because small farms are still being taken over by big planters who grow fruit and vegetables for sale in Canada and the United States. In others it's because traditional farming methods have been lost and modern farming can't feed people on the land available.

Cash crop plantation farming in Latin America makes big bucks for a few, but it's a disaster for people who are pushed off their land to live in the shadow of a technological world they can't join.

Imported factories in the third world have the same effect and create the same problems as the plantations. They may pay better than the local average wages but, aside from the wages, they make no contribution to the local economy.

If the host country supplied raw materials before the move the imported factory will buy the same raw materials, but the factory is an extension of the first world and it will not buy machines or designs from the host country, or produce goods that the host country needs.

Because most of the investment is in imported machinery and technology, imported factories do not offer much stimulus to local economies. Like the branch plants that American manufacturers established in Canada, they may stunt the growth of local industry.

And it is often in the best interests of modern plants in the third world to intentionally cripple local industry. Once the *Beebop Sporting Goods Company* is established in Boogleoogle it wants local wages to stay low and it will not do anything that might increase them.

Back in the 1940s the pundits of the first world argued that a global economy would spread prosperity around the world, but that was the public pose. Whether it spread prosperity or not, the global economy guaranteed that the first world would have free access to the resources of the third world, and that the third world would remain dependent on the first.

The global market has helped the rich of both first and third worlds to become richer but it has further impoverished the poor of the third world and it has created new islands of third-world poverty in the first world. Instead of a world divided by geography we now have a world divided by money, power and privilege.

That's fine for the people who enjoy the money, power and privilege, but not for the rest of us. It's time to re-think Ricardo's rationale and the assumptions of Bretton Woods, and to plan a world order that will be good for all of us.

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## **IMMIGRATION**

Migration is another questionable aspect of the global economy. If the economy of one country does not develop, some of the inhabitants can move to another.

On a simplistic level that makes sense. Why not let people live where they want to? Surely both humanity and our own self-interest demand that we allow qualified migrants from the third world to live in the first world and share our wealth?

Yes -- but. The problem is that migration is a sorting process and, if it's not controlled, it will tend to move most of the brightest and most aggressive and best-educated people in the world to rich countries and leave all the others, with a few predators to prey on them, in poor countries.

If we assume that all races are equal then the native population of any one country should be about equal in intelligence, ability and initiative to the population of any other. There will be differences between individuals within each population of course -- some will be smarter or have more initiative than others -- but the average will be about equal.

Until we allow large-scale migration. Let's look at the effect of migration from the third-world country of *Povertania* to the first-world country of *Affluentia*.

Because it requires initiative to migrate, the average level of initiative among migrants will be higher than the average level of initiative among non-migrants. Because it also takes intelligence and general smarts to get through the immigration process and be accepted by another country -- especially by a country which can afford to choose immigrants -- the average migrant will also be more intelligent than the average non-migrant.

Migration also sorts people by education and here the sorting takes a vicious turn. Relatively few citizens of a poor country graduate from high school and the education of the average high school graduate represents a significant investment for the people of a poor country. If education has any value the poor countries cannot afford to lose their educated people -- but educated people are the ones who find it easiest to migrate.

Result -- after a few years of migration the average levels of initiative, intelligence and education in *Affluentia* will be higher, and the averages in *Povertania* will be lower. *Affluentia* will develop even faster and become even richer, and *Povertania* will be hard pressed to maintain the same level of poverty.

I began wondering about this more than 50 years ago, when I met a medical doctor from a third world country who studied medicine in Canada under an aid program, and stayed to practice.

Even as a high school graduate that man was in a very fortunate position, by the standards of his country. When he got a scholarship to study medicine in Canada, his future was made.

If he had gone home he could have lived very well in his native country, and he could have provided medical service that his countrymen needed. That's why Canada gave him the scholarship, and that's why his government helped him to come.

But he chose to stay in Canada and, because he was well educated and obviously qualified, he was accepted as an immigrant. He told me he didn't owe his country anything, because he had 'earned' the scholarship by hard work. It made no difference to him that poor people in his home country had paid for his high school, and that his home and the Canadian governments had put him through medical school so he could help his home country, not so he could live in Canada.

That was a special case but all immigrants are special, in their way. They have to be smarter and have more initiative than average to be able to migrate, and these are just the people that no poor country can afford to lose.

Almost any individual case of migration can be justified, but together they add up to a disaster for the third world

Some North Americans feel that we have to accept immigrants because 'we're all immigrants here.' That's a good point, but it's not a good argument.

My ancestors were immigrants, but they did not come to an empty country. If I were a native I might feel that my country had been taken by immigrants, and I'm not sure that I admire the generosity of those immigrants when they try to atone for the theft of my country by handing it over to another lot of immigrants. If we're going to encourage immigration, we might start by encouraging immigrants from our own third-world communities.

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# GLOBAL DISASTERS

## POLLUTION, PESTS, PLAGUES AND OTHER CATASTROPHES

The global economy is also an ecological disaster, because it allows businesses to sidestep environmental controls in the first world by moving their operations to tolerant third world countries.

According to a report on *CTV News* the Indian city of Tirupur has 700 dye plants and no pollution controls. Rivers in the area are colored, ground water is polluted 100 meters below the surface and drinking water has to be piped in from a long distance away.<sup>99</sup>

If the ecological damage did the people of Tirupur any long-term good we might consider that a mitigating circumstance, but it does not. It gets them only low wages in a temporary business that will disappear when some other third-world people offer to do the work cheaper. The only long-term change to Tirupur will be the pollution.

According to newspaper articles the U.S. Navy sends old warships to an Indian beach on the Arabian Sea to be broken up. The advantages are that wages for the Indian workmen start at \$1.80 a day, and that

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<sup>99</sup> In July of 1997 the *CTV News* network aired a story about Tirupur.

see also Growing a Paradox, *Business Standard*, July 31/96, p 22.

Farmers move to stop water supply to units, *The Hindu*, Feb 26/97, p 19.

High court orders closure of 168 dying units, *The Hindu*, Mar 11/97, p 4. Some of the reported problems may have been solved by now, but it's a fair bet that new ones have developed.

there are no inconvenient questions about workplace safety or about what happens to the asbestos, PCB, and other potentially-hazardous materials in the ships.<sup>100</sup>

Even if third world governments were to enforce environmental controls, the simple fact of huge freight movements also creates world-wide environmental problems.

One is that ships burn oil and spill some of it into the sea. Newspapers and television tells us about the rare occasions when a tanker goes aground but any powered ship that moves on the sea spills some oil, and ships that travel on their normal business spill about as much oil as a tanker that goes aground or breaks up. The *United States Coast Guard* reports that in 1999 tanker ships spilled about 8,414 gallons of oil, tanker barges spilled 158,977 gallons and other ships spilled 409,084 gallons.<sup>101</sup>

Another is that ships are poisonous. In order to prevent the growth of barnacles and algae almost all big ships are painted with “anti-fouling paint.” The poison called tributyltin, which is used in most anti-fouling paints, is now found in fish, shellfish, marine birds and marine mammals around the world. We have to assume it is also found in people who eat fish and shellfish.<sup>102</sup>

Ships in international waters are not subject to pollution controls and most of them burn the cheapest oil available. Cheap oil burns dirty and, according to one Reuters news story, ships in European waters produce 1.9 million tonnes of sulfur dioxide a year -- roughly equal to the production of 390 50-megawatt power stations.<sup>103</sup>

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<sup>100</sup> *Toronto Star*, p A12, Sun Jan 4/98 “Where worn-out ships go to die,” by Will England and Gary Cohn.

<sup>101</sup> Numbers on oil spills are on the *U.S. Coast Guard* website. The numbers quoted are from the table “Volume of spill by source, gallons.”

<sup>102</sup> *Reuters* news story, Greenpeace calls for ban on toxic ship paints,” Sept 6, 2000. See also *Reuters*, Nov 3/98, “Marine life dying from boat paint pollution.”

<sup>103</sup> *Reuters*, Nov 21/00, “Belching smoke from European ships is becoming Europe’s biggest source of acid rain” based on a report by a consultant to the European Commission.



Ships that cross between continents also carry pests, and the more ships that cross the more chance that pests will cross. Many of them travel in the ballast.

Ships sail best when they are fully loaded and when a ship carries a light load, such as television sets or other consumer goods, it also loads tens of thousands of gallons of water to bring it up to full weight. When it unloads the light goods and takes on a load of heavier freight, such as coal or wheat or anvils, it dumps the water so it won't be overloaded.

That's a special problem with tankers, which fill their tanks with water for the return trip and dump the water -- and hundreds of gallons of oil -- when they refill.

There has always been a danger that ships would dump pests from another continent with the ballast water but that risk was multiplied as world trade increased, and multiplied again as ships sailed faster and the pests did not have to survive so long in ballast tanks. That's a problem because imported pests have no local predators, and they may run out of control.

When the St. Lawrence Seaway was completed in the 1950s, sea lampreys came to the Great Lakes where they wiped out the lake trout and other valuable species. *Zebra mussels*, which arrived from Eurasia in the 1980s, settle on underwater structures -- including water intakes and sewage outlets, which they plug; on the shells of native mussels, which they smother; and on the gates of locks, which they jam. Dr. Stephen Brandt, Director of the National Oceanic and Atmospheric Administration's *Great Lakes Environmental Research Laboratory* estimates that cost of controlling zebra mussels in the Great Lakes now ranges up to \$400 million a year.<sup>104</sup>

Other newcomers since 1980 are a small European fish called the *Ruffe*, which showed up near Duluth on Lake Superior and soon became the most abundant fish in the harbor. It has now spread to some Ontario river systems and it looks as though it will displace

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<sup>104</sup> <http://dnr.wi.gov/invasives/fact/zebra.htm>.

some native fish. Another European fish called the *Round Goby* showed up in Lake St. Clair in the early 1980s and had spread to Lake Ontario by 1999. It's small but very aggressive, it eats the eggs of other fish, and it is expected to do serious harm to Great Lakes and inland fisheries. The *Spiny Water Flea* came to the Great Lakes in the early 1980s and has spread to the Muskoka and Kawartha Lakes, to Lake Simcoe and Lake Temagami.<sup>105</sup>

The European *Green Crab* also came to North America in ballast water, and is now spreading up and down both east and west coasts. It kills juvenile native crabs and shellfish, and it threatens crab and shellfish harvests on both coasts.

Insects can travel too. The Asian *tiger mosquito*, which can carry dengue fever and other infections, came to the United States in shiploads of Asian tires. It's now found in 18 states and may spread to Canada. The *citrus leaf miner* caterpillar from Asia now attacks citrus trees in Australia, Africa, the US and Latin America.<sup>106</sup>

*Formosan termites* that arrived in the 1940s now do about \$300 million damage a year to the old sections of New Orleans. Because of them the *U.S. National Trust for Historic Preservation* says the city, one of the oldest and most colorful in the United States, is also one of the most endangered historic sites.<sup>107</sup>

The *Virella* mite arrived in a shipment of bees from Thailand in the early 1990s and so far it has reduced honey production in some parts of North America by half. Given time our bees may adapt to cope with it, but then again they may not. Let's hope they do, because much of the food we eat depends on bees for pollination.<sup>108</sup>

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<sup>105</sup> Mittelstaedt Martin, "Asexual Flea threatens Great Lakes," *The Globe and Mail*, Nov 22/99, p 3.

<sup>106</sup> Harvard Working Group on New and Resurgent Diseases "Globalization, development and the spread of disease," *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996, p 165.

<sup>107</sup> McConnaughey, Janet (Associated Press) "A new battle of New Orleans," *Toronto Star*, May 31/97, p B6.

<sup>108</sup> McInnes, Douglas, The plight of the bumblebee, *Popular Science*, Nov/97.

Other pests introduced by global trade include the *chestnut blight* that wiped out the American Chestnut tree, the *Dutch elm disease* that killed most of the elm trees in North America and the *kudzu* vine that is destroying forests in Virginia and the Carolinas and will probably spread.

In the summer of 2000 trees in Halifax were cut down and burned because they were infested by the *European Brown Spruce Longhorn* beetle. In Europe this beetle attacks only sick trees but North American trees are not adapted to it and it attacks and kills healthy trees. Some experts fear that it could kill most of the spruce in Eastern North America. Another import, the *Asian Longhorn* beetle, threatens most of our deciduous trees.

The *Emerald Ash Borer*, from Asia, is now attacking ash trees in Eastern Canada and the northeastern states and may eventually wipe them out.

Airplanes carry pests too. In about ten years the *Brown Tree Snake* from the Solomon Islands wiped out most of the birds on the island of Guam, and naturalists fear that if gets loose in Hawaii it will wipe out most of the birds there.<sup>109</sup>

Dozens of Brown Tree Snakes have reached Hawaii, mostly in the landing gear of planes. We have to assume that if no live snakes have escaped to the wild in Hawaii yet, they will soon and, eventually, they will reach the mainland.

The chances of a pest traveling from continent to continent vary directly with the traffic of people and freight. Most of the traffic is freight and it would be easy to reduce it with no loss of peoples' freedom to move.

Some globalists argue that animals migrate with or without human help, and that species will always compete to replace each other.

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<sup>109</sup> Research Digest: "Snake plague," *The Globe and Mail*, Mar 1/97, p D6. see also "Complete with coiled suspension," *The Globe and Mail*, June 12/90, p A22.

That's true, but we don't live in a natural world. We live in an ecosystem that we have modified, and the plants and animals that are most useful to us were all carefully cultured by man. We have no reason to believe that they will survive competition with pests, or that the plants and animals that do survive will be useful to us.

Disease travels too. Cholera had been wiped out in South America but it came back in the 1990s, to kill tens of thousands of people in the first few years of its return. The *Harvard Working Group on New and Resurgent Diseases* thinks it was re-introduced by a freighter that discharged bilge-water from China into the harbor at Callao, Peru. The water carried bacteria that flourished in algae that were eaten by fish and in shellfish, that were eaten by people.<sup>110</sup> If it can happen in Callao it can happen in San Francisco or Vancouver.

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<sup>110</sup> Harvard Working Group on New and Resurgent Diseases, "Globalization, Development and the Spread of Disease," in Mander & Goldsmith, 1996, *The Case Against the Global Economy*, Sierra Club Books, San Francisco, 1996, p 165.

see also Garrett, Lawrie, *The Coming Plague*, Farrar Straus and Giroux, 1994, pp 563-66.

## THE PLAGUE THAT WILL COME

The global economy also increases the risk of a plague that will sooner or later kill tens of millions of people around the world. That's not an apocalyptic vision, it's a mathematical probability that the global economy makes a near certainty.

The probability is a matter of numbers. The more people there are in the world the more chance that some disease will develop into a super-killer and the more there are to catch and spread disease.<sup>111</sup> The more people there are the more we invade areas -- like the rain forests of Africa and South America -- where dangerous diseases may lie dormant.

Any disease becomes more dangerous when it travels, because people in the area where it evolved have developed immunity but people in other areas have not. Through most of history microbes and viruses around the world had little chance to travel from continent to continent but, when they did, we saw some of the great plagues of the world.

*Bubonic plague* -- the Black Death -- had been known in Asia for years but it did not run wild until it reached Europe. According to some estimates the smallpox that Europeans brought to the Americas may have killed up to 90% of the natives of two continents.

Now we travel more than ever before. It is estimated that more than a billion people a year cross international borders<sup>112</sup> and every one of them carries known and unknown microbes, viruses and parasites to

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<sup>111</sup> The probability of a global plague is the theme of *The Coming Plague* by Lawrie Garrett (Farrar Straus and Giroux, NY, 1994). I first heard of it in 1965 when, as education reporter for the *Kingston Whig Standard*, I interviewed a medical researcher at Queens University in Kingston, Ont.

<sup>112</sup> <http://irhal.com/Irhal-Travel-News/General-Travel-News/World-tourist-traffic-to-cross-1-billion-in-2012.html>

international airports, hotels, convention centers and other meeting points where the bugs can mix, match and mutate into super-killers that could kill half -- or perhaps all -- of us.

We also carry our immunities with us and, if humanity survives, we will eventually develop a single human population, with the same immunities around the world; but it's still a very serious risk. The bigger the population pool the more chance for diseases to mutate, and we will still be vulnerable to new mutations.

Health authorities know about the danger, of course, and they do what they can. In the winter of 1997-98 public health authorities in Hong Kong killed more than 1.3 million chickens because a flu virus from chickens infected 14 people and killed four.<sup>113</sup>

That sounds like an extreme reaction to the death of four people in a city of six million, but health authorities dare not take any chances with a new variety of flu. In times when there were fewer people and less international traffic -- and therefore less risk of epidemic -- flu epidemics ravaged the world in 1729, 1732, 1781, 1830, 1833, 1889 and 1918.<sup>114</sup>

The 1918 epidemic was worse than others because trade and travel were both stimulated by World War I. According to some accounts the epidemic began in an army training camp in the United States, moved to Europe with the soldiers and then spread around the world.

In less than a year it infected about a billion people and killed more than 21 million of them. More than 500,000 died in the US, and more than 20,000 in New York City alone. The flu killed about 5% of the population of Ghana and 20% of the population of Samoa.

That was at a time when the world was less crowded than it is now. If a flu bug of comparable virulence develops in the modern world, health officials say, it will probably kill about 60 million people.

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<sup>113</sup> The flu scare in Hong Kong is described in the article *The Flu Hunters* by Eric Larson in the Canadian issue of *Time* magazine, Feb 23/98.

<sup>114</sup> Garrett, Lawrie, *The Coming Plague*, Farrar Straus and Giroux, NY,1994, p 157 - 158.

And the flu is just an old friend that sometimes gets out of hand. Some of the super-diseases that are now emerging from the jungles of Africa, Asia and South America are much more dangerous.

The *Marburg virus* first showed up at a medical lab in Marburg, West Germany in 1967.<sup>115</sup> The lab used kidney cells from African monkeys to make vaccines, and one of the monkeys carried the virus.

Thirty one veterinarians, lab technicians, animal handlers and their close contacts were infected. Seven died.

Marburg is a close relative of *Ebola*, which is one of the most feared viruses of the modern world. There are four known varieties of Ebola. In 1989 one of them raged through an animal quarantine center in Reston, Virginia, in a situation so dangerous that the US Army Research Institute for Infectious Diseases was called in to contain it.

Hundreds of monkeys were killed and the building was decontaminated by a three-day soak in formaldehyde gas, which was supposed to kill every living thing in it. Months later the same variety of Ebola broke out again, killed all the monkeys and infected all the people who worked in the building.

By pure luck this case turned out to be the only one of four known varieties of the Ebola virus that is harmless to humans. Among the other three the death rate varies from 50% to 90%, and there is no known cure. If the monkeys in Reston had carried one of the other three strains of the virus, the US would have faced a national catastrophe.<sup>116</sup>

And it still might. This form of Ebola spreads through the air, and several people have been infected. So far this strain is harmless to humans but it's now loose in North America and, some day, it might mutate.

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<sup>115</sup> Garrett, Lawrie, *The Coming Plague*, Farrar Straus and Giroux, NY,1994, pp 53-60.

<sup>116</sup> Garrett, Lawrie, *The Coming Plague*, Farrar Straus and Giroux, NY,1994, p 598.

That's a serious danger now because, as the final(?) version of this book is being edited, an epidemic of one of the deadly varieties is sweeping through several counties in West Africa -- and some cases have been found in the United States. Now we have both deadly strain and a strain that can spread through the air on the same continent, and we have to hope they never meet.

Ebola is one of a set of viruses that doctors describe as "level 4," most of which are usually fatal and for which there is no known treatment. We have had several outbreaks of level 4 viruses so far, and if we maintain the fiction of a global village around which people can travel at will, and through which goods can be shipped in large quantities, we can expect more.

Nobody knows when or how the great plague will come but governments are taking precautions. The world is now mobilizing to fight the plague in West Africa because we know that if any of the other super-deadly diseases get loose, we can expect a global plague that will kill more people than a major war.

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## **NATURAL DISASTERS**

The global economy also creates a serious danger by concentrating our food supply. The southwestern United States and northwestern Mexico have a warm climate and cheap labor, which gives them an advantage in growing vegetables, and growers in that region have captured most of the North American market for fresh vegetables. That concentration of farms puts too many of our proverbial eggs in one proverbial basket.

It has cost us money already because that one basket happens to be in an area where an El Nino weather system has caused floods and other problems, which damaged crops and caused shortages.



We like to think that first-world governments are equipped to handle disasters but that illusion was shattered in 2005 when Hurricane Katrina flooded New Orleans. More than 1,800 people were killed and the U.S. *Federal Emergency Management Agency* proved to be woefully incompetent. Canadians got a shock in the summer of 2012 when part of the roof of a shopping mall in Elliot Lake, Ontario, collapsed and some people were trapped. Local firemen who searched the wreckage heard tapping that they interpreted as signals from a survivor but the provincial 'rescue team' sent to the site decided that it was 'too dangerous' to search for them. Four days later, after heavy equipment that had been shipped from Toronto pulled the wreckage apart, two bodies were recovered. If they had survived the collapse in perfect health, they might have died of thirst before the 'rescue team' found them.

Katrina was a disaster for New Orleans and the Gulf Coast and the Elliot Lake mall collapse was local, but we could face disaster on a continental or even global scale. The world has been and will be bombarded by meteorites big enough to wipe out an area much bigger than the vegetable farms of the southwest and Mexico.

Meteor strikes are not as rare as we once thought. Most scientists believe that the dinosaurs were killed by a meteor that struck the Yucatan area about 65 million years ago, and we know there have been strikes in historic times. About 150 meteor craters have been identified, and earth scientists estimate that is about 10% of the total. Astronomers believe that at least 300,000 -- and perhaps as many as 100 million -- asteroids large enough to do serious damage cross orbits with Earth, and might hit us some day.

More than a million years ago a meteorite blasted a crater 3.3 km in diameter and 368 meters deep in the rock of Nunavut's Ungava peninsula. About 50,000 years ago a smaller one created the famous *Meteor Crater* in Arizona. If any humans were living in the southwestern USA when it hit, they died within the next few weeks.

Australia sustained a major strike that left nine separate craters about 3,500 years ago. We have no history of the effects, but they must have been calamitous.

On June 30 of 1908 something -- probably a chunk of ice from a comet -- exploded above the *Tunguska* area of Siberia, with 1,000 times the power of the bomb that destroyed Hiroshima. There was no count of human deaths but about 1,000 square miles of forest was flattened. Another big one hit Siberia in 1947.

On Aug 13 of 1930 a meteor struck somewhere in the Amazon basin, with an impact that was felt for hundreds of miles. A near miss grazed the atmosphere over the Western United States in 1972, and air blasts comparable to the explosion of nuclear weapons occurred over Colorado Springs, Colorado and over Micronesia in 1995.<sup>117</sup>

In February of 2013 a meteorite about 20 meters in diameter exploded about 18 miles above the Russian city of Chelyabinsk, injuring 1,500 people enough to require medical treatment and damaging about 7,200 buildings in six cities. The blast was more than 20 times as powerful as the atomic bomb detonated at Hiroshima.

So far nothing very big has hit ground within the bounds of civilization, but the danger is very real. Oceans cover most of the Earth, and a big strike in an ocean would trigger tsunamis that might wipe out coastal areas.

A strike in the Pacific might wipe out Los Angeles, San Francisco, Seattle, Vancouver, Tokyo, Hong Kong and dozens of other cities. A strike in the Atlantic might wipe out the Atlantic coast of the United States and major cities in Europe.

*Caldera volcanoes* -- flat volcanoes, which are much more dangerous than the 'small' volcanoes that form conical mountains -- may also threaten humanity. Genetic evidence suggests that in the whole world, only 5,000 or 10,000 people survived the eruption of the volcano *Toba*, in Sumatra, about 74,000 years ago.<sup>118</sup>

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<sup>117</sup> *Discover* magazine, Aug/00, lists some meteorite impacts on page 59. This article suggests that, since the beginning of time, the Earth has had at least 200 "major" impacts, each of which left a crater more than 600 miles wide.

<sup>118</sup> A google search of "Toba + survivors" produces more than 10 million hits. The survival rate I quote is about average of the ones I checked.

One of the biggest caldera volcanoes known is Yellowstone Park in the United States. Virtually the whole park is the mouth of the volcano and when it blows, about once every 600,000 years, it produces about 8,000 times as much ash as Mount St. Helens. It last blew about 600,000 years ago and geologists say that, now, some sections of the park are moving.

The U.S. Geological Survey is also keeping an eye on the Caldera volcano of *Long Valley*, east of San Francisco, which has had a couple of minor eruptions in the past thousand years. Its last major eruption, about 760,000 years ago, was thousands of times more powerful than Mount St. Helens and would probably have wiped out all life in several southwestern states.

The discovery of caldera volcanoes and the threat of Yellowstone Park were the subject of a documentary film, *Supervolcanos* shown on several times on *The Discovery Channel* in February of 2001. Most of the geologists and geneticists who appeared on the show were professors from the University of Utah. According to the U.S. Geological Survey's volcano hazards website Mount St. Helens produced about 0.25 cubic kilometers of ash, the last eruption of Long Valley produced about 600 and the last eruption of Yellowstone produced about 2,000 cubic kilometers of ash.

Even regular volcanoes are dangerous. Historical and physical evidence indicates that the eruption of *Krakatoa*, near Sumatra, about the year 540 AD caused about ten years of 'nuclear winter,' drought and other problems around the world. Some historians suggest that the famine and plagues that resulted caused the final collapse of the Roman Empire and the European 'dark ages.'

In the past 200 years, more than 250,000 people have been killed by relatively small eruptions. In 1815 the *Tambora* volcano in Indonesia killed about 10,000 people, and another 82,000 died in the famine and disease that followed. In 1883 a minor eruption of *Krakatoa* wiped out animal and vegetable life in the Krakatoa island group and created tsunamis that killed 36,000 people in Java and Sumatra, and that reached Hawaii and South America. In 1902 the eruption of *Mt. Pelee* in Martinique killed about 29,000 people in the port of St. Pierre.

These small eruptions were not major events on a world scale but, in the modern world, comparable eruptions could wipe out the crops that feed millions of people.

We can't do much to protect ourselves from climate change or a big meteorite or a giant volcano but, whatever happens, we stand a better chance of survival if all the goods we need are produced all over the world. That way we can assume that any disaster will do us some damage, but it would take one of global proportions to wipe humanity out.

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## **ONE SYSTEM**

The global economy is also vulnerable to economic disaster, because it ties the world together in one system.

That's dangerous because a global system is too big to control. Control of a national economy is automatic because if you produce your own goods you find out quickly when the system starts to break down. Because the problem is within the national economy, it can be fixed.

Because it's so big there are many points at which a global economy can fail but, also because it's so big, it could take a long time before we realize that it has failed. When we do find the problem we may not be able to fix it, because the global economy is not under unified control.

Globalists like to pretend that the alternative to globalism is isolationism, but that's not so. The two are opposite ends of a spectrum, and there is a middle ground that is neither one nor the other.

And in this case, the middle is the place to be. We know that the global economy does not work because poverty around the world has

increased since the Bretton Woods conference that led to it. The economic strategy adopted then has been a boon to some, but a disaster to most of the world.

We also know that isolation does not work, because it never has. For at least five thousand years, civilizations have made significant progress only when they were in touch with other cultures.

While Japan kept herself sealed off from the world, Japanese technology made little progress. After Japan opened up to new ideas, she led the world.

But contact and trade are not integration. Two nations can fertilize each other's technical and social ideas only if they remain separate, and each develops its own way. If they merge, the cross fertilization of ideas is lost.

The cultures of China led the world in technology until they were merged into a single empire with one ruler. Then progress stopped for more than a thousand years.

If China had not been unified progress would probably have continued and the individual nations that now comprise China would probably have dominated the world through most of human history.

But the price of unity was stagnation, and, tied by imperial red tape, China could not resist the foreign influences that made it subject to smaller and weaker nations.

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## **NOT ISOLATIONISM**

We need the kind of inter-action that comes with trade and, where one country has a significant advantage over another, *Ricardo's rationale* applies. It would not make sense for Canada to grow bananas and oranges, or for Switzerland to build a deep-sea fishing fleet.

But along with the concept of comparative advantage we must also adopt the principle of 'acceptable advantage.' We can accept an advantage based on climate or technology or even market, but we ought not accept one based on unacceptable working conditions, lax ecological controls or extortionate profits.

Some people will import luxuries just to be different, but luxuries are not important. More than 2,000 years ago, wealthy Romans ate hummingbirds' tongues. They might have complained if there were a shortage of hummingbirds, but they would not have suffered much. If they had been unable to buy wheat, people would have starved.

The alternative to a global economy is a world of national economies, and that offers some obvious benefits. One of the most obvious is that market adjustments in a national economy occur within the country, and create no major problems. Market adjustments in a world economy occur outside the country, and they may create serious problems.

If *Beta* brand whiggles are better than *Alpha* brand whiggles the Beta company will capture the whiggle market, and if Alpha can't catch up it will go broke.

If that happens within a national economy there is no problem because when Beta expands it hires some of the whigglemakers that Alpha lets go, it buys parts and supplies from Alpha's old suppliers and it may even buy Alpha's plant and warehouse. Beta won't take all of Alpha's people and property but, because Alpha was a small part of the economy anyway, the loss is not important.

But a failure in the global market is a big failure. If the *American Global Whiggle Co.* makes whiggles for the world it will be very big, and important to the American economy. If it loses out to the *Boogleoogle Planetary Whiggle Co.* -- or closes its American plant to open a new one in Boogleoogle -- it creates problems for all Americans.

One is that unemployed American whigglemakers can't move to Boogleoogle to find jobs. When the American company fails all American whigglemakers will be unemployed, and so will the

employees of the suppliers and service companies that based their business on the American Global Whiggle Co.

Instead of a minor adjustment the loss will be a disaster that will leave empty plants and warehouses, and bankrupt suppliers.

Another advantage of a national economy is that it is under national control. Within Canada the federal and provincial governments control our banks and make sure they don't take unreasonable chances but American banks take risks and, as we saw in 2008, they don't always win. That's a problem because, as we have seen several times, the problems of banks anywhere in a global economy can affect the world.

A national economy also has the advantage of shorter supply lines. For the world that means less transportation and therefore less ecological damage, but it also means more dependable supplies.

The *Manicouagan* and *James Bay* areas of Quebec have a comparative advantage over other areas for generating electric power. Hydro Quebec took advantage of that by building huge power dams in those remote areas and sending the power over hundreds of miles of high-tension lines to cities.

The power was cheap but the strategy backfired in January of 1998, when an ice storm broke the high-tension lines. The city of Montreal lost power for nearly two weeks, and some areas were shut off for more than three weeks.<sup>119</sup>

If the same storm had hit Toronto we would have suffered damage but, with power plants to the east, north and west and within the city itself, we would have kept some power.

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<sup>119</sup> Seguin, Rheal "75,000 face fourth week without power," *The Globe and Mail*, Jan 26/98, Metro edition, p A6.

## THE CHANGE IN OUR CLIMATE

We would like to think that the storm that hit Montreal was unusual but the unfortunate fact is that it was just part of a pattern we have seen in the weather of the past couple of years. That pattern has also included a snowstorm that isolated people in the Fraser Canyon and floods in Quebec, on the prairies and in Nova Scotia, floods in the deserts of Southwestern USA and in Europe, and huge forest fires in Indonesia, Alberta and Mexico.

This year we have seen terrifying storms, killer heat waves and huge wildfires in the United States, and a single storm that dropped more than 11 inches of rain and drowned more than 100 people in southern Russia.<sup>120</sup>

With or without greenhouse gasses, the world's climate is changing and nobody knows for sure what the change will be. One possibility is the start of an ice age within a few years.

While the Arctic Ocean was frozen there was little snowfall in the far north, and the snow that fell in winter would melt in the summer. With the sea open water can evaporate, snowfall will increase and, if more snow falls in winter than melts in summer, glaciers will move again.

We can't stop the change in climate but we can prepare for it. The obvious way for a nation to prepare is to make itself completely self-sufficient, so that no natural or economic disaster anywhere else in the world can destroy or cripple the national economy. If California and Mexico lose their crops the north may run short of oranges, but we must be able to provide our own vegetables and other staples, and enough surplus to help the people of California and Mexico.

On a world level we will be able to handle most disasters if each nation is self-sufficient, and each has a small surplus. If California and Mexico lose their crops we must be able to feed ourselves, but

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<sup>120</sup> Kramer, Andrew E., *New York Times*, article printed as "More than 100 dead in Russian flooding," *Toronto Star* July 8/12, p A4.



humanity and common sense demand that we should also be able to help California and Mexico. By the same token if we are struck by disaster, a world of self-sufficient nations would be able to help us out.

A system of national economies would also reduce the possibility of a global plague. People would still travel but we would reduce the possibility of -- for example -- a man infected with a deadly disease packing sweaters to be shipped all over the world.

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## **THE TRAGEDY OF THE COMMONS**

Given the obvious problems why would governments, corporations and even scholars approve predatory economics, a colonial economy and even the global economy? Can no one see the damage they do?

Some of them must see it but, if so, they go ahead anyway. That's an example of the *tragedy of the commons*.

Traditional English villages had a field called the 'commons' where all villagers were free to graze sheep or cattle. The capacity of the field was limited but there was no way to limit the grazing rights of any individual villager.

If the field was over-grazed all would lose, but if any one villager reduced the number of his animals on the field he would lose personally. Because each individual stood to gain by grazing as many animals as possible for as long as the field lasted, many commons were over-grazed and ruined.

In the modern version of the problem it makes sense for self-centered individuals and corporations to support anything that promises a profit for them. Even if they know that their choice will harm or possibly

destroy their nation they can rationalize a belief that they could not prevent it anyway, so they might as well profit by it.

We saw examples of that when tobacco companies insisted that cigarettes cause no health problems and when oil companies pretended that burning fuel did not contribute to global warming, the destruction of the ozone layer or other problems; when food packers pretended that the lead solder used in cans did no harm and we see it now when they pretend that the Bisphenol-A in the plastic lining of a can does no harm.

A lawyer may know that the suit he prepares is unjust and that it will cause harm to innocent parties or to the economy, but he also knows that he will be well paid for his work. A politician may know that the policy he proposes will harm the country but he also knows that it will help the commercial interests that pay for his election campaigns and who may contribute to his retirement fund.

An oil-company executive may see the need to reduce our consumption of oil, but he will still work to increase it. He has to, because he is paid by the oil company -- not by the public at large. Even if he feels a responsibility to the rest of us, he knows that any attempt he makes to reduce our consumption of the oil he sells will probably increase his competitors' sales, harming the company he works for and doing no good to the world as a whole.

Besides, people who harm the commons can tell themselves that if they make enough money now they will be able to survive the consequences of their folly, whatever those consequences may be. Even some people who do not contribute to our problems form 'survivalist' communities in which they hope to live through an apocalypse. For a self-centered person, it makes sense to do whatever it takes to make enough money to survive.

That should be no surprise, because co-operation among males is a relatively recent evolutionary development. Even now, males of many species tend to compete rather than co-operate.

A pride of lions usually consists of one male, several females and some cubs fathered by the male. When another male takes over the

pride he kills all the old male's cubs. When a male cub grows up, it is driven out of the pride.

Occasionally two or three young males may team up to drive an older male away from his pride, but the coalition lasts only until one of the members becomes strong enough to drive the others away.

Many herds of grazing animals consist of one herd bull, his females and their young. Younger bulls may be tolerated, but only on condition that they don't act like bulls.

But human males co-operate. We can only guess at the reason but we can be fairly certain of our guesses. Over time all types of behavior appear, and the ones that work best survive because the animals or people who adopt that type of behavior survive and breed. They don't have to understand what they are doing; they just do it and live or die by their actions.

At some point in our evolution our pre-human ancestors learned that if they travelled in groups they were less vulnerable to predators. Later they learned that if they hunted in groups, they could become predators themselves. Other animals did the same.

But even when men live and work together they still compete. In primeval communities we competed with other males for mates and for prestige and position within the band. When we co-operated with the men of our own band it may have been in competition against males of other bands for territory, hunting rights or other advantages.

Most of the competition is now formalized but the roots are still there. When I meet a man of my own band I see a potential rival, and when I meet one from another band I see a potential enemy.

I don't consciously think that way because I am 'civilized' but under the veneer of civilization, I still have instincts. I can control them, but they are a force to be reckoned with.

The civilization that helps me control my instincts is supported by a network of traditions and laws that have evolved over thousands of

years and are still changing. The balance is changing too, from rule by tradition to rule by law.

Families don't need laws because they are ruled by common interest. They have a genetic bond, and all members of a family are concerned with the welfare of the whole family. Among clans or extended families some members will rank higher than others, but all will be taken care of. Any male who is not part of the family is an outsider, and he is protected only by his own strength and by the threat that his family may retaliate if he is harmed.

Bonds between members of a band are weaker than the bonds within a family but most of the members of a small band are relatives and/or friends, and each person still feels personal responsibility toward every other person in the band.

At this level they are ruled by custom or tradition, which is derived from the way members of the family treated each other. Custom, tradition or religion may also protect strangers but the males of the village still see each other as potential rivals, and strange males as potential enemies.

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## **LAW AND TRADITION**

At some stage decisions about who or what is right or wrong are delegated to a chieftain, priest or judge. Because such a person has significant prestige, his decisions become law.

Each judge has authority of his own but in practice each one has served as an apprentice judge for a long time, and an apprentice learns to respect the wisdom of his elders. Eventually the apprentice becomes a master but, after years of deferring to the decisions of his elders, he may not find it easy to change.

If today's judges were raised to respect the judges of their youth the idea of 'precedent' will develop. As the weight of decisions builds up

we have a body of common law that still rules most cases in England and, to a lesser extent, other parts of the world. The common law is derived from tradition but whereas tradition is enforced by the people as a whole, law is enforced by rulers.

That's an important difference because I must seek the approval of my family and friends and, by extension, other members of my culture, but I may not seek the approval of my rulers. If I am one of a conquered race -- an English Saxon, perhaps, in the days after the Norman conquest -- I may hate my rulers and while I may toady to them I may also try to kill them if I get the chance.

In a large society I have no ties of family or long friendship with most of the other members of my society and, in a mixed-race society, I may see some of them as positively alien. If my rulers belong to another race or religion, I may see them as oppressors.

Even when the rulers are members of my own race or band I may resent them because they take part of my living and, in many cases, they live much better than I do. In a so-called democracy I may resent both my elected representatives and hired civil servants, because I see them wasting my money and paying themselves more out of my work than I make myself.

Even with common law there is a major distinction between rule by tradition and rule by law. Tradition is what my family and friends expect and, as a member of society, I must comply. Law is what my rulers expect and if I don't respect my rulers I will not respect their laws; however wise and just they may be.

When law replaces custom the concepts of *right* and *not right* are replaced by *legal* and *not legal*. That's an important difference because while I may feel bound to avoid behavior which is *not right* I feel only the need to avoid getting caught at behavior that is *not legal*. That feeling will be reinforced if, as is often the case, I see members of the elite getting away with behavior that I know is *not right* and that may be *not legal*.

I also know that when people are caught and punished for crime, the punishment tends to be selective. In 1997 the average take in an

armed robbery in Toronto was \$3,000 and the average sentence for a convicted armed robber was five years. The average take in a fraud was \$17,000, but, according to Metro Toronto Police fraud squad officer Wolfgang Lott, quoted in the Sunday Sun, most people convicted of fraud were not sent to jail.<sup>121</sup>

The disparity is obvious and so is the reason. Fraud is the kind of crime a lawyer might commit. Crimes are tried in courts run by lawyers, presided over by judges who are also lawyers. Because they know that most frauds are perpetrated by people very much like themselves, lawyers can empathize with the perpetrator of a fraud. They feel no empathy for an armed robber, and they fear him.

Lawyers would probably offer a different rationale. They might say that armed robbery represents a greater threat to society than fraud. That may be, if you consider only the sectors of society that are more vulnerable to armed robbery than to fraud. On the other hand fraud is more likely than armed robbery to victimize people who can't afford the loss. Further; because we know that the law winks at fraud, we do not respect the law.

Lawyers themselves say the rule of law is preferable to the rule of tradition and well they might, because the difference is very profitable for them. We all know what is *right* and *wrong* and when rule is by tradition, there is little room for argument. If you take something that is not yours, or if you take unfair advantage of someone, you are *wrong*.

But *legal* and *not legal* are something else. Under the rule of law our courts are not interested in *right* or *wrong* only in *the law*. In this system a lawyer who can find a loop-hole can literally help his client get away with murder. In civil litigation the only safe assumption is that, whatever the facts, the richer party will win.

On the other hand if a lawyer really believes that the important distinction is between *legal* and *not legal* he need not worry about the distinction between *right* and *not right*.

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<sup>121</sup> Cairns, Alan, "Fake ID's, fraud's new face," *Sunday Sun*, May 18/97, p 12 - 13.

People who abuse the law and lawyers who help them do it both harm society but, like English villagers who grazed too many cattle and sheep on the commons, they believe that they as individuals gain more than they lose.

In any individual case that is probably correct. In a society of people who work for the common good, the individual who works only for himself will profit. Unfortunately the rule of law favors a society in which most people work for private profit at any cost.

If the best way to make a profit is to be a predator, many people will be predators. If there is profit to be made in propaganda-based businesses, people will pursue those businesses. If there are profits to be made in a global economy, some people will work to create a global economy. Because our economy believes in numbers rather than in human values people who work only for personal profit will, on average, have more power than those who honor human values.

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## TIT FOR TAT

*Social Darwinists* say that's how the world works -- that people who get more power and/or money are more *fit to survive* than others. That argument ignores the facts of natural selection.

Individuals don't survive very long anyway, and *survival of the fittest* refers to survival of the species, not of the individual. More than the abilities of the individual, it may depend on the way members of the species do or do not help each other.

Chimpanzees and gorillas are intelligent and very strong. They have no natural enemies and they are protected by law, but still endangered. Baboons are not as strong or as intelligent as apes, they are hunted by leopards and killed as pests by farmers, but their numbers are increasing. The apes are individually *fitter* than baboons, but the baboons cooperate better.

For years, a classroom game called *Prisoner's Dilemma* helped perpetuate the myth that self-centered people have an advantage over people who cooperate, but the same game eventually disproved it.

The scenario of the game assumes that two criminals who have collaborated in several crimes are arrested and questioned separately. The police have enough evidence to convict them of a minor offense, but not enough to convict them of a major offense of which they are also guilty.

Each knows that if both keep silent, both will be convicted of the minor offense and both will be sentenced to a short term in jail.

They also know that if one will confess to and testify about the major offense, he will go free and the other will get a long term in jail.

If both defect, both will get a medium term in jail.

In the game each player chooses an option for each round. If both choose to keep the faith they get three points each and if both defect they get only one point each.

If one player defects and the other does not, the defector gets five points and the 'sucker' who keeps the faith gets one.

The assumption was that a good policy in the game is a good policy in life and that 'survival of the fittest' has given us instincts that naturally incline us toward the best policy.

A player who defects will always win against a player who does not and, in classroom sessions, most players looked for ways to fool their opponents into keeping faith while they defected as often as possible.

But in 1979 Robert Axelrod, professor of political science at the University of Michigan, realized that short games could not tell the whole story. He argued that life takes more than a few hours to work out and he invited game theorists to write their strategy for Prisoners' Dilemma into a computer program. Axelrod would then run the different games against each other in a tournament in which each



game would consist of 200 moves -- far more than students have time for.

Fourteen people submitted games and the tournament totaled 120,000 moves or 240,000 separate choices.

The winner was a program called *Tit for Tat*, written by professor Anatol Rapoport of the University of Toronto. In the first round of each game *Tit for Tat* cooperates with the other program and in each succeeding round it makes the same choice its opponent made for the previous move. It cooperates with any program that cooperates and defects on any program that defects.

*Tit for Tat* did not win a single game but it won the tournament on points because, even though it lost every game, it averaged a higher score than any other program.

In his analysis of the results Axelrod wrote of *nice* programs that cooperate when they can and *nasty* programs that try to win by defecting.

Eight of the 14 entrants in the tournament were *nice* programs and those eight took the first eight places. They won because they gained more points playing with each other than they lost against the *nasty* programs. The *nasty* programs won individual games but they lost the tournament because they lost more points when they played against each other than they won when they played against *nice* programs.

The results were so surprising that when Axelrod published them he announced a new tournament. This time every one of the 62 entrants knew *Tit for Tat's* strategy and that it was the one to beat.

It was no contest. *Tit for Tat* cleaned up and later simulations showed that it would have won five of six possible variations of the tournament. In the sixth, it would have come second.

In later analysis Axelrod found a couple of variations of entries that would have won that particular tournament but they were all *nice* programs and most of them would lose to *Tit for Tat* in most possible tournaments.

Animals win the evolutionary race by breeding more than others. In an evolutionary version of the tournament, in which each program would be rewarded by having one extra copy of itself entered in competition for each point it earned, *Tit for Tat* would have crowded most other programs out.

Further analysis of the tournament results indicate that a small group of *nice* guys who move into an area dominated by *nasty* guys will prosper, but a small group of *nasty* guys who move into an area dominated by *nice* guys will not.

It would take a book to analyze all the implications of Axelrod's tournament and Axelrod has written it<sup>122</sup> but we can sum it up in a few words, which I describe as *Rapoport's law*. The evidence is that, over the long run, nice guys finish first.

Axelrod's tournament proved that it's good policy to be nice and the 'evolutionary' variation of scoring suggests that nice people will eventually dominate any area they occupy.<sup>123</sup> This implies that we must be descended from nice people and from that it follows that our own inherent nature is probably nice.

A couple of years ago a program was developed that can beat *Tit for Tat* but this program -- called *Generous Tit for Tat* -- is even *nicer* than *Tit for Tat*.

In 2002 we got evidence that people are actually 'hard wired' to be nice. In two separate experiments at Emory University in Atlanta subjects played Prisoners' Dilemma while connected to a machine called a 'functional magnetic resonance imaging device' or fMRI. The machine scans the brain for activity and the research was intended to spot physical signs of the resentment players felt when their partners defaulted on them.

But it didn't quite work out that way. Instead it turned out that there were more signs of activity in the players' brains when they

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<sup>122</sup> Axelrod, Robert, *The Evolution of Cooperation* Basic Books, NY, 1984.

<sup>123</sup> Axelrod, Robert, *The Evolution of Cooperation* Basic Books, NY, 1984, p 164.

cooperated, and the signs indicated pleasure. In plain words, players who cooperated got physical pleasure out of cooperating with each other.<sup>124</sup>

It would take more than a single book to describe the whole of our problem, but we have looked at some of the more important factors. Let's run over them again, in a quick review.

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<sup>124</sup> James R. Rilling, David A. Gutman, Thorsten R. Zeh, Guiseppe Pagnoni, Gregory S. Berns and Clinton D. Kitts, "A neural basis for social cooperation," *Neuron*, Vol 35, 395-405, July 18/02. All the subjects in this experiment were women. Some people may consider that to be significant but *Rapoport's law* is gender-neutral, and it applies equally to men and women.

## RECAP

Our most important single economic problem is that a lot of people don't see the problem. They're doing well enough themselves and they would rather not think about the beggars on the sidewalks, people who live in parks and the working poor who depend on food banks.

They can't see the problems because they believe the numbers, but the numbers are cooked. The *Gross Domestic Product* does not tell us anything about the financial welfare of the nation and the unemployment figures don't tell us how many people are out of work.

Our official numbers do not distinguish between cost goods and benefit goods. This distinction is vital, and any valid accounting system must consider them separately.

The value of money is created by the goods and services that it represents and it can have no more value than those goods and services. Because of that, some dollars are more valuable to the economy than others.

*Root* dollars, created by the production of benefit goods, are valuable. *Derived* dollars, which are created by the cascade as root dollars pass through the system, have the same exchange value as root dollars but they are less valuable to the economy.

*Imagined* dollars are created when banks make loans. If they are used to create new capital goods they are as valid as the goods they pay for, but imagined dollars that are created to buy existing capital goods dilute the value of all other money in circulation.

Money is multiplied by two separate mechanisms, the *multiplier* and the *cascade*. The multiplier is a side-effect of the production of benefit

goods and it creates root dollars. The cascade is a side-effect of the distribution of wealth, and it creates derived dollars. Both are valid but production, and the multiplier it creates, are the foundation of wealth.

Our economy includes three basic types of activity which we can classify as *production*, *trading* and *predation*. Some types of predatory activity are illegal but others are legal, and some are based on the law. Most speculation and some of the activities of businessmen and lawyers are predatory activities, which can be compared to the piracy and highway robbery of an earlier era.

The first banks supported development, but some modern banks are predatory. Because banks can create their own money they don't have to pay interest on savings, and they drive us to invest in mutual funds. These funds can maximize their own profits by supporting and encouraging the destruction of existing businesses.

Some lawyers try to protect the public but even they profit from the activities of courtroom bandits who have destroyed major corporations and who increase costs for all of us. Courts of law help them in their predation, because the courts serve the lawyers rather than the public.

We are taught that *education* will improve our lives, but that's an illusion. Many of our economic problems stem from a shortage of practical training, and we actually have a higher percentage of university graduates than wealthier, and better-developed countries. Our universities serve themselves very well, but they do not always serve the country.

Interested parties support the pretense that the *global market* is a key to global prosperity. In fact it is the key to opulence for a few, and poverty for many. For equality and stability we need, instead, a global system of inter-connected local markets -- every one of them essentially self-sufficient.

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# HOPE FOR THE FUTURE

## WHERE DO WE GO FROM HERE?

Where do we go from here? We have a choice -- down or up. It would be easier to go down because that's the way we are heading.

At this point we still have a choice, but we must make it soon because if we go much further, we will not be able to turn back. We are dangerously close to the brink of *Hobson's spiral* and, if we go over the edge, it will be very hard to get out.

If we do go into the spiral we will wind up as part of the third-world, with some people literally starving in the streets. Instead of thousands of people living in parks we will have hundreds of thousands living in the huge shack-town slums that are typical of third-world cities.

In years to come more and more of us will have to live in fenced communities with armed guards to protect us from the homeless and the beggars. As the *World Trade Organization* gains political power the managers of major corporations may be immune to our national laws, as diplomats now have 'diplomatic immunity' and they may not be required to pay taxes.

And as the value of our money falls the numbers of the *Gross Domestic Product* will grow. Politicians will tell us with pride how well we are doing and economists will count the earnings of foreign-owned corporations, but ignore the fact that those earnings belong to investors who live in other countries or who live and make their fortunes among us but bank in other countries. Millions will have no

jobs but ‘unemployment’ will decline as more and more people lose their benefits. When governments adopt a new policy that counts only tax-paying citizens who live at fixed addresses, the official numbers for our average incomes will increase.

That’s a grim scenario, but it is unfortunately realistic. If you find it hard to credit remember that most North Americans of the 1950s and 1960s would find it hard to believe the world we live in today. When I was young we knew that the future would be full to technical toys, but we did not expect the social breakdown and the misery.

And as I said before, we still have time to change the future. Federal, state and provincial governments will resist change because they represent *takers*, rather than *makers*, and they serve the convenience of money rather than the needs of people.

We get the government we deserve and we got into the fix we’re in now partly by not asking questions -- but if enough people ask the right questions, politicians will hear them. If those politicians want to be re-elected, they will respond.

If a politician boasts of an increase in the *GDP* write and ask him why, if the *GDP* is increasing, we have more poverty. If he prates about ‘world economic conditions’ ask him why we are tied to a world gone mad.

When banks announce their profits for the year, ask them how much imagined money they created to buy existing assets and how much this deflated our existing money.

Bug the media, too. Write letters or phone the editor of your newspaper and the news director of your local radio and TV stations. Some TV news shows have a phone-in comment line. Use it.

The editors won’t answer your letters and they won’t provide the figures, but if they get enough letters their reporters will get the message and they will pass it on to the civil servants and politicians they deal with.

If enough people write enough letters, governments will have to take notice, and there are some things governments can do.

The first step might be to develop a system of national accounts that actually shows what is happening. The *GDP*, as we have seen, is worse than useless because it provides no useful information about the state of the country. It counts disasters as benefits and even now, after 20 years of falling average incomes, it still shows that North Americans are getting richer every year.

I won't try to work out the details of a new system myself but it would make a great hobby for an accountant. It would probably not pay off in cash but anyone who works out a system that is adopted for the national accounts can expect fame and, maybe, fortune.

Does that sound idealistic? Maybe, but at least one group of Americans is working hard to develop a new national accounting system for the United States. The organization called *Redefining Progress*, based in Oakland California, proposes to replace the *GDP* with a measure which they call the *Genuine Progress Indicator*, or *GPI*, which would include more than 20 aspects of the economy that the *GDP* ignores including the household and volunteer economy, crime, other defensive expenditures including the cost of air and water filters, repairs after accidents and so forth, distribution of income, resource depletion and degradation of the habitat, loss of leisure, and other factors.

The proposal is a good one but it misses the distinction I make between economic activity that creates wealth and economic activity that merely circulates wealth. I think this is important, because we have fallen for the myth of the 'post industrial economy.'

Whatever the new system it will have to recognize and allow for the difference between positive and negative economic activity, between cost and benefit goods, between root, derived and imagined dollars, and between the multiplier and the cascade.

This would obviously be much more complex than the system we have now but it would also be much more useful. A national accounting system should also keep track of our capital assets. In



earlier years most people assumed that the world was endless, and that we would never run out of resources, but now we know better.

It would be difficult to count all our national resources but we should try. No commercial organization would try to operate without an estimate of capital reserves and if we knew the truth about our natural reserves, we might see the need to take better care of them. We can't get an exact measure of the oil and other minerals we have left but we can get a rough estimate and we can count our remaining farmland, forests and other vital resources. A capital accounting might also report on the state of roads, railways, waterways and manufacturing capacity.

Better accounting would not solve our problems but it would show us where they are, and that would help. Human beings are social animals, and the one reward that we all desire is social approval. If money is the standard and predation is approved, we must expect that many people will choose to be wealthy predators. If cost and benefit goods are identified as such we can expect more respect for people who produce benefit goods. If predatory occupations are recognized as predatory -- and therefore anti-social -- we can hope that more people will choose productive careers.

The next step is to give North American producers of benefit goods a fighting chance in the marketplace and that's not as hard as it sounds. The *World Trade Organization* will not allow us to shelter our industry with import quotas and protective tariffs but there is another way. *WTO* rules demand equal treatment for domestic products and imports, but any taxes charged on domestic products can also be charged on imports. That's our loophole.

Most North American manufacturers are at a disadvantage because they have high 'labor costs' but many of those costs are not for labor at all. Employee benefits make up about 23% of a Canadian manufacturer's total 'labor cost' and paid time off for holidays, maternity leave and so-forth makes up another 15%. Together they add up to 38% of the total cost of 'labor.'<sup>125</sup>

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<sup>125</sup> Information from the *Alliance of Manufactures & Exporters Canada*.

We all agree that workers should get paid holidays, health insurance, unemployment insurance and pensions and other benefits, but maybe we should re-think the way we pay for them. Because we include them in the costs of our manufacturers we make it difficult for them to compete in the world market, and even within North America. In order to survive they must minimize or eliminate these costs.

In the short term they can minimize costs by making people work overtime rather than hire extra staff. In the long term they can replace human workers with machines or they can move production to a country where workers do not receive benefits.

Any manufacturer can avoid the cost of workers' benefits but we, as consumers, can't. If we don't pay for them by buying North American goods we will pay for them in unemployment benefits and welfare and, ultimately, in the cost of crime and police protection. One way or another, the piper will be paid.

So why not accept reality and pay for workers' benefits when we buy the goods? I don't like point-of-sale taxes any more than anyone else does, but I don't like a bankrupt country either.

Suppose all the benefits that manufacturers now have to provide their employees were paid by the government out of revenue from a tax collected on all retail sales. The benefits would be essentially the same as now but instead of the cost being built into the production cost of North American-made goods, it would be financed by a tax on the retail sales of all goods.

This one change would nearly 'level the playing field' between North American and third-world manufacturers. Because the benefits tax would not be collected on exports, it would make North American goods more competitive in world markets. Because it would be collected on imported goods here, it would eliminate the advantage now enjoyed by foreign producers who offer their employees no benefits.

This is not just a short-term patch. It's the rational way to manage a social welfare system. It's easy for governments to prescribe benefits and demand that private employers handle the paperwork but that

system is obviously inefficient. The benefits are prescribed by the government and in some cases actually paid by the government, so why not let the government handle them? The rational way is to let the government handle social welfare, and let private industry tend to its own business.

A benefits tax would also make it easier for companies to hire employees. In too many cases a company that needs a few extra employees finds it cheaper to pay overtime to existing staff than to hire extra employees, because of the cost of benefits and the problems associated with layoffs. If companies did not have to pay for benefits they would find it more practical to hire the people they need than to overwork the people they have.

Such a tax would present a few problems, but none that could not be handled. Stores that sell low-wage third-world goods might have to raise their prices but prices of North American-made goods would be reduced.

But unless governments use the new system as an excuse to raise taxes, the overall cost of living should remain stable. We are not buying new services, after all, we're just paying for them in a more equitable way.

A competent government would find a way to administer point-of-sale taxes without creating a nightmare of paperwork for the public and a dream world of sinecures for civil servants. That sounds like a vain hope, but an aroused public could demand it.

A benefits tax in North America would also give low-wage countries a chance to develop their own economies.

They can't develop in today's world because most third world countries are locked into a neo-colonial system that discourages real development.

The third world needs help but we can't help it by using its people as cheap labor to produce luxuries for the first world. What the third world needs is to produce goods for its own use, and to pay its workers enough to buy them.

Remember that Henry Ford transformed the United States by doubling the minimum wage in his factories. The only way third world industries can sell to the first world is with cheap labor, but as long as they rely on cheap labor they will never be able to raise wages and they will never benefit from the Ford effect.

## CONTROL THE BANKS

Aroused citizens could also demand that government change our banking system, and perhaps bring it under public control. The banks won't like that, of course, but when they create money they perform a function of government. If they perform a function of government, should they not be controlled by government?

Certainly, public debt should be funded by a public bank. It's ridiculous that private banks are allowed to create public money and then hold the country to ransom for interest on that money.

But whatever we do with national banks, we need local banks too. If the people of Elk's Elbow or Boondock want their own bank they should have it, and it could be private or run by their local government as they choose. The local bank would be allowed to operate only in and around Elk's Elbow or Boondock.

And whether banks are public or private, we can't allow the unrestricted creation of *imagined* dollars. Banks have to be able to create money to finance new ventures, but they must not be allowed to create imagined dollars to buy existing capital goods. As we have seen, that devalues all money.

Some businessmen want to buy and others want to sell existing businesses, and that's no problem if they do it with existing money. They could if we had savings banks, which would hold our savings and pay interest on them. Such a bank would not be allowed to create imaginary money but it could cater to the needs of wheeler-dealer businessmen, and it would provide other North Americans a safe place to make a reasonable return on savings.

This would not benefit the booming mutual fund business but, since the funds appear to do more harm than good to the national economy, I do not see that as a problem.

As we have seen the stock market offers a venue for predatory economics, but it could serve a useful function in society. If people understand that gains on the stock market may represent losses to the economy as a whole, stock traders may be encouraged to work for the long-term welfare of the economy rather than for short-term gains.

In a rational economy the primary function of a stock market would be to finance new, productive business. We might even consider formation of a new stock market, to deal only in the stocks of new companies that produce benefit goods. Because investment in such stocks would be potentially risky and because it would be beneficial to society, a rational government might forgive some taxes on profits from such stocks.

A rational government might also consider a punitive tax on predatory speculation. Such a tax would be vigorously opposed by speculators, of course, but there is no question that it is justified.

The law discriminates against theft, robbery and fraud because those activities harm the victims, and society itself. Speculation also harms the victims who have to pay inflated prices and it harms society itself because it debases our national currency.

We can't outlaw speculation because an honest investor may make speculative gains by accident, and because some futures traders have honest motives. If a company promises to deliver a product at an agreed price it must be able to guarantee the cost of raw materials, so futures trading is a legitimate part of some businesses.

If a company actually uses the goods it buys futures in, and if it buys futures only in goods it can use, there will be no speculative profit and no need for an extra tax.

But predatory speculation is easy to recognize, and it can and should be taxed at a punitive level.

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## **FUNCTIONAL SCHOOLING**

A rational government would improve elementary schooling and might reduce funding for advanced schooling. Most business and professional education would include apprenticeships, which would combine school and practical experience in the real world.

One advantage of this system is that it would provide an automatic match of supply and demand. If there were no apprenticeships available for buggy-whip braiders, no school could offer a publicly-funded course in buggy-whip braiding.

The educational establishment insists that schooling is the key to prosperity, and that's true, in a way. The problem is that we are getting the wrong kind of education, and that for the most part our schools are a cost rather than a benefit to the economy.

We do need more education but we need education, and training that are matched to the needs of the economy rather than to the preferences of the schools and to dreams that most students will never realize.

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## **REAL ENVIRONMENTAL PROTECTION**

A rational government would also take real steps to protect the environment. Our governments now pretend to protect the environment with grants to groups that talk about environmental

issues, but the time for talk is past. Now we need action, and we can get it with taxes.

We know that excess packaging, for example, is good for vendors but bad for society. Vendors like packaging because they can print advertising on it, but packaging uses materials that will someday be in short supply and, when we throw it away, it increases the cash and environmental costs of garbage collection and disposal. A rational government would tax packaging, for the protection of the environment and because excess packaging increases the cost of publicly-funded garbage collection.

Some packaging is necessary, but it could be returnable. Some states mandate a deposit and return on soft drink bottles and cans, and such a system could be extended to other packaging. If delicate electronic goods require elaborate packaging, the packaging should be returnable to the vendor.

A rational government would also place a heavy tax on gasoline and diesel fuel. This would encourage people to conserve fuel, and the technological changes it would encourage would help our industry.

North America lags behind most of the developed world in fuel efficiency technology for housing and transportation, but this is mostly a marketing problem. We could make more efficient vehicles here, but present regulations encourage waste.

The ultimate questions we have to answer are ‘what function do we want our economy to serve’ and ‘what kind of country do we want to live in?’

Is the economy to serve our whole population over the long term, or a few people over a short term? Is it acceptable that we have beggars and \$500,000 cars on the same streets, and that some people in our society have multi-million dollar yachts and private jet planes while tens of thousands of families have to beg food from food banks?

Alfred Marshall did not think so. ‘There is,’ he wrote, ‘no moral justification for extreme poverty side by side with great wealth.’

It's ironic that his ideas have been twisted to justify the situation that he said could not be justified.

We're way off track now but there is another way, and we can take it if we choose. We pretend to be rational and, if we really were, we could all live a lot better.

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