Will Canada Choose the American System or Collapse with the British?

by Rob Ainsworth

> *Two systems are before the world.... One looks to pauperism, ignorance, depopulation, and barbarism; the other to increasing wealth, comfort, intelligence, combination of action, and civilization. One looks toward universal war; the other to universal peace. One is the English system; the other we may be proud to call the American system, for it is the only one ever devised, the tendency of which was that of elevating while equalizing the condition of man throughout the world.*
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> —Henry C. Carey, *Harmony of Interests*, 1851

The legacy of Canada lies between two poles: the American and the British. Today these two antagonistic systems are best characterized by, on the one hand, Lyndon LaRouche and the Franklin Roosevelt tradition; and on the other, by the avarice and parasitism of the London-spawned hedge funds, predominantly centered in the British Cayman Islands. It is the hedge fund, the cancer of the financial system, which is at the center of the now-trembling global derivatives bubble, the greatest speculative bubble in recorded history, measured not in hundreds of billions, but hundreds of trillions of dollars.

This system, of usury, of people sacrificed to support the weight of unpayable debts, of no restrictions but those imposed by financial power; this system, which, if continued, will ruin civilization for generations to come, must be terminated and replaced with the American System, which recognizes the only source of economic wealth to be the human mind, in those creative powers which allow us to increase our power in and over nature. This distinction, between man and beast, is the central issue of economics. Economies which fail to recognize this principled difference must inevitably collapse; such was the case during the Great Depression, when almost every Western nation, *except the United States of Franklin Roosevelt,* was dominated by fascist or pro-fascist governments. War was and is the inevitable result of the British System, known today as Globalization. Canada must choose one or the other; there is no longer any room for vacillation.

The international financial system burns; former Federal Reserve chairman Alan Greenspan confesses to his own lifelong incompetence[1]; and European pundits use the much feared "D" word; meanwhile, the intellectual and political leadership of Canada seems to be frozen in time, gape-mouthed, unless they are blathering nonsense about the continuing prosperity of Canada's economy, the low unemployment rate, or the rising value of the dollar. If any reporting of the crisis does creep into the media, it is universally described as being isolated to the United States, or to Europe, or to a particular sector of the financial system, as if the roaring forest fire were simply the statistical accumulation of countless individually (and coincidentally) burning trees.

In these times of shameless acts, of folly, incompetence and denial, Canada has reached a physical-economic boundary condition akin to the state of collapse in America. Our infrastructure is approaching the point of failure; farms and small industrial enterprises are disappearing; the productive sector has been in recession for years, while the "booming" sectors of banking, insurance, retail, and real estate have begun to "BOOM" in a different way. Several reports on the actual state of the Canadian economy have been issued in the past months, disconcertingly at variance to the blithe forecasts of the finance minister.

Thus, Canada is faced with an existential question that most have wished to avoid. Too long have we neglected our national destiny: *to build a great continental nation*; not to haplessly carve out a strip of ground, stretched precariously along the U.S. border, and neglect our great hinterland. Certainly not to squat on our haunches and praise ourselves for so efficiently wasting the future's patrimony! Have we forgotten the names of our forebears, those who built our cities, farms, and industries, laid our railroads, or constructed the vital canals of the East? Will we bow to our British colonial past, or look up to a future free of divide-and-conquer games, played between English and French, or East and West?

Up to this time, most Canadians have felt reasonably insu-

1. "The record of forecasting not only of myself and of companies I have developed, but of the profession as a whole, is not particularly spectacular," Greenspan said. "I've been forecasting since the early 1950s. I was as bad then as I am now." Former Federal Reserve chairman Greenspan to National Public Radio, Dec. 31, 2007.

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lated from the distant rumblings of economic tumult, assured by our banks that Canada's financial institutions had not been dangerously exposed to the "toxic waste" of the U.S. subprime mortgage sector. However, as this article is being written, the Canadian Imperial Bank of Commerce announced the firing of CIBC World Markets CEO Brian Shaw and the head of the unit's risk operations, Kenneth Kilgour. The departure of the two executives was preceded by revelations that CIBC, the stock price of which has plunged by 30% since September, has as much as $9 billion, and possibly more than $10 billion, worth of subprime exposure, much of which is hedged with failing bond insurers such as ACA Capital. Analysts at the bank acknowledge that CIBC could handle as much as $3 billion in losses, but beyond that, the bank will be essentially insolvent. The Bank of Canada asserts that it will do whatever is necessary to defend the private banking sector, which is far more concentrated than even the U.S. financial system. For Canada, the failure of a major bank, of which there are only five, would mean chaos.

Another threat on the horizon is the $130 billion of Asset Backed Commercial Paper (ABCP), which Canada's banks sponsor and for which they provide liquidity support. Some $35 billion of these derivatives consist of indirectly sponsored "non-bank" ABCP, while another $81 billion is directly sponsored by the banks. According to the Bank of Canada's December 2007 *Financial System Review*, the majority of the "non-bank" ABCP is derived from highly speculative collateralized debt obligations (CDOs), an international market in the many trillions of dollars which is ripe to explode.

Perhaps the greatest threat to Canada's economy is its massive dependence upon exporting to the United States, which accounts for as much as 45% of Canada's GDP. As the U.S. collapse accelerates, more and more sectors of Canada's economy are slammed with job losses, plant shutdowns, and recession. In the October 2007 *Economic Statement* issued by the Ministry of Finance, the government acknowledged that almost the entirety of Canada's productive sector was in recession—the worst being the auto sector—and had been since at least 2005. The loss of manufacturing jobs in Canada, between November 2002 and July 2007, has totalled 288,300, as much as 12-13% of the total manufacturing base, an utter disaster when considered in light of the imminent infrastructure crisis facing the nation.

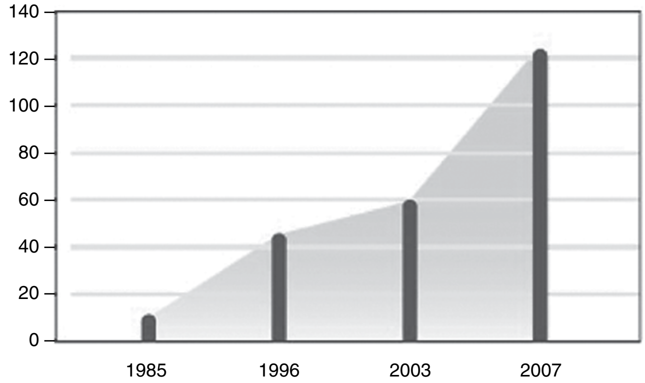
The Infrastructure Crisis

In November 2007, the Federation of Canadian Municipalities (FCM) issued a devastating report entitled "Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure," which grabbed headlines at the time. It was long recognized that Canada's cities were floundering amid increasing costs and economic commitments, while being unable to run deficits or win adequate additional funds from the Federal or Provincial governments. Over the past 15 years, both the Liberal and Conservative governments have lauded themselves for their wise and scrupulous management of the economy, reducing our national debt by tens of billions of dollars, balancing the budget every year, and often posting astonishing surpluses, which the Conservatives have used as an excuse to grant extensive tax cuts. What was not explained to the credulous public, was that in order to achieve such wonderful objectives, we have gutted investment into the very systems upon which we depend to survive. The cities, faced with rising costs and no new sources of revenue, cut into their capital budgets, which, as explained in the FCM-McGill report, "do not face the same immediate pressures as operating expenditures, making capital investments easier to delay."

FIGURE 1

Canada's Municipal Infrastructure Deficit

($ Billions Canadian)



Source: Federation of Canadian Muncipalities

As a function of the rejection of the Franklin Roosevelt paradigm and the open-armed embrace of the "post-industrial" and increasingly "post-human" utopia of the Information Age, Canada's municipalities require an immediate infusion of *at least $123 billion* to resuscitate and replace old infrastructure, in addition to *at least $115 billion* to expand infrastructure systems to meet the demands of the population.[2] It is to be emphasized that this infrastructure deficit is proportionally either on par with or worse than the American Society of Civil Engineers' assessment of the U.S. economy; its 2005 "Report Card on U.S. Infrastructure" *placed America's infrastructure deficit at a staggering $1.65 trillion* (*EIR*'s own estimates place the actual infrastructure investment nec-

2. In addition to this massive sum, since municipal infrastructure accounts for approximately 50% of total Canadian infrastructure, a reasonable estimate of the total investment needed for the Canadian economy would be almost $500 billion. Notably, this sum does not include any new great projects such as high-speed or magnetic levitation trains, or water-management projects such as NAWAPA, which are just as essential to the future prosperity of the nation.

essary in the several trillions of dollars).

The FCM-McGill report states that, "across Canada, municipal infrastructure has reached the breaking point. Most was built between the 1950s and 1970s, and much of it is due for replacement. Given the municipalities' already strained fiscal situation, we are rapidly approaching a tipping point on the infrastructure deficit, one that will seriously harm both our quality of life and our competiveness and productivity." The report continues, "between 1955 and 1977, new investment in infrastructure grew by 4.8 per cent annually. This was a period of intense capital investment that closely matched Canada's population growth and rate of urbanization. This period stands in stark contrast to the 1978 to 2000 period, when new investment grew on average by just 0.1 per cent per year."

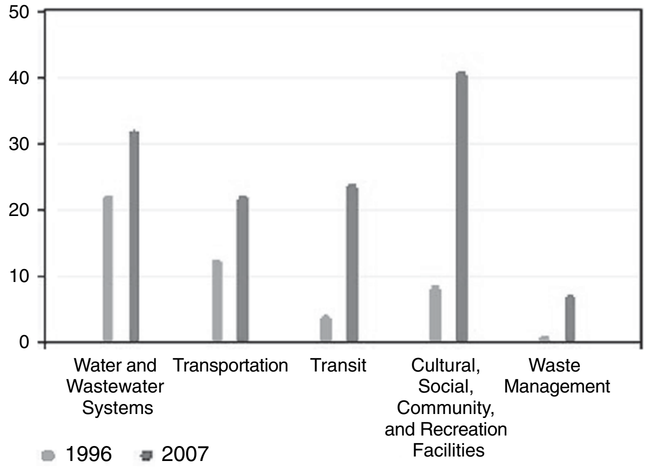
Seen behind these numbers, is the shift away from successful American System policies, inspired by the actions of Franklin D. Roosevelt, and toward radical monetarist policies, typified by former Federal Reserve chairman Paul Volker's "controlled disintegration" of the U.S. productive base, initiated with the bludgeoning inflicted upon the economies of the West between 1979 and 1981. From 2000 onward, Canada's municipal capital spending rose significantly, averaging 7.5%, but the report warns, "This recent growth in infrastructure spending should not be considered a solution to the infrastructure deficit.... [T]his increase in investment has not met the annual rehabilitation needs of existing capital stock, or alleviated the backlog of maintenance and rehabilitation that accumulated over the [past] decade."

The report proceeds to reveal that "only about 41 per cent of Canadian infrastructure is 40 years old or less. The age of 31 per cent of the assets is between 40 and 80 years, while the remaining 28 per cent is more than 80 years old.... Canada has used up about 79 per cent of the total service life of its public infrastructure. Moreover, it should be noted that infrastructure deterioration accelerates with age." The report closes by asserting that "the results of the 2007 FCM-McGill survey point to a single, inescapable conclusion: that much of our municipal infrastructure is past its service life and near collapse."

FIGURE 2

Infrastructure Deficit by Category in 1996 and 2007

($ Billions Canadian)



Source: Federation of Canadian Muncipalities

Where Is the Government?

It would seem reasonable to ask what the position of the Canadian government is on this issue. Conservative Finance Minister Jim Flaherty, when questioned on the survey, told reporters that "we're not in the pothole business in the government of Canada" (meaning, meeting the needs of constituents). He said that the cities should stop "whining" and "do their job."

At the same time, Flaherty boasted of a $33 billion infrastructure fund, which the Conservative government introduced in the 2007 budget; however, despite his bragging about the largest infrastructure fund "in modern times," the truth is far from grand. The $33 billion is to be spent over seven years; and, according to Calgary Mayor David Bronconnier, the deal includes a score of pre-existing funding agreements, "repackaged" for optical effect. When questioned by this writer, several Conservative Members of Parliament insisted that this fund was exactly what was needed to solve the infrastructure crisis; yet, as it turns out, the country will be fortunate if this fund merely slows the rate of depreciation and collapse. In addition, the $33 billion fund is premised upon the forecast of continued budget surpluses in the coming years, which, considering the maelstrom on the international financial markets and the rate of collapse of the planet's physical economy, is a wishful proposition at best.

The government's response to these criticisms would be to declare that it is also taking steps, as indicated in the 2007 budget, to ensure that Canada becomes "a leader in public-private partnerships" (PPPs). The budget indicates that the models for Canada are "world leaders in promoting and engaging public-private partnerships." On the one hand, the bankrupt economy of the United Kingdom, and on the other, Australia, which "enjoys one of the most developed P3 markets worldwide," but is now in the greatest freshwater crisis in its history, due to its failure to build its water-management systems! In any case, the PPP model is already doomed, since the "credit crunch," which became a "liquidity crisis," but was really a "solvency crisis" of the entire system, has demonstrated that, when even the giant hedge fund Blackstone fails to raise sufficient cash for a puny $1.8 billion leveraged buy-out, there is no money to be had.

Canada Needs a Capital Budget

The world economy is doomed to a collapse without end, unless governments cast aside their foolish adherence to British policies of free trade, monetarism, and *laissez-faire* economics. It is time for Canadians to revisit their own history, for despite the insistence of today's free-market ideologues, Canada was not built by British policies or free trade! It was built in spite of the British, with the same ideas and policies that transformed the United States into the great nation which it became under the guidance of leaders such as John Quincy Adams, Abraham Lincoln, and Franklin Roosevelt.

Capital budgeting and national banking are the means at our disposal to ensure that the physical economy is developed appropriately, as emphasized by Lyndon LaRouche. In Canada, as in the United States, the government has the power to create money which can be used to develop the physical economy, creating productive jobs, and improving the productivity of the population. Neoliberal economists and financiers may scream at this assertion, yet these same hypocrites will not hesitate to throw trillions of dollars into the black hole that is their now-bankrupt financial system.

The American System is the means by which we will be able to deal with the looming physical-economic boundary conditions which are being expressed through the collapse of municipal infrastructure. The model of FDR's Reconstruction Finance Corporation is instructive. Through the RFC, Roosevelt financed the Tennessee Valley Authority, the rural electrification of the United States, and the building of other great projects. Similarly, the Bank of Canada, *which is wholly owned by the government*, played a crucial role in financing the construction of the St. Lawrence Seaway in the 1950s, one of the most important infrastructure projects in our nation's history, the economic and financial gains derived from which are beyond all reckoning. Or consider the government's role in the late 19th Century, *under the influence of the protectionist National Policy*, of financing the construction of two continental railways, industrializing the country, and settling the West; if the government had not taken up this challenge, western Canada would today not exist as an economic/political entity, and nor would Canada today have one of the highest living standards in the world.

The Canadian government, using its power to create money, can capitalize a Federal institution, new or previously existing, such as an Infrastructure Development Bank, which can then be the lending facility for billions of dollars' worth of projects, with low interest rates and reasonable terms of repayment. The revenues generated by the bank can then become new capital for lending. In this fashion, with prudent management and cooperation, we can build ourselves out of the crisis, borrowing from ourselves, and paying ourselves back. Our sovereignty is preserved, the General Welfare is promoted, including that of our posterity, and the people will be happy and industrious.

Unless Canada breaks from the accepted way of doing things, and stops capitulating to the City of London and the City's Canadian financier allies, Canada has no future. The population will not be sustained at its present standard of living, and under a general breakdown of the international order, it is uncertain that the nation could maintain its integrity. The British Empire was erected and sustained on the corpses of those who allowed themselves to be drawn into self-destructive conflicts, who fell into British cultural or geopolitical traps. Canada has been managed since 1763 primarily by turning the population against itself, ensuring that the people remain weak, divided, and preoccupied: a country easily controlled and predictable, like today's drug or cyber-culture addict.

Money is the tool of government, government is not the tool of money; no nation is sovereign if it does not control its currency. Should our current batch of ne'er-do-wells in Ottawa fail to understand this difference, and to understand that *the purpose of government is to aid the people's intellectual and moral-development,* there is little hope for Canada's once-bright future; however, if they take the advice of Lyndon LaRouche and the Canadian LaRouche Youth Movement, Canada will become a great nation, and realize the promise of past generations.

If You Thought Adam Smith Was The Founding Father of America's Economic Strength—

Think Again.

READ

Friedrich List: Outlines of American Political Economy

"I confine my exertions solely to the refutation of the theory of Adam Smith and Co. the fundamental errors of which have not yet been understood so clearly as they ought to be. It is this theory, sir, which furnishes to the opponents of the American System the intellectual means of their opposition."

—Friedrich List

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