

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

# ECONOMIC WINTER



## Federal Governments: The U.S. Republic and the Canadian Constitutional Monarchy

### The Constitutional Republic



Great Seal of the United States of America

The federalist system of government in the constitutional republic of the United States of America is comprised of fifty self-governing states and the District of Columbia, wherein lies the City of Washington and the U.S. Capitol, the seat of the federal government. As a result of the constitutional convention of May to September 1787, the federal government is comprised of three distinct branches, the

executive, the legislative and the judicial. At the head of the executive branch is a President elected for a four-year term and a Vice President who is chosen by the President as a running mate, and elected to office on the President's ballot. While the President's signature enacts legislation into law, his office is also empowered with a veto. The President presides over a Cabinet of appointed government Secretaries whose departments range from Agriculture to Defense and from State to Commerce which comprise his Administration.

The Legislative branch is comprised of the House of Representatives whose elected members are termed Congressmen and Congresswomen and the Senate whose elected members are termed Senators with most representing the Republican or Democratic political party and the rest elected as independent members. All bills must be ratified by both legislative bodies prior to receiving the President's signature. Members of Congress serve on various House standing committees from Homeland Security to Transportation and Infrastructure and from Financial Services to Veterans' Affairs. Likewise, Senators serve on standing committees from Armed Services and Budget to Appropriations and Energy and Natural Resources. All members of Congress are obligated to take the following Oath of Office at the beginning of their term: "I do solemnly swear (or affirm) that I will support and defend the Constitution of the United States against all enemies, foreign and domestic; that I will bear true faith an allegiance to the same; that I take this obligation freely, without any mental reservation or purpose of evasion; and that I will well and faithfully discharge the duties of the office on which I am about to enter. So help me God."

## The U.S. Government's Slide into Dysfunction

Over the decades, the American political system has rarely completely stalled, or even come to a standstill. Since the system is rife with checks and balances, the hope of the founding fathers was should any political disagreement threaten the government's ability to function, Democrats and Republicans would solve any stalemate through a negotiated compromise. By and large, this has proven to be true, when politicians put the good of the country ahead of any personal ambitions. However, the recent economic and political environment in Washington has been replete with partisan polarization and political gridlock on the one hand, complemented by lobbyist hijacking of the federal political system on the other hand. As a result, voter confidence in the U.S. Congress has eroded significantly.

This is a presidential election year in America. All Republican energies are focused on turning Democratic President Barack Obama out of office in November. The Republican camp believes that by capturing the White House and possibly obtaining a majority of seats in both Houses of Congress, a new GOP administration in Washington will be empowered to enact legislation with impunity and without opposition. At Longwave Analytics, we have no confidence that spending cuts alone will solve the U.S. budget deficit crisis. Moreover, if President Obama is re-elected, the ensuing political gridlock could invite financial disaster upon America. Meanwhile, the U.S. national debt climbs exponentially higher, likely to exceed \$16.4 trillion (U.S.) by December.

## The U.S. National Committee on Fiscal Responsibility

Erskine Bowles, a former White House chief of staff for President Clinton and Alan Simpson, a former Republican Senator from Wyoming, were co-chairmen of President Obama's bipartisan National Committee on Fiscal Responsibility from April to December 2010. In an interview with the Wall Street Journal on November 11, 2011, Messrs. Bowles and Simpson were asked whether the U.S. Congress possessed the political will required to cut the U.S. deficit.

**Erskine Bowles:** "I think we face the most predictable economic crisis in history. It's as clear as the nose on my face that the fiscal path they (the Obama administration) are on here in Washington is not sustainable ... The economics is very clear. The politics, very difficult. I'll give you one very simple arithmetic example. If you take 100% of the revenue that came into the country in 2010, every single dime of it was consumed by our mandatory spending and interest on the (national) debt. Mandatory spending in English is basically, the entitlement programs, Medicare, Medicaid and Social security. That means every single dollar we spent last year on these two wars, on national defense, homeland security, education, infrastructure, high value-added research – every single dollar was borrowed, and half of it was borrowed from foreign countries. That's a formula for failure in anybody's book. This is not a problem from which we can solely grow or tax our way out. You could have double-digit (economic) growth for decades and not solve this problem. Also, we can't simply cut our way out of it by reducing spending.

That's why Alan and I came up with what I think is a responsible, reasonable plan that takes \$4 trillion (U.S.) out of our deficits – a trillion (U.S.) from revenue and \$3 trillion (U.S.) from spending. The spending must come before the revenue, so we don't get caught in one of those deals that Reagan did back in the 1980's."

**Alan Simpson:** "We say to people, if you spend more than you earn, you lose your butt. If you spend a buck and borrow 41 cents of it, you've got to be stupid. If you are borrowing \$4.6 billion (U.S.) today and doing that tomorrow and the next day, you've got to be dull with it. Now, that's where we are ... The terrible irony is that the mandatory programs are eating a hole through those budget programs. They are on automatic pilot. They can't be stopped. Every day that they get deeper in their train wreck, it takes it out of the things that President Obama is speaking about. Those things will disappear. They will be squeezed out."

**Erskine Bowles:** "I think we've got probably a 25% to 30% chance that the Super Committee will actually come up with real (spending) cuts that add up to \$1.2 trillion (U.S.) or, \$1.5 trillion (U.S.) which is their mandate. Hopefully, those won't all be gimmicks. So, that leaves at least a 50% probability that they won't do anything and they'll just completely fail."

**Audience Question:** “Your presidential committee delivered your report in December 2010. How surprised were you that your committee gave the President tremendous coverage to do something, and it wasn’t even mentioned in the State of the Union address in January 2011?”

**Erskine Bowles:** “So, we were really surprised. My belief is that most of the members of the economic team strongly supported it. Like every White House, there’s a small coterie of people who surround the President whom he trusts and works with, and I believe it was those Chicago guys, the political team who convinced him that it would be smarter for him to wait and let Paul Ryan go first, and then he would look like the sensible guy in the game. We then expected, before the State of the Union (speech), that when the President mentioned the stimulus, that it would be a great time to say not only, look, we’re going to do this to get the economy moving forward, but also, we must do it within the context of long-term fiscal reform and responsibility, but he didn’t. If you remember the State of the Union speech of January 2011, the President talked about the need for America to invest in education and infrastructure and high value-added research, to be able to compete in a knowledge-based global economy. The President was right about that. However, he omitted a part, that we must do it in a fiscally responsible way. We live in a world of limited resources and that means choices and priorities.” As we wrote in our Economic Winter, The Pathology of Debt and Erosion of Civil Liberties in America – February 1, 2012 – ‘Moreover, now that the Congressional ‘Super Committee’ has admitted failure to enact a plan which would cut \$1.2 trillion (U.S.) from the deficit over the next decade, automatic spending cuts will commence in January 2013 ... As was the case during last summer’s debt ceiling debate, political gridlock remains very much alive in Washington. With respect to deficit reduction, the entire 2012 calendar year could be wasted in America.’

### “I Don’t Even Know What Street Canada Is On” – Alfonso Capone, circa 1925

Mr. Capone first arrived in Chicago in 1920 and although he has been deceased for 65 years, his legacy of corruption not only endures, but has also been transposed to the body politic over time. As recently reported in the Chicago Tribune, a new study by Dick Simpson, Dean of the Political Science Department at the University of Illinois, entitled Chicago and Illinois, Leading the Pack in Corruption, reveals the Chicago-area logged the most public corruption convictions of any federal jurisdiction in the United States during the past 36 years. Since 1976, federal prosecutors have secured a total of 1,531 public corruption convictions in the Northern District of Illinois. In fact, 1,828 corruption convictions were logged in Illinois, the third most of any state. Only California and New York had more, but those states have much larger populations. On a per person basis, only the District of Columbia and Louisiana had more convictions than Illinois. Four governors, two congressmen, a state treasurer, an attorney general, eleven state legislators, numerous judges and dozens of aldermen have been convicted on corruption charges in Illinois since the 1970s.

### Congressional Earmarks – The Bane of the American Legislative Process

According to a recent Washington Post investigation, thirty-three members of Congress have directed more than \$300 million (U.S.) in earmarks and other spending provisions to dozens of public projects that are adjacent to, or are within about two miles of the lawmakers’ own property. Under the ethics rules that Congress has enacted for itself, this practice is both legal and undisclosed. The Post analyzed public records on the holdings of all 535 members and compared them with earmarks which members had sought for pet projects, most of them since 2008. The process uncovered appropriations for work in close proximity to commercial and residential real estate owned by the lawmakers, or their family members. The study also found 16 lawmakers who sent tax dollars to companies, colleges or community programs where their spouses, children or parents work as salaried employees, or serve on boards of directors.

Earmarks have been long controversial, with the focus on spending that unduly favours campaign donors of constituents. The Post’s review is the first systemic effort to examine the alignment of earmarks with lawmakers’ private interests ...the congressional financial disclosure system obscures certain relationships. Lawmakers are not required to disclose the addresses of their personal residences, or the employment of their children and parents. The lawmakers are also allowed to put properties in holding companies without disclosing the properties’ locations. Current versions of the Stock Act would not change that. To provide a more complete portrait of congressional connections, The Post compared the financial disclosure forms with the public record to track spending on projects near legislators’ properties, or on programs employing their relatives ... Mere proximity to a lawmaker’s property does not establish that an earmark was warranted. In some cases, the public benefit of the spending was large, improving life for thousands. In others, the benefit appeared narrower. In some cases, the work was within a mile or two of the properties; in others, it was directly in front of the lawmaker’s land.

To cite just one specific example: In Kentucky, Rep. Harold Rogers (R) has been labeled the “Prince of Pork” for his success in guiding federal money to his Appalachian home district. The longtime member and current Chairman of the House Appropriations Committee helped secure about \$250 million (U.S.) in earmarks from 2008 through 2010, but when the House imposed a moratorium, Rogers embraced it, saying ‘the country needed to turn back from the edge of fiscal ruin.’ Prior to the moratorium, Rogers earmarked funds for the revitalization of downtown Somerset, his home town. That project continues today: more than \$7 million (U.S.) in Rogers’ earmarks have gone toward it. Part of the project involves overhauling a strip of North Main Street around the corner from Citizens National Bank. Rogers is Director Emeritus of the bank and owns \$1 million (U.S.) to \$5 million (U.S.) interest in the bank’s holding company.

On the edge of downtown, millions of Rogers’ earmarks for the revitalization in 2007, also improved a half-mile strip of College Street. Sixty houses, a high school and City Hall are situated along the road. Contractors narrowed parts of the street to slow down traffic; buried overhead utility wires; rebuilt sidewalks; paved streets; installed new driveway aprons; as well as curbs and decorative lamps. One of the residences situated on that street is a neat, two-storey, yellow home with a gabled roof and a flagpole in the front yard. It is the Rogers’ residence. Michael Higdon, chief of staff for Rogers, commented: ‘Congressman Rogers sees no conflict of interest in helping local community leaders achieve their (local) goals for (economic) growth: at large, or in this case, in particular.’ In the opinion of Long Wave Analytics, obviously, Congressman Rogers is sorely in need of a visit to an oculist. For his sake, let’s hope his visual affliction is only cataracts and not macular degeneration.

## The Taxpayer Protection Pledge

In our previous Economic Winter of February 1st, we alluded to the Americans for Tax Reform (ATR), an advocacy group which asks all candidates – mostly Republicans – for state and federal offices to take the Taxpayer Protection Pledge – opposing all tax increases under any conditions – for the duration of their term in office. In the current 112th Congress, 238 House members and 41 Senators have taken the pledge. At the state level, 13 governors and 1,249 state legislators have taken the pledge. As a result, ATR’s President, Grover Norquist, has become one of the most effective and powerful lobbyists in Washington over three decades. He has transformed a single issue – preventing U.S. tax hikes – into one of the key platforms of the American Republican Party. As seen above, the oath of office requires members of Congress to swear “that I will well and faithfully discharge the duties of the office of which I am about to enter. So help me God.” Accordingly, a member’s duty would translate into representing his/her constituents as a legislator by supporting whatever laws might be in the best interests of the United States. In the current economic environment, with a national debt climbing inexorably toward \$16.4 trillion (U.S.) prior to the year end, the federal deficit is starved for additional tax revenue, as proposed in President Obama’s budget for fiscal 2013. Surely, a repudiation of higher taxes, or a closing of tax loopholes represents a breach of a member’s oath of office because he/she is not acting in the best economic interests of the United States.

## The Constitutional Monarchy

Canada is a constitutional monarchy and a parliamentary democracy with a system of responsible government. Canada recognizes Her Majesty Queen Elizabeth II as Queen of Canada and head of State. The Canadian constitution dates back to 1867, when the union of Upper and Lower Canada was dissolved and the Dominion of Canada was established when the British Parliament passed the British North America Act. Drafted by Canadians, who became known as the Fathers of Confederation, the document states: “The Executive government and Authority of and over Canada is hereby declared to continue and be vested in the Queen (at the time Queen Victoria).” Section 9 of the Constitution Act, 1867 provides for this. Under the Letters Patent of 1947, Canada’s Governor General is authorized to exercise – on the advice of his or her Canadian ministers – all of Her Majesty’s powers and authorities in respect of Canada.





Canada's Coat of Arms

In 1982, the Canadian Parliament passed the Constitution Act, which provided for the first time in Canada's history, a way of amending any part of the Constitution without having to obtain the approval of the British Parliament each time a change is required. This repatriation of the Canadian Constitution did not alter the Queen's status in Canada as head of State. Her Majesty's personal representative in Canada remains the Governor General, who exercises the day-to-day responsibilities as head of State. The Office of the Secretary to the Governor General constitutes one branch of Canada's parliamentary system; the other two being the Senate and the House of Commons. Canada's Governor General is appointed by the Queen on the advice of the Canadian Prime Minister, who is an elected representative as leader of a political party.

## The House of Commons

The second component of the Canadian Parliament is the House of Commons, which is comprised of members elected from all regions of the country to serve the people of Canada. It is clear from the preamble of the British North America Act that the British House of Commons was intended to be the model for its Canadian counterpart. In fact, section 18 states that both the Senate and the House of Commons possess "powers, privileges and immunities" no greater than those held and exercised by the British House of Commons. Ergo, although the Canadian House of Commons was first established by the BNA Act, it is interesting to note that its historical origins as a parliamentary institution date back to the signing of the Magna Carta, June 15, 1215. Basically the House of Commons has three principal functions:

1. To serve as a public forum for the free discussion of important social and political issues. In fulfilling this function, it represents public opinion and serves both as a support of and a check on the actions of the government.
2. To enact laws, which is a role shared with the Senate, since every law must be ratified by both Houses in the identical form before they can receive royal assent
3. To provide the oversight and control of government spending. This function is performed through scrutiny of the budget, estimates, appropriation acts, taxation bills and other financial bills, all of which must originate in the House of Commons.

In the Canadian Parliament, there is no restriction on the number of political parties which may be eligible to represent the electorate. Currently, there are five parties whose members represent the interests of their constituencies. Not only do members participate in the house debates, but they also serve on various House standing committees. As is the case in the U.S. Congress, the Canadian House of Commons operates on the basis of party discipline, with each member owing allegiance to a particular political party. Naturally, the views of that political party will invariably be reflected in the member's reaction to and comments on government policies and decisions. Similarly, members also participate in the regular meetings of their party caucuses. Before being elected Prime Minister of Canada, each candidate for this office has been selected as party leader by the party membership at a leadership convention. Parliamentary terms of office are not fixed, however, traditionally they may have a duration of four or five years before another election is called. Moreover, governments can be forced to call an election upon suffering a vote of non-confidence in Parliament and a party leader can be replaced if he/she loses the confidence of the party membership.

## The Canadian Senate

The third element of the Canadian parliamentary system is the Senate which is an appointed body. The establishment of a Senate was seen as a means of protecting the more rural areas that were to comprise Canada in 1867. Since representation in the House of Commons was to be based upon population, the less-populated areas felt that their needs would not be accommodated in a House dominated by representatives from more heavily populated areas. Canada is the second largest country in the world and is comprised of ten provinces; six of which are huge geographically. The square mileage of British Columbia, for example, is larger than California, Oregon and Washington State combined. In its legislative role, the Senate was established, not to duplicate, but to complement the house of Commons. Today, while the Senate still protects regional interests, its main function is to review legislation passed by the House of Commons.

Like the House of Commons, the Canadian Senate is empowered to introduce legislation, with one exception: it cannot introduce taxation bills, or bills which authorize the spending of public funds. Under the Constitution Act of 1867, the House of Commons is the only branch of Parliament which holds this power. In Canada, the Senate plays an important role through its committee work. Periodically, Senate committees probe into social, public and international problems or issues concerning Canadians. The Senate's thorough and intricate study of various issues has been of valuable assistance to Canadians and has spurred innovations and changes to government policy based upon committee recommendations. Important studies have been forwarded by special committees on the social issues of Poverty, Aging, Health Care, National Defence, Euthanasia, Illegal Drugs, Terrorism and National Security, to mention only a few.

## Summary

While both the Canadian and American political systems are based upon democratic principles, the practicalities of their actual functioning are quite different. We must conclude that the Canadian system functions with far greater flexibility than its American counterpart, which is overpowered by a \$3.8 billion (U.S.) annual lobbyist system which is out of control and has become counterproductive. Again, as mentioned in our Economic Winter of February 1st. 'how could any politician on any level, basically sell his soul to a manipulative, controlling Washington lobbyist, whose sole purpose is to subvert the political process? It should be illegal for any politician to sign any pledge which will compromise his oath of office to serve the electorate in a free and responsible fashion.'

In a U.S. presidential election year, such as the present, by the time the next President takes the oath of office on January 20, 2013, an entire 12 months will have been consumed by a seemingly endless parade of town hall meetings, televised presidential debates, state primary elections and political conventions; all together costing millions upon millions of dollars – a ridiculously long and tiresome political marathon in the eyes of most Canadians. By December, 2012, the American national debt will reach \$16.4 trillion (U.S.), with the entire year being wasted in terms of deficit and debt reduction. If Republicans capture a majority of seats in both the House and the Senate in November and President Obama is re-elected, the ugly face of Washington political gridlock will again reassert itself early in 2013.

It should also be noted that during the last decade presidential power has been enhanced somewhat at the expense of constitutional intent, such as the U.S. declaration of war against Iraq by the previous Bush administration in March 2003.

For the remainder of 2012, nothing is going to occupy the U.S. Republican leadership more than the hope that President Obama will be ousted from office in November. As House Speaker John Boehner recently remarked during the vote to extend the payroll tax cut until December 31st: “We didn’t want a repeat of the fiasco in December” with the payroll tax cut only being extended for two months. “We may be dumb, but we’re not stupid.” Wakeup call for Mr. Boehner: In the context of your remark, Mr. Speaker, the Oxford English Reference Dictionary defines the words ‘dumb and stupid’ as having the same meaning.

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