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Burying History Is Costly Sport — The Resulting Penalties Will Go On Spreading Like Bedbugs

What was originally put out of sight and memory was simply the greatest lesson to have come out of World War II. No sooner had Japan and Germany signed their surrenders than Washington sent many hundred economists to Japan and Germany to study the damage and predict how long it would take for these former great trading powers could resume such roles. Some sixteen years later, one of these – Theodore Schultz of the University of Chicago – published an essay in which he concluded that he and his colleagues had come up with the wrong answer, because they had concentrated on the physical destruction of the war, and attributed scant importance to the fact that the human resources had come out of the conflict reasonably intact. And from that in a stroke of sheer genius he concluded that investment in human capital was the most profitable investment a government can make. Human capital, of course, had to include health, education, proper care of the environment adequate infrastructures to make the drive towards urbanization livable, and adequate pensions to cover the resulting longer life spans. Moreover, the children of educated, healthier parents tend to be healthier and more easily educated.

For a few years Schultz was feted and decorated for his great discovery, and then completely forgotten. It is no exaggeration to say that the ever deeper economic disasters that our world has suffered can be traced to eliminating all reference to his great conclusion. And not the least of these is the disastrous habit of sweeping away whatever is unacceptable for those with political power. Once those in power learn to suppress the notion of human capital, by considering it debt rather than prepaid investment, they will stop at nothing.

To support that assertion we will confine ourselves to news stories that have appeared in leading world newspapers are within a day or two.

From *The Wall Street Journal* (24/12, "Women Ascend in Latin America" by Paulo Prada we learn: "Sao Paulo, Brazil – When Dilma Rousseff dons Brazil's presidential sash at her inauguration on January 1, the former minister and one-time leftist guerrilla will become the first elected woman to govern Latin America's biggest country.

"That may seem like a feat in a region long associated with a culture of machismo, but Ms. Rousseff's rise to Brazil's highest office makes her the third female now leading a Latin American government and the sixth since the 1990s. Women currently serve as the presidents of Argentina, and Costa Rica [as well] and three others have served in Chile, Panama and Nicaragua.

"In her victory speech on election night, surrounded by male aides at a hotel stage in Brazil's capital, Ms. Rousseff vowed to focus on continued progress for Brazilian women. To that end she has since named at least eight women to cabinet posts – more than have ever been in a Brazilian government.

"Latin America still trails much of the developed world when it comes to equality in business and many professions outside politics. Though women now make up 53% of the work force in Latin America, compared with only 35% in 1980, according to the Inter-American Development Bank, they still account for just a fraction of senior managerial positions.

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Burying History *from page 1*

"And top female politicians, despite their ascent, nonetheless face prejudices that they are more proxies of placeholders for male mentors. Ms. Rousseff was unknown in Brazil before President Luiz Inacio Lula da Silva empowered her as a minister and chief of staff, then tagged her to succeed him as the ruling-party candidate. Charges that she would merely be keeping his seat warm while he stepped down to comply with term limits resurfaced this week after Mr. da Silva, in a televised interview, said he doesn't rule out a future run for re-election."

An important detail that suggests to what the extent Ms. Rousseff's presidency may be keeping the presidential seat warm for the Luiz Inacio Lula da Silva's return to the presidency, is the proportion of women in Brazil's legislature – 8.4%.

We can detect the same extraordinary powers of ever renewable self-deception developed in the process of deceiving others in the front-page article of *The New York Times* (12/13, "Lenders Return to Big Mailings on Credit Cards" by Eric Dash): "Credit card offers are surging again after a three-year slow-down, as banks seek to revive a business that brought them huge profits before the financial crisis wrecked the credit scores of so many Americans.

"The rise is striking because it includes offers to riskier borrowers who were shunned as recently as six months ago. But this time, in contrast to the boom years, when banks 'pre-approved' seemingly everyone, lenders are choosing their prospects more carefully and setting stricter terms to guard against another wave of losses.

"For consumers, the resurgence of card offers, however cautious, provides an opportunity to repair damaged credit and regain the convenience of paying with plastic. But there is a catch: the new cards have higher interest rates and annual fees.

"Lenders are 'tiptoeing their way back into the higher-risk pool of customers,' said John Ulzheimer, president of consumer education at SmartCredit.com.

"In extending credit again to riskier borrowers, lenders are looking beyond standard credit scores. on the theory that some people who may seem to be equivalent credit risks on the surface may show differences in spending or other behavior – like registering on a job Web site – that suggest variations in their ability to keep up with payments.

"Industry consultants, in their attempt to feed the demand for finer classification of borrowers, have coined new labels to describe different borrowers with similar credit scores.

"One of 'strategic defaulters' whose credit score were damaged because they walked away from a home when its value dropped what was owned on the mortgage. These borrowers made a bad bet on real estate but otherwise may be prudent risks because they make a good living.

"Similarly, 'first-time defaulters' once had a strong credit record but ran into financial trouble during the recession. Typically, these borrowers fell behind on some sort of loan payment after losing a job, not from taking on too much debt.

"By contrast, there are 'sloppy payers,' who pay only some bills on time; 'abusers,' who are defiant about paying, and 'distressed borrowers,' who simply do not have the means to pay.

"The goal is to weed out the latter groups to identify consumers whose credit scores are blemished but who still have the money to pay their bills.

"'Lenders want to prove to themselves that it is worth taking a higher risk,' said Brad Jolson, an executive of the decision managing company FICO, who has helped several card companies analyze their customer base.

"This new approach to assessing default risk is emblematic of the challenge faced by many banks that were hobbled by the financial crisis. They desperately want to grow again, but the memory of a near-death experience makes them wary about taking on outsize risks.

"Lenders have taken $189 billion in credit card losses since 2007, according to Oliver Wyman Group, a financial consultancy. That was a significant part of the $2 trillion or so that banks are estimated to have lost since the crisis began, and a contributor to the government bailout of the banking system.

"To stem losses, lenders halted new card offers to all but their most affluent customers. At the same time, more than eight million consumers stopped using their credit cards, in a sign of the nation-wide belt-tightening according to TransUnion, the credit bureau. A million more borrowers who still have credit cards have been compelled to pay down their balances, or more often choosing to use cash.

"That has had a big impact on lenders' bottom lines. Credit cards once gave the banking industry as much as a quarter of its profits; today those profits have all but vanished and lenders are seeking ways to replace them.

"Now that the losses have stabilized, lenders have set out to revive their card businesses, and mail offers to riskier borrowers are roaring back.

"HSBC mailed more than 16 million card offers to this group in the third quarter of this year, Citigroup 14 million and Discover 10 million, all roughly tenfold increases over the same period last year, according to Synovate Mail Monitor, a market research firm. Capital One's rate rose fiftyfold to 22 million.

"Many of the new lower-end cards start with high interest rates and annual fees, because new federal rules limit the ability of lenders to change the terms after payments are missed.

"Capital One, for example, is offering low-end cards that carry interest rates of 18 percent or higher and annual fees of up to $50.

"In all, lenders will send about 2.5 billion credit card offers by the end of the year. Synovate estimates, compared with more than six billion in 2005, the peak year. The bulk of this year's mailings are still going to affluent people, with just 17 percent going to borrowers with blemished credit. That compares with about 39 percent in 2007 and a low of 7 percent in late 2009.

"The response to the card campaigns has been strong, with roughly 4 percent of these riskier borrowers submitting applications. That is about 10 times the typical response rate for the group, though that might be partly explained by the absence of offers over the last two years.

"After racking up more than $17,000 in credit card charges, Sue Talkington, 69, a retired sawmill worker living in Modesto, Calif., started working with a credit counselor in September to start paying down her debt.

"The last month, right after she had cut up three credit cards, she received an application for a new Capital One card, the second pre-approved mail offer she has received recently. She says she was stunned. 'I'm trying to get out of debt, so why would I want a credit card to get into more debt?' Ms. Talkington asked….

"Since the mass marketing of credit cards began decades ago, lenders have waited for years to extend credit to borrowers like Ms. Talkington who had fallen on hard times – a process called 'rehabilitating the customer.' But these days, rehabilitation is happening faster because the lenders cannot afford to wait.

"Citigroup is testing a credit card with training wheels, known as Citimax, devised for customers whose credit was damaged by the recession. Borrowers are required to link their credit card to a checking, savings or brokerage account so that Citi can withdraw money if a payment is missed."

In a world that officially has wiped out its own dearly bought realization that investment in human capital is the most profitable investment a government can make, it is inevitable that the world should be flying blind, with nothing remotely resembling accountancy to guide it. Society itself is reduced to the plight of Ms. Talkington.

William Krehm

When War Seems Less Risky than a Mismanaged Peace

Kudos to *The Toronto Star* (24/12, "Did the Karzais steal Kandahar?" by Mitch Potter) which sheds light why we with other Western Powers are still trying to straighten out Afghanistan – a task that countless great conquerors before, including and after Alexander the Great, had abandoned with their tails between their legs. We quote: "Until two years ago Naseem Sharifi ran a burgeoning Kandahar media empire that at its peak counted 150 employees.

"After threats to his life, that culminated in a terrifying car chase, he now lives in exile on the US West Coast where he was raised for ten years. His tale offers a rare glimpse inside the world of the Karzai Brothers and how their influence pervades Kandahar.

"Naseem Sharifi, now 36, was just starting out in the world back in 2002, when he returned to post-Taliban Kandahar like thousands of others, wanting to be part of the new Afghanistan.

"Born to a respected branch of the prominent Barakazai tribe, Sharifi had been sent away at age 16, another young refugee of war. It was an adoption in exile, with the young Sharifi joining relatives in Seattle who, by marriage were distant Karzai cousins. After 12 years of exile, he was back with US citizenship, a Western education, and a zest to make his mark.

"It wasn't long before he struck upon his unlikely formula for success – billboards. Sharifi had vivid memories of the outdoor advertising billboards that clutter America's highways, a concept then alien to Afghanistan. And with new banks and new cellphone companies opening daily, he thought the idea might just click.

"Click, it did. Sharifi assembled a fledgling team and Arakozia was born.

"War-torn Kanadahar was then so starved for visual stimulation that when he planted his first outdoor, Afghans gathered from far and wide just to look at it.

"The contracts poured in. Afghan Wireless, Roshan cellular. Even NATO bought in, with a series of poppy-eradication billboards.

"We barely knew what we were doing at first. But we were quick studies. Before I knew it, we were operating in seven provinces. Nobody else was doing it. And the phone just kept ringing.

"With Arakozia running on all cylinders, Sharifi began to indulge his more magnanimous instincts. He pumped profits into expansion with the launch of *Surgar,* Kandahar's first-ever independent weekly. And then Kandahar's first-ever coffee-shop.

"'The goal for both the newspaper and the coffee-shop was the same – to encourage civil society and help create a sense of community,' says Sharifi.

"Until then, all that existed in Kandahar for the past 30 years were places we call *somowat* – dirty little holes used for smoking marijuana and drinking tea.

"The Kandahar Coffee Shop flourished and so too did *Surgar*. From chess and snooker tournaments to sports sponsorships, Sharifi's Arakozia stood ready to embrace any who approached with a positive idea. When a group of Kandahar high school students came looking for help in starting a students' association Sharifi ticked off every box, providing office space and computers for a group that quickly swelled to 1,800 members: literate Kandaharis in a land of outrageously high illiteracy, coming together for the greater good.

"Sharifi was becoming a player. Doors opened, including the doors of the family Karzai. Ahmed Wali Karzai attended Sharifi's wedding to a local Kandahari woman in 2004 and furnished introductions to his brothers – Shawali, the eldest, Mahmoud, then based in Kabul but a frequent visitor to Kandahar, and Qayum, the Baltimore restaurateur who, Sharifi and others insist, ranks among the most influential of the siblings in Kandahar politics.

"Sharifi's access to Kandahar's inner circle included regular visits with then governor Assudullah Khalid, who later would lose his job amid accusations of personal involvement in the torture of Afghan detainees.

"The first hint that something wasn't quite right came in 2006 when Sharifi says, he was offered a 20 percent interest in a construction company, Daman, that he alleges is controlled by the Karzais. Free.

"I accepted the offer. Which now I deeply regret. I was so caught up in all the other business that this circle of power had opened up, I didn't give it proper consideration.

"The other partners in Daman, he says, included Shawali Karzai (20 percent), local Internet entrepreneur Ramat Qumran (20 percent) and Qayum Karzai (40 percent). They met regularly for lunch to discuss ways to latch on to the millions of development dollars flowing into the province.

"Every day, just as lunch would begin, Shawali Karzai would whisper in my ear, 'Did you find a contract? Why don't you tell the governor to give you a contract?'"

Family Politics

"'In hindsight, I realize…they wanted me to get my hands dirty. I was a threat because I was clean. But I was so naive. There was also a strange dynamic between the Karzai stepbrothers. They are one family, yet they compete with each other. Shawali is the oldest; he was the father's favourite, but I began to feel that he was using me as a pawn to prove to his brothers he, too, could generate wealth for the family.' For their part, the Karzais say the lunches were only social and they had no direct control over Daman.

"Sharifi says he quit the enterprise without ever receiving a penny.

"Instead, he threw himself into yet another new venture – the launch of a radio station to better reach the estimated 80 percent of a provincial population unable to read. He assembled a team, began ordering equipment, all underwritten with the profits of the billboard business.

"As the radio plans took shape in early 2006, Sharifi was summoned to the Governor's mansion, where he was confronted by a stern Governor Khalid.

"'Drop this idea for a radio station,' said the governor, according to Sharifi. He said, 'Don't ask why. Just know that Qayum and Ahmed Wali Karzai don't want it.'

"Governor Khalid then placed a call, with the speakerphone amplified so that Sharifi could hear the conversation. Qayum Karzai answered.

"The governor said to Qayum, 'I just called to assure you that the work is done. Sharifi will not open the radio station' And Qayum answered, 'Good, just make sure. Naseem is the kind of person that gets things done. He will make us look bad. Just make sure we stop this.'

"'I was stunned. I had such hope up to this point, but my whole perception changed. These mountains we call the Karzais – I began to realize how tiny they were. I was just a small player, but their self-confidence was so low that a little guy like me doing things with enthusiasm made them feel threatened.'

"Sharifi acquiesced, dropping his radio plans. But the tension with the Karzais worsened in 2007 with the appointment of Ghulam Hamidi, a lifelong friend of the Karzai brothers, as mayor of Kandahar.

"Within days of the new mayor's arrival a tax dispute erupted, with Mayor Hamidi publicly accusing Arakozia of not paying its share. Sharifi says he was blindsided – but quickly produced what he claims is full accounting of every bill, to the last Afghani.

"Mayor Hamidi wouldn't let the matter rest. The final cut, says Sharifi, came in when the mayor arbitrarily declared a tenfold increase in municipal taxes against Arakozia's billboards – from six percent to 60 percent.

"Sharifi acknowledges that he was a small player in the big picture, pursuing small but legitimate business opportunities that paled against the multi-million-dollar security and narcotics racketeering that is widely believed to permeate Kandahar. Why squeeze a little guy like me?, he wondered.

"And on this point, if nothing else, the Karzis agree – Sharifi was minor figure in town. Each of the three brothers, Ahmed Wali, Qayum, and Shawali, played down Sharifi's place in their lives in statements to the *Star.* He was an acquaintance, not a friend, they say. There were never any business dealings. The story of Daman and the radio station story were 'pure fiction, said Qayum Karzai.

"The brothers also accuse Sharifi of exploiting the Karzai name, and hint darkly that perhaps his adoption in the US as a teenager was never formally legal.

"But there is a certain velocity to the Karzai denials – a flurry of emails, phone calls and written statements – that suggests the saga has penetrated the Karzai brothers' famously thick skins.

"Perhaps one explanation is a particularly provocative cartoon published by *Surgar* in early 2008, which portrayed Mayor Hamidi as a snarling dog on a leash held by Qayum Karzai. Even in a stable democracy, such an image likely would make noise. In Kandahar, it was a thunder-clap.

"'Sharifi's relationship with me changed for one reason and one reason alone – that cartoon,' Qayum Karzai told the *Star* in a telephone interview….

"'Mayor Hamidi and I have known each other since we were 6 years old. His father was my father's friend. We went to the same school, we swam together, we hunted together. We were part of a very tight clique,' said Qayum Karzai.

"Everybody knows the mayor is a friend of mine. So this cartoon of me holding him like a dog, it was…disappointing.

"Mayor Hamidi responded to the *Star* with an epic four-page letter defending not only his dispute with Arakozia, but the entirety of his tenure in office. Hamidi denied any wrongdoing and attributed the entire dispute to a battle over back taxes.

"*Surgar*, however, kept pushing. In 2008, the newspaper became more aggressive about reporting corruption allegations. It also began translating and reprinting in Pashtu the widening array of international stories drawing attention to the growing power of the house of Karzai.

"'The next phase was threats of physical violence,' says Sharifi. 'I was getting anonymous phone calls warning: "Leave the city or face the consequences."' The journalists of *Surgar* were regularly threatened. In at least one case, he says, the threat came directly by phone from AWK – a claim Ahmed Wali Karzai categorically denied in his statement to the *Star.*

"'More than once I was followed by armed men on motorcycles. I had always lived openly. But now my openness was vulnerability…,' he says.

"After the next big scare – the 2008 high-speed chase through Kandahar City that ended at police headquarters – Sharifi knew that the end was near. He now say that the Karzai hold over Kandahar as omnipotent and potentially lethal…. For their part, the Karzais say they had nothing to do with any police chase.

"But for Sharifi, the breaking point came two weeks later, when Ahmed Wali Karzai, now the elected head of the Kandahar Provincial Council, summoned local journalists to disclose details of a suicide attack.

"At the end of the news conference, as reporters packed their equipment, AWK called on *Surgar's* reporter and issued an ominous warning that was heard by all: 'Tell Naseem we have information there are four more suicide bombers in Kandahar. He is the next target.

"Sharifi was notified immediately.

"'I knew I had to leave immediately. My (pregnant) wife, my two kids, my dad, my brother and my sister – we were on the next plane to Dubai. I had built my dream house in Kandahar. And now the dream was over.'

"Ahmed Wali Karzai, in a statement conveyed through his US lawyer, adamantly denied threatening Sharifi. The 'intel report' about a Taliban suicide bomber was real, he said, and thus Karzai felt duty-bound to convey the information.

"'I've had nine attempts on my life,' said Karzai. 'I did it to help him, not to scare him. I remember when (Sharifi) left the country, I thought it was a sign of cowardice and it was empowering the Taliban. Those of us who are committed to building a new country cannot flee when the Taliban threaten us.'

"In Sharifi's absence, Arakozia shrunk rapidly, losing two-thirds of its staff as the billboard business collapsed. The final blow, said Sharifi, came by acetylene torch. 'Every one of my billboards was cut with a torch, taken and confiscated.'

"The next twist of fate, Sharifi says, was the sudden emergence of a new billboard company – Innovative Kandahar Advertising. On paper, the new operation belonged to Kandahar businessman Qazi Omar. But everybody in Kandahar, says Sharifi, knew the real owner was Qayum Karzai, the Baltimore restaurant baron.

"Sharifi claims the new firm, with its ties to power, forced out Arakozia and the other three smaller billboard companies in the south, creating a de facto monopoly and raising prices accordingly. To verify the claim, the *Star* located the owner of one of those firms, Pashtani Advertising, in Quetta, Pakistan. Noman Kaker, speaking in halting English on his cell phone, confirmed, 'All of the business has been taken over by Qayum Karzai.'

"'He destroyed us all and took all the billboard contracts for himself,' said Kakar. 'Arakozia was the biggest but I had 14 people working for me. Now we are all unemployed and I have come to Quetta to try and find work to feed my family. It is a mafia. If you want billboards you must go through Qayum. Nobody else can do the work.'

"To further test Karzai's denial of ownership, the *Star* contacted the new company, Innovative Kandahar Advertising, posing as a prospective client – a fictitious American charity looking to mount a counter-narcotics billboard campaign.

"Company manager Qazi Omar quoted a price of $700 per billboard per month – a fourfold increase over what the now-defunct billboard companies in Kandahar, including Arakozia, charged for their services.

"The *Star* then asked whether 'Your company's owner, Qayum Karzai, might agree to a discount for such a large contract?'

"Omar responded, 'Yes, this is possible. You should contact Qayum Karzai directly to negotiate a discount. You can email him. Do you have his address?' He then proceeded to carefully recite Karzai's email address, spelling it slowly letter by letter.

"In a subsequent telephone interview, Qayum Karzai denied any financial ties to the company, suggesting that Qazi Omar's poor grasp of English was the reason for the 'miscommunication.'

"'I have absolutely nothing to do with this company. What kind of a nutty businessman would own or invest in such a thing if he does not even know the employees. It is absolutely, totally wrong,' Qayum Karzai said.

"Afghan cell telephone records obtained by *The Toronto Star*, meanwhile, show very active lines of communication between Qayum Karzai and Qazi Omar. Over the span of six months this year, Qazi Omar's phone registered nearly 60 calls to Qayum Karzai's Baltimore cellphone. Karzai, in turn, appears to have placed eight calls to Omar's phone in Kandahar over the same span.

"Arakozia is not quite dead, relying upon its small-scale printing operation – posters, handbills, and the like – that pay some bills. And *Surgar*, the weekly, is as popular and feisty as ever, even to this day, with a subscription base of 15,000 and popular support throughout the Sharifi belt. But shorn of the billboard income, the paper barely breaks even.

"Ahmed Wali Karzai, in a statement to the *Star*, pointed to the continuing existence of *Surgar* as part of his defence against Sharifi's allegations. 'His paper is still open, so no one tried to close it,' AWK said through his lawyer. 'If it closes, it's because he is not making any profit, not because anyone is telling him to close.'"

Does this strike our readers that Canada should be maintaining armed forces where even Alexander the Great had the good sense to pull out?

W.K.

Technology Trips Up Over-ambitious Retailers

The Wall Street Journal (16/12, "Phone-Wielding Shoppers Strike Fear Into Retailers" by Miguel Bustillo and Ann Zimmerman) brings us a clear instance of technology enlisted in the campaign for greater social justice: "Tro Tang, a 29-year-old marketer walked into a Best Buy Co. store in Sunnyvale, Calif., this past weekend and spotted the perfect gift for his girlfriend.

"Last year he might have just dropped the $184.85 Garmin global positioning system into his cart. This time, he took out his Android phone and typed the model number into an app called TheFind that instantly compared the Best Buy price to those of other retailers. He found that he could get the same item on Amazon.com Inc.'s website for only $106.75, no shipping, no tax.

"Mr. Tang bought the Garmin from Amazon right on the spot.

"Mr. Tang's smart phone reckoning represents a revolution in retailing – what Wall-Mart Stores Inc. Chief Executive Mike Duke has dubbed a 'new era of price transparency' – and its arrival is threatening to upend the business models of the biggest store chains in America.

"Until recently, retailers could reasonably assume that if they just lured shoppers to stores with enticing specials, the customer could be coaxed into buying more profitable stuff, too. Now marketers must contend with shoppers who can use their smart phones inside stores to check whether the specials are so special, and if the rest of the merchandise is reasonably priced.

"'The retailer's advantage has been eroded,' says Greg Girard of consultancy IDC Retail Insights, which recently found that roughly 45% of customer with smart phones had used them to perform due diligence on a store's prices. 'The four walls of the store have become porous.'

"Some of the most vulnerable merchants: sellers of branded, big-ticket items like electronics and appliances, which often prompt buyers to comparison shop, Best Buy, the nation's largest electronics chain, said Tuesday that it may lose market share this year, a downward trend that some analysts are attributing in part to pressure from price comparison apps.

"Smart phone fans such as Mr. Tang are still a small subset of shoppers. It remains unclear whether large numbers of Americans will be willing to take the extra time to compare offers with mobile programs. Some consumers may want to deploy the technology only when buying expensive or unusual items….

"On the Friday after Thanksgiving a year ago, consumers using mobile devices accounted for just 0.1% of visits to retail websites, according to Coremetrics, a division of International Business Machines Corp. that estimates e-commerce activity. This Black Friday, they accounted for 5.6%, a 50-fold increase….

"Dozens of mobile shopping apps are already available through Apple Inc.'s iTunes, and programmers are busy developing many more to transform smart phones into shopping weapons. Many of them use phone cameras to photograph bar codes and QR codes, or simply let users speak a product's name into their devices.

"TheFind app has been out for four weeks and has been downloaded 400,000 times, according to the company. RedLaser, an app that allows shoppers to use mobile-phone cameras to scan bar codes to compare products and prices, has now been downloaded six million times since it was introduced in May 2009, says parent eBay….

"Consumers, made more frugal by the economic downturn are flocking to the cheapest offers they can find…. Still, store chains are increasingly concerned about the ability of mobile-equipped shoppers to tilt the balance of power in retailing toward consumers…. The shift in consumer behavior also imperils some of the most lucrative aspects of selling in stores, such as the ability to use salespeople to lure customers into making impulse buys, or entice them to buy one thing after they came in for another."

Society is to a large extent shaped by technology both in its innovations. and relapses into what had been learned but abandoned. It is reassuring that on occasion that relationship should turn out to favor less privileged mortals. That should remind us that we must return to what is taken for the "laws of economics" and hence of accountancy must come up for a very similar critical review in the light of the suppressed lessons of history. Thus the Bank of Canada – nationalized for a purpose in 1938 even though it had been founded as a privately owned bank in 1935. We must asked why it is no longer being used today as it was to finance Canada's part in World War II, which was more efficiently handled than that of Great Britain or the US, where the Bank of England was nationalized only after the Peace, or the US where it is still largely in hands of private bankers, and only the New York Fed is owned by the federal government.

Lesson Once Learned is Suppressed

If were to going through this highly useful routine, we would learn how under President F.D. Roosevelt the federal government had learned not to allow banks to acquire interests in other "financial pillars" – to wit in those early days – stock brokerages, insurance and mortgage companies – for were they allowed to do so, they would end up taking over the capital reserves that these other financial pillars kept for their own specialties, and use them to further the bank's own gambles. And there was laid the basis of the current unending financial troubles.

And out of the Second World War came the lesson that investment in human capital is the most productive investment a government can make. It originated in Washington sending many hundreds of economists to Japan and Germany as soon as they surrendered to study how long it would take for these defeated powers to become once again the great traders they had been. Sixteen years later one of these economists Theodore Schultz of the University of Chicago wrote how he and his colleagues had gotten things badly turned around because they had concentrated on the physical destruction of the war and paid little attention to the detail that the human capital of those great traders had come out of the war essentially intact. And then in a stroke of genius he concluded that investment in human capital – which has to include not only what was spent on education, but on health, the environment, and adequate infrastructure for the rapid urbanization that the world is undergoing. For a very few years Schultz was feted, decorated, and then completely forgotten. As a result what is prepaid capital is treated as debt instead of as human capital. And yet it should be no secret that the children of educated parents tend to be more readily educated, healthier than those of under-educated parents.

Our own contribution merits mention. If the carefully cleaned out questioners of prepaid human investment were treated as such rather than as debt, but as the prepaid capital investment that it is, there would be no need for governments to slash essential social services, to balance its budget. The budgets would appear balanced.

In the May issue of 1970, the leading French journal on economic and social analysis published a 41-page essay of mine that made the point that the rise of price might be due to an insufficient supply to satisfy demand, but might be something quite different – it could represent the non-marketed services provided by the government and paid for by taxation. That however has nothing to do with debt, because those government services are not marketed. My unsolicited manuscript was published and drew not one but two favorable interviews in the economic review of Cambridge University in Britain, along with favorable reviews of about eight other journals on economic theory. It led to my connections with the late great French economist François Perroux and a collaboration to our mutual advantage. It led to my meeting John Hotson, and our founding of COMER. For years COMER's conferences were held at the University of Waterloo, and we even brought Perroux to address an assembly.

Today – with a few notable exceptions – all this has been officially suppressed. In Waterloo Hotson was given early retirement. Any increase in the price level is called "inflation" and taken as a good reason for cutting social services and education.

But a gross breach of elementary logic is violated thereby. If I shoot myself in the head, I will fall dead. But that proposition cannot be turned around and expected to remain valid. If I fall dead, it is wrong to assume that I have killed myself. It could have been due to heart failure.

In that area, too, we must use some of what in elementary classes in logic – you cannot turn around propositions and expect them to remain valid. But in doing more of that we will find the solutions to problems that are hastening our civilization to the ultimate disaster.

But needless to say, research along such lines cannot be left to political or economic leaders of the present regime. François Perroux and countless other economists and sociologists have remarked that when power passes from one social group to another, power cannot be left in the hands of the old power group. Otherwise, they will sabotage the alleged change. That usually led to spells of civil war until the previous group in economic and political power have been removed. In revolutionary France this was done with the guillotine. In Mexico it led to bloody civil wars. In the present world that the reformers are content to leave the power in the hands of luminaries of the failed economic regime.

In view of all of which the reversal in direction of the sales pitches in North American stores, may have a greater importance than meets the eye. The world has reached such a degree of incoherence, that any serious attempt to apply turn-around research must be grasped and extended until we battle our way of the current impasse.

William Krehm

A Rethinking of Handling Alzheimer Disease

The New York Times (01/01, "Giving Alzheimer's Patients their Way" by Pam Belluck) sheds new light on how to handle the increasing portion of our population that are out-living their memories.

"Phoenix – Margaret Nance was, to put it mildly, a difficult case. Agitated, combative, often reluctant to eat, she would hit staff members and fellow residents at nursing homes, several of which kicked her out. But when Beatitudes nursing home agreed to an urgent plea to accept her, all that changed.

"Disregarding typical nursing-home rules, Beatitudes allowed Ms. Nance, 98, and afflicted with Alzheimer's, to sleep, be bathed and dine whenever she wanted, even at 2 am. She could eat anything, too, no matter how unhealthy, including unlimited chocolate.

"And she was given a baby doll, a move that seemed so jarring that a supervisor initially objected until she saw how calm Ms. Nance became when she rocked, caressed and fed her 'baby,' often agreeing to eat herself after the doll 'ate' several spoonfuls.

"Dementia patients at Beatitudes are allowed practically anything that brings comfort, even an alcoholic 'nip at night,' said Tena Alonzo, director of research 'Whatever your vice is, we're your folks,' she said.

"'Once, Ms. Alonzo said: 'The state tried to cite us for having chocolate on the nursing chart. They were like, "It's not a medication." Yes, it is. It's better than Xanax.'

"It is an unusual posture for a nursing home, but Beatitudes is actually following some of the latest science. Research suggests that creating positive emotional experiences for Alzheimer's patients diminishes distress and behavior problems.

"In fact, science is weighing in on many aspects of taking care of dementia patients, applying evidence-based research to what used to be considered subjective and ad hoc.

"With virtually no medical treatment for Alzheimer's yet, most dementia therapy is the caregiving performed by families and nursing homes. Some 11 million people care for Alzheimer's-afflicted relatives at home. In nursing homes, two-thirds of residents have some dementia.

"Caregiving is considered so crucial that several state and federal agencies, including the Department of Veterans Affairs, are adopting research-tested programs to support and train caregivers. This month, the Senate Special Committee on Aging held a forum about Alzheimer's caregiving.

"'There's actually better evidence and more significant results in caregiving interventions than there is in anything to treat this disease so far,' said Lisa P. Gwyther, education director for the Bryan Alzheimer's Disease Research Center at Duke University.

"The National Institute on Aging and the Administration on Aging are now financing caregiving studies on 'things that just kind of make the life of an Alzheimer and his or her caregiver less burdensome,' said Sidney M. Stahl, chief of the Individual Behavioral Progresses branch of the Institute on Aging. 'At least initially, there seem to be good non-pharmacological techniques.'

"Techniques includes using food, scheduling, art, music and exercise to generate positive emotions; engaging patients in activities that salvage fragments of their skills; and helping caregivers be more accepting and competent."

Changing the Mood

"Some efforts involve stopping anti-anxiety or antipsychotic drugs, used to quell hallucinations or aggression, but potentially harmful to dementia patients, who can be especially sensitive to side-effects. Instead, some experts recommend primarily giving drugs for pain and depression, addressing what might be making patients unhappy….

"A study in the *Journal of the American Medical Association* found that brightening lights in dementia facilities decreased depression, cognitive deterioration and loss of functional activities. Increased light bolsters circadian rhythms and helps patients see better so they can be more active, said Elizabeth C. Brawley, a dementia care design expert not involved in the study, adding, 'If I could change one thing in these places it would be the lighting.'

"Several German nursing homes have fake bus stops outside to keep patients from wandering; they wait for nonexistent buses until the forget where they wanted to go, or agree to come inside.

"And Beatitudes installed a rectangle of black carpet in front of the dementia units fourth-floor elevators because residents appear to interpret it as a cliff or hole, no long darting into elevators and wandering away….

"New research suggests emotion persists after cognition deteriorates. In a University of Iowa, people with brain damage producing Alzheimer's-like amnesia viewed film clips evoking tears and sadness….

"Six minutes later, participants had trouble recalling the clips. But 30 minutes later, emotion evaluations that they still felt sad or happy, often more than participants with normal memories. The more memory-impaired patients retained stronger emotions.

"Justin Feinstein, the lead author, an advanced neuropsychology doctoral student, said the results, being studied with Alzheimer's patients at Iowa and Harvard, suggest behavioral problems could stem from sadness or anxiety that patients cannot explain.

"'Because you don't have a memory, there's this general free-floating state of distress and you can't really figure out why,' Mr. Feinstein said. Similarly, happy emotions, even from socializing with patients, 'could linger well beyond the memories that actually caused them.

"One program for dementia patients cared for by relatives at home creates specific activities related to something they once enjoyed: arranging flowers, filing photo albums, snapping beans.

"A gentleman who loved fishing could still set up a tackle box, so we gave him a plastic tackle box to set up every day, said the program's developer, Laura N. Gitlin, a sociologist at Thomas Jefferson University in Philadelphia and newly appointed director of the Center on Aging and Health at Johns Hopkins University.

"After four months, patients seemed happier and more active, and showed fewer behavior problems, especially repetitive questioning and shadowing, following caregivers around. And that gave caregivers breaks, important because studies suggest that 'what's good for the caregiver is good for the patient,' Professor Gwyther said."

Aiding the Caregiver

"In fact, reducing caregiver stress is considered significant enough in dementia care that federal and state health agencies are adopting programs giving caregivers education and emotional support.

"One, led by Mary S. Mittelman, a New York University dementia expert, found that when people who cared for demented spouses were given six counseling sessions as well as counselors whom they could call in a crisis, it helped them handle caregiving better and delayed by 18 months placing patients in nursing homes.

"For behavior management, Beatitudes plumbs resident's biographies, soothing one woman, Ruth Ann Clapper, by dabbing on White Shoulders perfume, which she had worn before becoming ill. Food became available constantly, a canny move, Ms. Dougherty said, because people with dementia might be 'too distracted' to eat during group mealtimes, and later 'be acting out when what they really need is food.'

"'In the old days,' Ms. Alonzo of Beatitudes recalls, 'we would find out more about somebody from their obituary than we did when they were alive.'

"Beatitudes's dementia floor was named Vermillion Cliffs, after colorfully layered rock formations formed by centuries of erosion, implying that 'although weathered, although tested by dementia, people are beautiful and have certain strengths,' said Peggy Mullan, the president of Beatitudes.

"Realizing that nutritious, low-salt, low-fat doctor-commended foods might actually discourage people from eating, Ms. Alonzo began carrying chocolate in her pocket. 'For God's sake,' Ms. Mullan said, 'If you like bacon, you can have bacon here.'

"Comforting food improves behavior because it 'sends messages they can still understand: it feels good, therefore I must be in a place where I'm loved.'

"Now, when Maribeth Gallagher, Beatitudes' dementia program director, learns someone's favorite food she will say, 'I'm going to pop that on your tongue, and you're going to say "yum." Isn't that better than an injection?'"

What we are witnessing in all this is the final salvaging of human capital that still, can play a role in saving a remnant of the most important of society's investments.

W.K.

Human Capital Is Too Important to Stay Unmentionable

The Wall Street Journal (29/12, "Food for Thought in India" by Harsh Joshi) sums matters up well: "New Delhi has raised some $30 billion since March in asset sales – as much as the country will attract in foreign direct investment this fiscal year. The top priority for this money should be food security. New Delhi talks a lot about guaranteeing food for India's poor, but smart investment is necessary to address the neglect of India's farms.

"A plan to target irrigation would be particularly compelling: 60% of India's farmland still depends on rainfall. The Ministry of Agriculture's total annual budget, including spending on the development of such infrastructure, stands at just $4.6 billion, or 2% of India's annual budget.

"Building more storage capacity is equally important. so that millions of tons of food grain don't rot in open fields. Foreign retailers, which would build their own cold-storage capacity, are eager to enter today. And government co-investment and tax incentives would speed up investment.

"Improved research and education would be valuable. For example, New Delhi subsidizes fertilizers, but fails to educate farmers on how to use them properly. The resulting overuse reduces crop yields.

"India's governments have been criticized for not delivering on promises to make India's economic growth more inclusive and sustainable They should use the recent financial windfall to change that."

And not unrelated is the requirement that a foreign visitor, to obtain a visa, must send his passport some ten days in advance to get a visa. Those who might fear that Indian government is missing the point, and is again discouraging rather than encouraging the spread of vital information that is common knowledge in fully advanced countries.

W.K.

Another Neglected Cost of Ignoring Human Capital

The Wall Street Journal (17/12, "Violence Limits Mexico's Allures" by Nicholas Casey and James R. Hagerty) reports: "Mexico City – Growing numbers of companies are deciding to limit their investments in Mexico because of spiraling drug-related violence in one of the world's most important emerging markets.

"The latest is Swedish appliance maker Electrolux AB. which said Thursday it had chosen Memphis, Tenn., over locations in Mexico for a $190 million appliance factory that will employ 1,200 people.

"The decision involved many factors, including proximity to parts suppliers, distribution centers and another Electrolux plant in Tennessee. But Mexico's deteriorating security also played a role, the company said.

"Mexico continues to lure foreign investment with its low wages, its location next to the US and the advantages of the North American Free Trade Agreement.

"One of the US's largest trade partners, Mexico attracted $14 billion in foreign direct investment in the year's first nine months, up 20% from a year ago, according to the government figures. And some of Mexico's biggest investors, including Wal-Mart Stores Inc., are maintaining their investment plans. "But fights between rival drug cartels have claimed more than 31,000 lives in the past four years, including more than 11,000 this year. Other crimes like robbery, extortion and kidnapping also have climbed. For some companies, particularly those that don't yet have operations south of the border, the violence has been daunting.

"'We won't put up a factory in Mexico until some of this violence gets addressed,' said Ron DeFeo, chief executive of Terex Corp., a Westport, Conn., maker of construction cranes and other heavy equipment. 'We just can't put our people at risk.'

"Mr. DeFeo said Terex has looked closely at building plants in Mexico but decided to hold off for now.

"Owens-Illinois Inc., a Perrysburg, Ohio, maker of glass food and beverage containers, is also wary. 'We have been monitoring the Mexican market for a few years now, looking for the right opportunity to directly enter that market,' said spokeswoman Stephanie Johnston. 'The escalating violence has led us to be more cautious. We take the safety and security of our employees very seriously.'

"Concern about safety was one of several factors in a decision by Whirlpool Corp. earlier this year to build an oven and cooktop factory in Cleveland, Tenn., rather than Mexico, Alan Holaday, vice-president of North American manufacturing and quality, said in a recent interview. The plant will employ more than 1,600 workers.

"Drug-related violence in Mexico probably cost the country some $4 billion in foreign direct investment this year, estimated Gabriel Casillas, JPMorgan's chief economist for Mexico.

"Crime has also spooked foreign executives. Jim Davis, a managing director at Russell Reynolds Associates, an executive-recruitment firm, said he recently conducted a search for a pharmaceutical company seeking a top manager in Mexico City.

"A lot of folks would say, 'My wife would not be in favor of us moving down there at this time,' Mr. Davis said. 'I think the fears are a little bit overblown but the reality is that's what people are reading in the newspapers and seeing on TV.'

"Bruno Ferrari, Mexico's economy secretary, said in an interview that Mexico remains a sound place to invest, particularly in growing industries such as aerospace and clean energy. Mounting violence between the military and drug cartels shows the government is getting tough on organized crime, he said.

"While foreign direct investment is expected to be slightly up in Mexico this year, the figures were boosted by the $5 billion takeover of the business of Fomento Economico Mexicano SAB by Dutch brewer, Heineken NV. That deal won't include typical investment benefits like construction of factories and creation of jobs in Mexico.

"Stripping out the Heineken-Femsa deal, Mexico's foreign investment numbers begin to look less healthy, said Mr. Casillas. Moreover, companies usually plan investments far enough ahead that this year's dramatic increase in violence will probably only show up in next year's numbers.

"In Mexico's violent border regions and troubled states of Durango, Sinaloa and Michoacan, foreign investment has dropped to roughly $1.9B in 2010 from an average of about $5B a year from 2005 through 2008, excluding the Heineken-Femsa deal….

"Some global companies are making investments deeper in Mexico's interior to avoid the violence. Japanese car maker Toyota Motor Corp., for instance is building a plant in the state of San Luis Potosi….

"Polaris Industries, a maker of snowmobiles and all-terrain vehicles in Medina, Minn., plans to open a 425,000 square-foot facility in Monterrey. Still, the company is taking precautions like attaching tracking devices to company cars and hiring armed guards to patrol the site, said Suresh Krishna, company vice president of operations."

However, in all this busy concern, the key aspect of this ever-deepening crisis is neglected. Translated into the historical idiom of Mexico, which is as violent as its mountainous terrain is the world-wide phenomenon of a world where those who have usurped power refuse to recognize the most important lesson that came out of World War II – that human capital – education, hence health, employment, adequate infrastructure for our rapidly urbanizing world, and the environment – is the most important investment that a nation can make. Moreover, it comes prepaid. Instead, today it is treated not as an investment, but as a debt to be remedied by slashing medical services, schooling care of the environment, and neglect of the necessary infrastructures of our ever more rapidly urbanizing world. Deprived of the lessons of history, our arrogant governments leave us as helpless as a blind man deprived of his cane.

A Conclusion that Cannot be Suppressed

Who can overlook the fact that the children of educated parents are more readily educated, and those of healthy parents tend to be healthier? Or that with the present growth of urbanization, ever greater investment not through the market, but by governments is needed? Nor the detail that a competent engineer denied unemployment in his field, loses his competence after a couple of years? And the number of richly endowed countries like Mexico or Brazil, and the entire continent of Africa, though teeming with rich natural resources, cannot feed its populations under the bogus accountancy that has taken over?

At the end of this blind-man's bluff that has come to pass for statesmanship is the ultimate gamble – atomic war, for the preparation of which resources are abundantly available even in these deliberately beggared times.

W.K.

Rare Earths Gives China Leverage Over the West

The New York Times (12/15, "In a Deep Hole on Rare Earths" by Keith Bradsher) reports on some powerful leverage in China's hands in its relations with the rest of the world: "Hong Kong – The United States is too reliant on China for minerals crucial to new clean energy technologies. This makes the American economy vulnerable to shortages of materials needed for a range of green products – from compact fluorescent light bulbs to electric cars to giant wind turbines.

"So warns a detailed report to be released on Wednesday morning by the United States Energy Department. The report, which predicts that it could take 15 years to break American dependence on Chinese supplies, calls for the nation to increase research and expand diplomatic contacts to find alternative sources, and to develop ways to recycle the minerals or replace them with other materials.

"At least 96 percent of the most crucial types of so-called rare minerals are now produced in China. And Beijing has wielded various sorts of export controls to limit the minerals' supply to other countries while favoring its own manufacturers that use them.

"'The availability of a number of these materials is at risk due to their location, vulnerability to supply disruptions and lack of suitable substitutes,' the report says. It also mentions some concerns about a few other minerals imported from elsewhere, such as cobalt from the Congo.

"The Energy Department report is being released the same morning that cabinet officials from China and the United States will meet in Washington to discuss economic and commercial issues.

"While no detailed agenda has been released, the talks are expected to include American objections to China's tightening restrictions on rare earth exports – like a two-month halt this autumn on shipments to Japan, and a shorter-lived slowdown of exports to the United States and Europe.

"And on Tuesday, China's finance ministry announced on its Web site, and the official Xinhua news agency later reported as well, that China plans to increase its export taxes on some rare earths next year. The ministry did not say how much the taxes would increase. Although World Trade Organization rules ban export taxes, China has imposed them on rare earths for the last four years.

"David Sandalow, the assistant secretary of energy for policy and international affairs, who oversaw preparation of the Energy Department report, said in a telephone interview that the timing of the report's release and the American-China cabinet meeting was coincidental.

"But the report reflects an emerging view within the American government and domestic sources of rare earths are needed in addition to suppliers in many other countries, to ensure the viability of clean energy manufacturing in the United States.

"We can build a new industry and put our clean energy future on a sound footing, creating many new jobs in the process,' Mr. Sandalow said.

"Still, the report presents a fairly gloomy assessment of the United States' ability to wean itself from Chinese imports. For as long as the next 15 years, the supplies of at least five minerals that come almost exclusively from China will remain as vulnerable to disruption as they are absolutely vital to the manufacture of small yet powerful electric motors, energy-efficient compact fluorescent bulbs and other clean energy technologies, the report said.

"The five minerals are medium and heavy rare earth elements of which China mines an estimated 90 percent to 99.8 percent of the world's supply: dysprosium, terbium, neodymium, europium and Yttrium."

Rare but Strategic Earths

"China also increasingly dominates the manufacture of clean energy technologies that require such minerals, including the production of million-dollar wind turbines. Chinese export restrictions have added up to $40 a pound to world prices, which makes a big difference particularly for some of the less expensive rare earths like lanthanium, that sell for several dollars a pound in China.

"That is among the reasons along with cheap labor and extensive Chinese government subsidies, that many clean energy manufacturers have found it cheaper to shift production to China.

"Mr. Sandalow said that wind turbine manufacturers were capable of building very large turbines without rare earths. But using rare earths could reduce the per megawatt cost of wind energy and improve its competitiveness through savings on other materials, like steel and copper.

"He cautioned that the United States had been putting far fewer resources than China into exploring ways to use the powerful magnetic and other properties of rare earths.

"'There are thousands of rare earth researchers in China and dozens in the United States, and that underscores both the challenge and the opportunity,' he said.

"American and Japanese officials have said that they might file a legal challenge at the World Trade Organization to China's taxes on rare earth exports, as well as on quotas that China imposes on rare earth exports.

"Until this autumn, Chinese officials had portrayed their rare earth policies as an effort to force high-tech companies to move their factories to China and retain supplies for domestic industries.

"China's finance ministry, in announcing plans to raise export taxes on some rare earths, did not indicate which minerals might be affected.

"Since 2008, China has imposed an export tax of 15 percent on light rare earth like lanthanum and cerium, which are needed for oil refining and glass manufacturing, and 25 percent on heavy rare earths like dysprosium and terbium.

"China mines about 93 percent of the world's light rare earths.

"Dysprosium, which helps rare earth magnets preserve their magnetism at high temperatures, is mined almost exclusively in southern China and sells for $95 a pound in China and $135 a pound outside, including the export tax.

"Dysprosium has emerged as the mineral most vital to clean energy industries yet most vulnerable to supply disruptions, the report said.

"Dudley Kingsnorth, a prominent rare earth mining consultant in Perth, Australia, said he agreed that a dysprosium shortage was likely. He added that he expected that a rare earth shortage would slow the overall adoption of new rare earth technologies by clean energy industries for at least the next five years.

"American and Japanese officials have said that they might file a legal challenge at the World Trade Organization to China's taxes on rare earth exports, as well as on quotas that China imposes on rare earth exports.

"Until this autumn, Chinese officials had portrayed their rare earth policies as an effort to force high-tech companies to move their factories to China and retain supplies for domestic industries. The Chinese government has recently shifted the export restrictions as an environmental measure, noting that extracting and processing the minerals can be a highly toxic process that has also resulted in leaks of radioactive mining waste into he groundwater in northern China.

"But while WTO rules allow export restrictions for environmental reasons, that is only if a country also restricts domestic consumption, which China has not done.

"Demand for rare earths and China's virtual chokehold on supplies have prompted some overseas companies to enter, or re-enter the field.

"Molycorp, an American company that in August made an initial public offering of its shares on the New York Stock Exchange, plans to open in 2012 a large rare earth at Mountain Pass, Calif., that closed in 2002 after prices were undercut by Chinese competitors. Molycorp announced on Monday that it had received the last of the construction permits needed to proceed.

"The Lynas Corporation of Australia plans to open at the end of next year a large rare earths mine at Mount Weld, Australia.

"But both the Molycorp and Lynas mines will produce mostly light rare earths and relatively little of the medium and heavy rare earths needed for magnets and other significant clean energy applications.

"Dozens of small mining companies hope to open new mines in the United States and elsewhere that could tap reserves of medium and heavy rare earths. But these small companies face formidable legal, financial, marketing and management obstacles, the Energy Department report said."

It is difficult to say whether the Chinese trade offensive or the Western world's own ban on the lessons of history is doing more damage to the West.

W.K.

The Ever-evolving Relationship Between Society and Its Technology

The relationship between society and its technology was a long, long time ago relatively simple. We made the point by noting that Karl Marx having been born in the earliest railway building – age was clearly reflected this in his view of social changes taking place in predetermined sequence leading to the terminal – socialism – when all passengers got off with blissful smiles on their faces.

But then the pace quickened and the going got rougher, and Marx's simplistic optimism could not handle such events as the Paris Commune, so he left the tons of manuscript to his surviving comrade Friedrich Engels to knock into some plausible shape. as Volumes 2 and 3 of his great opus, *Das Kapital.*

But then came the 20th century and technology kicked up its heels and danced in ever more disorderly ways.

And yet there were guidelines identified that could help us keep abreast of this seemingly drunken disorder. Most central of all was the result of an initiative of Washington that as soon as the surrender of the central powers in World War II took place sent many hundreds of economists to Japan and Germany to assess the wartime damage and predict who long it would take for those two once great trading powers to resume such roles again. Sixteen years later one of these, Theodore Schultz, published an essay in which he explained how wide of the mark he and his colleagues had been. This he attributed to their having concentrated on the physical destruction, and paid little attention to the detail that the highly talented human resources had come out of the war largely intact. And then in a stroke of sheer genius he declared that investment in human capital was the most productive investment a government could make, and, moreover, it came prepaid. It would have to include of course, health care, education costs, protection of the environment, and most certainly adequate infrastructures for the ever more rapid urbanization proceeding throughout the world.

For a few years Schultz was feted, decorated, and then, as though dropped down a deep hole, completely forgotten, I am afraid that COMER these days is the only organization to mention him.

Meanwhile, there were other closely related points to make. From my close studies of economic literature I concluded that when price levels rose it could possibly be "inflation" defined as too much market demand to be filled by available supply. But I decided it might be something quite different: it could merely reflect that ever more investment was being made in human capital. Need I add that the children of educated parents tend to be more readily educated, the offspring of healthy parents start out healthier and so forth?

I developed this line of thought from a variety of angles, making the point that when prices go up it might really be a sign of inflation; it could, however, be quite another factor – more was being invested by our governments in human capital, which, of course, would include not only education, but health, the environment, and in providing adequate infrastructures to serve the ever more numerous multi-million-headed cities.

This investment in human capital I called the "social lien," to distinguish it from inflation. I sent the manuscript to some journals on economic theory throughout the world. It was bought and published by the leading French journal on economic theory, *Revue économique* and appeared in its issue of May 1970.

That was no accident. On its editorial board was the leading sociologist of the day, and two statisticians who had tried relating the rise of prices with a shortage of supply and found no significant relationship. Baffled by the lack of a relationship between the market price and the available market supply compared with demand, when the postman brought my manuscript. It was reviewed twice most favorably by the economic revue of Cambridge University in Britain, and by some eight other economic publications. It led to my close contact with the late great economist François Perroux to our mutual advantage. It led to my relationship with John Hotson, who joined me in founding COMER.

Among Perroux's notable contributions to understanding the constant shift between official economic theory and social reality was his notion of the dominant theory – that he defined as the income of the dominant class that is taken as a reliable index of the welfare of society as a whole.

Since then, with ever evolving technologies, the relationship has become ever more complex. Only a year or two ago public attention centered on the development of digital trading that intercepted the trading being done on convention trading by intercepting their e-mail communication. This allowed them to forestall what was being bought and sold and make profits by buying and selling in a matter of seconds without ever having owned the stock.

But technological change marches on. And now from an entirely different direction, *The New York Times* (04/01, "Cozying Up to Facebook As it has to Others, To Win Big Business" by Peter Lattman) reports: "Goldman Sachs and Facebook have 'friended' each other.

"In investing $450 million in the social network giant, Goldman has established itself as the leading candidate to win the lucrative and prestigious assignment of Facebook's initial public offering, whenever that day comes. It also positions itself to reap millions of dollars in banking fees. Goldman has already begun the process of wooing its wealthy clients to invest alongside it in Facebook, forming an investment vehicle that seeks to raise as much [as] $1.5 billion for the internet company.

"But Goldman's bold move is also likely to focus the attention of regulators at the Securities and Exchange Commission, which last month began an inquiry into the surge in trading shares of privately held internet companies.

"While the investment by Goldman is being held as a huge coup on Wall Street, the deal – in particular the investment pool being formed for its clients – could become a lightning rod for regulators and policy makers as they examine the growing shadow market in Facebook shares.

"For Goldman the investment in Facebook is in many ways a return to the firm's roots. Long before Facebrook became a social and cultural phenomenon, Goldman was 'friending' America's hottest companies and their chief executives, from Sears Roebuck in the 1900s to Ford in the 1950s to eBay in the 1990s. By collecting so many important friends, and obsessively tending those relationships, Goldman generates big fees.

"In addition to the potential banking fees generated by an initial public offering of Facebook, there is the billions of dollars of unlocked companies. These markets are helping startups like Facebook develop the financial wherewithal to compete in the big leagues of business. They have also become an avenue for venture capitalists and start-up employees to cash in their stock, turning many overworked engineers into instant millionaires.

"And so a young mogul like Mr. Zuckerberg, the world's youngest billionaire at age 26, can enjoy many of the benefits of going public without having to tie the knot with Wall Street. Other hot technological companies like Twitter, Zynga and Groupon are also tapping secondary markets to keep stock market investors at bay. They are in no rush to go public and no longer need the bragging rights that a stock offering used to bestow."

A Topsy-turvy World

"'This is a topsy-turvy world,' said Scott Dettmer, a founding partner of Gunderson Dettmer, a law firm that has advised venture capitalists, start-ups and entrepreneurs since the 1980s. He added that even a few years ago, 'there were all sorts of business reasons to go public, but for entrepreneurs it was also a badge of honor.'

"Perhaps more than any company founder, Mr. Zuckerberg, who declined to comment for this article, has frequently expressed his disinterest in Wall Street, though Facebook is clearly not above taking its cash. He passed on opportunities to make a killing, for example, at age 22, he rejected billion-dollar offers for Facebook.

"Mark would absolutely prefer not to have an IPO, unless he absolutely has to,' said David Kirkpatrick, the author of *The Facebook Effect*. 'He absolutely doesn't want to sacrifice control because he believes that his vision is necessary to keep powering the company forward.'

"Mr. Zuckerberg's quest to keep Facebook private, though, will not last forever. Federal regulation requires companies with 500 or more investors to disclose their financial results, eliminating one of the universal advantages of staying private.

"The Goldman Sachs investment, by a stake of less than 1 percent in the company, is formulated in part to skirt these rules. But it may not help for more than a limited period of time. The Securities and Exchange Commission is investigating private company trades in secondary markets, and regulators may decide that what is good for Facebook is not necessarily good for the investing public.

"Still, the huge cash infusion is a coup both for Mr. Zuckerberg, who is said to own about a quarter of the company, and Facebook. The deal gives the company cash to hire employees or build data centers.

"It also puts Facebook, which makes most of its money through advertising, on a path to surpass Google, by some measures, as the most successful internet company to come out of Silicon Valley. Facebook is on track to bring in as much as $2 billion in revenue this year.

"The deal with Goldman values Facebook at nearly twice the $27 billion that Google was worth after its first day as a public company in August 2004. Google did not cross the $50 billion mark until about six months later.

"The two companies have become enemies, but their founders share a deep suspicion of Wall Street, born in part from witnessing the devastation that followed the dot com bubble. Like Mr. Zuckerberg, the founders of Google, Larry Page and Sergey Brin, set up two classes of shares, which kept them in control after the public offering. The also vowed not to be beholden to the short-term investors.

"Mr. Zuckerberg is exhibiting many of the same misgivings about the stock market. Mr. Zuckerberg has frequently demurred when asked about an eventual public offering. One of Facebook's earliest investors said recently that the company would not go public before 2012.

"But Mr. Zuckerberg is benefitting from the fast-growing market for trading in the shares of privately-held tech companies, which the Google founders did not have. Through private exchanges like Secondmarket and Sharespost, and through direct transactions between investors, closely held companies, their investors and employees have been able to sell their shares to others. For start-ups today, that has opened new options to going public. These derivatives have become more attractive for companies, in part because of the increased regulations imposed on public companies but also because of the rise in short-term trading, which leaves some executives feeling they have lost control of their companies.

"Ben Horowitz, a partner with Andressen Horowitz, a venture capital firm, said the cost of being a public company had risen to about $5 million a year, from about $1 million a year. Mr. Horowitz, an early employee of Netscape, said that such costs would have eaten into the meager profits of the pioneering Internet company when it went public in 1995. Additionally, accounting and legal requirements have become distractions for many start-ups, said Mr. Horowitz, whose firm is an investor in Facebook.

"These distractions are bothersome for strong-willed entrepreneurs like Mr. Zuckerberg.

""If you're 30 years old and you think you're building a business that's going to be a 100-year-old business, what year you're public doesn't really matter,' Mr. Bodnick said. 'But if you think the steps you're taking are laying the groundwork to long-term strategic growth, it's better to be quiet, it's good to be out of the light.'"

William Krehm

Why Bother with Serious Accountancy If You Can Find Smoother Ways of Getting Banks Out of their Deepening Troubles?

The Wall Street Journal (06/01, "Option for Failing Banks: Chapter 11" by Eric Morath) recounts: "The recent sale of a Washington state bank out of Chapter 11 creates a new tool that potentially could rescue hundreds of similarly troubled institutions and save the Federal Deposit Insurance Corp. billions of dollars, according to a number of banking experts.

"An investment vehicle backed by a Goldman Sachs Group Inc. fund and Oaktree Capital Management LP late last month purchased AmericaWest Bank of Spokane, Wash., out of bankruptcy from its holding company without the need for regulators to seize the bank and shore up its deposits.

"The deal could open up options to save other banks teetering on the edge of failure, particularly those whose holding companies are saddled with so-called trust-preferred securities, and make it easier for hungry investors to acquire undercapitalized banks.

"State banking regulators said the sale, which they believe to be the first transaction of its kind, could have a wide-ranging impact.

"'We are encouraged to find another way to skin the cat,' said Brad Williamson, director of banks for the Washington State Department of Financial Institutions. The sale 'allowed the bank to be recapitalized and addressed the TruPS conundrum.'

"Trust-preferred securities, commonly called TruPS, have weighed down many banks struggling to remain afloat. The securities were issued frequently in the 1990s as a way for bank-holding companies to raise capital cheaply and without diluting their shareholders' equity.

"As the financial crisis took hold, however, those securities often stood in the way of private investors willing to step in to rescue banks stung by bad loans and faltering real estate markets.

"The reason so many bank-holding companies, including AmericanWest Bankcorp., couldn't persuade investors to come forward was because the ultimate holders of the trust-preferred securities are entitled to payment before any capital infusion can occur.

"Trustees representing the debt holders often were unwilling or unable to negotiate a settlement that could allow a bank to be recapitalized without government intervention. The result: some banks that could have been rescued were seized and billions of dollars have been drained from FDIC's insurance fund.

"More than 150 banks failed last year, costing the FDIC more than $20 billion. AmericanWest's failure alone would have cost the FDIC $330 million, according to papers filed with the US Bankruptcy Court in Spokane.

"Instead, the bankruptcy sale allowed the 58-branch bank, which became insolvent in the first half of last year, to find its way to new owners without government assistance. SKHC Holding LLC, the Goldman-Oaktree vehicle, paid $6.5 million for AmericaWest and pledged up to $200 million in additional capital.

"SKBHC said it was impressed with the AmericanWest operation and sees the Pacific Northwest economy poised for a rebound. While AmericanWest was closely watched by regulators, it was never seized, in part because banking executives kept regulators closely informed of their plans to recapitalize.

"'We made a strong business case to regulators that this could be a bit of a game changer,' said Scott Kisting, SKBHC's chairman and chief executive.

"Bankruptcy sales are commonplace in manufacturing and other industries, but they aren't in banking. Typically, bank holding companies file for bankruptcy after their bank is seized.

"Mr. Kisting credited former AmericanWest Bank President Patrick Rusnak for developing the idea of using a bankruptcy sale to complete the transaction.

"With a Chapter 11 sale, SKHBC acquired the bank free and clear of liens, including amounts owed to the trust-preferred securities holders.

"AmericanWest Bankcorp. raised capital years ago through the issuance of roughly $40 million in debt through trusts, which was then repackaged into several different collateralized debt obligations that held about $2 billion of securities. Those CDOs, in turn, issued bonds to investors.

"That complicated investment structure meant it wasn't possible to trace individual holders of the holding company's debt, making it nearly impossible to negotiate with the debt holders.

"'In cases like this, there is simply no one to negotiate with,' said Van C. Durrer, an attorney for SKBHC. Mr. Durrer is a bankruptcy attorney with Skadden, Arps, Slate, Meagher & Flom.

"'It would be very hard to do this transaction out of court and out of receivership,' he said.

"The sale drew the attention of others in the industry.

"'AmericanWest very well could be an example to follow,' said Frank Bonaventure, chairman of the financial-institutions group at law firm Ober Kaler.

"This isn't to say that waves of holding companies will file for Chapter 11 protection in order to execute sales he said, but even the threat of bankruptcy would be enough to bring trust-preferred securities trustees to the table for more serious negotiations.

"With private-equity firms, such as SKHBC, ready to recapitalize troubled banks, Chapter 11 proceedings could open the door to needed investment without government assistance, said banking analyst Brett Rabatin.

"Many investors have purchased banks after the FDIX became a receiver, Mr. Rabatin, a senior analyst at Sterene, Agee & Leach Inc., said the American-West deal could pave the way for a new mode.

"'The FDIC is realizing that they don't have to fail more banks,' he said. They can use private equity as a vehicle for institutions that need capital."

In short before you can talk of "skinning the cat," you must not forget that what you may be dealing with is an aggressive pack of lions.

What the world needs is a recognition of what had been celebrated in the 1960s as the most important lesson to come out of World War II – that human capital which includes notably the already prepaid stock of public education and training, which must include as well, the health, the environment, adequate infrastructures to make our rapidly urbanizing world livable. That prepaid capital must be treated as an asset not as a debt. Without that it deteriorates – technology is moving forward at ever headier pace – jobless engineers after a couple of years are no longer employable, besides those still at work are molested by increasing armies of jobless trying to improvise a living by soliciting those still employed.

Mistaking a prepaid capital asset for a liability means that we have no social accountancy remotely worthy of that name, that we are flying blind, and those in the cockpit are representatives of the speculative banking regimes that brought on the current disaster.

W. Krehm

Alien Bacteria Saved the Situation in the Gulf Spill

The Wall Street Journal (7/01, "Microbes Mopped Up After Spill" by Robert Lee Hotz) brings some cheerfully surprising tidings: "Bacteria made quick work of the tons of methane that billowed into the Gulf of Mexico along with oil from April's Deepwater Horizon blowout, clearing the natural gas from the waterway within months of its release, researchers reported Friday.

"The federally funded field study, published online in the journal Science, offers peer-reviewed evidence that naturally occurring microbes in the Gulf devoured significant amounts of toxic chemicals in oil and natural gas spewing from the seafloor, which researchers had thought would persist in the region's water chemistry for years.

"'Within a matter of months, the bacteria completely removed that methane,' said microbiologist David Valentine at the University of California of Santa Barbara. 'The bacteria kicked in more effectively than we expected,' he said.

"Dr. Valentine was part of a research teem that tested samples from more than 200 locations across 38,000 square miles of the Gulf during three research cruises between August and October, after the well was shut down last year.

"The fate of the methane is only one aspect of the environmental impact on the Gulf of the massive spill. All told, scientists estimate that 200,000 tons or more of methane that bubbled from the damaged BP PLC well – about 20% of the hydrocarbons released during the spill – along with about 4.4 million barrels of petroleum.

"The crude oil settled on the seafloor as sludge within a mile or so of the damaged drill head, floated to the surface, washed ashore or was diluted by chemical dispersants dissolved into the seawater.

"In a report last month, federal officials managing the cleanup effort said there was no longer any significant oil from the spill left in the water that exceeded federal safety standards. Most state and federal fisheries in the Gulf have reopened.

"David Rainey, a vice president of science, technology, environment and regulatory affairs for BP's Gulf Coast Restoration Organization, which had no role in the new study, called the methane findings 'very good news for the Gulf of Mexico.'

"The report stirred disbelief among several microbiologists studying the aftermath of the 87-day oil and gas leak. 'I think they are jumping to a conclusion,' said University of Georgia microbiologist Samantha Joye, who has been analyzing methane from the damaged wellhead independently. 'It would take a superhuman microbe to do what they are claiming.'

"But Robert Haddad, head of the damage-assessment effort at the National Oceanic and Atmospheric Administration, said, 'The data they've collected on the methane plume is consistent with what we've seen.'

"Early tests by researchers at Texas A&M University around the damaged wellhead showed that little of the methane gas ever reached the surface.

"The scientists determined almost all of it had been trapped in a plume of microscopic oil droplets in a layer of water between 2,600 feet and 3,900 feet deep. The measurements the scientists made in June showed that methane levels in the water were tens of thousand of times higher than normal. Now it is nowhere to be found.

"'We were shocked,' said oceanographer John Keeler at Texas A&M, who was the lead author of the Science study. 'We thought the methane would be around for years.'

"By comparing the water samples from their Gulf cruises, Dr. Kessler and his six colleagues found a telltale drop in the amount of oxygen left in the water that appeared to precisely equal the amount needed for microbes to metabolize so much methane.

"The bacteria appeared to remove 100 million tons of oxygen from the water, not enough to cause an oxygen-starved dead zone that would be fatal to other marine life, the researchers said. In addition, genetic tests revealed relatively high levels of microbes known to consume methane.

"'This is very compelling evidence that the methane had been consumed,' said geo-micro-biologist Antje Boetius at the Max Planck Institute in Bremen, Germany, an expert on methane microbes who wasn't involved in the study.

"If borne out by additional research, the ability of ocean microbes to absorb such large amounts of methane so rapidly also has applications for the study of global warming and the potential for catastrophic climate changes, the researchers said.

"Methane is a greenhouse gas 24 times more potent than carbon dioxide. Under some climate-change scenarios, scientists worry that large natural leaks of methane, which is cached in vast reservoirs beneath the seafloor, could reach the surface where the gas could affects temperatures. These microbes could block that.

"They showed that, even when there is a massive release of methane, the ocean can compensate,' said microbiologist Terry Hazan at the Lawrence Livermore National Laboratory."

What is not the least remarkable about the insatiable eagerness of scientists to learn from newly discovered relationships in one area of the planet or universe to consider hitherto unsuspected cause-and-effect ties in seemingly unrelated fields. How that differs from the dunderheaded greed of speculative finance that reduces the world economy to an ever-bigger casino where governments are under oath to ensure that everybody, including even the casino owners, are guaranteed to lose their shirts.

W.K.

A Reshuffle of Technical Matings is Reshaping What Our World Is About

It must have been a good half century ago when I was first impressed that even the great Karl Marx, born into the early railway age, unconsciously developed his conviction of society's inevitable progress along predetermined laid-down sequence from primitive communism to the inevitable triumph of socialism, when all passengers would step down the final terminal socialism, with blessed smiles on their faces.

However, that mating of man and his technology, is as nothing in comparison with what is currently under way.

The Wall Street Journal (05/01, "Microsoft Alliance with Intel Shows Age" by Nick Wingfield and Don Clark) provides some thumb-nail sketches of an infinitely more complex entanglement of our social existence: "The technology industry's most lucrative partnership – the long-running partnership – the long-running alliance between Microsoft Corp. and Intel Corp. – is coming to a day of reckoning.

"Sales of tablets, smart phones, and televisions using rival technologies are taking off, pushing the two technology giants to go their separate ways.

"The clearest sign that their interests are diverging: Microsoft on Wednesday is expected to unveil a future version of the company's flagship Windows operating system that runs on microprocessors designed by Intel rival ARM Holdings PLC, according to people familiar with its plans.

"Microsoft still plans to make versions of Windows that also run on Intel chips, but the company's ARM plans amount to a huge bet on a chip technology that has become the de facto standard for smart phones, tables and other mobile products.

"The marriage of Intel chip designs and Windows – what became known as the 'Wintel' alliance – has shaped the PC business since the early 1980s, defining the standard for which software developers created application. But both companies have struggled to capitalize on newer growth markets.

"While Windows still powers more than 90% of global personal computers, research firm Gartner says Microsoft software ran less than 3% of smart phones in the third quarter.

"The success of Apple Inc.'s iPad has driven a deeper wedge between Microsoft and Intel.

"The two companies, in collaboration with hardware makers, haven't been able to come up with any tablet products that match the performance, power efficiency and ease-of-use of the iPad, a worrying trend as the Apple device has come to nibble into mobile PC sales.

"Microsoft Chief Executive Steve Balmer will kick off the Consumer Electronic Show in Las Vegas Wednesday. The new version of Windows Microsoft is expected to show off there will be better suited to touch-screen interfaces and the power limitations of tablets, people familiar with the matter said.

"Technology industry veterans say the move by Microsoft is a milestone in the slow decay of the Wintel alliance, 'I think it's a deep fracture,' said Jean-Louis Gassée, a venture capitalist and Silicon Valley executive.

"A Microsoft spokeswoman declined to comment. Bill Kircos, an Intel spokesman, said the relationship between the two companies is 'deep and strong.'

"'While we can't comment specifically on any future Windows plans, there is a tremendous business opportunity for both of us in the projected billions of devices, gadgets and machines going online in the next five years, above and beyond the more near-term tablet area,' Mr. Kircos said."

Technological Divorce and Remating

"Microsoft and Intel have been collaborating since before International Business Machines Corp. introduced its first PC in 1981, a machine that used Microsoft's DOS operating system and the Intel chip design known by the designation X86. The relationship became particularly lucrative after Windows software helped make PCs a mainstay in homes and companies. The vast majority of the more than 350 million PCs sold last year ran some form of Windows on X86 chips sold by Intel or Advanced Micro Devices Inc.

"The rise of smart phones – and more recently, tablets – has strained the relationship. A key reason people have long preferred Wintel-based PCs – compatibility with application programs for Windows – has so far not been an important selling point in the new mobile categories. Indeed, Apple and Google Inc. have had success in creating large markets for lightweight apps on smart phones and tablets – to the point that users don't seem to care much about Windows compatibility.

"At the same time, Intel's chips haven't been able to match the low-power consumption of chips based on designs licensed from ARM Holdings, which supply the processing power to the majority of mobile gadgets. Apple's iPad, for instance, has a 10-hour battery life and requires relatively little memory, attributes that are tough to match with Intel-powered designs, said Rick Whittington, an analyst of the research firm Techindicators.

"Microsoft has long made a version of Windows for mobile phones that run on ARM chips because of the power constraints of those devices, but not the flagship version that runs on PCs.

"Steve Perlman, chief executive of online game start-up OnLive Inc. and veteran of Microsoft and Apple, said Wintel technologies are 'so deeply embedded in the information-era economy' that they will exist for a long time, but that the existing products from the companies are missing out on big growth opportunities in the mobile business. 'The Wintel system is too heavy-weight to move into these new markets,' Mr. Perlman said.

"Intel has been trying to lower the power consumption of its chips, and has made progress in this area. Paul Otellini, Intel's chief executive, said at a conference in December the company's chips are being designed into more than 35 tablet PCs.

"Intel's effort to build up the software side of its business has also vexed Microsoft. In June 2009 Intel made a surprise $900 million bid to buy Microsoft rival Wind River Systems Inc., a company with an operating system for non-computer applications.

"More recently, Intel struck a deal to buy McAfee Inc., a maker of security software, for nearly $7.7 billion. Intel is jointly developing with Nokia Corp. an operating system for mobile devices based on Linum called Meego.

"Intel has also thumbed its nose at Mi-

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When Prepaid Human Capital is Treated as Debt, There Is No Space for Great Music

Recently I visited New York City for the first time in many years and looked forward to enjoying orchestral concerts at Carnegie Hall and Opera at the Met. To my astonishment no programs were being given.

The shocking reasons for that I learned only from *The New York Times* after my return (5/12) in "Freelance Musicians Hear Mournful Coda as the Jobs Dry Up" by Daniel J. Wakin: "In New York's classical-music world most of the attention falls on the big boys: the New York Philharmonic, the Metropolitan Opera. the major international orchestras that pass through Carnegie Hall, the glamorous soloists who can earn tens of thousands of dollars an appearance.

"But night after night highly trained traipse from Washington Heights or the Upper West Side or northern New Jersey or Long Island to play church jobs and weddings. Lincoln Center and Broadway summer festivals and fill-in jobs at the Met and the Philharmonic. They occupy the ranks of a dozen freelance orchestras, put the music in Broadway musicals and provide soundtracks – or at least they used to – for Hollywood and Madison Avenue. They form the bedrock of musical life in a great cultural capital.

"It was a good living. But the New York freelance musician – a bright thread in the fabric of the city – is dying out. In an age of sampling, digitization, and outsourcing, New York's soundtrack and advertising-jingle recording industry has essentially collapsed. Broadway jobs are in decline. Dance companies rely increasingly on recorded music. And many freelance orchestras, among the last steady deals, are cutting back on their seasons, sometimes to nothingness.

"Contracts for most of the freelance orchestras expired in September. and the players face the likelihood of further cuts in pay, or at least a freeze. All these orchestras rely on donations and, to a small extent government grants. The Great Recession has taken its toll, putting a number of them under severe financial pressure.

"'This is the first time that there are quite a few managements coming to us and saying, "we just don't have the money,"' Eugene Moye Jr. a veteran cellist who serves on the players' committees in several orchestras. 'Our community is under a lot of pressure. Our jobs are melting away. We have a lot of people who are right on the edge.'

"The Brooklyn Philharmonic, founded in 1953, stopped performing as an orchestra. The Long Island Philharmonic has only one concert schedule this season – a Broadway medley – because of financial problems. The Opera Orchestra of New York, which canceled its season last year, has come back with two concerts this year. The American Composers Orchestra is down to three concerts a year in the smaller Zankel Hall instead of five in Carnegie Hall's main auditorium a decade ago."

A Shrunken Universe

"The Queens Symphony, which is supported mainly by the state and the city, has reduced its size to anywhere from 17 to 36 players from around 65, which means presenting smaller-scale programming. The Westchester Philharmonic, despite the star power of its music director, Itshak Perlman, has $385,000 of debt and has had trouble paying its musicians. The American Symphony Orchestra has run $300,000 to $400,000 deficits a season for the last several years, with the gaps covered at the last minute by donors.

"In the face of such problems the American Symphony is seeking a novel solution. It has proposed a contract that would provide a regular paycheck to its players in exchange for their commitment to play more concerts and the option to carry out nonperforming work, like teaching, coaching or benefit concerts.

"'The freelance system as it now stands cannot support the musicians, especially with Broadway work drying up for them,' said Lynne Meloccaro, the ensemble's executive director. Orchestra officials hope the arrangement will solidify the roster, improving quality and making the orchestra more attractive to donors.

"'We want this to work,' said Mr. Moye, the chairman of the players' committee. But he added, 'We will not be made into a group of indentured servants.'

"The 'freelance' life has always been fraught with uncertainty. But many musicians say they relish the variety and spontaneity.

"'I have always been so thrilled for the music I get to play,' said Elizabeth Mann, a flutist who performs with the Orpheus Chamber Orchestra and Orchestra of St. Luke's, two of the elite ensembles. 'The lack of stability is some thing you have to reckon with.'

"Other freelance orchestras include the New York Pops, the Riverside Symphony, the Bronx Arts Ensemble and the Little Orchestra Society, along with the Mostly Mozart and American Ballet Theater orchestras. Some 520 musicians populate the rosters of freelance ensembles, said Jay Blumenthal, the official in charge of freelance ensembles, said Jay Blumenthal, the official in charge of free lance contracts for Local 802 of the American Federation of Musicians, Mr. Blumenthal said the orchestra musicians generally earn about $252 a performance, and $50 an hour for rehearsal.

"Clay Ruede, 55, typified the freelance life that once was. Soon after he arrived in New York with his cello in 1977, music-making filled his days and evenings. He criss-crossed the city for recording sessions, Broadway shows, substitute jobs at the Metropolitan Opera, gigs at the Mostly Mozart Festival and rehearsals with his Arden Trio.

"He played his last Broadway show, *The Color Purple*, in February 2008. He hasn't recorded a movie soundtrack in eight years. With his income down six figures to about $30,000 this year, Mr. Ruede has sold his spare cello and bow, put a playlist from a gig with Bjork on eBay and plans to short-sell the house in Englewood, NJ, to make ends meet. 'The last three years I've just been barely making it,' he said. 'I've done stuff that I haven't done since I was a teenager – playing weddings for cash, cocktail parties, that I would never have deigned to do. But you do what you have to.' His next steady engagement is not until March.

"Many musicians cite another sort of recession behind the dwindling opportunities: the Classical Music Recession. That is the decreasing profile of the art form amid modern entertainment-saturated life. Benjamin Herman, 61, a veteran percussionist with vast experience as a freelancer, maintains that the PDQ Bach concerts of the musical humorist Peter Schikels faded away, not because the jokes weren't funny but because audiences didn't have enough musical knowledge to get them….

"In contrast he recalled a day 20 years ago when he walked by the posters outside Carnegie Hall. 'I pointed to the wall and said, "I'm doing the wall." 'Every placard that was up, I was involved in the ensemble.' Now, he added, 'once in a while I'm lucky if I'm doing a placard.'

"The numbers reflect his story. At the Broadway theaters, the total minimum number of musicians – decided by contract – has dropped to 335 from 526 in the early 1990s, according to Local 802. (Theater closings contributed to the decline.) The increase in rock musicals has also cut into the traditional freelance market.

"On the recording front many producers are taking their business to cheaper orchestras overseas or using or using digitized music. Making $15,000 on a jingle was not unheard of 20 years ago.

"Because of the changing conditions, musicians are clinging to the jobs that remain, making it tougher for younger musicians to break in. Meanwhile the pool only grows. New York's main conservatories – the Julliard School, the Manhattan School and Mannes College the New School – pump up more than 500 degree-holders a year. And that is not to mention universities in the New York region and conservatories around the country that send their graduates to New York.

"The climate has forced many to adapt.

"A new breed of younger, social-media-savvy musicians is forming and running their own groups, often with innovative programming, concerts in unexpected places – bars, art galleries and museums – and minimal pay. The International Contemporary Ensemble and the Knights, a chamber orchestra, are two of the more established examples….

"To make ends meet older free older freelancers are also trying to adapt. Dale Stuckenbruck, 57, of West Hempstead., NY, a violinist and free-lance veteran who lacks enough union work to qualify for health insurance, has developed a specialty playing the musical saw and teaching music to youngsters helping them make traditional Chinese violins and instruments out of vegetables….

"'The modern artist has to be more diversified,' he said. You cannot play just Weniawski or Chopin.

"His enthusiasm for playing the violin, he added, has not waned. 'I do what I do 24 hours a day, and I love every second,' he said. "That's what an artist is. We love it so deeply. We go with what is. Its not a job, it's our life.'"

That indeed is deeply touching.

But the great musical heritage that over many centuries inspired society to meet its greatest trials is being debased to a luxury that we can no longer afford. Those great idle music halls of New York that I remembered so well over some decades throbbing with great music, are largely idle, because our speculative high finance, has ruled that Bach and Beethoven are luxury rather than part of society's greatest resource for survival.

W.K.

Big Banks in Charge of Recovery Encourages Monopolist Aggression

The New York Times (12/12, "A Secretive Banking Elite Rules Trade in Derivatives" by Louise Story) reports: "On the third Wednesday of every month, the nine members of an elite Wall Street society gather in Midtown Manhattan. The men share a common goal: to protect the interests of big banks in the vast market for derivatives, one of the most profitable – and controversial fields in finance. They also share a common secret: the details of their meetings, even their identities, have been strictly confidential.

"Drawn from giants like JPMorgan Chase, Goldman Sachs, and Morgan Stanley, the bankers form a powerful industry committee that helps oversee trading in derivatives, instruments which, like insurance, are used to hedge risk.

"In theory, this group exists to safeguard the integrity of the multi-trillion-dollar market. In practice, it also defends the dominance of the big banks.

"The banks in this group, which is affiliated with a new derivatives clearinghouse, have fought to block other banks from entering the market, and they are also trying to thwart efforts to make full information on prices and fees freely available.

"Banks' influence over this market, and over clearinghouses like the one this select group advises, has costly implications for businesses large and small, like Dan Singer's home heating-oil company in Westchester County, north of New York City.

"This fall, many of Mr. Singer's customers, purchased fixed-rate plans to lock in winter heating oil at around $3 a gallon. While that price was above the then-prevailing $2.80 a gallon, the contracts will protect homeowners if bitter-cold weather pushes the price even higher.

"But Mr. Singer wonders if his company, Robison Oil, should be getting a better deal. He uses derivatives like swaps and options to create his fixed plans. But he has no idea how much lower his prices…could be, he says, because banks don't disclose fees associated with the derivatives….

"Derivatives shift risk from one party to another, and they offer many benefits, like enabling Mr. Singer to sell his fixed plans without having to bear all the risk that oil prices could suddenly rise. Derivatives are also big business on Wall Street. Banks collect many billions of dollars annually in undisclosed fees associated with these instruments – an amount that would almost certainly be lower if there were more competition and transparent prices.

"Just how much derivatives trading costs ordinary Americans is uncertain. The size and reach of this market has grown rapidly over the past two decades. Pension funds today use derivatives to hedge investments. States and cities use them to try hold down borrowing costs. Food companies use them to lock in prices of commodities like wheat or beef.

"The marketplace as it functions now 'adds up to higher costs to all Americans,' said Garry Gensler, the chairman of the Commodity Futures Trading Commission, which regulates most derivatives. More oversight of the banks in this market is needed, he said.

"But big banks influence the rules governing derivatives through a variety of industry groups. The banks' latest point of influence are clearing houses like ICE Trust, which holds the monthly meeting with the nine bankers in New York.

"Under the Dodd-Frank financial overhaul, may derivatives will be traded via such clearinghouses. Mr. Gensler wants to lessen banks' control over these new institutions. But Republican lawmakers, many of whom received large campaign contributions from banks who want to influence how the derivatives rules are written, say they plan to push back against much of the coming reform. On Thursday, the commission canceled a vote over a proposal to make prices more transparent, raising speculation that Mr. Gensler did not have enough support from his fellow commissioners.

"'The Department of Justice is looking into derivatives, too. The department's antitrust unit is actively investigating 'the possibility of anti-competitive practices in the credit derivatives clearing, trading and information services industry,' according to a department spokeswoman.

"Indeed, the derivatives market today reminds some experts of the NASDAQ stock market in the 1990s. Back then, the Justice Department discovered that NASDAQ market makers were secretly colluding to protect their own profits. Following that scandal, reforms and electronic trading cut NASDAQ stock trading costs to $^1/_{20}$ of their former level – an enormous savings for investors.

"'When you limit participation in the governance of an entity to a few like-minded institutions or individuals who have an interest in keeping competitors out, you have the potential for bad things to happen. It's antitrust 101,' said Robert E. Litan, who helped oversee the Justice Department's NASDAQ investigation as deputy assistant attorney general and is now a fellow at the Kauffman Foundation. 'The history of derivatives trading is it has grown up as a very concentrated industry, and old habits are hard to break.'

"Representatives from the nine banks that dominate the market declined to comment on the Department of Justice investigation.

"Clearing involves keeping track of trades and providing a central repository for money backing those wagers. A spokeswoman for Deutsche Bank, which is among the most influential of the group, said this system will reduce the risks in the market. She said that Deutsche is focused on ensuring this process is put in place without disrupting the marketplace.

"The Deutsche spokeswoman also said the banks' role in this process has been a success…one of the best examples of public-private partnerships."

Established, But Can't Get In

"The Bank of New York Mellon's origins go back to 1784, when it was founded by Alexander Hamilton. Today it holds customer deposits of more than $23 trillion.

"Recently, the bank has been seeking to enter the inner circle of the derivatives market, but so far, it has been rebuffed.

"Bank of New York officials say they have been thwarted by competitors who control important committees at the new clearing-houses, which were set up in the wake of the financial crisis.

"Bank of New York Mellon has been trying to become a so-called clearing member since early this year. But three of the four main clearinghouses told the bank that its derivatives operation has too little capital, and thus potentially poses too much risk to the overall market.

"The bank dismisses that explanation as absurd. 'We are not a nobody,' said Sanjay Kannambadi, chief executive of BNY Mellon Clearing, a subsidiary created to get into the business. 'But we don't qualify. We certainly think that's kind of crazy.'

"The real reason the bank is being shut out, he said, is that rivals want to preserve their profit margins, and they are the ones who helped write the membership rules.

"Mr. Kannambadi said Bank of New York's clients asked it to enter the derivatives business because they believe they are being charged too much by big banks. Its entry could lower fees.

"Others that have yet failed to gain full entry to the derivatives trading club are the State Street Corporation, and small brokerage firms like MF Global and Newedge.

"The criteria seem arbitrary, said Marcus Katz, a senior vice-president at Newedge. which is owned by two big French banks."

Only the Insiders Know

"How did big banks come to have such influence that they can decide who can compete with them?

"Ironically, this development grew in part out of worries during the height of the financial crisis in 2008. A main concern during the meltdown was that no one – not even the government regulators – fully understood the size and interconnections of the derivatives market, especially the market in credit default swaps, which insure against defaults of companies or mortgages bonds. The panic led to the need to bail out the American International Group, for instance, which had CDS [collateral deposit securities] with many large banks.

"In the midst of the turmoil, regulators ordered banks to speed up plans – long in the making – to set up a clearing-house to handle derivatives trading. The intent was to reduce risk and increase stability in the market.

"Two established exchanges that trade commodities and futures, ICE Trust, part of the IntercontinentalExchange, and the Chicago Mercantile Exchange, set up clearinghouses, and, soon afterwards, so did NASDAQ.

"Each of these new clearinghouses had to persuade big banks to join their efforts, and they doled out membership on their risk committees, which is where trading rules are written, as an incentive.

"None of the three clearinghouses would divulge the members of their risk committees when asked by a reporter. But two people with direct knowledge of ICE's committee said the members are: Thomas J. Benson of JPMorgan Chase & Co.; James J. Hill of Morgan Stanley; Athanassios Diplas of Deutsche Bank; Paul Hamill of UBS; Paul Mitrokostas of Barclays; Andy Hubbard of Credit Suisse; Oliver Frankel of Goldman Sachs; Ali Balali of Bank of America; and Biswarup Chatterjee of Citigroup."

Need we say more?

W.K.

Reshuffle *from page 15*

crosoft by collaborating with Microsoft archrival Google on Google TV, a technology for running televisions and other living room devices that connect to the Internet. Intel also contributed software technologies to Chrome OS, a new operating system from Google that will compete with Windows in the netbook computer market."

In short, to wind up our reportage as we began it – with a reference to the orthodox Marxist that by the time the train arrives at the terminal, the passengers rather than descend with a blissful smile of contentment on their faces, they are ready for good market-inspired greed to tear each other apart.

Obviously, we must sneak in the concept of human capital that was – as the most important lesson to come out of World War II, had been recognized as the most rewarding investment a government can make. That – prepaid in advance would have to look not only after the education, but the health, the environment, and adequate infrastructure to make life livable and productive in our multi-million-headed cities.

W.K.

How Mega-fraud Is the Ultimate Blossom of the Alleged Free Market

The Globe and Mail (27/12, "Bumper to Bumper fraud" by Grant Robertson and Tara Perkins) informs us: "It was easy money for Harris Ahmed….

"The man who approached him in Toronto about 'doing accidents' told Mr. Ahmed he would get $1,000 for every passenger and driver he could recruit for the insurance team. Each person would claim they were hurt in the crash.

"Mr. Ahmed went right to work. A few weeks later, a car driven by one of his recruits collided with a Jaguar while driving through a north-Toronto suburb. The three people on the luxury car were also in on the plan, using vehicles purchased from a salvage yard.

"On the surface it looked like a small-time problem: a few people trying to bilk the insurance industry for profit. But when fraud investigators pulled apart the operation, they found a complex ring of more than 40 fake accidents and at least $10 million of fraudulent claims….

"What made it so striking was that the ring included a rehabilitation clinic, used to submit claims for expensive treatments that never happened. To investigators, that was the clearest evidence yet that organized crime, not merely street-level criminals, was exploiting the auto insurance industry.

"Ontario is Canada's hotspot for auto insurance fraud. In a province where consumers pay $9 billion worth of premiums each year, insurance companies estimate as much as $1.3 billion goes to cover fraud.

"'It's a significant amount and, more importantly, it's a rising amount,' said Kathy Honor, president of RBC Insurance.

"But a *Globe and Mail* investigation has found that the way the industry and governments combat the problem may be contributing to its growth. Lax oversight, a dearth of legal and investigative support, and reluctance within the industry to co-operate on sharing crucial data are all hindering attempts to stop fraud.

"Following a clampdown in the US in recent years, there are signs Canada is becoming a haven for auto insurance fraud….

"But the problem is not merely an Ontario issue: two other provinces – Manitoba and BC – have recently uncovered some of the biggest staged-accident cases they've ever seen.

"Fraudulent accidents amount to less than one percent of the 100,000 car crashed reported in Canada each year – but the cost for consumers and the industry is high.

"As auto insurance fraud graduates from a small-time problem to a sophisticated and lucrative business that is worth billions of dollars, the financial toll is increasing."

The Evolution of Fraud Inc.

"In 2002, the largest staged accident ring in the US was uncovered in New York by Peter Smith, then an assistant district attorney on Long Island. Starting with a confession from a man arrested in a staged crash that seemed like an isolated case, Mr. Smith unravelled a web of insurance fraud that spanned more than 1,000 accidents. It was like nothing the insurance industry had seen before.

"Using a task force of local and federal police, Mr. Smith's team was able to establish something more significant: the ring used a network of medical clinics to submit hundreds of claims each week to insurance companies, billing them for costly treatments that were never administered, from x-rays to acupuncture.

"The investigation led to the indictment of more than 400 people in 112 New-York-area medical corporations. The losses totalled more than $200 million, including $50 million for insurance giant State Farm.

"'For the first time, we were able to show how organized it was,' Mr. Smith said.

"The case changed the industry in the United States. The majority of states now use a similar task-force approach, joining local and federal police with insurance industry officials to investigate fraud, and backing them up with prosecutors who are specialists in such cases.

"But the unintended consequence of the US crackdown, on both sides of the border, is that it made Canada an easy target.

"The same problems discovered in the New York investigation are now turning up in Ontario.

"Court documents outlining the Ontario case (dubbed Project 92 because each major investigation is numbered) show a level of complexity that is new to the auto insurance sector.

"The documents suggest a highly efficient, well-planned operation. Months before an accident was attempted, members of the ring combed auto salvage dealers in Canada and the US looking for specific upscale car models suitable for a crash. The vehicles would be purchased for a few thousand dollars then refurbished. But the repairs were mostly cosmetic – in one Toronto crash parts were held together using duct tape – since the vehicle only needed to be driven once.

"Cars were then fraudulently deemed road-worthy by a mechanic and reinsured with an inflated replacement value, often $30,000 or more.

"Again, the real money was made through a clinic, by submitting stacks of claims for false treatments under Ontario's no-fault insurance system that averaged more than $250,000 per accident.

"But the increasing complexity of staged car accident rings is not restricted to Ontario, nor is it limited to provinces that have private insurance as opposed to public insurance. BC's Supreme Court is currently hearing a case where more than 20 people are accused of operating an elaborate and profitable staged-accident ring.

"In Manitoba, the province recently uncovered the largest auto insurance fraud operation in its history.

"The scam was simple but effective: the criminal group purchased vehicles that were high-end, relatively new, but had high mileage. That mileage allowed the fraudsters to buy the vehicles cheap, usually at auctions.

"They would then roll back the odometer to make the car seem newer, and insure the vehicle at an inflated value – often $20,000 or more. Soon after, the car was written off in a staged crash and the replacement value was collected. By the time Manitoba investigators caught on, the ring had collected $600,000 in payouts, not including another $150,000 of claims that were being processed.

"But the key to the plan was how the ring covered its tracks. Each vehicle was sold at least five or six times before the accident, which created a long paper trail and put distance between the ringleaders and the owner listed on the claim.

"It was a watershed case that resulted in organized crime charges being laid, a first in Manitoba for insurance fraud. It also showed the extent to which the crime has evolved.

"A decade ago, 'It would be perhaps just a vehicle owner and his buddy and they would go out and do one staged accident,' said Brian Smiley of Manitoba Public Insurance. 'Now we're seeing multiple people who are organized, conducting staged accidents for profit."

For sheer creativity it could be compared from early Beethoven venturing out in writing his earlier piano sonatas to his late opuses for chorus and full orchestra with his fully developed genius.

Or, more to the point, the record of our government in suppressing just about everything that was learned at shattering social cost during the Depression of the 1930s, the Second World War and at least a quarter of a century thereafter, and then buried it all to the point where now it has replaced the key importance of human capital – education, health, care of the environment, and the provision of adequate infrastructures for our ever-growing cities.

That disqualifies our governments learning the lesson from World War II, formulated by the great American economist Theodore Schultz who identified human capital as the most productive investment a government can make. Briefly celebrated and decorated for a few years, but then buried in oblivion, with professors of economics getting early retirement for as much as mentioning his name.

That scandal is in fact greatest in Canada, where alone among nations we have a central bank that was bought for a good profit from private shareholders by our federal government. Today, however, Ottawa makes little use of its own bank for funding investment in human capital, which was recognized not as debt to be financed through private banks but through its own central bank. All this is still on our law books, but yet the investment in education, health care, defence of the environment and adequate infrastructure for our exploding urban population.

A country that mistakes what was recognized as "the most important investment a government can make" for mere debt, has turned its back on the most basic principle of accountancy.

Such a government lacks the moral status for suppressing whatever the crooks specializing in mere insurance claims can cook up.

William Krehm

Correspondence

Dear Bill,

All the Saskatoon crowd remember you warmly and send ford regards to you. Your continuing devotion to the world of economic cogitation is truly amazing.

I wish there were the possibility of more conversation. Whenever I puzzle on these topics I think of you. Too bad you can't seem to inspire Ottawa in the way that you do your readers.

Hope your health stays strong as your spirits, and that your extended family is also in good heath.

It is a lovely time of your to celebrate.

Happy New Year,

Mary Lou Day

(First published February 7, 2001)

On Banditry:

Canadian nationalism was unmercifully squelched in the recent Federal election.

The Liberal emphasis on short term gain at the expense of national unity bordered on treason. but I must acknowledge the success of the strategy.

Disgusting, but effective.

The election experience finally forced me to join the WWW crowd in search of more effective tools with which to attack the globalization freaks. So far I've downloaded the Bank of Canada output on monetary policy and have reached some less than laudatory conclusions on the subject. That's www.bankofcanada.ca.

Central bank policy seeks to control a varying money supply through a varying interest rate, thereby influencing a varying production level to accommodate a varying demand, which in turn is influenced by a varying dollar whose value is established domestically by a basket of commodities which also seems to vary. A commodity whose owners have a monopoly is dropped from the cost-price index which is the tool used to determine the inflation-deflation variations. The foreign exchange influence is host to a whole rage of complicating factors, not the least of which are periodic speculative forays against the value of the dollar.

Don't despair if the above seems confusing. If a more accurate description is needed, simply use the word "banditry" to describe the process. The system is based on the expropriation of the peoples' right to a free medium of exchange, and is designed to advance the cause of monopoly capitalism through the proliferating profit potential of the fractional reserve swindle. The central banks monetary policy can best be described as a rigged and never ending horserace, with the variables deliberately imposed, instead of being determined by chance.

The science of probabilities in horseracing, and probably everything else, is the effort to distinguish the constants from the variables for the purpose of calculating the risk factor and applying it in a betting strategy based on potential reward versus known risk. In my years of compiling statistics on horseracing, I could only find one point of stability, and that one subject to a few commonsense refinements. The top 30% of the betting choices invariably win 60% of the races over a period of time. It's the only anchor in a sea of variables from which a betting strategy can be developed.

No such point of stability exists in today's ridiculous version of monetary policy. I say ridiculous because points of stability should be norm instead of the exception in any policy with such an impact on peoples lives. When I risk my short term future on a horserace, I'm sometimes a hero but more often a bum. It only takes two minutes to find out. When bucking the tiger in the game of life, the time element varies from several years to a lifetime and usually obtains the same results. As noted earlier, the game is rigged.

If my memory is correct, seventy-five thousand Canadian families were forced into bankruptcy in 1999. This is the tip of the iceberg because, for each bankruptcy, there are at least one hundred families living in similar straits, but too proud or stubborn to admit it. (2001 letter ends at this point.)

December 19, 2010. The above letter was written in 2001, and included a condemnation of the Bank of Canada, which, at the time, was being operated illegally as privately owned, for the benefit of the chartered and international financial fraternity, in spite of being clearly designated as publicly owned, and controlled by our Federal legislature, under the Canadian Constitution. The swindle is still ongoing, and has even had some of our political sellouts attempting to pseudo-legitimize the process by privatizing our Bank of Canada. Apparently, blatant treason can lead to lucrative rewards under globalist jurisdiction.

A. Macdonell