

**Today's Notes:**

- 1. What the Future will Look Like**
- 2. How Not to Buy Gold**

**1. THE FUTURE**

Yesterday I suggested that you read a column in the Toronto Star from Sunday, October 5th. I thought that it may suggest the way things will be transformed with a new financial system and particularly within a new and possibly left-wing US Administration. I include the article for your education in whole. Your thoughts are important on this issue.

**So much for the 'free' market. Now what?  
Faced with a choice between Chinese- or Swedish-style  
capitalism, which road will U.S. take?  
October 05, 2008**

**Thomas Walkom**  
NATIONAL AFFAIRS COLUMNIST

In 1944, a Viennese-born economic historian named Karl Polanyi wrote that the world was at a turning point.

The events of war and depression, Polanyi said, showed that the self-regulating free market was no longer viable. Its cycles of boom and bust were too destabilizing.

As a result, he wrote in *The Great Transformation*, nations faced a choice between authoritarianism and democracy. But even democrats would have to realize that their economies required regulation, needed to be "embedded" in society so as to meet social aims.

As it turned out, Polanyi was ahead of his time. But the financial crisis now unfolding around the world suggests that he was not that much ahead.

The collapse that began on Wall Street has finally put paid to the myth of the free market. As Polanyi predicted, the world has been left with two alternatives, albeit not quite the ones he envisioned.

On the one hand is authoritarian capitalism, as practised by China, Singapore and (with less success) Russia. On the other is social capitalism, as practised by some Western European countries and, until recently, Canada.

Under authoritarian capitalism, the state tends to resolve any contradiction between markets and society by favouring markets.

Under social capitalism, it tends to do the reverse.

Modern China is the most brutal example of modern authoritarian capitalism, and the most successful. In China, the Communist Party maintains a hold on political power in part to prevent citizens from disrupting the market economy that has allowed that country to thrive.

The pact it makes with its citizenry, one successfully pioneered by the city-state of Singapore, goes something like this: We'll let most of you, or at least a good chunk of you, make money; in return you let us, the ruling party, have a monopoly over political power and a cut of the action.

Hence, effective trade unions are discouraged or banned outright; workplace benefits are largely non-existent; disputes between businesses and individuals are decided, often harshly, in favour of business.

At one level, authoritarian capitalist nations are subject to the same problems as laissez-faire states. Indeed, the current financial crisis affects both Russia and China.

But in authoritarian states, there is no pretense. American lawmakers may anguish over their lost innocence when they meddle with markets. By contrast, the Russians simply suspend stock exchange trading if they think the markets might produce results the Kremlin doesn't want.

Social capitalism has a more complex history. It began as an anti-capitalist movement, known usually as social democracy or non-revolutionary socialism.

In Canada, for instance, the Co-operative Commonwealth Federation, the forerunner of the New Democratic Party, was founded on the principle of central planning.

A relatively typical social democratic party, the CCF envisioned a world where experts and planners employed by government would set the broad parameters of economic policy and where the state would own the major actors – the banks and the big firms.

Over time, social democrats abandoned central planning and embraced instead the idea of a so-called mixed economy, in which the state would undertake limited economic activities leaving the private sector to do the rest.

By the 1960s, social democrats weren't much different ideologically from mainstream liberals – who also argued that the state had a role to play in a largely market-driven economy.

In Canada, that affinity is one of the reasons why the Liberal party has been so quick to borrow the ideas of the CCF/NDP.

But social democracy too came under attack, particularly during the '80s and '90s. European social democratic governments were accused of ignoring productivity, coddling workers and saddling their taxpayers with expensive welfare programs.

By the '90s, even in traditional social democratic strongholds like Sweden, a backlash was taking place. Privatization and deregulation became the order of the day. Germany was chastised for allowing trade unions too much authority and France for permitting workers too many paid holidays.

Some social democratic parties took this advice to heart. In the '80s, New Zealand's Labour government converted to free-market orthodoxy.

Britain's Labour Party, faced with unique problems including Irish terrorism, race riots and a broad underclass of unemployed louts, adopted a more Chinese approach.

The so-called New Labour solution of Tony Blair was to marry the free-market economics of former Conservative prime minister Margaret Thatcher with police-state methods designed to keep disruptive and marginal groups in line.

These included anti-social behaviour orders (whereby individuals can be barred from engaging in lawful activities ruled distasteful), control orders (allowing those labelled as terrorists to be penalized without trial) and constant state surveillance of public spaces via closed-circuit television.

Unfortunately, Britain's Blairite authoritarians didn't spend enough time taming the market. That country has been badly wounded by the credit crisis, as have other nations that moved too enthusiastically into free-market deregulation including Ireland and Iceland.

Nations that were slower to deregulate, like Canada, have fared better. Prime Minister Stephen Harper is right when he says that. What's ironic is that if he and other aficionados of the

unfettered free-market had been in charge earlier, Canada's financial system might well be in more trouble than it is.

The great question that remains is what the U.S. will do. It's never been the pure private-enterprise nation that it claims to be. Historically, government has played a key role in American economic development and continues to do so, usually under the guise of military spending.

But more than any other nation, America cleaves to the ideology of free-markets. The reluctance of the U.S. Congress to do the sensible thing and bail out Wall Street stems not just from know-nothing populism, but from a deep-seated belief in market capitalism that is central to the American world view.

Logically, as a democratic nation faced with Polanyi's choice, the U.S. should favour social capitalism over its more authoritarian counterpart. But as the presidency of George W. Bush has demonstrated, there is an anti-democratic, anti-civil libertarian strain in American thinking that clever politicians can easily exploit.

Faced with a choice between suppressing markets to encourage freedom or suppressing freedom to encourage markets, what would Americans do? Would they really follow the road of China rather than, say, Sweden?

It's hard to imagine. But then it was hard to imagine the nation that produced the formidable U.S. Constitution and its Bill of Rights rallying behind Bush when he authorized torture, illegal war and the obscene prison camp at Guantanamo Bay.

*Thomas Walkom writes on political economy. His regular column appears Wednesday and Saturday.*

One of the most knowledgeable banking executives I know wrote this in response to my reference to the article yesterday.

*Not a bad discussion (except for the final sentence which is a tad over the top)...Once everyone takes a deep breath and the markets calm and bottom ( I seem to remember it took about a week to ten days the last couple of "market meltdowns") and ignoring the dark clouds of derivatives and leveraged capital companies still hanging out there, what we need to watch is how Congress deals with its new, direct involvement and control over FNMA and FMAC and the new funding those two agencies now have. Can we expect the funding to be retired as loans are collected (through repayment or collateral liquidation) as happened in the Resolution Trust Corp. (RTC) of some 30 years ago? Or will the temptation to use these recoveries as means to fund new programs get the better of our Congressional leaders? Sadly, I think the latter is more likely and it presages far more active government involvement in the economy (and how "directed" it "out to be") going forward...*

## **2. HOW NOT TO BUY GOLD**

I include an interesting case study today on a friend who wanted to buy a little gold and silver. Think they are NOT in short supply. Please try to own the metal directly and to hold some of it.

“Fellas-

I wanted to share a story (short!) with you all regarding a situation I encountered yesterday Oct. 1. I went after market (2:30 pm or so) to buy some 1oz gold and silver bars which I knew they have historically sold at the XXX Bullion & Currency Exchange. I wanted to put some in the safe for the kids.

Let me give you the approx backdrop of the spot as it were yesterday at the time I went over to the Exchange:

Gold Spot was approx \$835 at close (give or take)  
Silver was \$11 or so.

This is what I was told.....in attempting to buy gold/silver.....

“We can sell you gold but we no longer have or sell the 1oz bars but we can sell you the gold Maple which is a coin (looks like the loonie with a leaf on it) BUT there is a 5oz minimum order”

\*\*\* (In my mind I thought well, 5oz at some point above the closing of gold that day even at 7% lift for the Exchange that would be \$900 oz times 5 oz=\$4500. I am not a tremendously wealthy man but wondered Hmmm maybe I should go ahead and do it.....)\*\*\*\*

“Okay, I said, how much are you selling Gold for (expecting as above with 7% lift)” ....I was told \$964 oz for Gold.....I said but that is 15% approx higher than spot.....  
“Yes it is but you can lock that price in by buying right now and THEN come back in 2-3 WEEKS for delivery.....if you want to think about until tomorrow, definitely call back before coming to the Exchange because we may not be taking pre-orders tomorrow or any other day, it fluctuates.”

I WAS A LITTLE ON MY HEELS so I asked about silver.....Are you ready for this one.....

“Yes, we can sell you silver but the minimum is 500oz orders”

\*\* (learning from above and not to be fooled again I thought okay, if the same formula of 15% lift is applied for the Exchange, then silver would be spotX15% OR \$12.65 or so.....)\*\*

“Sir, we can sell you silver at \$16.10 and oz (I’ll save you all the math is a 46% lift on spot), but instead of full payment of \$8050, you can give us 25% down and when we deliver...which is approx 4-6 MONTHS!!!!!!.....you can pay the rest of the 75%”

Are we in the right space or what!!

*The material herein is for informational purposes only and is not intended to and does not constitute the rendering of investment advice or the solicitation of an offer to buy securities. The foregoing discussion contains forward-looking statements within the*

*meaning of the Private Securities Litigation Reform Act of 1995 (The Act). In particular when used in the preceding discussion the words “plan,” confident that, believe, scheduled, expect, or intend to, and similar conditional expressions are intended to identify forward-looking statements subject to the safe harbor created by the ACT. Such statements are subject to certain risks and uncertainties and actual results could differ materially from those expressed in any of the forward looking statements. Such risks and uncertainties include, but are not limited to future events and financial performance of the company which are inherently uncertain and actual events and / or results may differ materially. In addition Dr. Berry may review investments that are not registered in the U.S. Dr. Berry has been awarded 10,000 stock options exercisable at \$7.50 from Senesco Technologies, 200,000 options from Aura Silver (strike C\$.30), 150,000 options which strike at \$.50 from Birch Mountain for Corporate Finance consulting services. He has been awarded 100,000 options of Derek Oil and Gas exercisable at C\$.47. He is a consultant to Piedmont Mining (250,000 options), Valcent Products (300,000 options), Global Green Solutions (400,000 options) and War Eagle Mining. He owns shares in Goldcorp, Golden Predator, Senesco Technologies, Birch Mountain Resources, DataMeg, Immtech International, Horseshoe Gold, Midway Gold, Derek Oil and Gas, Terraco Gold, Stealth Ventures, Kenrich-Eskay Gold, US Silver, Galway Resources, Neuralstem, Oil Sands Quest, Enhanced Oil Resources, Piedmont Mining, MegaWest Energy, Valcent Products, CGX Energy, MacMillan Gold and Quaterra Resources. He has been awarded 250,000 options on Terraco Gold exercisable at C\$.50 for 5 years, for services as a consultant. He has also been retained as an advisor by Dejour Enterprises (200,000 options plus retainer of \$2,500 per month), Grande Portage (210,000 options, \$5,000 per month retainer and Galway Resources (200,000 options and \$5,000 per month). In his role as advisor he has been awarded 75,000 options from Polymet which strike at C\$2.76. We cannot attest to nor certify the correctness of any information in this note. Please consult your financial advisor and perform your own due diligence before considering any companies mentioned in this informational bulletin.*