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## 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 AmericanWest 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 AmericanWest and pledged up to \$200 million in additional capital.

"SKBHC said it was impressed with the AmericanWest operation and sees the

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FOUNDING EDITOR  
**John Hotson** 1930–1996

PUBLISHER–EDITOR  
**William Krehm**  
(comerpub@rogers.com)

CARTOONIST  
**Allen Good**

INFORMATION SECRETARY  
**Herb Wiseman** (herbwise@cogeco.ca)

WEBMASTER  
**John Riddell**

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Website: www.comer.org

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Accountancy from page 1

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 FDIC 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 educations and training, which must include as well, the health, the environment, adequate infrastructure 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 distracted and importuned 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 serious accountancy, that we are flying blind, and those in the cockpit are representatives of the speculative banking regimes that brought on the current disaster.

There is then an urgent need of grasping the entire plight of our society in its causal sequence. Settling on a single factor and neglecting others in their historical or logical sequence will not allow us to do the necessary job.

It is clear that power must be shifted out of the hands of the administrators and high officials who brought about the present crisis. For without that we will remain hopelessly locked in the current failed economic system.<sup>1</sup>

Fortunately, another issue of *The New York Times* (14/02, “Online, A Nation of Serfs” by David Carr) saved us much midnight work, by quoting what was said better than we possibly could. We quote: “Some of the fizz, if not a great big bubble, seems to have returned to media, depending on how you define ‘media.’”

“There have been reports in *The New York Times* and elsewhere that Facebook is now valued at \$50 billion, and in *The Wall Street Journal* that Twitter had been in low-level talks with both Google and Facebook, with some estimates putting the value of the company at \$10 billion. Tumblr, the short-form blogging service, is storming along a similar, if more demure path, while Quora, a site built on user-generated questions and answers, seems to be on its way. And at the beginning of last week, the Huffington Post agreed to be sold for \$315 million to AOL.

“The funny thing about all these frothy millions and billions piling up? Most of the value was created by people working free.

“The Huffington Post, perhaps partly in an effort to polish the silver before going on the market, did hire a number of A-list journalists, but the site’s ecosystem of citizen bloggers and its community of commenters represent some share of its value. (How much is open to debate, as Nate Silver pointed out on the FiveThirtyEight blog.) Facebook, Twitter, Tumblr and Quora have been positioned as social networks, but each of them hosts timely content that can also be a backdrop for advertising, which makes them much more like a media company than, say, a phone utility.

“The Huffington Post, social networks and traditional media may seem like different animals, but as advertising, the mother’s milk of all media, flows towards social and amateur media, low-cost and no-cost content is becoming the norm.

“For those of us who make a living typing, it’s all very scary, of course. It’s less about the diminution of authority and expertise, although there is that, and more about the growing perception that content is a commodity, and one that can be had for the price of zero.

“(Content manufacturers like Demand Media that gin up \$15 articles based on searches, put the price only slightly above that.) Old-line media companies that are not only forced to compete with the currency and sexiness of social media, but also burdened by a cost structure for professionally produced content, are left at a profound disadvantage.

“For the media, this is a ‘Tom Sawyer moment.’ ‘Does a boy get a chance to white-wash a fence every day?’ he says to his friends, and sure enough, they are soon lined up for the privilege of doing his chores. That’s a bit like how social networks get built. (Just imagine if Tom had also schooled them in

the net-working opportunities of the user-generated endeavor: ‘You’re not just painting a fence. You’re building an audience around your personal brand.’)

“‘The technology of a lot of these sites is very seductive, and it lulls you into contributing,’ says Anthony de Rosa, a product-manager at Reuters.’ We are being played for suckers, to create content that creates value for others.’

“Last month, Mr. De Rosa wrote – on Tumblr, naturally – about how audiences became publishers, essentially painting the fence for the people who own the various platforms.

“‘We live in a world of Digital Feudalism,’ he wrote. ‘The land many live on is owned by someone else, be it Facebook or Twitter or Tumblr, or some other service that offers up free land and the contents provided by the renter of that land becomes essentially owned by the platform that owns the land.’

“That may sound extreme, but think of Facebook, which is composed of half a billion free user profiles, along with a steady stream of videos, posts and messages. It is both a media site and a social network and all of the content is provided free of charge. By creating a template of information and a frame around it, along with a community that also serves us as an audience.”

### **A Fridge that Creates and Consumes Its Own Food**

“This new generation of content-companies have created the equivalent of a refrigerator that manufactures and consumes its own food.

“I ended up thinking all of this when I was encouraged to sign up for Quora, the question-and-answer social site by some of my more tech-minded friends. As I was going through the registration, I had a ‘hey, wait a minute’ moment right now, my inbox is full of all manner of questions and requests I can’t get to, some of them from my own family. What in the world am I doing wandering out into a community of strangers to answer and post questions? . . .

“And it’s going to seem very different to some other media companies. The Huffington Post has perfected the art of – how shall we say it? – enthusiastic aggregation. Most of the news on the site is rewritten from other sources, then given a single link to the original. Many media companies, used to seeing their scoops get picked off by HuffPo and others, have decided that legal action isn’t worth the bother. They might feel dif-

ferently now.)

“Perhaps content will remain bifurcated into professional and amateur streams, but as social networks et away at media mindshare and the advertising base, I’m not so sure.”

W.K.

1. *Price in a Mixed Economy – Our Record of Disaster* by William Krehm quotes Jacques Valier: “More often economists have been content to speak of administered prices [i.e., administered by price-makers rather than set by a free market – W.K.] without attempting to see how and why the prices were being administered. As a result ‘administered prices do not constitute a theory, but rather a way to avoid formulating a theory’ (*L’Inflation rampante dans les pays de capitalisme evolue*, Paris, Cujas, 1968, p. 157).

“Pierre Biacabe makes this remark: ‘American writers have had no qualms about making use of a line of reasoning of unusual simplicity which consists of saying that if the general price index shows a rise, the explanation must be sought in the rise of the components of the index.... This is entirely worthy of Moliere’s doctor. Such reasoning is so concrete that we may ask ourselves if it can really be considered theoretical reasoning’ (*Analyses contemporaines de l’inflation*, Paris, Sirey, 1962, p. 313).

“Even Karl Marx, for all his sweeping, forward vision, was in this respect a child of his century. He had, to be sure, unmasked the reification of human institutions, the mistaking of a historically conditioned relation between man and man for a natural relationship between things. Yet, in his views on what was productive labor, he himself fell victim to just such a fallacy. The young capitalist society of his day was glorifying its mastery over the physical world: production was turning out substantial, solid things you could rap your knuckles on. On the other hand services were associated with money squandered by wastrels for butlers and footmen. Hence we find Marx, too, identifying productive labor with the manufacture of commodities, and regarding labor spent on services as non-productive, a mere frittering away of surplus-value extracted by the capitalist. And, of course, the services of the state had two counts against them: they not only gave rise to no palpable goods, but originated with a state that was irremediable an instrument of the exploiting class” (*Histoire des doctrines économiques*, Paris, Alfred Costes, 1925, Vol. 2, pp. 57, 81).

“Marx takes the French translator of Adam Smith, G. Garnier, to task for arguing for the productive nature of state services. ‘Of course, a Frenchman could not miss coming up with *Ponts et Chaussées* (Bridges and Highways).’ Attacking Ganilh (p. 80)...he delivers himself of the following: ‘The tax on his wages that the worker pays the state and the Church is taken from him in payment of services imposed upon him. What he pays for his education is blessedly little. When he makes such a payment, the expenditure is productive since it produces labor power. As to his expenditures for the services of doctors, priests, lawyers, that is so much wasted money....’

“Note, too, the most uncharacteristic muddled-headedness of this footnote: ‘In the Middle Ages we find bookkeeping for agriculture only in the monasteries. But we have seen... that a bookkeeper was installed for agriculture as early as the primitive Indian communities [existed] Bookkeeping is there made the independent and exclusive function of a communal officer. This division of labor saves time, effort and expense, but production and bookkeeping in the sphere of production remain as much two different things as the cargo of a ship and the bill of lading. In the person of the bookkeeper, a part of the labor-power of the community is withdrawn from production, and the costs of his function are not made good by his own labor but by a deduction from the communal product. What is true of the bookkeeper of an Indian community is true *mutatis mutandis* of the bookkeeper’ (*Capital* (Moscow, Progress Publishers, 1961, Vol. 2, p. 134).

“Also his treatment of storage a few pages later (p. 139): ‘At all events the capital and labor-power are withdrawn from the direct process of production.... They are unproductive costs.’”

Such were the difficulties of conception, and along with the overriding threat to old speculative banking interest that blocked the recognition of human capital which is so crucial to get the world out of its ever deeper economic rut to day.

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# On Catastrophes and Renewal

Amongst the privileged, major disasters give rise to reappraisals of man and his destiny.

*The Wall Street Journal* (16/01, "Rising from the Ruins" by Kevin Rozario) provides an excellent example): "The earth shuddered. According to an American observer, 'every Building rolled and jostled like a ship at sea, which put in Ruins almost every House, Church, and Publick Building, with an incredible Slaughter of the Inhabitants.' Fires broke out all across the city, and the river rose 20 feet, breaking its banks and engulfing the lower elevations. It was November 1, 1755, and without warning, Lisbon, capital of the Portuguese empire, became a wasteland. Earthquake, fire and flood left 15,000 people dead (reports at the time spoke of 50,000); 17,000 of the city's 20,000 homes were destroyed.

"The scale of the calamity shocked the Western World. It demanded a response, and an explanation. Aid arrived from many nations; explanations were harder to agree upon. Clerics in this Age of the Inquisition described the calamity as an act of God, a judgment for the sins of the people. Fashionable thinkers attempted to explain the earthquake as a blessing in disguise, part of God's benevolent design wherein everything happened for the best.

"But the French philosopher Voltaire denounced both views. Could any survivor be expected to be consoled by the fact that 'the heirs of those who have perished will increase their fortune; 'masons will earn money by rebuilding the houses'? He cared nothing for divine designs, his sympathy lay with the victims, and the only truly ethical response to the Lisbon earthquake was to act, to repair bodies and buildings, and to study nature all the better to protect against nature's harms. Like London after the great fire of 1666, after cities had been rebuilt, and often improved after past calamities. But Voltaire turned this into a modern moral imperative. A civilization worthy of its name should pay special heed to disasters, learn from the mistakes they revealed, and harness intelligence, science and sympathy to make a more secure world. This was the project of modernity.

"What he did not expect was that Lisbon would itself rise so triumphantly from the rubble. Employing the absolute power of the monarchy and the resources of empire,

the Marquis de Pombal built a new metropolis with earthquake-proof buildings, wide thoroughfares and a sewer system. Merchants had braced themselves for business failures and the decline of their fortunes. But Pombal turned one of the worst natural disasters in European history into an occasion for modernization. The message was clear, and it was one that would resonate down through the centuries; with the right intervention, catastrophes presented extraordinary opportunities to make improvements."

## The Material Benefit of Disasters

"Indeed, over time, and nowhere more so than in America, urban disasters came to be understood as engines of urban development and economic growth. Puritans had viewed calamities as useful 'corrections,' afflictions sent by God to call sinners back to the path of virtue. But the material benefits of destruction were soon apparent, too. After a fire wiped out much of Boston in 1676, the town took advantage of the destruction to build wide thoroughfares and implement new fireproofing regulations. Such measures, repeated after subsequent fires into the 19th century, equipped the city for commercial expansion, laying the foundations for the seaport's subsequent prosperity and growth at a time of burgeoning trans-Atlantic trade. Disasters demanded a response that was often impossible in ordinary times.

"With the establishment of credit networks, insurance coverage, new technologies and systems of industrial production over the next two centuries, successful reconstruction became so predictable that it became a tradition of the modern age that disasters were instruments of progress.

"When most of Chicago burned down in 1871, prominent clergyman Henry Ward Beecher made the extraordinary statement that Americans 'could not afford to do without the Chicago Fire.' The official account of the conflagration enumerated the 'unquestioned material advantages' that were sure to be realized if the 'natural laws' of the market were allowed to guide the reconstruction of the city, encouraging readers to look beyond the destruction to the bigger and better metropolis that would arise from the ruins. And, indeed, Chicago became the fastest growing city in the Western Hemisphere over the next two decades, staging

the colossal World Fair in 1893 to celebrate the economic forces, technological developments and political values that had ensured the great fire would become a source of prosperity.

"By 1908, one newspaper correspondent was so struck by soaring stock prices after the decimation of San Francisco by earthquake and fire that he launched an investigation into what he called 'catastrophe markets.' What he discovered was that the enormous profits for some and enabled economic innovations that increased productivity – a combination of circumstances that fueled investor confidence.... Hence the broad resonance of economist Joseph Schumpeter's famous description of capitalism as a 'gate of creative destruction.' As Federal Reserve Chairman Alan Greenspan explained in the 1990s, this metaphor captured the dependence of a capitalist economy on the continual obliteration of outmoded goods and structures to clear space and make way for innovation, new efficiencies and greater productivity.

"Disasters, it seemed, were good for business in a dynamic, expansive, capitalist economy. In part this was so because investors believed it to be so. In 1999, *The Wall Street Journal* reported that major calamities like the 1989 Hurricane Hugo and the earthquake in California had generated intermediate and long-term gains that more than offset initial losses; 'antihill economics' illustrated the general principle that disasters promoted economic growth. And this was by no means exclusive to the US. The Chinese State Information Research Center claimed the earthquake that killed 80,000 people in Sichuan Province in May 2008 would trigger a building boom that would boost national economic growth by 0.3%.

"Whether or not this figure is reliable, there were ample precedents here, not least the response to the Tangshan earthquake that destroyed 78% of residences and killed at least 240,000 people in 1976. Economic production from this important industrial center was restored within two years and, after careful planning and investment, a new-and-improved Tangshan was completed in 1986 and presented as a symbol of Deng Xiaoping's success in modernizing China.

"In the US such confidence has taken a hard hit in recent years, and perhaps nothing speaks to the possibility that we may be entering an age of diminishing expectations than the difficulty we have in seeing disasters as opportunities. Such optimism seemed to evaporate after Hurricane Katrina

in 2005. Certainly, the president of Merrill Lynch reminded investors that disasters historically promised economic opportunities that would compensate for any losses. And New Orleans Mayor Ray Nagin promised 'to bring our city back bigger, better and stronger.' But the optimists, for once, were outnumbered."

Clearly this had an intimate connection with the detail that human capital – largely because of the racial color bar – had created a local undervaluation of human capital that, today has been overtaken by Washington policy, to say nothing of the official Deregulation and Globalization criteria that have dominated the world.

Let us return to *The Wall Street Journal* for guidance on this matter: "From the beginning many observers emphasized the social and environmental costs of the calamity. The mismanaged evacuation of poor and African-American residents from New Orleans symbolized *the social costs* of capitalist development. Commentators noted the deleterious effects of developing the wetlands and barrier islands upon which New Orleans depended for natural protection against storm surges, and explored the links between industrial production, carbon dioxide emissions and the increased ferocity of hurricanes. Development was not the solution, the inevitable happy outcome, but the problem.

"In truth, the dominant narrative of disasters as instruments of progress has always been contested. Disasters have often been truly disastrous for the poor. The emergency conditions introduced by calamity have often discouraged attention to social costs. Because employers disregarded safety measures, more died – as many as 12 workers a day – in the rebuilding of Chicago than during the 1871 fire itself. And free-flowing investment and government aid has only encouraged businesses, developers and home owners to refuse the lessons of endless hurricanes in Florida and the Gulf Coast, rebuilding and expanding settlements along vulnerable coastal zones, and thereby increasing the likelihood of future destruction. Voltaire would despair.

"For the most part, the social and environmental costs of development have been rendered invisible by dominant articulations of American progress" [This even uses the language of François Perroux's "dominant revenue" that for close to a half century we have labored to bring to the attention of our governments. There is a crucial message for President Obama in these lines, that he has

been ignoring only by putting the future of the US and the world at risk.]

"But after Hurricane Katrina, this buried history surfaced with a vengeance. The timing is key here. In an age of energy crisis, terrorist attacks, global warming and global financial instability, progress no longer seems quite so inevitable. Disasters increasingly present themselves as manifestations of a catastrophic world rather than as instruments of improvement."

Which brings us to Haiti, shattered by an earthquake that adds to the compounded tragedies of its history. Home of one of the world's few successful slave-revolts – overthrowing an army of Napoleon, no less, it worsened the crime of liberation by providing shelter to Simon Bolivar, one of the two great Liberators of Spanish America during an interval when the war gods scowled at him. That hardly recommended the former slave republic to Washington, land of the free that still had a civil war ahead to sort out even the emptier formalities of freedom.

By the so-called Monroe Doctrine it reserved the right to prevent any outside power from contributing to free any part of the New World from pole to pole. Even F.D. Roosevelt, while fighting a world war for human freedom, could boast that the Haitian Constitution was a good document – he had written it himself, when Assistant-Secretary of the Navy under President Wilson.

And after World War II had been won the US army set up a school of torture in the Canal Zone where the armies of Washington-supported dictators throughout Latin America were instructed in the techniques of torturing aspiring liberators. Perfectly elected regimes from Guatemala to Chile were tumbled, and their presidents murdered. Hundreds of democrats were dropped into the ocean that lapped the US-certified lands of the free.

What then sets off one small country like, say Belgium or Finland that is able to maintain its independence and freedom from another small country like Haiti that spectacularly is not. The answer to that riddle was given by a great French economist, dead for some two decades, and is largely forgotten even in France, François Perroux. And yet before the world economy was so completely globalized the work from which I quote was published by UNESCO, and such matters were discussed at university conferences outside most approximately democratic lands. I quote a single summary of the rich content of ideas relevant to the problem posed for us by Haiti and

its human problems, essentially the reasons why it so sorely lacks the human resources for converting its formal "independence" to a meaningful regard for preserving an increasing its potential for recovery and independence.<sup>1</sup>

We quote: (p. 35): "Let us consider a national economy very much inspired by the liberalism of the current period to benefit from the closeness of both Germany and France for adapting its economy quickly to make the most of contemporary trends accessible to it from its position rather than accepting passively what its inherited economy provides. For us the foreign trade will be determined not by the given structure of their economies but by taking advantage of the integrated and integrating structures that are at hand.

"The influences of one structure on another through the flow of foreign exchange have to do with the asymmetrical relationships in three different domains: exports, direct investments, monetary flows.

"Haiti lacks even the educated labor force that the Netherlands or Finland have in prodigious quantity: a capacity for direct investment in what is at hand from its neighbors.

"And of course, a highly educated population to take full advantage of such favored structural advantages."

### **What Haiti Lacks to Succeed**

"That is why destruction in Haiti will not automatically lead to renewal of population and resources. Nothing will automatically arise on its own from those ruins – any more than they did in New Orleans.

"This disaster, like all disasters, then poses a question.... One argument holds that the solution to both the poverty and the disaster is integration into world markets; more International Monetary Fund loans and structural adjustments. On the day after the earthquake, James Roberts, a research fellow at the Heritage Foundation laid out an expansive vision of the prospect this disaster presented for a 'bold and decisive' US intervention to impose to impose the democratic and economic reforms that would turn Haiti into a stable state and trading partner. Disaster, once again, figures as an agent of progress.

"At the same time, critics of neo-liberalism are arguing that the disaster was the result of capitalist development, as mandated by the international community. The country – impoverished by centuries by slavery,

*Continued on page 6*

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# Catalysis

*The following item published in Economic Reform of 10/1992 reproduced in Meltdown, Vol. 1, sheds light on what plagues the world economy ever more deeply today.*

A catalyst is a substance that speeds up a chemical reaction without itself being consumed in the process. It emerges intact, ready to perform the same function over again. Life as we know it depends on biological catalysts known as “enzymes.”

First conceived by the Swedish chemist Berzelius in 1835, this model suggests the role of money in our society. We hear a great deal about the shortage of money in our economy, due to our failure to save enough. Our economy indeed has been nattered into a recession with high interest rates “to encourage savings.” Instead what we got are more breadlines and bankruptcies.

The catalyst model suggests why. The catalyst is recovered only if the chemical reaction proceeds to completion. Similarly, the renewal of our money supply takes place only if the real economy completes its producing and marketing cycle and goes on to the next one.

In our day money consists mostly of debt. Undermine the production and marketing processes with high interest rates and good debt will become bad debt. Money is unable to complete its catalyst function.

But where do we get the money to kick off this ongoing process? Doesn't that require savings? It does, indeed, and the crucial part of such savings takes the form of

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Catastrophes from page 5

the extraction of its resources to imperial metropolises, international occupations – has been dependent on IMF loans since the 1980s, but these have come with strings attached. Haiti, once self-sufficient in rice production, was forced to remove barriers to heavily subsidized American rice. This led to the decimation of local farming and the migration of farming dwellers to the city in search of work.

With recent escalating world food prices, Haitians, unable to grow their own food, have sunk deeper into poverty, locked in a cycle of dependency that contributed to the scale of the destruction and loss of life in the wake of the earthquake.

*William Krehm*

1. Perroux, François. *Indépendance de l'économie nationale et interdépendance des nations*. Paris: Union générale d'éditions.

the skills and education of the population, in the physical plant and infrastructures that make production possible. If these are at hand, credit can be created by banks against such security properly positioned for production.

Though the subject is taboo, banks do create money, many times. Whether it is prudent or imprudent will depend entirely on the real activity financed in this way, many times their capital or their cash reserves. And if they paint themselves into a corner where they cannot do the job, the government must do it. The amount of coin or bills accumulated in mattresses has little to do with the matter.

## On Mortgages and Futures

*Should we mortgage our children's future?* is one of the most overworked phrases of our day. It throws up a structure jerry-built with different buzzwords. For example, it is a bit cheeky for our government to bring in the word “mortgage” in connection with the federal debt. For “mortgage” means a loan secured by a capital assets, and the budgets both of Washington and Ottawa recognize no non-financial capital assets in the public sector. There is no way of fitting the mortgage concept to such a muddle.

The term “future” invites similar reflections. The current article of faith is that everything in the economy should be left to the wisdom of the market. Market logic, but not market accountancy, is to be introduced into the public sector. This implies that society must dole out the amount of future it can afford. For the present value of a capital asset is appraised by discounting the expected income flow from it by the going rate of interest. The higher that rate, the sooner the future income from it discounts to practically zero.

Now the hitch here is that the rate of interest has become the militant arm of the central bank to enforce “zero inflation.” Given the growing non-market components buried in our price index and mistaken for “inflation,” that translates into a deflated economy.

And the deflated income flows from it are discounted at inflated interest rates to arrive at the present value of investments. Under these circumstances, we cannot undertake projects with long-term paybacks, public or private, because we will never get

our investment back. No matter how much politicians may talk in favour of education, environmental cleanup and other motherhood issues, the projects are ruled out in advance. In a nutshell, we simply cannot afford survival.

Under the feudal system the church promised bliss in the after-life in return for submission to injustices in this fleeting existence. With the Communists a classless society stretched endlessly into the sunset. Central banks these days work to a similar blue-print. But since ours is not a theological age, they found it necessary to shrink the pain-period rather than stretch the reward to infinity. That, however, exposes the schedule to verification. It has not stood up well.

You can open up any paper these days and find dramatic debunking of the government's claim to be protecting our children's future.

*The Globe and Mail* (4/7) carries an article by Salom Alaton: “The children are back and they are middle-aged. Recession and work restructuring have returned some of their grown children to their doorstep just when the older people had reasonably felt their duties of parenting were completed. Alaton quotes Tom Camarella of the Senior Citizens Association in Los Angeles: ‘The old days of raising children, having them go out and raise their children on their own are gone. I've seen almost an explosion of older people having to take care, on a daily basis of young kids, and not just baby-sitting.’

“There is another group that can claim an even tougher spot than the retirees helping out their children, and that's people in their fifties and sixties fighting to reach retirement, helping their children and their parents.

“You can hardly put a price tag on the psychological damage to three generations. This then is the reality behind President Bush's code-word ‘family values.’

The *G&M* (13/7) writes: “All over Toronto, younger and younger people are committing violent crimes.” Then it goes on to report the hold-up of a pizza parlour by four kids aged nine to 15.

Shortly before the Democratic convention, we caught a TV interview with Mario Cuomo, governor of New York state. He cited the costs of keeping one person in prison: to build the cell \$160,000; to keep a prisoner in it \$30,000 a year. ‘For that we could send them to Harvard,’ was the way he summed up the situation.

Who then is mortgaging the future?

W.K.

# Technology Finally Is Being Kind to Literacy

*The New York Times* (5/02, “E-Readers Catch Younger Eyes, and Find Room in the Backpack” by Julie Bosman) brings us the good news: “Something extraordinary happened after Eliana Litos received an e-reader for a Hanukkah gift in December.

“Some weeks I completely forgot about TV,” said Eliana, 11. “I went two weeks with only watching one show, or no shows at all. I was just reading very day.”

“The art of reading, that seemed condemned, is coming back to life and potency. Ever since the holidays, publishers have noticed that some unusual titles have spiked in e-book sales. The *Chronicles in Narnia* series. *Hush, Hush*, *The ‘Dork Diaries’* series.

“At HarperCollins, for example, e-books made up 25 per cent of young-adult sales in January, up from about 6% a year before – a boom in sales that quickly got the attention of publishers there.

“Adult fiction is hot, hot, hot, in e-books” said Susan Katz, the president and publisher of HarperCollins Children’s Books. “And now it seems that teen fiction is getting to be hot, hot, hot.”

“In their infancy e-readers were adopted by an older generation that valued the devices for their convenience, portability and, in many cases, simply for their ability to enlarge text to a more legible size. Appetite for e-book editions of best sellers and adult genre fiction – romance, mysteries, thrillers – has seemed almost bottomless.”

## Mass Market E-readers Changing the Game

“But now that e-readers are cheaper and more plentiful, they have gone mass market, reaching consumers across age and demographic groups, and enticing some members of the younger generation to pick them up for the first time.

“The kids have taken over the e-readers,” said Rita Threadgill at Harrison, NY, whose 11-year-old daughter requested a Kindle for Christmas.

“In 2010 young-adult e-books made up about 6 percent of the total digital sales for titles published by St. Martin’s Press, but so far in 2011, the number is up to 20 percent, a spokesman for the publisher said.

“At HarperCollins Children’s Books e-book sales jumped in recent weeks for titles like *Pretty Little Liars*, a teenage series by Sara Sheppard, *I am Number Four*, a para-

normal romance by Pittaeus Lore. (Some sales, publishers noted, are from older people crossing over to young-adult fiction. A revealing detail worth noting.)

“Jon Anderson, the publisher of Simon & Shuster Children’s Publishing, said some titles like *Clockwork Angel* and books in the *Night World* series, nearly doubled their e-book sales in the four weeks after Christmas, compared with four weeks before.

“We had an instant reaction – Boy, a lot of kids got e-readers for Christmas,” Mr. Anderson said, adding that another significant bump in sales occurred over the three-day weekend that included Martin Luther King’s Birthday. “If it follows the same trend as adults, it’s the start of an upward curve.”

“Digital sales have typically represented only a small fraction of sales of middle-grade and young-adult books, a phenomenon usually explained partly by the observation that e-readers were too expensive for children and teenagers.

“Another theory suggested that the members of the younger set who were first encouraged to read by the immensely popular Harry Potter books tended to prefer hardcover over any other edition, snapping up the books on the day of their release. And anecdotal evidence hinted that younger readers preferred print so that they could exchange books with their friends.

“That scene may be slowly replaced by tweens and teenagers clustered in groups and reading their Nooks or Kindles together, wirelessly downloading new titles with the push of a button, studiously comparing the battery life of the devices and accessorizing them with Jonathan Adler and Kate Spade covers in hot pink, tangerine and lime green.

“The young adults and the teenagers are now the newest people who are beginning to experience e-readers,” said Matthew Shear, the publisher of St. Martin’s Press. “It’s great stuff for the business.”

“It is too soon to tell if younger people who have just picked up e-readers will stick to them in the long run, or grow bored and move on.

“But Monica Vita, who runs the popular Web site The Online Mom and lectures frequently to parent groups about Internet safety, said that in recent months she had been bombarded with questions from persons about whether they should buy e-

readers for their children.

“In a speech last month at a parents’ association meeting in Westchester County, Ms. Vila asked for a show of hands to indicate how many parents had bought e-readers for their children as holiday gifts.

“About half the hands in the room shot up, she recalled.

“Kids are drawn to the devices, and there’s a definite desire by parents to move books into this format,” Ms. Vila said. “Now you’re finding people who are saying, ‘Let’s use the platform. Let’s use it as a way for kids to learn.’”

## Teachers Collaborate

“Some teachers have been encouraging too, telling their students that they are allowed to bring e-readers to school for leisure reading during home room and English class, for example.

“I didn’t buy it until I knew that the teachers in middle school were allowing kids to read their books on their e-readers,” said Amy Mauer-Litos, Eliana’s mother, adding, “I don’t know whether it’s the device itself that is appealing, or the easy access to the books, but I will tell you, we’ve had a lot of snow days lately, and 9 times out of 10, she’s in the family room reading her Nook.”

“Some younger readers have been exploring the classics, thanks to the availability of older e-books that are in the public domain – and downloadable free.

“After receiving a light gray Sony Reader from her grandparents for Christmas, Mia Garcia, a 12-year-old from Touchet, Wash., downloaded *Little Women*, a book she had not read before.

“It made me cry,” Mia said. “Then I read *Hunger Games*, the best-selling dystopian novel, and it also made me cry.”

“Her 8-year-old brother, Tommy, was given an e-reader, too. ‘I like it because I have so many different books on it already,’ he said, including a fast-paced biography of Mark Twain written for children in the middle grades.

“Eryn Garcia, their mother, said the family used the local library – already stocked with more than 3,000 e-books – to download titles free, sparing her the usual chore of ‘lugging around 40 pounds of books.’

Finally, a great technological blessing seemingly from nowhere.

W.K.

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# Is Bad Accounting Costing the US Its Lead in Higher Physics?

*The New York Times* (10/12, "With a Mighty Smash, Europe Seizes the Lead in Big Physics" by Dennis Overbye) reports: "Tiny spit fires of energy blossomed under the countryside outside late Tuesday night, heralding the arrival of a new European particle collider as the biggest, baddest physics machine in the world.

"Scientists said that the new Large Hadron Collider, a 17-mile loop beneath the Swiss-French border, had accelerated protons to energies of 1.2 trillion electron volts apiece and then crashed them together, eclipsing a record for collisions held by an American machine, the Tevatron, at the Fermi National Acceleration Laboratory in Illinois.

"Officials at CERN, the European Center for Nuclear Research, which built the collider, said that the collisions lasted just a few minutes as a byproduct of testing, and that the champagne was still on the ice in Geneva. But in conjunction with recent successes, those tiny fireballs displaced American physicists as the leaders in the art of banging subatomic particles together to see what nature is made of.

"The collider first boosted a beam of protons to the new energy record of 1.2 trillion electron volts on November 29 without making collisions; CERN hopes to be having sustained collisions at that energy within a week. In the future, as the collider ramps up to seven trillion electron volts, the deadline for physics will be Geneva, not Batavia, NY, the home of Fermilab.

"That future, physicists say, includes not only the sheen of announcing exotic particles and strange dimensions, but also the ancillary rewards of increased technological competence and innovation that spring from the pursuit of esoteric knowledge. The World Wide Web, lest anyone forget, was invented by particle physicists at CERN. Detectors developed for physics experiments are now used in medical devices like PET scans, and 'it was the industrial-scale production of superconducting magnets for the Tevatron that made commercial magnetic resonance imagers possible,' said Young-Kee Kim, deputy director at Fermilab.

"It is all very well to worry about the value of the dollar. But what is the value of the proton?

"Particle accelerators and detectors (initially with bold and innovative ideas and technologies) have touched our lives in many ways, and I have no doubt that this will continue,' wrote Dr. Kim in an e-mail message.

"Those spinoffs now will invigorate the careers and labs of Europe, not the US, pointed out Steven Weinberg, a physicist at the University of Texas in Austin, who won the Nobel prize for work that will be tested in the new collider. Americans will work at CERN, but not as leaders,' he said in an e-mail interview."

## Americans will Work at CERN but Not as Leaders

"There is also a depressing symbolism,' he added, 'in the fact that the hottest results in fundamental physics will for decades not be coming from our country.'

"This moment has been inevitable since fall 1993, when Congress canceled a behemoth project in Texas known as the Superconducting Supercollider, after estimated costs rose to \$11 billion. That accelerator, designed at 54 miles and 20 trillion electron volts, would have been working by now and would have had an even greater reach for new physics than Europe's machine. American physicists have reacted to the Large Hadron Collider with a mixture of excitement, good sportsmanship and wistfulness.

"The United States has not exactly been shut out of the action at the new collider, as Dr. Kim pointed out. It contributed \$531 million to the project, and about 1,700 of the 10,000 scientists who work on the giant particle detectors in the collider tunnel are Americans, the largest of any national group. (Italians are next.)

"Thanks in part to delays with the CERN collider and other problems that will keep it from performing up to snuff for the next couple of years, she said, Fermilab's Tevatron is still in the lead in the hunt for one of the collider's main quarries, the Higgs boson, a particle that is thought to imbue other particles with mass.

"In the meantime, Fermilab is investing \$53 million from the federal stimulus package in a 'Project X' to make more intense proton beams, which in turn could be used to make beams of the strange ghostlike

particles called neutrinos. The lab is also going into cosmology. Other physics labs, like Brookhaven on Long Island and the Stanford Linear Accelerator Center, have converted their accelerators into powerful X-ray sources, which can be used to plumb the properties and structures of molecules in work that led to this year's Nobel Prize in chemistry.

"For CERN, the Fermilab-topping collisions will be only the end of the beginning of a 15-year, \$10 billion quest to recreate laws and particles that prevailed just after the Big Bang, when the universe was less than a trillionth of a second old.

"Particle colliders get their magic from Einstein's equation of mass and energy. The more energy that these machines can pack into their little fireballs, in effect the farther back in time they can go and the smaller and smaller things that they can see.

"The first modern accelerator, the cyclotron built by Ernest Lawrence at the University of California, Berkeley, in 1932, was a foot in diameter and boosted protons to just 1.25 million electron volts.

"CERN, a 29-nation consortium, grew from the ashes of World War II and has provided a template for other pan-European organizations like the European Space Agency and the European Southern Observatory. With a budget and dues set by treaty CERN enjoys a long-term stability that is the envy of American labs. For decades, CERN and Fermilab leapfrogged each other building bigger and bigger machines, but the game ended when the supercollider was canceled.

"Despite the lack of competition, CERN's collider has not had a bump-free ride. In 2007 the housing around one magnet exploded during a pressure test, necessitating the removal and redesign of nine 80-foot magnet assemblies. In September 2008, the junction between two magnets vaporized, shutting down the project for a year.

"Testing revealed that the collider is riddled with thousands of defective electrical joints and dozens of underperforming magnets that will keep it from reaching its full potential until an overhaul scheduled for 2011. When it starts doing real physics after the holidays, the collider will be running at half-power.

"The collider was designed to investigate what happens at energies and temperatures so high that the reigning theory of particle physics called the Standard Model breaks down. In effect, the new machine's job is to 'break' the Standard Model and give physicists as glimpse of something deeper and



more profound.

“The future of particle physics could depend on whether the Large Hadron Collider finds anything.

“If it yields nothing, in the words of CERN physicist John Ellis, it would mean that theorists have been talking rubbish for the last 35 years. Actually, he used a stronger word.”

Not using that word calls for bit of heroic resistance when you consider that the suppression of the Texas Superconductory Supercollider could have been avoided had Washington introduced serious accountancy into its books and recognized its cost as a capital investment rather than just an “expenditure.”

Double-entry accountancy – also known as “accrual accountancy” – had been brought back from the Holy Land by a crusading order – the Knights Templar – that acquired great wealth and revolutionized the mid- and Western-European economies by teaching them double-entry accountancy. The Muslims had developed it because their faith disallowed charging interest unless the lender shared the risk of the borrowing merchant. That accountancy was the basis the great success of the Republic of Venice: instead of burning their Jews and Muslims, Venice grew wealthy trading with them.

In such accounting the cash required for a government to make an investment is written off according to a schedule predetermined by the likely useful life of the investment. And on the other side of the sheet the current market value of the investment is entered and depreciated to show the current market value of the investment.

It was the introduction of accrual accountancy in Europe made possible the financing of the great explorative voyages that led to the discovery of the sea route to Eastern and Southern Asia and the Americas.

It would also provide governments with the necessary perspective of considering basic scientific research as an investment rather than a deficit that we cannot afford.

It would retrieve some dearly bought lessons from our history – specifically how President Roosevelt pulled the US out of the Great Depression, and Canada learning from, but improving the US record, financed our World War II, and financed the migration of millions of penniless Europeans to the New World.

When F.D. Roosevelt was inaugurated in January 1933, 38% of the banks had already shut their doors, and one of the new president’s first acts was to proclaim a bank

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holiday that lasted a month. At the end of it with the *Glass-Steagall* law that had been brought in, commercial banks were obliged to stick to banking, and were forbidden to acquire interests in “non-banking financial pillars” – to wit at the time, brokerages, insurance and mortgage companies. The reason? Such acquisitions would give the banks access to the cash and near-cash reserves that these “other financial pillars” needed for their own business. With this in their hands, the banks would use these cash reserves as capital base for their own credit creation. What resulted was a skyscraper of speculation in which the banks’ acquisitions were piled one on top of the other, served by elevators obliged to move only upward at ever quicker pace. Never ever downward – for the heights attained and upward speed attained defined their market values, until they shot through the roof in the present economic melt-down. For since that growth was constantly capitalized into further credit-creation, even a slowing down of the process brought on a crash. This in fact happened – repeatedly on an ever disastrous scale.

To accelerate the swindle, every sort of off-book roguery was resorted to. Banks put together packaged combinations of portions of sub-prime house mortgages with bits and pieces of sounder investments and sold these. And for greater security for their own hides insured these – with insurance companies – to cover their own risk. That they hoped to be insuring behind the backs of the purchaser of their packages gives you the extent of the swindle.

This part of the program was, of course, unknown to the innocent buyers of such investment packages. But in the excitement of ever greater returns, the banks and our governments lost sight of a detail. Insurance, if the premium is driven high enough, can cover any degree of *risk*. But what it cannot cover is what is not risky but *wrong*. Thus  $2 + 2 = 5$  is not *risky* but *wrong*. Insure that and both the insurer and the insured will be ruined. With a flurry of misunderstood infinitesimal calculus, the bank economists who planned these programs felt reassured by their dogma of the “self-balancing market.”

Several banks lost heavily in fact when AIG – the great insurance conglomerate that kept its activities off the stock market – did go bankrupt and brought down several banks with it.

### Insuring the Uninsurable

These swindles were made possible by the blind confidence in derivatives – dealing not in actual arithmetical figures but in their rates of growth up to infinite degree. In essence what they were applying blindly was the mathematics of the atomic bomb. Notably the subject of derivatives was kept off the programs of discussion at conferences of some of the world’s greatest universities. Moreover, as bank greed directed, the derivative market did not operate necessarily through the official stock markets even though the stock brokers were members of these. In recent years the New York Stock Exchange’s direct activities has fallen to some 40% of its previous volume. What it depends upon more and more are the trades in ever tinier fractions shares handled by new ultra-rapid recording techniques. These complete transactions in a few seconds, and often in an officially unrecorded way. Moreover for a special payment it will permit clients an off-record glance of what the still non-transacted bids and offers on given stocks are, so that they can step in and do their trading with some foreknowledge not available to the mass of traders. Mass work is under way in New Jersey and London England in constructing two huge processing centers for the handling of this new ultra-fast trading centers.

Notably this goes on at the very time that the Obama government is supposedly devoting itself to restraining Wall Street. Beyond a doubt, it confirms that technology left to its own resources will determine how and in whose interest the economy is run.

To help us grasp what is afoot in this strange assignment to some of the very high economic officials key roles in the alleged efforts to get the economy operating again, we must for help go to the work of Douglass North, an American economic historian who was awarded a Nobel Prize for Economics on the political consequences of as fundamental shift in the distribution of the national income. He showed that the latter can undermine the dominant political alliances based on the previous income distribution. The end of the statutory reserves put our chartered banks in the direct lines of succession of our ancestral monarchs in the creation of money. That spells power

beyond anything decided at the ballot box. That was at once evident in the further deregulation of our banks shortly after their unpublicized bailout in 1993. This empowered them to acquire stock brokerages, insurance and mortgage companies – activities that the Glass Steagall law had forbidden and, indeed, featured in the house-market disaster. In Mexico, the shift of its banking into foreign hands resulted the free trade arrangement with the US and Canada. That even brought back the old Mexican custom of assassinating presidential candidates and even presidents.

In the light of this the choice of Tim Geithner with a high banking and govern-

ment background appears under a new light. It appears as a quite brazen effort to frustrate the Douglass North law. That, alongside the takeover of the new more fragmented and sped – up split-second trading, some of it unrecorded, falls into the same category. However, it hardly enhances the prospect of getting the economy operating to provide jobs and security. And in all this the fact that spending on human capital is not an extravagance, but what was proved by Theodore Schultz in the early 1960s as the most productive investment our government can make. Elsewhere I have told how this was proved to be the most productive experiment that a govern-

ment can make – the greatest lesson to come out of World War II.

To treat the price rise as just “inflation” as is stubbornly being done, is blinding us to the fact that it is reinvesting *what has already been earned*. We have written about this too frequently to repeat our position in this piece. But to understand the frailties and ambiguities of Obama’s course requires that the lessons of our history be heeded. Failing that the prospect is for ongoing economic disasters. While physicists are exploring the origins of matter, our officially dumbed-down economists are perfecting the extirpation of the human race as we know it.

*William Krehm*

## Calling Cards to Our Remotest Ancestors

A two-week visit to Australia, and its remarkable museums introduced me to the wonderful world described in *The Rise of Animals – Evolution and Diversification of the Kingdom Animalia* by Mikhail A. Fedonkin, James G. Gehling, Kathleen Grey, Guy M. Narbonne, Patricia Vickers-Rich, with a foreword by Arthur S. Clarke, published by the John Hopkins University Press, Baltimore.

It has many key lessons for the politicians of our day, who never tire of repeating the same greedy errors of our speculative bankers, regardless of the survival needs of our civilization. For that would require a revival of the recognition of the key importance of human capital, and seriously impede speculative banking.

That is neither an inevitable human trait, nor would it have allowed the development of human kind from one-cell creatures that was soon under way. “The main aim of this book is to highlight one part of the immense sweep of time called the Precambrian – the Proterozoic – and to only a part of that Eon – the time when the first animals appeared – in a wide variety of places on Earth – Australia, Newfoundland, the White Sea, Siberia and the Urals of Russia, the Ukraine, Namibia, the North West Territories of Canada, Montana and more. It was a time that may range back as far as 1.6-1.8 billion years until around 542 million years, when a veritable explosion of life forms with hard skeletons turned up on the scene.

“The text of this book sets out to characterize the physical environments in which multi-celled organisms developed, prospered and faced innumerable crises, from

global Greenhouse to ice ages. It then proceeds to flesh out many species that developed during this period, leaving impressions of their soft bodies or their traces.”

It is living evidence that the current submission to unsustainable interests of our speculative banking community has no justification in the documented background of how the human race developed from single-celled creatures to its present cultural heights. It certainly was not by blindly repeating what could not and cannot work. That – so much the dedicated course of statesmanship in our day – was certainly not what enabled humanity to evolve from a single-celled creature, that succeeded only in leaving its buried shell as a useful inheritance to succeeding generations.

“Visions of the biblical Hell would not be far removed from the pictures painted of earliest Earth by rocks and the theoretical constructs of geologists and astrophysicists. Reconstructions of the first moments of a solid earth conjure up a most inhospitable place. There was no atmosphere. Round and round this early Earth circled a huge reddish Moon, closer than it is today.

“A dim Sun, the Earth’s nearest star and source of great energy, hung in a black starry sky. Slicing through that darkness were hundreds, thousands of extraterrestrial visitors, meteorites that pummeled the Earth’s dark surface, their impacts bright, fiery flashes that glowed, then dimmed into blackness. Enormous clouds of dust shot up from these impacts, but fell back quickly because there was no atmosphere to suspend particles. All was silent – for with no atmosphere there was no sound transmission. Only ground

vibrations recorded the strength and intensity of this bombardment from space. And at first it was intolerably cold. But that soon changed. The Earth warmed up, then soon began to cool towards the present, as the chemistry of tiny zircon crystals reflect. Certainly by 2.5 billion years ago, life had originated and fundamentally the atmosphere and oceans towards modernity. The internal heat of the planet, its size and its distance from the Sun ensured the presence of liquid water, seasonality, and the presence and dynamism of an atmosphere as well as a mobile and ever-changing surface crust. The Earth remains unique in the Solar System and perhaps rare within the Universe....”

“Today, most cosmologists suggest that our Universe began somewhere between 12.5 and 14 billion years ago.... They suggest that it began with an explosion, which occurred simultaneously everywhere, filling all space. Every particle rushed apart from every other particle.... Was this Universe finite? Did it have edges or ends? Or was it infinite, endless? Einstein simply explained this with his concept of warped space-time – there was no space outside of the Universe; space formed with the Big Bang. So, no edge problem. No infinity.”

We will return to what the buried record of humanity’s birth and conquests teaches us. This initial lesson is that it is not a human reaction that allowed to humanity’s birth and growth to continue butting our heads against the many-time failed model. And we shall be returning many times again to the “Rise of Animals and Diversification of the Kingdom” to keep that point alive.

*William Krehm*

# Mega-banks Are Up to Their Old Tricks

*The Wall Street Journal* (19/01, “Facebook Flop Riles Goldman Clients” by Anupreta Das, Robert Frank and Liz Rappaport) recounts a monstrous miscue by the regal Goldman Sachs Group Inc. bank on Wall Street: “Advisers at Goldman Sachs Group Inc. burned up the phone lines in the first week of January, pushing many of their best American clients to invest in one of Wall Street’s most prized deals in years: the private offering of as much as \$1.5 billion in shares of Facebook Inc.

“On Sunday and Monday, those same advisers were on the phone again with the same clients to break the news that they wouldn’t be getting any Facebook shares after all, leaving behind a trail of irate investors.

“‘They pushed me hard to get here and invest, and then they pull the rug from under me,’ said one wealthy Goldman client in the US who was planning to invest \$2 in the social networking site. His adviser at Goldman called Sunday night to explain that the Wall Street firm would offer Facebook shares only to non-US clients. Goldman worried that the media spotlight surrounding the private offering might violate the US securities laws and expose the firm to legal action. ‘The whole thing has left a bad taste in my mouth,’ the Goldman client said.

“Goldman had also to contend with angry Facebook executives who were miffed that the share offering – meant to quietly increase the Palo Alto, Calif., company’s luster – turned out to be far more public than they expected, according to people familiar with the situation.

“Several other Goldman investors also said that they were angry about the change and a Goldman spokesman acknowledged that the firm is hearing complaints about its decision.

“‘We completely understand that clients are disappointed, and we are sorry about that,’ the Goldman spokesman said.

“But our view was that it would not have been prudent for Facebook or for investors to have proceeded with the offer in the US.

“US law doesn’t allow private placements to be advertised or solicited publicly. In other jurisdictions, the supercharged level of media coverage about the Facebook deal doesn’t matter as long as the investors who buy shares in the company are considered professional.

“Not surprisingly, Goldman’s rivals at other securities firms barely could contain their glee at the bank’s embarrassing flub. ‘It’s embarrassing for brokers at Goldman who sweet-talked their best clients into thinking that the bank had opened a back door into Facebook before it goes public,’ said one official at a Wall Street firm that competes against Goldman in the wealth-management business.”

## You Win Some, You Lose Some

“Other Goldman clients said the firm is the best place for a crack at the most sought-after deals. Facebook came and went, these clients said. But they may still get a shot at the consolation prize: Goldman appears to have the inside track on leading the IPO of Facebook if the social networking site goes through with such plans as soon as April 2012. ‘You win some, lose some,’ one Goldman client said.

“How the Facebook deal fell apart in the US is likely to be a hot topic when Goldman reports fourth quarter results Wednesday. Earnings are expected to show a decline because of continued weakness in trading.

“Many Goldman clients said they felt jilted by the firm but expressed reluctance to complain publicly. As part of the Facebook deal, clients signed confidentiality agreements prohibiting contact with the news media.

“Facebook officials are perturbed by Goldman’s move to exclude US investors from the deal, according to a person familiar with the situation. But the fast-growing company also has a strong incentive to stick with Goldman.

“Facebook attained a \$50 billion valuation after a \$500 million direct investment by Goldman and Russian investment firm Digital Sky Technologies (DST) in late December. That is up sharply from its \$10 billion evaluation in 2009. The fiasco could give Facebook more leverage to negotiate lower investment fees with Goldman, said people familiar with the matter.

“Facebook wasn’t initially interested in raising the \$2 billion, according to people familiar with the matter, partly because the company generates enough cash to fund itself for more than a year. Hiring Goldman as an adviser tilted the odds in favor of a sky-high valuation when Facebook goes public.

“DST founder Yuri Milner, who already had a stake in Facebook and a close relationship with Goldman, was the matchmaker between the companies, the people said. It wasn’t hard to convince Goldman, which had been looking for an opportunity to get closer to Facebook.

“Last fall, Goldman and DST sifted through financial information about Facebook, agreeing to the \$500 million investment by the two companies, which was completed in late December. Goldman introduced the idea of a private placement as a way to raise more cash ahead of an IPO [initial public offering], said people familiar with the matter.

“Facebook executives concluded that the extra cash wouldn’t hurt, according to people familiar with the matter. They left the work of assembling the so-called special-purpose vehicle to Goldman, offering little input on the deal. The two companies signed an agreement to launch the private offering in January 2011.

“The deal was sailing along when Goldman executives began worrying last week that the private offering could be deemed improper by regulators. The Goldman client who agreed to invest \$2 million said his broker told him: ‘We don’t feel this is in your best interest with all the attention and issues around this.’

“The client said he wasn’t told during the conversation that Goldman had decided to block all US investors from the deal.

“The Goldman client said he now plans to scrutinize the fees Goldman charges for access to high-profit deals much more closely in the future. ‘Before this deal, if they told me to buy something, I’d buy it,’ he said. ‘Now I’m paying attention to the fees. And I’m going to tell all my friends who are Goldman clients to look at their fees. I can’t see how that’s good for them in the long term.’

“Goldman informed US clients that they can’t invest in Facebook even if they have a residence or legal entity elsewhere in the world, according to a person familiar with the matter. US-based institutional investors with foreign operations that are considered non-US under securities rules might still be able to buy Facebook shares.”

Who then dares say that our large bankers don’t sweat over their trillions?

W.K.

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# A View of Our World's Problems Stood on Their Heads

*The New York Times* (5/02, "Germany Fights A Lack of labor, Not Joblessness" by Judy Dempsey) introduces us to the world upended as though to help us get the point that our government has been missing: "Berlin – Dana Russow longs for the day when she will not have to worry about staffing problems.

"It's not easy finding qualified staff to take care of the elderly," said Ms. Russow, 41, director of Residenz Zehlendorf, a privately owned nursing home in southwest Berlin. "This profession has such a low status in Germany."

"The low pay doesn't help, either. Staff members earn the minimum wage of €5.50, or \$11.60 an hour.

"Employers in many sectors of the German economy are facing labor shortages, under the dual pressures of an aging population and inflation-fighting measures that have kept wages low in comparison with its neighbors.

"The problem was thrown into sharp relief on Tuesday with the release of official figures showing that Germany's unemployment was the lowest in 18 years. While a jobless rate in single digits should be cause for celebration in many countries, in Germany it is a sign of a critical lack of workers.

"For German employers like Ms. Russow, help should be on the way. As of May 1, the restrictions that Germany and Austria imposed in 2004 on Eastern Germans wanting to work in the two countries will be lifted. In theory, a flood of workers should be able and willing to pour into Germany, to take advantage of its booming economy and generous social benefits.

"In practice, however, economists say that many workers who wanted to emigrate from the eight East European countries that joined the European Union in 2005 have already done so – to countries like Britain, Ireland and Sweden that kept their borders open.

"And even though the economy is faltering in some of these countries, like Britain and Ireland, employers are concerned that workers who have made a new home outside their native countries are unlikely to want to move again.

"It all added up to a murky picture for

German companies, whose need for workers is evident now and likely to grow more acute.

"McKinsey, the consulting firm, published a report last year that concluded that by 2020 Germany would have a shortfall of two million qualified people to fill open jobs. The engineering sector, crucial to Germany's export boom, says it is short thousands of engineers.

"The high-tech industry, telecommunications, manufacturing and services already need people. The Federal Association for Information Technology and New Media, Germany's leading high tech industry organization, says its members are short 28,000 qualified workers.

"Health care is another sector in trouble. 'By 2030, we will need one million to look after the elderly,' said Bernd Tews, director of the Federal Association of Private Care.

"The number of people 65 and older will increase by about half until the end of the 2030s, to around 24 million from nearly 16 million now, according to the Federal Statistics Office. The population older than 80 will grow by 10 million in 2050, from nearly 4.5 million today.

"And with an average of 1.38 children being born to each woman, demographers say the birth-rate is not high enough to keep the population stable. Over the next 50 years, Germany's population is expected to fall by 17 million from the current 82 million. Policy-makers say it will become increasingly difficult to raise tax revenue to support retirees and maintain economic growth.

"In retrospect, the immigrant worker restrictions must have looked like a good idea at the time. Fearing a huge influx of workers that would destabilize their labor markets by pushing down wages or taking jobs away from locals, Berlin and Vienna set strict conditions for any East Europeans wanting to work in their countries.

"As a result, though, hundreds of thousands of young people from Poland and the Baltic States, the Czech Republic and Slovakia packed their bags and found jobs elsewhere.

"Mr. Tews says Germany lost out by keeping the restrictions in place. 'The opening of the borders comes a little late for us,' he said.

"Alex Lehmann, chief regional economist for the European Bank for Reconstruction and Development, echoed that sentiment.

"Those who wanted to work abroad do," he said.

"And once these workers emigrated, they adapted to their new homes. 'Many have settled in their countries and learned the language,' said Joachim Mueller, director of the Labor Market Institute at the Federal Labor office. 'Even though the German economy is now strong again and in need of workers, I can't see people just moving around like that.'

"And once these workers emigrated, they adapted.

"Nevertheless, Mr. Mueller figures that 100,000 East Europeans will come to Germany after next May, drawn by perceptions that Germany is a well-run, wealthy and well-paying country with a good social welfare system.

"Those qualities still attract a flexible, well-educated and skilled work force. But jobs in the services sector are not particularly attractive anymore because wages are low in comparison to other countries in the European Union.

"According to Peter Verhoeven, chief operating officer of Accor Germany, which is part of one of the world's biggest hotel groups, incentives are not sufficient to persuade young people to leave lock, stock, and barrel to another country.

"Wages and salaries are not high enough in the hospitality sector to be the only reason for leaving the home country, especially if you also put the higher cost of living in Germany into the equation," Mr. Verhoeven said. "And with the economy expanding," he added, "it is more difficult to recruit because of competitive job alternatives in other sectors."

"It has left German industry, the services sector and the government scrambling for solutions out of concern that whatever new arrivals come after May 1 will not be enough to plug the labor gap.

"Mr. Verhoeven said Accor was focusing on recruiting from inside Germany. 'We recruit in the schools, technical colleges,' he said. 'We are looking for all kinds of qualifications required in the hotel business.'

"Some German health care companies have set up training courses in Eastern Europe, but expectations are not high, 'We are doing some training in Poland and have looked at the Czech Republic,' Mr. Tews said. 'We are talking about small numbers. Most of these workers have left.'

"The government, for its part, is trying a

variety of approaches, including raising the retirement to 67 and encouraging women to have more children.

“It has also considered making it easier for qualified immigrants to find work in Germany. Even then, according to Mr. Lehmann from the European development bank, ‘Germany nevertheless retains a lot of restrictions in recognizing professional qualifications.’

“In southwest Berlin, Ms. Russow, director of the senior home, ponders how Germany can cope with the labor shortage.

“It needs a sea change in social attitudes, which will take a long time,” she said. “That means more value, more respect in terms of the status of certain jobs as well as more rewards for that work for people who train long and work hard.”

All of which can be summed up by disinterring the most important lesson to come out of the Second World War. Washington had not lost any time in sending many hundreds of economists to Japan and Germany to study the damage, and from it foretell how long it would take the defeated once great trading nations to resume such roles. Sixteen years later, Theodore Schultz wrote a paper in which he explained how wrong he and his colleagues had been in concentrating on the material destruction while assigning little importance to the highly educated, dedicated, and gifted human resources that had come through the war basically intact. And then in stroke of genius he concluded that investment in human capital, which would necessarily have to include not only education, but health, environmental care, adequate infrastructures for the ever accelerating urbanization throughout the world. All this comes prepaid and should be treated not as a debt but as a prepaid investment – in Schultz’s view the most important investment a government can make. For a few years Schultz was honored for his stroke of genius, and decorated. And then his memory dropped into oblivion as though with a noose on his – and our society’s neck.

Germany unwittingly has chosen to reenact the buried lesson. At every stage the human capital has been chopped off at the knees as “an economy.” There is not only no recognition of how vital the recognition of human capital is essential for our society to function, but even to tend to our aging and ill, and to bury the dead. Ignore the key role of human capital in order that speculative banking may flourish, and you are mistaking our key human capital for debt.

*W. Krehm*

# A New Initiative for Promoting Monetary Policy Change

*The Committee on Monetary and Economic Reform (COMER) has made numerous efforts to bring about needed changes in monetary policy here in Canada – with rather limited success. We herewith announce a new effort which will be given a prominent place on our website: [www.comer.org](http://www.comer.org). We will be urging the many civil society organizations which work in many ways for public welfare to join us in endorsing the following statement.*

## Call for Renaissance of the Bank of Canada

Civil society organizations that work for public welfare in Canada, depending heavily on dedicated volunteers, are constantly frustrated in our efforts to obtain government funding to meet urgent human and environmental needs. We are repeatedly informed that there is never enough money available, and that now we are entering a period of inescapable austerity required to overcome growing public debts. We are told that public funds – essential for infrastructure repair, for health and medical care, for education, for poverty reduction, for social justice, and for environmental protection – not only cannot be increased despite urgent unmet needs, but must be cut, and public assets for providing public services must be privatized.

We are deeply concerned about government deficits and debt, and also about the heavy personal debts borne by Canadian citizens. Indeed we believe that governmental and personal debt should be taken far more seriously, and dealt with more radical means than the usual austerity programs involving cuts to social programs and privatization. Such measures have already been experienced as profoundly unjust. They shift debt burdens to individual Canadian citizens, especially to the most needy, bankrupting and impoverishing many.

Meanwhile, we see that wealthy individuals and corporations receive tax cuts they do not need, and that they often use tax havens to escape such taxes as they do owe. Lowering taxes for the rich is regularly justified by the argument that they invest their savings to create employment, but we see little evidence to support this claim. We see further that our federal government makes billions available for a controversial war, for expensive, inappropriate new weapon

systems, and for unnecessary new prisons, while poverty and environmental damage continue to increase. A just tax system, wisely spent, could go a long way toward promoting the human and environmental welfare to which we are committed. But changes in our tax system are not enough to deal adequately with our debt problems.

Crucial to our governmental debt problems is the fact that our governments at all levels borrow from private banks and from other private money-lenders, and pay interest on these debts. Each year governments across Canada now pay some \$60 billion in interest, and as these debts increase, with interest rates probably rising, this enormous annual burden for taxpayers will increase. *But this interest expense is not necessary.*

Through our publicly owned Bank of Canada, which was established in 1935, and nationalized in 1938, the federal government has the power to borrow money in huge quantities essentially interest-free, and to make such funds available not only for its own use, but also for provincial and municipal expenditures. Such borrowing helped Canada get out of the Great Depression, and to finance its participation in World War II. Continuance of this practice until about 1975 played a key role in creating Canada’s post-war prosperity and its social programs.

As federal governments, which control the Bank of Canada, increasingly catered to the private commercial banks, this practice greatly declined. Governments at all levels in Canada increasingly had to resort to borrowing from the private banks and other private money-lenders, and foreign sources. Moreover, the Bank of Canada in the late 1970s began raising interest rates as its primary tool for fighting “inflation,” driving the economy into recession in the early 1980s and again in the 1990s. These changes from the original mandate of the Bank of Canada, combined with tax reductions for the wealthy, rapidly increased the debts of governments at all levels, resulting in major cuts to social programs. Following some recent federal government economic stimulus in the current recession, the stage is now set for even more devastating cuts to public services.

In line with policies pursued through the Bank of Canada during its first four decades, our federal government could replace gradu-

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ally interest-bearing debt carried by governments at all levels with interest-free debt, and make available interest-free loans for new projects. This change in monetary and tax policy would make available each year tens of billions of dollars urgently needed to protect our environment from such dire threats as global warming, to rebuild and to improve our public infrastructure, and to strengthen social programs – notably medical care. Through such interest-free loans for infrastructure, for example, our governments, instead of paying for interest that could double or triple their investments, paying only for the principal, thus freeing tax income for other programs. Moreover, government-funded construction would create jobs, stimulate additional economic activity, and significantly increase tax receipts.

Those who oppose the revival of this monetary policy charge that it would be inflationary, even though it was used in the past without significant inflation. As the government through the Bank of Canada creates growing quantities of our money supply, the power of private banks to create money needs to be restrained, as was possible until 1991, when the reserve requirement for the private banks was surreptitiously removed from the *Bank Act*. This provision of the *Bank Act* needs to be restored to prevent inflation, as can readily be done.

*Therefore, we Canadian civil society organizations, who work for public welfare, call on our federal government to use the powers of the Bank of Canada to provide funding to all levels of government in Canada, largely with interest-free loans, as was done between 1938 and 1975 with very low inflation, enabling our nation to break out of the Great Depression, to fulfill extraordinary responsibilities during World War II, and to prosper while building our infrastructure and highly valued social programs during some thirty post-war years. We Canadians now urgently need a renaissance of these powers of our Bank of Canada.*



COMER itself endorses this “Call,” and is prepared to list on its website the names of all other Canadian civil society organizations which endorse it. Our understanding of what is meant by “civil society organizations” will be interpreted broadly to include such types as labour unions, churches, and even municipal councils. Through unifying our many voices in the “Call,” all of us are strengthened in efforts to pressure our federal government to implement the urgently needed changes in monetary policy. We will encourage each endorsing organization to

list their support for the “Call” on its own website, with a link to the COMER website. Indeed we will be happy to have any other endorsing organizations, especially those at the national level, also to list all endorsers. The more visible the “Call” becomes, the more effective it can be.

But reminding the world about the purposes for which the Bank of Canada was nationalised by buying out some 12,000 private shareholders, is one important matter. But it is not the only one that we must face today. The greatest lesson to come out of the Second World War resulted from Washington, as soon as Japan and Germany had surrendered, sending hundreds upon hundreds of economists to study the damage left by the war to predict how long it would take before these former great trading powers could resume such roles again. Sixteen years later one of these, Theodore Schultz of the University of Chicago, wrote an essay on how wide of the mark and why he and his colleagues had been in their forecast. It was he said, because they had concentrated almost wholly on the physical destruction of the war, but had attributed little importance to the fact that the highly educated and devoted human resources had come out of the conflict almost intact. And then in a stroke of genius he drew the conclusion that investment in human capital, that is not only in education, but in health, the preserving natural environment, the provision of adequate infrastructures for the world rush into mega-urbanization that has taken over.

And the key detail is that *all this has been paid for in advance*, and the children of educated, healthy parents tend to be healthier and easier to educate. For a few years Schultz was celebrated, decorated, and then completely forgotten. And investment in human capital, though prepaid, has been completely and elaborately forgotten. COMER is unfortunately the only organization today that mentions the great thinker's name and heritage.

And the “greatest investments a government can make” instead of a prepaid investment, is treated as mere expenditure that we can no longer afford. That brought us into the current deepening crisis, and thwarts every initiative to shake it off.

The end result is that our speculative banks are flying greedy but blind with no notion of how to get over a crisis that can only lead the world into the ultimate gamble, the next atomic war. For that the resources are evidently not lacking.

W.K.

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# On Our Megabanks' Endless Powers of Self-deception

In the front-page article of *The New York Times* (12/13, "Lenders Return to Big Mailings on Credit Cards" by Eric Dash), we can detect extraordinary powers of ever renewable self-deception developed in the process of deceiving others: "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 shunned as recently as six months ago. But this time, in contrast to the boom years, lenders are choosing their prospects more carefully.

"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 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.

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

"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 hobbled by the financial crisis. They want to grow again, but the memory of a near-death experience makes them wary.

"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. 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.

"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 fifty-fold 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 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."

## Seen from the Borrower's Side

"After running 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 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 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, rather than a debt, as it is currently treated, 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.

W.K.

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# A Surprising Say of Internet Technology in Redirecting Muslim–Washington Politics

As mighty as the leverage of political power may be, the ever-unfolding of internet communication are becoming decisive in determining what prevails in world politics.

The surprising shock this entails appears from the coverage of *The Wall Street Journal* of the abrupt reorientation of Cairo–Washington relationships (2/02, “Mubarak Promises to Step Down – Cairo, US Blindsided by Revolt” by Charles Levison, Margarter Coker and Jay Soloman): “Two months before Egypt exploded in popular rage, Secretary of State Hillary Clinton met Ahmed Abu Gheit, Egypt’s foreign minister, in her seventh floor offices in Washington.

“US officials were miffed that Cairo was ignoring their pleas to make upcoming legislative changes more credible by allowing international ballot monitors.

“But after the meeting, neither Mrs. Clinton nor Mr. Abu Gheit mentioned that disagreement publicly. Mrs. Clinton praised the longstanding partnership between the US and Egypt as the ‘cornerstone of stability and security in the Middle East and beyond.’

“A close look at how Egypt’s seemingly stable surface cracked in so short a time shows how Egypt’s rulers and their Western allies were caught almost completely off guard as the revolution unfolded, despite deep concern where Egypt’s authoritarian government was leading the country.

“From the moment demonstrators began pouring into the street, those leaders have been scrambling to keep up, often responding in ways that have accelerated the crisis.”

It has become clear that the ever more restless technologies of internet communication have taken over and basically changed what is doable between governments and nations.

“Just last Monday, few were paying close attention to Egypt. All eyes were on Tunisia where to much of the world’s surprise, President Xine Al Abdine Ben Ali had been chased from office by a month of rising popular protest. This was something the Arab world had never seen before.

“In Algeria, Yemen, Jordan and Egypt, protests began breaking out. Often these were organized by local opposition groups, but attended by a surprising number of middle-class professionals – a diversity that

seemed to mirror the protests in Tunisia.

“In Cairo a beleaguered collection of opposition groups plotted another in a series of demonstrations in Egypt, this time to coincide with Police Day, a national holiday to thank Egypt’s police forces. It was the perfect irony: almost a year ago, a young man from Alexandria with no history of political activism Khaled Saled, had been beaten to death by police. Activists had managed to bring national attention to the case, and they intended to use Police Day to build on that.

“Opposition activists rallied around a Facebook page called ‘We are all Khaled Sales. To call for a protest, Mr. Saled’s death became the focal point for people who hadn’t been involved in the rights movement before, says Ahmed Gharbia, an Egyptian activist associated with the page. ‘He was an everyman, and it was difficult for people who wanted to paint him as an outlaw to do that.’ In the past week, supporters of the page swelled from 75,000 members to over 440,000.”

## Latest Communication Technology Takes Command of Politics

It was clear that the latest internet communication technologies had walked away with the show and taken clear command even of seemingly unruly Muslim politics. We have, those figures tell us, entered with both feet and our minds the new age which we might call, giving credit where credit is due, the Age of Facebook. Always, the children of our technology, more than we readily admit, let us scoop up the ensuing lesson for its powers of saving our hell-bound world.

“Other national shocks also incited Egyptians. November elections, widely viewed as fraudulent, had been a complete sweep by Mr. Mubarak’s ruling National Democratic Party. A bigger shock came on New Year’s Eve, when a suicide bomber killed 30 worshipers at a Coptic Church in Alexandria, the second largest city. Muslims and Christians alike united in protest against the government’s handling of the assault.

“More Egyptians were more angry than they’ve probably ever been, and not just activists, but ordinary people. And then came Tunisia, and suddenly people saw that maybe they could do something about that anger,” says Ziad Alimi, and organizer for

Nobel Prize Laureate Mohamed H. Awad ElBaradei.

“Mr. ElBaradei would return to Egypt to play a key role to detect the early tremors of something new and remained in Vienna.

“Instead, last week, tens of thousands of Egyptians began taking to the streets, flooding into the central Tahrir Square after pitched battles with thousands of riot police. It became the largest popular protest in Egypt since the so-called Bread Riots against rising prices in 1977.

“Mr. Mubarak’s regime was stunned. ‘No one expected these numbers that showed up at Tahrir square,’ said Ali Shamseddin, a senior official with the National Democratic Party in Cairo.

“In faraway Washington, the demonstrations were only starting to register. Last Tuesday’s State of the Union address, had only a short section on foreign policy. President Barack Obama planned to nod to the democratic movement that swept away the ruler of Tunisia, a place ‘where the will of the people proved more powerful than the writ of a dictator,’ the speech read.

“Another line was added, according to a White House official: ‘And tonight, let us be clear: The United States of America stands with the people of Tunisia, and supports the democratic aspirations of all people.’ That last clause was again a nod to Egypt, the official said, although an oblique one.

“In not mentioning Egypt by name, Mr. Obama appeared to be avoiding the subject, said Robert Kagan, a foreign policy analyst at the Brookings Institution. Earlier that day, Mrs. Clinton said Mr. Mubarak’s government was stable and ‘looking for ways to respond to legitimate needs and interests of Egyptian people.’

“By coincidence, an Egyptian military delegation arrived in Washington last Tuesday for meetings that began on Wednesday, for the annual US Egypt Military Cooperation Committee.

“Egypt’s Chief of Staff, Lieutenant General Sami Hafez Enan, led the 25-person Egyptian delegation. The senior US official at the meetings was Alexander Vershbow, the assistant secretary of defense for international affairs.

“The formal meetings on Wednesday and Thursday did not include discussion of



the street protests. But 'it wasn't ignored,' said Marine Gen. James Cartwright. US officials didn't offer guidance on how the Egyptian military should handle the crisis, and Egyptian officers didn't show their hand, either.

"By the time the Egyptians arrived back in Cairo early this week, the uprising was on the boil. Tens of thousands of demonstrators were now in their fourth day of battling police. In Suez, the city on the vital canal, violent confrontations raged between protestors and police. Protestors torched the ruling party headquarters there. On Thursday, the army had made its first deployment in Suez to displace the overmatched police, foreshadowing what was to come.

"That same night, Mr. ElBaradei had returned to Cairo in a bid to take leadership of the loose coalition of opposition forces driving the protests.

"Massive protests were planned for Friday, in what was now clearly the biggest challenge Mr. Mubarak had ever faced. Yet the country's established opposition parties had played surprisingly little role in the protests.

"The Muslim Brotherhood, the country's largest and best organized opposition force, hung back. Members participated in the protests, but the organization didn't come out publicly encouraging them to take part until Thursday evening. It remains unclear whether the leadership's slow reaction was a deliberate tactical decision meant to exploit the situation. Brotherhood leaders say their organization has always stood for democratic change in Egypt and that they have supported the protests from the beginning.

"Across the Atlantic, the Egyptian government's best and oldest ally fretted but still failed to formulate a concrete response.

"On Thursday, Vice President Joe Biden, in an interview with PBS, declined to label Mr. Mubarak a dictator. To many his caution smacked of support for the regime. But the US was in a bind. It wanted a more democratic Egypt, while administration officials feared what might come next. They wanted something better than Mr. Mubarak's regime, but they worried that if the long-time leader survived the crisis, as he had several others in his three-decade rule, they would have alienated a key ally.

"On Thursday night in Cairo, what appeared to be a massive crackdown began. The internet was shut down in the wee hours, completely and nationwide, by government order. At about 11 am mobile phone networks across Egypt went down,

leaving the country only with only land-line telephones for communication.

"The blackout was aimed at shutting down Egypt's young and vibrant social media scene, which seemed to be fueling the protests. 'I went to sleep in Egypt and woke up in North Korea,' said Hisham Quassem, an Egyptian newspaper publisher and political analyst.

"Armies of riot police took up positions on key thoroughfares around the capital, ready to beat back demonstrators marching from scattered locations around Cairo to the capital city's central downtown square."

### **A New Egyptian Opposition Seemingly from Nowhere**

"On the West Bank of the Nile River, in the Cairo neighborhood of Agouza, protestors massed at the Mustapha Mahmoud Mosque after Friday prayers let out at about 1 pm. They made their way down to a central six-lane boulevard chanting for the regime to fall. They approached police lines manning bridges over the rivers.

"The first tear gas canisters started flying at this group of several thousand protestors at 2:20 pm. All around the city pitched battles between protestors and police were beginning at about the same time.

"Broad swaths of Egyptian society were now in the streets. In Agouza, families with young children in tow marched into clouds of tear gas, towards the bridge over the Nile that led to Tahrir Square.

"I saw people I know personally, successful executives and people wearing rags, everybody was there. I was shocked to see people on that bridge who had always been apathetic apologists for the regime yelling, 'No,'" said Mr. Quassem, who himself joined the protestors for the first time in his life. Infuriated, he said, he even threw rocks at police, after he was tear-gassed and police fired rubber bullets.

"As the protests swelled and grew more violent throughout the day on Friday, the central committee of the National Democratic Party was holding constant meetings monitoring events, according to Mr. Shamseddin, the senior party official. But they didn't seem to grasp the extent of what was happening.

"The central committee decided to let it go at the beginning, because we thought that it would be regular demonstrations and they would eventually disperse,' he said. 'We had orders from the central committee not to do anything.'

"At 4 pm, the battles appeared to tip deci-

sively in the protesters' favor. An order came down from Mr. Mubarak to the Minister of Interior, Habib al-Adly to use live ammunition to put down the protests, according to a person familiar with the situation.

"Mr. al-Adly passed on the order to his top lieutenant, Gen. Ahmed Ramzy – but Mr. Ramzy refused, according to this person. 'It was a poor assessment of what (orders) his generals would take from him,' this person said.

"When Mr. Mubarak saw that Mr. Adly wouldn't get the job done, he gave the order for the army to deploy, this person said. Mr. Adly was furious, according to the person. Mr. Adly then gave a sweeping order to pull in the police from the streets, from lowly traffic monitors, to prison guards, to the vast armies of truncheon-wielding riot police that had been an ubiquitous presence around Egypt for decades.

"That withdrawal was a disastrous mistake,' said Fuad Allam, a former commander of the country's internal security. 'You just can't do that.'

"The deployment orders caught the military by surprise, according to soldiers.

"No one expected it,' a junior officer said on Monday. 'The order came and four hours later we were on the streets.'

"But in the several hours between the police withdrawal and the army's deployment, chaos reigned. Protestors in downtown Cairo siphoned fuel out of passenger cars and used it to set the headquarters of the ruling party on fire, according to witnesses.

"The government did not think they would need the army, that's why it was so slow to deploy,' said its senior ruling official in Cairo.

"On Friday night, Mr. Mubarak made his first public statement since the unrest

*Continued on page 20*

COMER is proud to report the appearance of the fifth volume of *Meltdown* in the John Hotson Memorial Series.

It covers the period of key articles in the *Journal of the Committee on Monetary and Economic Reform*, July 2005 to December 2006, and recounts how the suppression of the key lesson of World War II is leading a blindfolded world into the final atomic conflict.

Copies are available at \$20 each in Canada, including mailing costs. Add \$5 to the US and overseas.

# “Age Gain Empathy”: An Actively Misleading Title

*The New York Times* (6/02, “The Fountain of Old Age” by Natasha Singer) reports from Cambridge, Mass.: “It’s not easy being gray. For the first time ever, getting out of a car is no picnic. My back is hunched. And I’m holding on to handrails as I lurch upstairs.

“I am 45, but I feel older because I’m wearing an Age Gain Empathy System, developed by researchers at the Massachusetts Institute of Technology. Agnes, they call it.

“At first glance, it may look like a mere souped-up jumpsuit. A helmet, attached by cords to a pelvic harness, cramps my neck and spine. Yellow-paned goggles muddy my vision. Plastic bands, running from the harness to each arm, clip my wingspan. Compression knee bands discourage bending. Plastic shoes, with uneven Styrofoam pads for soles, throw off my center of gravity. Layers of surgical gloves make me all thumbs.

“The age-empathy suit comes from the MIT AgeLab, where researchers designed Agnes to help product designers and marketers better understand older adults and create innovative products for them. Many industries have traditionally shied away from openly marketing to people 65 and older, viewing them as an unfashionable demographic group that might doom their product with the young and hip spenders. But now that Americans are living longer and more actively, a number of companies are recognizing the staying power of the mature market.

“Aging is a multidisciplinary phenomenon, and it requires new tools to look at,” Joseph F. Coughlin, director of AgeLab, tells me, encumbered and fatigued after trying to conduct a round of interviews while wearing Agnes. Viewed through yellow goggles, the bright colors of Professor Coughlin’s bow tie appear dim. ‘Agnes is one of those tools,’ he says.

“AgeLab, like a handful of other research centers at universities and companies around the country, develops technologies to help older adults maintain their health, independence, and quality of life. Companies come here to understand their target audience or to have their products, policies and services studied.

“Often, visitors learn hard truths at AgeLab: many older adults don’t like products like big-button phones, that telegraph aged-

ness. ‘The reality is such that you can’t build an old man’s product, because a young man won’t buy it and an old man won’t buy it,’ Professor Coughlin says.

“The idea is to help companies design and sell age-friendly products – with customizable font size, say, or sound speed – much the same way they did with environmentally friendly products. That means offering enticing features and packaging to appeal to a certain demographic without alienating other consumer groups. Baked potato chips are just one example of products that appeal to everybody but skew toward older people. Toothpastes that promise whitening or gum health are another.

“Researchers at AgeLab are studying the stress levels of older adults who operate a hands-free parallel-parking system developed by Ford Motor. Although the ultrasonic-assisted system may make backing-up easier for older adults who can’t turn their necks to the same degree they once did, the car features – like blind-spot detection and a voice-activated audio system – are intended to appeal to all drivers who enjoy smart technology.

“‘With any luck, if I am successful,’ Professor Coughlin says, ‘retailers won’t know they are putting things on the shelves for older adults.

“The first of about 76 million baby boomers in the United States turned 65 in January. They are looking forward to a life expectancy that is higher than that of any previous generation.

“The number of people 65 and older is expected to more than double worldwide, to about 1.5 billion by 2050 from 523 million according to estimates from the United Nations. That means people 65 and over will soon outnumber children under 5 for the first time ever. As a consequence, many people may have to defer retirement – or never entirely retire – in order to maintain sustainable incomes.

“Many economists view such an exploding population of seventy- and eighty-somethings not as an asset, but as a looming budget crisis. After all, by one estimate, treating dementia worldwide already costs more than \$600 billion annually.

“No other force is likely to shape the future of national economic health, public finances, and policy making,’ analysts at Standard & Poor’s wrote in a recent report,

‘as the irreversible rate at which the world’s population is aging.’

“The S&P analysis, called *Global Aging 2010* warns that many countries are not prepared to cover the pension and health care costs of so many additional retirees; if those governments do not radically alter their age-related spending policies in the next few decades, the report said, national debt will grow to rival – or even more than double – gross domestic product.”

## Meeting Global Aging in Great Style

“But longevity-focused researchers including Professor Coughlin, whose blog is called Disruptive Demographics, are betting that baby boomers, unlike generations past, will not go gentle into the good night of long-term care. In fact, a few research groups at institutions like Oregon Health and Science University, MIT and Stanford, along with foundations and the private sector, are devising policies and systems for an alternative scenario, older adults living independently at home for longer periods, whether the home is a private residence or a senior community.

“Devices for I’ve-fallen-and-I-can’t-get-up catastrophes, they say, represent the only business of old age. The new business of old age involves technologies and services that promote wellness, mobility, autonomy and social connectivity. These include wireless pillboxes that transmit information about patients’ medication use, as well as new financial services, like ‘Second Acts’ from Bank of America Merrill Lynch, that helps people plan for longer lives and second careers.

“Together, those kinds of products and prove to services are already a multi-billion-dollar market, industry analysts say. And if such innovations promote health and independence, the potential savings to the health-care system could be even greater.

“That’s the upbeat message that Eric Dishman, the global director of health innovation at Intel, has been trying to get across to policy-makers and industry executives for more than a decade. A charismatic health policy wonk, Mr. Dishman has held audiences at TedMed conferences spell-bound with his lecture on the subject, in which he carts around an old-school rotary telephone, a prop dramatizing the need to connect old adults and technology.

“In his office in Beaverton, Ore., he demonstrates some prototypes, like a networking system for senior housing centers, that older Americans are already testing. Often, he says, field studies of his gadgets result in ‘success catastrophes’ – the devices prove so popular that testers and their families are loath to return them. The people testing the social network devices, for example, asked for extra models for off-campus friends.

“There is an enormous market opportunity to deliver technology and services that allow for wellness and prevention and lifestyle enhancement,” he says. “Whichever countries or companies are at the forefront of that are going to own the category.

“Industry is beginning to hear his message. Last month, a group including Bank of America, Merrill Lynch, Pfizer, Johnson & Johnson and Aegon said it had formed the Global Coalition on Aging, to help governments and industries better handle the age boom. ‘Companies are starting to think about how they can be age friendly much the same way they have been thinking about how they could be environmentally friendly over the last couple of decades,’ says Andy Sieg, the head of retirement services at Bank of America.

“The Mirabella, a new \$130 million high-rise in the South Waterford section of Portland, Ore., may be the greenest luxury retirement community in the nation.

“The building has solar-heated hot water, a garage where valets stack cars in racks atop one another, sensors that turn off the lights when stairways are empty and platinum certification from Leadership in Energy and Environmental Design, or LEED, the group that sets national benchmarks for sustainable building.

“But never mind the free loaner Priuses in the garage, The Mirabella also aspires to be the grayest – by providing an opportunity to develop and test the latest home-health technology and design concepts for older adults.

“The building’s architects, Ankrom, Moisan Associated Architects, turned on its head the idea of putting retirees out to pasture. This urban high-rise, conveniently located next to Oregon Health and Science University, enables residents to stay as healthy, engaged and socially connected as possible, says Jeff Los, a principal in the firm.

“Historically, upscale senior housing has been a rural three-story entity spread over 30 acres,” he says. “This is a 30-story building on one acre with a streetcar stop at the

front door.”

“The developers, Pacifik Retirement Services, bought land from the university with the idea of encouraging research next door, at the school’s Oregon Center for Aging and Technology, also known as Orcatech. As part of that project, the company spent nearly a half-million dollars to install fiber optic cables so that Mirabella residents could be encouraged to volunteer for a ‘living laboratory’ program in which wireless motion sensors, installed in their apartments, track their mobility and, by extension, their health status in real time.

“Other adults in other parts of the city are already participating in the program; researchers hope to prove that continually monitoring can help predict and prevent problems like falls, or even social withdrawal, says Dr. Jeffrey Kaye, a neurology who directs Orcatech.

“And some residents may eventually want to modify the monitoring system so that they can download and make use of their own health data, Mr. Los says.

“In fact even before Mirabella opened

last fall, residents asked for adjustments to the building. They demanded space in the garage for their kayaks, recalled Mr. Dishman, who serves on the building’s steering committee.”

### **Baby Boomers are Going to Be Very Different Seniors**

“About 30 older adults in the greater Portland area have volunteered to participate in the Orcatech living laboratory program.

“Dorothy Rutherford, 86, a petite redhead with a deadpan wit, is one of them. And she is a model for the kind of independent aging, abetted by technology, that the researchers hope to encourage.

“Her bone-colored earrings – a gift from a dentist who made them from denture material – dangle as she gives me a tour the equipment that researchers have installed in her apartment. Sensors that monitor the speed and frequency of her activity dot the ceilings and cling to furniture, appliances and doors.

“I have no worries about privacy what-

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## Spending on Dubious Research

There is one advantage to suppressing all recognition of the most important relationship in our world economy – the key importance of human capital. Swallow that and you are left without anything that might be recognized as accountancy. On the other hand having done that, our critics are emboldened to exercise an unusual boldness in drawing attention to lesser irregularities in our accountancy.

From *The Globe and Mail* (12/03), we quote: “\$4.7 billion, 20,000 companies. One sector’s ‘dirty little secret’ Canada’s signature research and development incentive is failing as Ottawa pays millions for questionable claims.

“What’s research and development? The *Income Tax Act* defines eligible R&D as a ‘systematic investment or search that is carried out in a field of science or technology by means of experiment or analysis.’

“Tax authorities are warning they’ll start hitting companies claiming this wildly popular tax break with punitive penalties and even criminal charges to stop abuses.

“This year Ottawa and the provinces will dispense \$4.7 billion to more than 20,000 Canadian companies under one of the richest R&D tax regimes in the world. But a

third or more of that cash is being wasted and paid to consultants because of hazy rules on what’s legitimate R&D and limited government auditing resources, according to dozens of interviews with consultants, claimants and government officials.

“The program is prone to abuse because the risk of getting caught is low. Tax authorities routinely accept a significant percentage of refund claims with little or no vetting in what one CRA source called the R&D industry’s ‘dirty secret.’

“Senior Canada Revenue Agency (CRA) officials exposed the growing scourge of bogus claims at a series of recent meetings with industry consultants and accountants. At one of the gatherings, a CRA executive complained about unscrupulous flooding the agency with claims for many companies that do little or no R&D.

“Money is often paid out to decidedly low tech and routine manufacturing such as baking gluten-free cake, making injection-molded auto parts or growing potted roses.

“The cost of the federal SR&ED program has climbed to an estimated \$3.5 billion a year from \$2.7 billion in 2005.”

W.K.

soever,' she declares, waving at the ceilings. 'They are just sensors, not video cameras.'

"A wireless smart pillbox reminds her to take her daily vitamins. A computer on which she plays specific experiments so far involved an anthropomorphic robot from Vgo Communications nicknamed Celia, that was equipped with a video screen. Mrs. Rutherford's granddaughter and great-granddaughter in Wyoming could remotely operate Celia any time they wanted to follow her around for a video chat.

"Mrs. Rutherford, a retired waitress, already uses Skype to talk to family members. But Skype is stationary, she says, while the robot conveniently wheels itself from room to room.

"When I saw Celia the robot, I thought there are all kinds of possibilities to get you set up at home,' she says. 'Why should anyone go to a retirement community if they can figure out a way to keep people home longer?'

"Even so, the pilot program is not inexpensive: it costs about \$1,000 to set up each participant with a computer \$6 sensors, plus \$2,000 a year for technical support, Internet access and home visits from researchers. Monitoring costs vary. (The robot, which is not a regular feature of the program and which participants tried for about a week each, costs \$6,000 plus a monthly \$100 service fee.)

"The continuous monitoring of people like Mrs. Rutherford may point the way to a more preventive health care – an alternative to the pattern of doctors seeing elderly patients, often treating them only after they have developed acute illnesses or have had accidents....

"The idea is to determine whether changes in daily habits – like walking speed, posture, sleep, pill taking, computer game scores – can accurately predict things like cognitive decline or balance problems, allowing doctors to intervene before someone falls and, say, breaks a hip.

"Intel and General Electric recently started a joint venture, Intel-GE Care Innovations, to develop technologies that help older adults stay independent. They are already marketing the Intel Health Guide, a home monitoring system that helps doctors remotely manage patients' care.

"There's just one obstacle: the marketplace for age independence technology is in its infancy. Because of ageism, Mr. Dishman says, many retailers aren't ready to make space for such products and many companies don't even want to develop them.

"Life enhancement technology for boomers is a chicken-and-egg problem,' he says. 'Is the market going to take the first plunge – or are companies going to create technologies without knowing whether we can sell it?'

"He has been on a mission, he says, to have Congress put the issue on the national agenda; he's also like to see the White House establish a commission on aging. The European Union, he points out, has already committed more than one billion euros to study technology and aging.

"But so far, the officials he has met with have not taken up the cause, he says. In the laundry list of initiatives in his State of the Union address last month, Obama pushed clean energy, but not gray tech.

"Mr. Dishman asks: 'What do we need to do for aging and gray technology to have the same urgency that global warming' and green technology have?'"

The trouble is basically Washington has been attempting to run the world by an agenda of bailing out our speculative banking, but with a complete disregard of the crucial importance of human capital – established as the key lesson to come out of the Second World War – the key importance of human capital.

To fully grasp the enormity of this, we must remember the admonitions of great French economist, the late François Perroux or the American sociologist, Douglass North: When a new class in a country acquires power, the people in political charge must be changed as well or they will sabotage the change. That was the purpose of the busy guillotine in the French Revolution, in Mexico it led to countless civil wars, and today President Obama's choice of high officials of previous regimes as advisers is frustrating important the social changes being advocated by Mr. Dishman.

There would be simple ways of financing the handling the longer lives of humanity with fife and drum. However, it cannot be squeezed into the program of speculative banking.

Let us start on a modest scale. There is no lack of highly educated unemployed that could readily be retrained to step in at once to handle the emergency of the increasing number of longer living aged, especially during the period when Mr. Dishman and his colleagues are experimenting with how to handle the eventual problem of long-living retirees. That would lessen the amount of wasting human capital, and allow the handling of the early research of the program of

Mr. Dishman and his colleagues.

Then the handling of the program which is an aspect of getting the world economy out of its race to nuclear disaster, could be handled. The investment in human capital – especially with world-wide urbanization – must be taken out of control by our speculative banks, and recognized as an investment – the most vital investment that a country can make – rather than a debt. Our human capital is the best investment society can make, and it comes prepaid. Treat it as a debt while the financing of government projects through speculative banking that have already brought the world into its present disasters is surrendering the lessons of our history.

Without a recognition of this basic lesson of our times, that now comes us as a mishandled bungled debt, would appear for what it is – and was once recognized to be – the most productive investment a government could make.

Mistaking our key assets for a liability, means that we go on groping with nothing that could be mistaken for accountancy in the dark.

*W. Krehm*

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Internet *from page 17*

had begun. He said he would appoint a new cabinet, and on Saturday named a number two – and thus potentially his successor – for the first time in his long rule – Omar Suleiman, former intelligence chief and a long-time trusted ally.

"It was a turning point, 'He blinked,' said one Western diplomat in Cairo.

"By then the White House was fully engaged. With Vice President Biden and his national security team by his side, President Obama called Mr. Mubarak after his speech with a clearer goal: transition of power.

"Participants told White House officials that requesting that Mr. Mubarak not stand for reelection was necessary, but would not be sufficient to resolve the crisis. Constitutional changes are needed before elections are to be held, and the experts at the White House meeting said that Mubarak would not be able to oversee the transition to democracy.

"Mubarak is not going to be the agent of change,' said Tom Malinowski, the Washington advocacy director of Human Rights Watch, who participated in the meeting. At one point, one participant said, 'Please tell me you have contingencies in case Mubarak's regime collapses.'

"The NSC officials had to admit they didn't."■