

\$3.95

Vol. 24, No. 2 • FEBRUARY 2012

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Publications Mail Agreement No. 41796016

In Europe, Arguing to Apply Some Stimulus Along With the Austerity

*By Liz Alderman, The New York Times,
January 24, 2012*

Paris — With much of Europe embarked on a program of budget-cutting and belt-tightening, doubts about whether more austerity is the answer to today's economic troubles are popping up in the strangest places.

On a concrete wall in Oporto, Portugal, where a tough austerity effort has hit hard, a somber graffiti mural depicts a submarine in a nose dive.

"Austerity doesn't save," the caption warns. "It sinks."

As Western countries grapple with lingering economic malaise, even some traditionalists within the policy-making fraternity are starting to worry that such slogans might be right. But as a phalanx of politicians, academics and other experts gathers this week at the World Economic Forum in Davos, Switzerland, perhaps the biggest question they will face is whether it is possible to develop policies to revive growth even as Western countries seek to reduce debt.

Europe and the United States are both locked into fiscal strategies based on curbing government debt and paring borrowing. Europe has been following a German prescription intended to save the euro zone. Meanwhile, Washington, which is in the throes of a heated presidential campaign, is divided over whether to extend a payroll tax cut for the rest of the year and has committed, at least on paper, to cutting spending by \$1.2 trillion starting this year.

Whether austerity will help revive economies over the long term is the subject of an intensifying debate, especially as much of Europe heads into what looks like its second

recession in three years. The United States — where belt-tightening, though painful, has not been nearly so severe — shows glimmers of a recovery.

"It is clear that austerity alone is a recipe for stagnation and decline," said Joseph E. Stiglitz, a Nobel laureate and professor at Columbia University in New York. "The likelihood that things would work out well is extraordinarily small."

Recently, there have been signs the tide is shifting. In the past several weeks, European politicians have begun to insist quite publicly that austerity can no longer be the sole answer to putting even the most heavily indebted economies on the path to a brighter future.

After months of talk of almost nothing but cuts, Prime Minister Mario Monti of Italy and President Nicolas Sarkozy of France delivered such a message to the German chancellor, Angela Merkel, during recent visits to Berlin, with a surprising result: "Growth" has become the new watchword on everybody's lips — even Mrs. Merkel's.

"Budget consolidation is one of the legs Europe's future must be built on," Mrs. Merkel said this month after meeting with the Italian and French leaders. "But of course we need a second leg," she added, which is "economic growth, jobs and employment."

Germany is still insisting that the most fool-proof path to sustainable recovery is through structural change, including the overhaul of rigid labor markets and changes to pension laws, much like those Germany painfully pushed through in the 1990s.

But the fruits of such labors often take years to emerge. In the meantime, the con-

Continued on page 2

FOUNDING EDITOR**John Hotson** 1930–1996**PUBLISHER-EDITOR****William Krehm**

(comerpub@rogers.com)

INFORMATION SECRETARY**Herb Wiseman** (herbwise@cogeco.ca)**WEBMASTER****Tony Koch****Economic Reform (ER)**

(ISSN 1187-080X) is published monthly

by COMER Publications

27 Sherbourne Street North, Suite 1

Toronto, Ontario M4W 2T3 Canada

Tel: 416-924-3964, Fax: 416-466-5827

Email: comerpub@rogers.comWebsite: www.comer.org**COMER Membership:** Annual dues (includes *ER* on request plus 1 book or video of your choice): CDN\$50**Economic Reform Subscription only:**

One year, 12 monthly issues, in Canada

CDN\$30, Foreign CDN\$40

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Toronto, ON M4W 2T3

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27 Sherbourne Street North, Suite 1

Toronto, Ontario M4W 2T3

PRINTING AND DISTRIBUTION

Watt Solutions Inc., London

Printed in Canada on recycled paper.



Europe from page 1

cern is that economies that are already in a slowdown will be weakened further by large cuts in national spending and by tax increases that governments are embracing to satisfy lenders and to placate the financial markets.

"You could say that if there's no austerity, growth might be higher," said Stefan Schneider, the chief international economist at Deutsche Bank in Frankfurt. "But then again, no austerity would probably escalate the bond crisis in Europe, and then you would wind up with total chaos."

In the United States, where the budget deficit remains high and President Barack Obama has pressed for more stimulus, there are tentative signs of an economic comeback. The unemployment rate fell to 8.5 percent in December, its lowest level in nearly three years, after about 200,000 jobs were added.

The outlook remains fragile. The phase-out of an earlier stimulus program cost the United States an estimated half a percentage point in growth last year, and could further reduce potential gains in 2012. Washington is also likely to provide less government support this year amid continued wrangling between Republicans and Democrats over economic policy.

But the US Federal Reserve has been more accepting than the European Central Bank of keeping interest rates low and of pumping extra money into the banking system in a bid to restart the engines of the economy.

"The US government has been willing to provide more stimulus than the Europeans, and the Federal Reserve has been more accommodative on monetary policy," said Paul De Grauwe, a professor of economics at the Catholic University of Leuven in Belgium. "So America's environment is easier right now because its macroeconomic policies are less contractionary than in Europe."

In Europe, Mr. De Grauwe added, "excessive austerity, no fiscal stimulus and a European Central Bank not willing to do the same as the Fed is the wrong policy mix."

That policy mix is showing signs of changing, however, with the ECB starting to lend hundreds of billions of euros to banks to prevent a freezing of the financial system and in the hopes of greasing the wheels of commerce.

Still, austerity remains the dominant feature in Europe. Ireland, one of the first countries to receive a financial lifeline in the current crisis, has been held up by Mrs. Merkel and others as a model for exiting the

sovereign debt crisis. But the group of creditors administering a bailout of €65 billion, or nearly \$85 billion at current exchange rates, for Ireland reported that even though the country had succeeded in reducing its staggering deficit last year, its sluggish economy would grow even more slowly in 2012 than first thought.

That could make it harder for the government of Prime Minister Enda Kenny to meet its deficit target and to return to borrowing at reasonable rates in financial markets.

Similarly, an austerity program in Britain appears to be falling short of its goals, largely because economic growth has consistently failed to measure up to government expectations. In Spain, austerity programs will lead the economy to contract an estimated 1.5 percent this year, the central bank said this week, instead of growing by that much, as originally thought.

Further south, Mr. Monti has grown increasingly alarmed about the risk that Italy will stumble into what he calls an "austerity trap." On the morning of his visit this month to the German Chancellery, he warned in an interview with the German newspaper Die Welt that if Italians did not see concrete rewards for their willingness to cut and save, there would be protests against Europe and Germany, which "is seen as a ringleader of EU intolerance."

Germany — The Ring-leader of EU Intolerance

Mr. Monti then headed back to Rome, where he put the finishing touches on a set of measures announced last week that aim to revive the sluggish, protectionist Italian economy by investing €5.5 billion in infrastructure and opening up professional guilds to competition.

In France, Mr. Sarkozy, who has pressed Mrs. Merkel to put greater emphasis on growth, took steps of his own this month toward economic renewal and job creation. Last week, he announced at a meeting of business and labor leaders a modest €430 million program for employee training and a separate set of measures intended to help companies hold on to workers.

French unions denounced the measures as little more than a political ploy that would have little real effect on employment.

Would more stimulus spending help Europe?

Kenneth S. Rogoff, an economics professor at Harvard University and a former chief economist at the International Mon-

etary Fund, says the most deeply indebted countries have little room to maneuver because increased borrowing would only make it more expensive for them to sell their bonds.

On the other hand, should European countries be “willing to be in a recession for five years just to prove their credibility?” Mr. Rogoff asked. “That’s not tenable.”

Our Comment

The New York Times (January 24) examines the world’s economy with furrowed brow, which must however not be mistaken for serious thinking. We refer to the article by Liz Alderman in Paris.

However, the point of the piece still insists on considering expenditure on investment in human capital, health, education, adequate infrastructures to permit adequate transportation for the citizens as plain “spending” instead of crucial investment in human capital. At one time that seemed on the point of being recognized but the speculative banking community stepped in to safeguard and extend its feeding ground by arguing in terms of an allegedly needed bond issue instead of considering human capital that had once been in broad patches recognized – health, education – the most profitable investment that society can make. The vulnerability of the printed press as a dying resource that dared not disregard the preferences in the matter because their heavy indebtedness to adventurous speculative capitalists provided the print newspapers, increasingly dependant on the speculative capital whose assistance had become essential for the prolonged existence of a dying industry. The dependence on *The New York Times*, for funding by speculative financial buccaneers based in Mexico restricted the frankness that the once glorious *New York Times* dared afford. The total effect of this has been to reduce what had been recognized as the most rewarding investment a society was made into a debt – in financial terms the equivalent of confusing the good Lord in heaven with the devil, and vice versa.

Unless that is seriously corrected, it must lead to lights out for the survival of the human race. For the two atomic bombs dropped on Japan to end WWII were elementary applications of Einstein’s first law, though Einstein himself was a most humane individual. The atomic bombs that rival world powers have learned to produce since then, are beyond comparison, more deadly, and threaten the continued existence of humanity itself. W.K.

Anger Grows as Nest Eggs Don’t

By Rob Carrick, *The Globe and Mail*,
January 5, 2012

The aging of our population means people who have saved and invested for decades are starting to assess the results.

Let’s just say there’s some unhappiness out there. Stock market ups and downs over the past four years have left some seniors bewildered and angry about what’s happened to their investments.

“We saved,” one retiree told me in an e-mail response to a recent column that said inadequate retirement savings are going to spur demand for reverse mortgages. “The market made sure it was not enough.”

It’s not just the markets, this reader said. “No, indeed, where the blame should be firmly planted [is] at financial professionals and their ignorance of the market trend.”

Mad at the markets, and mad at the investment industry. How many aging baby boomers might that describe?

Here’s how a 60-year-old reader from Vancouver describes what she’s found to be wrong with the financial industry. “I think there’s an incredible absence of good, honest advice,” she said in an interview. “I see so many people – educated people, professional-class people – who have resources and they’re spinning their wheels going from one adviser to the next.”

The hefty fees Canadians pay to own mutual funds have been criticized lately on the basis that they undermine the returns people will increasingly depend on to fund their retirement. But to focus on fees is to miss a bigger picture that encompasses both investing products and investing advice. After all, built-in fees for advisers are one of the biggest reasons why mutual funds cost what they do.

In the fall, I was asked to appear at annual educational forums staged by organizations that oversee two highly reputable financial planning designations, the Certified Financial Planner and the Registered Financial Planner. Both events were well attended by advisers who gave every indication of being committed, well-informed and conscientious.

But there’s a disconnect in some cases between the industry these people work in and the massive demographic wave of baby boomers who (a) have all the money and (b) are coming to a point in their lives where they have never been more in need of

financial advice.

It’s hard to say if the financial industry even knows what’s happening at the customer level. The industry loves to commission polls and surveys that inevitably ratify its world view. Advice is important. Canadians value advice.

I ran a little poll of my own on my Facebook personal finance page on December 8 in which I asked people to complete the sentence: “I think mutual funds are: _____. ” Many of the responses almost melted my computer.

Much of What was Sold hasn’t Performed

A lot of the anger out there has to be linked to the market ups and downs we’ve been subjected to since summer, 2007. But it’s starting to appear as if there’s more to this than a sense of frustration with undependable stocks and low interest rates. Trust in the entire investment industry has been worn down. A lot of what was said and sold to investors hasn’t worked.

Falling markets upset investors, while rising markets pacify them. The unhappiness might blow over if investors find that

I think mutual funds are...

More than 70 subscribers to Rob Carrick’s Facebook personal finance page completed this sentence: “I think mutual funds are _____. ” Some responses:

On the positive side:

“A great way to diversify your portfolio, especially the ones with low MERs.”

“A good choice for people who don’t have the knowledge or the time to learn the intricacies of investing.”

On the negative side:

“Past their prime.”

“Like buying and eating a cheap hot dog. Never know what is inside them and more than likely the damn things repeat on you.”

“...How can the industry justify paying ‘fund managers’ (MER) when a fund registers double-digit negative returns?”

the products they were sold and the advice they received was, after all, on the money. The experience of that 60-year-old Vancouver reader suggests this is no sure thing, however.

She's on her fifth adviser, which tells us she may be what they call a difficult client. Still, her criticisms are worth hearing. Two of her advisers distinguished themselves with a stock picker's approach that included recommendations to buy Ballard Power (down 83 per cent over the past five years) and Citibank (down 95 per cent over the same period). Another worked at a financial planning firm that charged stiff fees for what amounted to management of a portfolio of guaranteed investment certificates. Another suggested replacing a perfectly good low-

cost mutual fund with a high-cost wrap product.

"I didn't do my due diligence until I was getting near the retirement cliff," this reader admits. "I was busy taking care of my life and raising my children, putting money aside and listening [as stocks fell] to people saying: 'Oh well, that's the market, it will take time.'"

Her diagnosis of what's wrong with the client-adviser relationship: "People aren't pushy enough asking questions."

Get ready, investment industry. Exam time is coming as baby boomers retire and start to look at what decades of saving and investing got them.



Editor: We have long since determined that the prepaid investment in human capital is the most important investment a society can make. Treating it just as a debt, means not only converting our government accountancy into a grandiose fib, but distorts its accountancy not once but twice. What was a prepaid asset turns up in fact as a debt, and as a result there is no certainty that our government knows what it is talking about.

That not only creates an eco-chamber of uncertainty, but disorients the governments' contact with reality in an ever-mounting degree. That opens an increasingly unlimited role for a teaming advisory profession that is clueless about what it is supposed to be advising about.

MISSION COULD SOLVE MYSTERY OF WHAT LIES DEEP WITHIN THE MOON

NASA Planning a Lunar Ballet Duet

By Debra Black, Toronto Star, December 31, 2011

This weekend, two NASA space crafts will begin a kind of lunar ballet as they enter the moon's orbit. Their mission: to try to answer questions about its interior makeup and topography.

The two robotic space crafts – weighing about 303 kilograms each – will begin a series of intricate braking maneuvers to put themselves into the moon's orbit over the weekend, about three months after they launched.

The first space craft is set to fire its engines at 4:20 pm on Saturday, and begin its orbit of the moon soon after. The second craft will perform similar maneuvers 25 hours later, around 5:05 pm on Sunday.

Then over the next three months, the two crafts will do a series of small engine firings to reduce their orbit to within 55 kilometres of the moon's surface, said Maria Zuber, principal investigator for the GRAIL (Gravity Recovery and Interior Laboratory) mission and professor of geophysics at Massachusetts Institute of Technology, in an interview with the Star.

Once in orbit and at the right altitude, the two space craft will begin collecting data as they fly over the moon, speeding up and slowing down in response to tiny gravitational tugs.

As they are doing this lunar dance, they will send radial signals back and forth to each other and to the Earth, where research-

ers will be able to measure the change of velocity in the two space crafts and begin to paint a picture of the moon.

"Scientists will use the gravity field information from the two satellites to X-ray the moon from crust to core to reveal the moon's subsurface structures and, indirectly, its thermal history," the project's website says.

The data, Zuber and others hope, will help explain the makeup of the moon's interior – something that, despite more than 100 missions to the moon, scientists have yet to fully understand.

"We're interested in how the moon formed and how it evolved," Zuber said. "It just occurred to us the missing piece of the puzzle was a detailed analysis of the lunar interior."

Scientists have hypothesized that the moon formed when an object about the size of Mars smashed into the Earth about 4.5 billion years ago. It is believed that volcanic eruptions on the moon's near side created large, dark plains from lava flows.

However, the far side of the moon is mountainous. The difference in topography puzzles many.

One possible explanation is a recent theory that suggests the Earth had a second moon orbiting it, but it crashed into the far side of the moon, creating the mountains and highlands there.

Zuber hopes the data from the space crafts will help confirm that theory, as well as further explain the makeup of the near

side of the moon.

"We have ideas and there are hypotheses out there," she said. "Maybe the data will be consistent with those hypotheses. Or maybe we'll have to think about other options. You tend to get surprised in this business."

The mission is scheduled to continue until June 2012, when there will be an eclipse.

The space craft was not designed to last through the eclipse, but if it does, Zuber hopes NASA will extend the mission for another six months.

Then she plans to have the space crafts do another series of maneuvers that will take them even lower, to about 27 kilometres above the moon's surface. At that altitude the researchers could get an even clearer map of the moon's interior makeup.



Editor: Were the present rulers of this world, to show the slightest curiosity about the alleged government deficits as the astronomers are about the inner structure of the moon, we would have no difficulty in balancing our government budgets by simply recognizing the crucial investment in prepaid human capital. That had been recognized not as debt but as "the best investment a government can make." Today it is written off as a debt – which means that we are running the world with nothing that can be mistaken for accountancy with the lights deliberately turned out.

Canadian Governments Brace for Higher Debt Costs

By Karen Howlett, *The Globe and Mail*,
January 12, 2012

Canadian governments are bracing for major changes to banking rules in the US that would make it more difficult and expensive for them to borrow money, at a time when many need greater access to international investors to finance their debts.

The proposed reforms, known colloquially as the “Volcker Rule,” are designed to avoid a repeat of the global banking crisis triggered by the collapse of Wall Street brokerage firm Lehman Brothers in 2008. They attempt to limit the risks big banks can take by restricting them from trading securities for profit, an activity known as “proprietary trading.”

The rules are expected to add significant costs to banks that deal in securities because they will have to prove to regulators that trades they make are being done for their clients, and not for their own account. But certain kinds of government securities – US Treasuries and bonds issued by American states, for example – are exempt.

Bonds issued by foreign governments, including the Government of Canada and the provinces, do not enjoy that same exemption. Government officials and banking regulators here say that as a result, the Volcker Rule will interfere with the liquidity of this country’s sovereign securities, driving up the cost of borrowing for governments.

More than \$1.3 trillion in Government of Canada bonds were traded by foreign investors last year.

“We are supportive of ensuring that there isn’t a blow up in financial markets,” said Gadi Mayman, chief executive officer of the Ontario Financing Authority, the entity that manages the province’s borrowing. “We don’t want a repeat of 2008-2009. But we also don’t want to screw on the lid so tightly that the businesses of the banks in providing capital for government and corporations in Canada is constrained.”

Canada is not alone in expressing concerns. European bankers and traders have sounded similar warnings about the potential impact on the euro zone government debt market. The federal government, along with Canada’s banking regulator, the Office of the Superintendent for Financial Institutions, points out that the proposed rules are

unprecedented because they greatly expand the reach of US regulators into other jurisdictions.

“We understand the motivation for the US rules to restrict a bank’s risky trading activities,” said Department of Finance spokesman Jack Aubry.

“At the same time, we are concerned about the extraterritorial reach of US regulations into Canada and on the operations of Canadian financial institutions outside of the US, which could have unintended consequences.”

While all three levels of government – federal, provincial and municipal – could see their access to international investors stifled, the new rules would have the biggest impact on those regions with large debt loads. The timing of the proposed rules is bad for the federal government and many of the provinces, which need to tap the bond markets to finance their large deficits and debt. Ontario alone needs to borrow \$35 billion this fiscal year to manage its deficit, invest in capital projects and refinance maturing debts. To date, it has borrowed \$27.2 billion.

The Volcker Rule would apply to the global activities of banks with operations in the United States. Canada’s big banks are subject to the rule by virtue of their subsidiaries in the US; some, such as Royal Bank of Canada, have significant trading operations there.

The controversial rule is part of the massive 2010 Dodd-Frank financial oversight law and is named for Paul Volcker, the former chairman of the Federal Reserve who campaigned for it. The rule limits most proprietary trading, a lucrative practice where a bank places bets for itself rather than for clients.

Determining Whether a Bank’s Trading Is Proprietary or Legitimate

It also spells out an expansive internal control regime that banks must follow, creating layers of expensive and time-consuming compliance, to determine whether a trade is proprietary or for a client.

The deadline for public comments on the proposed rule has been extended one month to February 13. The final version takes effect in July.

Craig Alexander, chief economist at Toronto-Dominion Bank, said the rule has a “very American-centric dimension” to it because it exempts US sovereign debt but not debt issued by foreign countries. Officials in Canada are seeking a similar exemption to bonds issued by the federal government and the provinces.

The federal and provincial governments do significant business in US financial markets, where they easily attract investors with their highly-rated bonds. The OFA’s Mr. Mayman said Canada’s global reputation as

Responses to the Bank of Canada Lawsuit

Dear Mr. William Krehm,
I am an Italian journalist/photographer
and I follow your interesting economic
publications.

I have heard that in December 2011 you and COMER have filed an action in federal court. Let me make the best wishes and express my gratitude for what you do.

I would kindly ask you if it is possible to have a copy of the action and see if can be extended to others country as well.

I thank you in advance and I wish you all my best for the new years as well for your 98th birthday.

Zoo Di Lorenzo, Milano, Italy

Dear people,

We are preparing a lawsuit against the Ministry of Finance and individual banks in the Netherlands regarding the unlawfulness of private banks creating money and charging interest on this. Therefore, we would like to follow the case of Mr. Krehm closely. What would you recommend would be the best way of doing this? Would it be possible to contact Mr. Galati by e-mail?

Also, in 2005 a Canadian by the name of John Ruiz Demsey filed a similar lawsuit. Would you know how to contact Mr. Dempsey or what has been the final verdict and the arguments used by the defendants?

Best regards,
Peet Veerbeek

a country with a strong banking sector has helped Ontario enjoy ready access to US and other foreign investors to help support the province's borrowing program.

"One of the reasons we're able to borrow so much, is people love Canada right now," he said. "We're happy to take advantage of that."

Editor: Better expressed, the love of Canada right now is closely related to Canada's promising drilling at great depths for oil.

DIGITAL TEXT USHERS IN AN ERA OF PERPETUAL REVISION AND UPDATING, FOR BETTER AND WORSE

Books that are Never Done Being Written

By Nicholas Carr, *The Wall Street Journal*, December 31, 2011

I recently got a glimpse into the future of books. A few months ago, I dug out a handful of old essays I'd written about innovation, combined them into a single document, and uploaded the file to Amazon's Kindle Direct Publishing service. Two days later, my little e-book was on sale at Amazon's site. The whole process couldn't have been simpler.

Then I got the urge to tweak a couple of sentences in one of the essays. I made the edits on my computer and sent the revised file back to Amazon. The company quickly swapped out the old version for the new one. I felt a little guilty about changing a book after it had been published, knowing that different readers would see different versions of what appeared to be the same edition. But I also knew that the readers would be oblivious to the alterations.

An e-book, I realized, is far different from an old-fashioned printed one. The words in the latter stay put. In the former, the words can keep changing, at the whim of the author or anyone else with access to the source file. The endless malleability of digital writing promises to overturn a whole lot of our assumptions about publishing.

When Johannes Gutenberg invented movable type a half-millennium ago, he also gave us immovable text. Before Gutenberg, books were handwritten by scribes, and no two copies were exactly the same. Scribes weren't machines; they made mistakes. With the arrival of the letterpress, thousands of identical copies could enter the marketplace simultaneously. The publication of a book, once a nebulous process, became an event.

A new set of literary workers coalesced in publishing houses, collaborating with writers to perfect texts before they went on press. The verb "to finalize" became common in literary circles, expressing the permanence of printed words. Different editions still had textual variations, introduced either intentionally as revisions or inadvertently through sloppy editing or typesetting, but books still came to be viewed, by writer

and reader alike, as immutable objects. They were written for posterity.

Beyond giving writers a spur to eloquence, what the historian Elizabeth Eisenstein calls "typographical fixity" served as a cultural preservative. It helped to protect original documents from corruption, providing a more solid foundation for the writing of history. It established a reliable record of knowledge, aiding the spread of science. It accelerated the standardization of everything from language to law. The preservative qualities of printed books, Ms. Eisenstein argues, may be the most important legacy of Gutenberg's invention.

Once digitized, a page of words loses its fixity. It can change every time it's refreshed on a screen. A book page turns into something like a Web page, able to be revised endlessly after its initial uploading. There's no technological constraint on perpetual editing, and the cost of altering digital text is basically zero. As electronic books push paper ones aside, movable type seems fated to be replaced by movable text.

That's an attractive development in many ways. It makes it easy for writers to correct errors and update facts. Guidebooks will no longer send travelers to restaurants that have closed or to once charming inns that have turned into fleabags. The instructions in manuals will always be accurate. Reference books need never go out of date.

Even literary authors will be tempted to keep their works fresh. Historians and biographers will be able to revise their narratives to account for recent events or newly discovered documents. Polemicists will be able to bolster their arguments with new evidence. Novelists will be able to scrub away the little anachronisms that can make even a recently published story feel dated.

But as is often the case with digitization, the boon carries a bane. The ability to alter the contents of a book will be easy to abuse. School boards may come to exert even greater influence over what students read. They'll be able to edit textbooks that don't fit with local biases. Authoritarian governments will be able to tweak books to

suit their political interests. And the edits can ripple backward. Because e-readers connect to the Internet, the works they contain can be revised remotely, just as software programs are updated today. Movable text makes a lousy preservative.

Such abuses can be prevented through laws and software protocols. What may be more insidious is the pressure to fiddle with books for commercial reasons. Because e-readers gather enormously detailed information on the way people read, publishers may soon be awash in market research. They'll know how quickly readers progress through different chapters, when they skip pages, and when they abandon a book.

The promise of stronger sales and profits will make it hard to resist tinkering with a book in response to such signals, adding a few choice words here, trimming a chapter there, maybe giving a key character a quick makeover. What will be lost, or at least diminished, is the sense of a book as a finished and complete object, a self-contained work of art.

Not long before he died, John Updike spoke of a book's "edges," the boundaries that give shape and integrity to a literary work and that for centuries have found their outward expression in the indelibility of printed pages. It's those edges that give a book its solidity, allowing it to stand up to the vagaries of fashion and the erosions of time. And it's those edges that seem fated to blur as the words of books go from being stamped permanently on sheets of paper to being rendered temporarily on flickering screens.

Editor: This only underlines a basic truth: our very sense of what is an enduring fact, and what is largely a reflection of changing technologies. Its most dangerous aspect is that it has undermined the crucial distinction between what is fact and what may be fiction. Notably what is crucially important human capital, fully prepaid, and what is stock-market fiction. Our governments as a result are making do without anything that could be mistaken for serious accounting.

Survival's Ick Factor

By James Gorman, *The New York Times*,
January 24, 2012

Disgust is the Cinderella of emotions. While fear, sadness and anger, its nasty, flashy sisters, have drawn the rapt attention of psychologists, poor disgust has been hidden away in a corner, left to muck around in the ashes.

No longer. Disgust is having its moment in the light as researchers find that it does more than cause that sick feeling in the stomach. It protects human beings from disease and parasites, and affects almost every aspect of human relations, from romance to politics.

In several new books and a steady stream of research papers, scientists are exploring the evolution of disgust and its role in attitudes toward food, sexuality and other people.

Paul Rozin, a psychologist who is an emeritus professor at the University of Pennsylvania and a pioneer of modern disgust research, began researching it with a few collaborators in the 1980s, when disgust was far from the mainstream.

"It was always the other emotion," he said. "Now it's hot."

It still won't wear glass slippers, which may be just as well, given the stuff it has to walk through. Nonetheless, its reach takes disgust beyond the realms of rot and excrement.

Speaking last week from a conference on disgust in Germany, Valerie Curtis, a self-described "disgustologist" from the London School of Hygiene and Tropical Medicine, described her favorite emotion as "incredibly important."

She continued: "It's in our everyday life. It determines our hygiene behaviors. It determines how close we get to people. It determines who we're going to kiss, who we're going to mate with, who we're going to sit next to. It determines the people that we shun, and that is something that we do a lot of."

It begins early, she said: "Kids in the playground accuse other kids of having cooties. And it works, and people feel shame when disgust is turned on them."

Some studies have suggested that political conservatives are more prone to disgust than liberals are. And it is clear that what people find disgusting they often find immoral, too.

It adds to the popularity of disgust as a subject of basic research that it is easier to elicit in an ethical manner than anger or fear. You don't have to insult someone or make anyone afraid for his or her life — a bad smell will do the trick. And disgust has been relatively easy to locate in the brain, where it frequents the insula, the amygdala and other regions.

"It is becoming a model emotion," said Jonathan Haidt of the University of Virginia, a disgust pioneer with Dr. Rozin.

And the research may have practical benefits, including clues to obsessive-compulsive disorder, some aspects of which — like excessive hand washing — look like disgust gone wild.

The Power of Trying to Gross People Out

Conversely, some researchers are trying to inspire more disgust at dirt and germs to promote hand washing and improve public health. Dr. Curtis is involved in efforts in Africa, India and England to explore what she calls "the power of trying to gross people out." One slogan that appeared to be effective in England in getting people to wash their hands before leaving a bathroom was "Don't bring the toilet with you."

Disgust was not completely ignored in the past. Charles Darwin tackled the subject in "The Expression of the Emotions in Man and Animals." He described the face of disgust, documented by Guillaume-Benjamin Duchenne in his classic study of facial expressions in 1862, as if one were expelling some horrible-tasting substance from the mouth.

"I never saw disgust more plainly expressed," Darwin wrote, "than on the face of one of my infants at five months, when, for the first time, some cold water, and again a month afterwards, when a piece of ripe cherry was put into his mouth."

His book did not contain an image of the infant, but fortunately YouTube has numerous videos of babies tasting lemons.

Human beings are complex, of course, as evidenced by the behavior of parents who give their babies lemons and record their distress on video, and the lemon face is not exactly that of adult disgust.

It is, however, generally accepted that disgust evolved partly to avoid putting bad things in the mouth, an idea already put

forth when Dr. Rozin tackled disgust. He and his colleagues developed the idea that disgust was then elaborated by cultural evolution to include other forms, one of them based in a dislike for reminders of the animal nature of humans. Sex, death, feces and bad food all smacked of animality.

There are many variations in how scientists now view disgust, but one new approach by evolutionary psychologists was captured in a December special issue of *The Philosophical Transactions of the Royal Society B*, "Disease Avoidance: From Animals to Culture," and in a conference on "The Evolution of Disgust" this month in Bielefeld, Germany, where many of the same scientists appeared.

Dr. Curtis contributed to the issue and the conference, and emphasized above all disgust as an adaptation to avoid disease-causing microbes and parasites that involves not only taste and smell but also sight and touch.

"To me the story is quite simple," she said. The animal origins of disgust involve all sorts of ways that diseases are spread, including fleas, so there are a variety of signs of disease and types of disgust.

"It's not all oral," Dr. Curtis said.

Under that evolutionary umbrella, however, there is still the question of what kinds of disgust there are. Dr. Haidt, Dr. Rozin and Clark McCauley of Bryn Mawr College claim nine different domains of disgust for North Americans. Dr. Curtis proposes seven categories. Joshua Tybur of VU University in Amsterdam proposed three domains of disgust, three separate psychological programs, for disease avoidance, mate choice and moral judgment.

"People who are sensitive to one type of disgust are not necessarily sensitive to another," he said. For example, he said, earlier claims that political conservatives (self-identified) were more sensitive than liberals to disgust were overly general. Research that he and his colleagues did suggested that conservatives were more disgusted by sexual topics, but were similar to liberals in the domains of disease avoidance and moral judgment.

Still, it's not always easy to say in which domain a form of disgust fits, and there is no reason that more than one can't operate at the same time, given the right stimulus. Jeffrey Dahmer killed and ate people he had had sex with — a disgust trifecta if there ever was one.

Researchers have also been trying to pin down details about the mechanisms and

evolutionary value of disgust. Daniel Fessler, an anthropologist at the Center for Behavior, Evolution and Culture at the University of California, Los Angeles, investigated with his colleagues why pregnant women were more sensitive to disgust. What they found was that as progesterone levels went up, so did sensitivity to disgust. That was true in the first trimester of pregnancy, when derailing fetal development would have the most dire effects. In very recent work, Dr. Fessler said, the researchers found that even in women who weren't pregnant and were not suffering nausea, disgust increased with the levels of progesterone.

An important function of progesterone, Dr. Fessler said, is that it dials down an early-warning part of the immune system, inflammation, which might prevent the embryo, or conceptus, from implanting itself in the placenta. The eight-cell embryo "actually destroys tissue as it burrows in," Dr. Fessler said. "Left to its own, the maternal

immune system would destroy the conceptus." So, he and his colleagues reason, while the body turns down the dial on one kind of protection, it turns it up on disgust, another kind of defense.

Whatever the fine points of disgust, its power to affect behavior is unquestioned, and that power ought to be put to good use, Dr. Curtis said. So, in one of her projects, she has worked with an Indian public relations agency to come up with a disgust-based campaign to encourage hand washing among mothers in small villages, which could save countless children's lives lost to diarrhea and other diseases.

The result, now being tested, is a skit involving two characters, one a supermom and the other a disgusting, dirty man. The man makes sweets using mud and worms, stops in the middle of the performance to rush off because he has diarrhea, never washes his hands and does everything possible to be revolting. Supermom is scrupulously clean.

Her children don't get sick, the skit makes clear. In fact, her baby grows up to be a doctor. She washes her hands all the time.

The prominence of diarrhea in the skit is no accident. One thing about studying disgust, Dr. Curtis said, is that it makes you realize how important it is to talk about the very things that disgust us, because they often present dangers to public health.

Exhibit 1 is excrement. "We need to talk about" excrement, she said, using a punchier single-syllable word for maximum effect — a word she is unapologetic about using, as befits a disgustologist.

"Which is worse?" Dr. Curtis asked. To talk about it, "or to make kids die?"



Editor: The disgusting behavior of the undereducated properly focused can relieve selfishly privileged persons or group all the moral requirements to do something to lessen their social inferiority.

Arbitration Award for Exxon Is Detailed

By William Neuman, *The New York Times*,
January 3, 2012

Exxon Mobil could receive as much as \$555 million in cash from the Venezuelan government as a result of an international arbitration ruling over the nationalization of the company's assets, according to details of the award made public on Monday.

The arbitration award decided by the International Court of Arbitration, which is based in Paris, was valued at \$907.6 million. In addition to the cash Exxon stands to receive, the oil giant will be released from the payment of debts totaling about \$352 million. The ruling was dated December 23, but Exxon said it did not receive the decision until Friday.

The Venezuelan government and Exxon both sought to portray themselves as victors in the arbitration, which stemmed from the 2007 nationalization of a heavy crude oil production project in the Orinoco Belt, considered one of the world's richest potential petroleum reserves.

Petróleos de Venezuela, the state-run oil company, released a statement on Monday saying that Exxon had sought a much larger compensation and that the arbitrator's conclusion showed that the company's claims were "exorbitant" and "completely exaggerated and beyond all logic."

The state oil company said that its "suc-

cessful defense" in the case meant that it was required to make only a \$255 million payment to Exxon.

But the state oil company's statement acknowledged that Exxon would also receive about \$300 million in cash from bank accounts in the United States belonging to the state oil company; those accounts were frozen by a court ruling after the nationalization. Exxon said the frozen accounts contained \$305 million.

The government statement said that Venezuela has always been willing to compensate private interests for the nationalization of assets as long as the compensation was "fair and reasonable."

In a statement Monday, Exxon said that the arbitration affirmed the state oil company's contractual liability in its agreements with Exxon over what was known as the Cerro Negro project.

"Contract sanctity and respect for the rule of law are core principles used to manage our business over the long term," Exxon said.

The nationalization of the Exxon project and other oil projects involving multinational corporations was a major step in a campaign of expropriations by the government of Venezuela's president, Hugo Chávez.

Exxon and Venezuela are involved in a

second arbitration over the same project before the International Center for Settlement of Investment Disputes, part of the World Bank, which could increase the amount the company receives.

The country faces several other potential settlements with foreign companies over a spate of nationalizations that have taken place in recent years. One of those involves a project of the oil company Conoco Phillips, also in the Orinoco Belt.

The ruling appeared to lend weight to Venezuela's argument that it should compensate companies for the amount they had invested, the so-called book value, rather than the market value that an asset would receive if it were put up for sale.



Editor: Throughout much of Latin America there is a new sense of national pride and hope, but it is undoubtedly at its strongest in Venezuela which experienced a basic revolution in claiming the right to its sensational resources. Foreign oil companies are credited with the actual cash investment that they made. That is a trend most clearly enunciated in Venezuela, but in various degrees is spreading throughout Latin America. The United States is being left far behind in the growth of alertness to the key importance of human capital.

Many of India's Poor Turn to Private Schools

By Vikas Bajaj and Jim Yardley, *The New York Times*, December 31, 2011

Hyderabad, India – For more than two decades, M.A. Hakeem has arguably done the job of the Indian government. His private Holy Town High School has educated thousands of poor students, squeezing them into cramped classrooms where, when the electricity goes out, the children simply learn in the dark.

Parents in Holy Town's low-income, predominantly Muslim neighborhood do not mind the bare-bones conditions. They like the modest tuition (as low as \$2 per month), the English-language curriculum and the success rate on standardized tests. Indeed, low-cost schools like Holy Town are part of an ad hoc network that now dominates education in this south Indian city, where an estimated two-thirds of all students attend private institutions.

"The responsibility that the government should shoulder," Mr. Hakeem said with both pride and contempt, "we are shouldering it."

In India, the choice to live outside the faltering grid of government services is usually reserved for the rich or middle class, who can afford private housing compounds, private hospitals and private schools. But as India's economy has expanded during the past two decades, an increasing number of India's poor parents are now scraping together money to send their children to low-cost private schools in hopes of helping them escape poverty.

Nationally, a large majority of students still attend government schools, but the expansion of private institutions has created parallel educational systems – systems that are now colliding. Faced with sharp criticism of the woeful state of government schools, Indian policy makers have enacted a sweeping law intended to reverse their decline. But skeptics say the litany of new requirements could also wipe out many of the private schools now educating millions of students.

"It's impossible to fulfill all these things," said Mohammed Anwar, who runs a chain of private schools in Hyderabad and is trying to organize a nationwide lobbying campaign to alter the requirements. Referring to the law, he said, "If you follow the Right to Education, nobody can run a school."

Education is one of India's most pressing

challenges. Half of India's 1.2 billion people are 25 or younger, and literacy levels, while improving, could cripple the country's long-term prospects. In many states, government education is in severe disarray, with teachers often failing to show up. Rote drilling still predominates. English, considered a prerequisite for most white-collar employment in India, is usually not the medium of instruction.

When it took effect in April 2010, the *Right to Education Act* enshrined, for the first time, a constitutional right to schooling, promising that every child from 6 to 14 would be provided with it. For a nation that had never properly financed education for the masses, the law was a major milestone.

"If we nurture our children and young people with the right education," said Prime Minister Manmohan Singh, commemorating the act with a televised address, "India's future as a strong and prosperous country is secure."

Few disagree with the law's broad, egalitarian goals or that government schools need a fundamental overhaul. But the law also enacted new regulations on teacher-student ratios, classroom size and parental involvement in school administration that are being applied to government and private schools. The result is a clash between an ideal and the reality on the ground, with a deadline: Any school that fails to comply by 2013 could be closed.

Kapil Sibal, the government minister overseeing Indian education, has scoffed at claims that the law will cause mass closings of private schools. Yet in Hyderabad, education officials are preparing for exactly that outcome. They are constructing new buildings and expanding old ones, partly to comply with the new regulations, partly anticipating that students will be forced to return from closing private institutions.

"Fifty percent will be closed down as per the *Right to Education Act*," predicted E. Bala Kasaiah, a top education official in Hyderabad.

As a boy, M.A. Hakeem listened as his father bemoaned the slow progress of his fellow Muslims in India. "Son," he recalls his father's saying, "when you grow up, you should provide education to our community."

A few months after Mr. Hakeem completed the 10th grade, his father died. A year

later, in 1986, Mr. Hakeem opened a small preparatory school with nursery classes. He was 15 years old.

Not yet old enough to vote, Mr. Hakeem held classes in his family's home and enlisted his two sisters to handle administrative tasks. By the mid-1990s, Mr. Hakeem had opened Holy Town. The school has since produced students who have gone into engineering, commerce and other fields.

"I'm fulfilling my father's dream," Mr. Hakeem said.

When Holy Town opened, Mr. Hakeem's neighborhood at the edge of the old quarter of Hyderabad had one private school, a Catholic one. Today, there are seven private schools within a half-mile of Holy Town, each charging a few dollars a month and catering to Muslim students with a largely secular education in English.

Their emergence roughly coincided with the economic liberalization that began in 1991. For decades, government officials had blamed rural apathy for India's high illiteracy rates, saying that families preferred sending their children into the fields, not the classroom. But as the economy started taking off, public aspirations changed, especially among low-income families.

Parents See Education as a Passport Out of Poverty

"In India today, demand is not really a constraint for education – it's the supply," said Karthik Muralidharan, an assistant professor at the University of California, San Diego, who has studied Indian education. "Parents are seeing education as the passport out of poverty."

The rising demand created a new market for private schools, and entrepreneurs big and small have jumped at the chance to profit from it. Corporate educational chains opened schools tailored to higher-income families, especially in the expanding cities. Low-cost schools like Holy Town proliferated in poorer neighborhoods, a trend evident in most major cities and spreading into rural India.

Estimating the precise enrollment of private schools is tricky. Government officials say more than 90 percent of all primary schools are run by or financed by the government. Yet one government survey found that 30 percent of the 187 million students in grades 1 through 8 now attend

private schools. Some academic studies have suggested that more than half of all urban students now attend private academies.

In Mumbai, so many parents have pulled their children out of government schools

that officials have started renting empty classrooms to charities and labor unions – and even to private schools. In recent years, Indian officials have increased spending on government education, dedicating far more

money for new schools, hiring teachers and providing free lunches to students. Still, more and more parents are choosing to go private.

“What does it say about the quality of your product that you can’t even give it away for free?” Mr. Muralidharan said.

Most low-cost private schools also follow rote-teaching methods because their students have to take standardized tests approved by the government. But some studies suggest that teachers in government schools are absent up to 25 percent of the time. Poor children who attended private schools scored higher on reading and math tests, according to a study by Sonalde Desai, a professor of sociology at the University of Maryland, and other scholars.

“There is not much teaching that happens in the government schools,” said Raju Bhosla, 32, whose children attend one of Hyderabad’s low-cost private schools. “I never even thought about putting my kids in government schools.”

Across Hyderabad, work crews in 58 locations are expanding government schools or constructing new ones. To education officials, the building spree signals a rebirth of the government system, part of an \$800 million statewide program to bring government schools into compliance with the new law.

For Mr. Sibal, the national education minister, government schools had atrophied because of a lack of money. Under Right to Education, states can qualify for more than \$2 billion to improve facilities, hire new teachers and improve curriculums, he said.

“All these changes are going to transform the schools system in the next five years,” Mr. Sibal predicted. As for the tens of thousands of private schools opened during the past 15 years to satisfy the public’s growing hunger for education, Mr. Sibal said, “We’ve given them three years time,” referring to the 2013 compliance deadline. “We hope that is enough.”

Skepticism abounds. Elite private schools, already struggling with requirements that they reserve slots for poor and minority students, have filed lawsuits. But the bigger question is what will happen to the tens of thousands of low-cost private schools already serving the poor.

James Tooley, a British scholar who has studied private education in India, said government statistics grossly underestimate private schooling – partly because so many private institutions are not formally registered. In a recent survey of the eastern city of Patna, Mr. Tooley found 1,224 private

The New (Antarctic) Neighbours

By Mark Schröpe, Toronto Star, January 5, 2012

Oceanographers exploring some of the most remote deep-sea hot springs ever found have discovered what they say is a “riot of life” in a distinct biological zone that no one knew existed.

They said the exploration, which occurred more than 1.6 kilometres down in the ocean just north of Antarctica, uncovered the most strikingly unique assemblage of life forms found in decades, including thousands upon thousands of a species of crab never seen before, as well as new barnacle, anemone, snail and starfish species.

“It’s remarkable that we can be in the 21st century and still not know fundamental things about what lives on our planet,” said Cindy Van Dover, director of Duke University’s marine laboratory, who has been studying life at deep-sea vents for 30 years but was not involved in the discoveries. “This is really exciting because it keeps open the door for even more discovery down the road.”

Deep-sea hydrothermal vents are springs that can spew out water at temperatures of more than 400C. Loaded with chemicals and minerals from the rocks below, the hot water mixes with the much colder seawater mixes with the much colder seawater in a chemical frenzy that often creates billowing black plumes. Some of the minerals form chimneys around vents that can grow several stories tall.

The Southern Ocean, which surrounds Antarctica, has only recently been a focus of deep-sea exploration. It’s particularly difficult to reach, and its waters are treacherous, with storms swells regularly hitting 15 metres in height.

Chris German, a geochemist at the Woods Hole Oceanographic Institution in Massachusetts, was the first to discover deep-sea vents in that area in 1999, after detecting the telltale water plumes, but he was unable to explore them for more than a decade.

In 2010, a group used a remotely operated vehicle to maneuver about 2,500

metres down into the icy sea and send high-definition video from the forbidding zone to a British research vessel on the surface.

The team’s very first view was the sort that has always driven explorers. Shouts from the scientists watching the monitors quickly drew everyone on board to gaze upon a landscape blanketed by what they quickly realized was a new species of kiwa crab, also known as the yeti because of its hairy body. “They almost looked like a pile of skulls sitting on the seabed,” said the team’s leader, Alex Rogers, a deep-sea biologist at Oxford University. “It was an amazing, amazing sight.”

The first species of kiwa crab wasn’t discovered until 1995, and another was recently announced. But neither of those was found living crunched together in anything like the mobs that Rogers’ group found. The researchers also saw thickets of pencil-length barnacles, another new species, growing more densely than similar species the team had seen at other vents. In addition, a new snail species, with a bright-red foot, was crammed a hundred to a square foot.

At the same time, none of the species that dominated every other vent site were there, such as shrimp and tube worms.

Based on genetic analyses, the team believes the vent life they discovered in 2010 is so distinct that it constitutes a cluster of species not found anywhere else. The team published its findings in the journal *PLoS Biology*.

With further study, the researchers hope to better understand the evolution of life on hydrothermal vents, how those life forms spread around the planet and what determines where they live now.

“Something different happened there,” said Tim Shank, a Woods Hole deep-sea biologist who was on the team, “and that tells us about the processes that shape life.”



Editor: This discovery of new life sources and hitherto unknown life species, carries the promise of new resources for meeting the world’s creaky sustenance problems.

schools, even though government records listed only about 40.

In Hyderabad, principals at several private schools said inspectors regularly threatened them with closings unless they paid bribes. Now, the principals say, the inspectors are wielding the threat of the Right to Education requirements and seeking even bigger bribes.

Mr. Anwar, the private school entrepre-

neur trying to organize a lobbying campaign, estimated that roughly 5,000 private schools operated in Hyderabad.

"Can the government close 5,000 schools?" he asked. "If they close, how can the government accommodate all these students?"



Editor: The key social concern is pro-

ducing Indian children of whatever faith with a good working command of English. For only that will create a population of Indians of modest means who will become a key economic asset for themselves and even the world economy.

The current concern of the government seems to be a better entry for its books. We are back then to the importance of the notion of human capital.

Finding our Way Out of the Jungle

This article was first published in the March 2002 issue of Economic Reform.

The crisis engulfing the world doesn't just concern the GDP and our stock markets. It is bringing to the fore issues long banished from public attention. Not least of these is the relationship between high finance and the real economy.

In its remote origins money was essentially a measure of value and a medium of circulation. As such it was a handmaiden of trade. Only later did it become primarily a store of value and occasionally an instrument for speculation. Most recently it has become a highly speculative game in itself, too readily mistaken for the economy. The process that effected this apotheosis was begun in the early 1950s, and received its final touches, when money creation was "privatized" and increasingly removed from the control of central banks. Today, its purpose is to feast upon rather than serve the real economy. The effect on society has been devastating. Just open your morning paper and you will find the economic catastrophe of the world's strongest country pushing its military victories out of the headlines.

Several factors and stages can be identified in the process that eventually led to the Enron phenomenon. An early rule of banking in both the United States and Great Britain, was that banks could properly lend only against the security of "real bills," i.e., drafts and notes of exchange arising out of commercial transactions. It specifically excluded stocks and bonds, because of a conviction that left to their own devices, the banks would misdirect the credit resources of the nation to speculation. Until the 1920s, nationally chartered banks in the US could not lend on the security of real property, though state-chartered banks or trust companies usually were able to do so.

Monetary policy of the government and the role of central banks were essentially

passive. The Fed discounted eligible commercial paper brought to its "discount window" to release the banks' capital for further lending. For years even government bonds were not acceptable as collateral for loans from the Federal Reserve. And these were the money-base on which further loans were pyramid-ed. If the Fed bank wanted to do more lending, it lowered its discount rate below the interest rates in the local market. This encouraged business people to increase their volume of transactions. Gold movements also played their part. It was only later that government bonds under normal circumstances were accepted as collateral at the central banks' "open window."¹

The "discount window" was passive – it depended upon what discountable paper was brought to it by the banks. But the local Fed banks could play a more active role, seeking out paper to discount through the Fed's Open market Investment Committee. In the early Fed years they were driven to do so to cover their expenses and pay dividends to the banks who held their shares. By then government bonds and bankers' acceptances (paper endorsed by a bank) were the collateral most prized by the banks and the Fed.

All this suggests that commercial banking saw its role as serving the productive economy. In our day the reverse has become true.

Enter the Age of Unreal Bills

A key factor in this transformation was the creation of a short-term money market that was seen as the key mechanism for keeping the economy on an even keel. Over a period of years the Bank of Canada offered a variety of inducements to create a class of jobbers in short-term government debt. It conceived them immaculate, and nursed them from breast and bottle until they took over the entire show. In this way the Bank of Canada brought into existence the "young

men in red suspenders" who came to terrorize the business world and the central bank itself and shot down the British pound, the Italian lira, and the Canadian dollar from their high perches in the fall of 1992.² In Canada this required a dogged effort on the part of the central bank, though the final result "the money market" has been held up as a masterpiece of nature itself.

Eventually the Bank designed the repossession arrangements by which the securities it accepted as collateral for financing the jobbers' short-term debt inventory could be repurchased from it by the jobbers at a predetermined price. Credit was advanced to them to buy short-term paper at less than market rates.

The emphasis on short-term loans ruled out not only many long-term investments in the private sector when money grew tight, but restricted the ability of the government to finance its own longer term investments through the central bank. When the BoC holds federal debt it is at a near zero-interest rate: over 95% of the interest the government paid on the debt held by the BoC reverts to it as dividends. For since 1938 the federal government has been the sole shareholder of the Bank of Canada. However, today the BoC holds only around 5% of the federal debt. In the mid 1970s that proportion was well over 20%. To bail out our chartered banks from their crushing speculative losses in the 1980s, they were relieved of their obligation to deposit on an interest-free basis an average of around 4% of the public deposits they took in. That, and the deregulation of what they could invest in, allowed them a leverage that has risen from 11:1 in 1946 to as much as 400 to 1 in more recent years. Part of the credit they have created went into financing some of Enron's shadowy partnerships and other such dubious ventures.

With this trend, the ability of banks to

service brick-and-mortar investments was curtailed. The surrender of our monetary policy to “the market” inserted a wedge between banking and the real economy.

The Root of the Speculative Takeover

This trend, indeed, reaches back to the adoption of marginal utility theory to replace the value theories based on the real economy well over a century ago. These earlier theories had made a sharp distinction between the latest price fetched by a commodity and some more enduring value. One such value theory, the labour theory of value, that had attained its most refined form in the work of a retired stockbroker, David Ricardo. Relating the value of a good to the amount of “average labour” that entered its production, this had been taken up by Marx and other socialists to support their views for restructuring society in a way that would have curled the hair on Ricardo’s head. The labour theory of value had become increasingly unacceptable to the propertied classes at a time when the growing class of factory workers was becoming strident in its opposition to the raw young capitalism of the day.

The other popular value theories – espoused, among others, by John Stuart Mill – was the cost of production theory of value. This added up the average costs of entrepreneurs in producing a commodity and topped the total with a reasonable profit for the successful entrepreneur. That resembled in broad terms what accountants did in their more conscientious moments.

Marginal utility theory, for its part, does not look beyond the latest market price. It is important to note, however, that:

1. To have their price model taken seriously the founders of marginal utility theory had to restructure society beyond any resemblance to what ever existed in the real world. Everybody, from the unemployed to the most successful bankers, were regarded only as traders, each intent on maximizing their satisfactions in the different ways open to them. The unemployed were idle only because, having compared the satisfactions of accepting work at the wage offered with the delights of leisure in their parlours, they chose the latter. All actors in the economy were of such tiny power and importance, that nothing that they did or failed to do individually could influence price or the economy. That provided the smooth cost and price curves necessary for applying the infinitesimal calculus that the authors of the model mistook for scientific method *per se*.

2. As the volume of production rose, it was assumed that costs per unit rose. This was essential to provide the points of intersection between cost and price curves that yielded the equilibrium points that defined such a “free and perfect” market. That was nonsense when it was first conceived; it is particularly absurd in the age of Bill Gates.

3. Were value simply a matter of increasing demand over available supply to raise prices, then the allurements of marketing could take care of enhancing wealth. Contriving enough demand to push up prices would be enough to assure a glowing future for a firm, and by heroic extension, for society itself. The reader will note that the word “marginal” in “marginal utility” refers to the *rate of growth*. And when the second *derivative*, the change in the rate of growth, the acceleration equals zero the supply-demand curves reach a maximum or minimum – i.e., an equilibrium point. In short, the derivative of official value theory is blood cousin to the *derivatives* that gave wings to the late stock market boom and made inevitable the subsequent bust. They are not in themselves securities or money but the rate of change in the quantity of these or any combinations of them.

This not only condemns speculations relying on the model for eliminating risk. The number of massive misfires of these should long since have alerted society to reexamine the basic price model in use. Until that is done society will be helpless to work its way out of its current cave.

The spectacular failure of the globalization and deregulation was in a sense predetermined by marginal price theory. For that is the genome that reduced the very concept of prosperity to how much demand could be drummed up to overwhelm available supply. Even more than the Old, the New Economy was launched into the stratosphere of make-believe, replacing actual market demand with artificial projections of market shares achieved by selling below cost, giving the stuff away, and/or simply diddling the public corporations’ books.

The Economy Goes into Orbit

Economic theory has ever been a hybrid of a would-be science and advocacy. With the giant strides in information technology, however, the advocacy component has completely taken over. The economists most quoted on the mass media are those who avoid mentioning basic issues deemed unmentionable. For example, the destruction of the firewall put up in the 1930s

between banking and financial speculation, which somehow came to be mistaken for the financial equivalent of the Berlin Wall – something to be demolished. Banks have taken over brokerage firms, and have become underwriters, merchant bankers, derivative boutiques, and are prominent in speculations as principals and financing their clients’ mega-gambles. That suggests a medical doctor merging with the local undertaking establishment. In a book of mine currently in the printers’ hands³ I describe the resulting situation: “As it approaches omnipotence, power sprouts pretensions to spirituality. Today a new mysticism is creeping into economic discourse. French sociologists have been more nimble in picking up the resulting oddities. Thus Jean Baudrillard has written, with just the tip of his tongue in his cheek, ‘Marx did not foresee that it would be possible for capital, faced with the imminent threat to its existence, to launch itself into an orbit beyond the relations of production and political contradictions, to make itself autonomous in a free-floating, ecstatic and haphazard form, and thus to totalize the world in its own image. Capital can henceforth function independently of its former aims, and absolutely without reference to any aims whatsoever. Money is now the only genuine artificial satellite. A pure artifact, it enjoys a truly astral mobility. It has now found its proper place, far more wondrous than the stock exchange: the orbit in which it rises and sets like some artificial sun.’”⁴

Baudrillard reviews the contemporary cultural scene and finds all symbols of human existence – art, sex, the economy – denatured, endlessly reduplicated, and sent into outer space beyond the critical faculties or indeed any relationship with the needs or decisions of the individual. By increasing the magnitude of the menace, it is downgraded to the status of a “virtual menace” ever overhead but somehow neutralized in our thinking. Thus an oversupply of atomic bombs becomes a guarantee of peace.

If you have any doubt, consider this passage from *The Wall Street Journal* (Kessler, 19/7/99): “You can sell products at or below cost and still make money. Amazon.com has created a great business selling books and other stuff for a lot lower margins than traditional traders who pay rent. In a flash market share is taken [instead of earnings for appraising the stock] and billions in market value are created. In a further flash, the next wave emerges: online companies sell product at zero margin or (gulp) nega-

tive gross margin. Can they make money? Sure. Buy.com in Aliso Viejo, Calif., and Onsale in Mountain View, Calif., figure they can leverage the increased volume by selling ad space, marking up shipping, selling warranties, and getting kickbacks from manufacturers. They can do Visa kiting by collecting credit-card payments in three days and paying vendors in 90. Once you get the model perfected, it becomes a dangerous weapon."

Thus *The Wall Street Journal* (15/01, "From the Ashes: Enron Lessens Firms' Need to Have Assets, and Auditors Oversight") gives us the crux of the lesson that is costing us so dearly: "Like many of his dot-com counterparts, former Enron CEO Jeffrey Skilling argued that a company didn't need a lot of hard assets to thrive. Information, not a physical presence in the form of power plants or pipelines, was the key to dominating energy markets. Hard assets, Mr. Skilling said, tied up cash that could be more profitably employed trading. He emphasized divesting 'big iron' and instead putting the money to work trading everything from electricity to bandwidth, from memory chips to advertising space."

Baudrillard was anything but completely mad. Had they listened to the high executives of Enron with as attentive an ear, our financial chieftains would have grasped the confession in Enron's boast. Since credit depends upon collateral, and CEO Skilling proclaimed his goal of carrying as few physical assets as possible, what collateral would be left to back the pyramiding of leverage?

Eliminating Use-Value

But there is a deeper factor that steps in to prevent such questions being asked. The father of modern linguistic theory, the Swiss Ferdinand de Saussure (1857-1913) held that our grasp of reality "revolved around our use of verbal signs." The concepts we use are (in part) creation of the language we speak. He compared the terms of language to coins that can be exchanged for other coins or bills, but in another dimension can be traded for some good of use-value.

"The first type of relationship corresponds to the structural aspect of language; the second to its functional purpose. Baudrillard held these two dimensions to be distinct but articulated, i.e., they work together and cohere. At this 'classical' stage of configuration, there is a complete parallel with the system of exchange value in material production as Marx described it. Use-value functions as the original goal of exchange

value: it refers to the role of the commodity in being consumed. Exchange value, on the other hand, relates to the interchangeability of all commodities under the law of equivalence."

In the [New Economy] revolution the two aspects of value which used to be thought of as internally linked have become disarticulated. "Gone are all references to production, signification, affect, substance, history, and the whole equations of 'real' contents that anchor it with a burden of utility. In a commodity, the relation of word to image or meaning and referent is broken and restructured so that its force is directed not to the referent of use value or utility, but to desire." The misapplied mathematics of marginal utility is the genetic code that made possible – even inevitable – the explosion of the financial sector.

The concept, of course, rubs shoulders with Marshall McLuhan's "The medium is the message."

I was still pondering Baudrillard's powerful symbol of entire areas of our social existence being blasted into an orbit of hyper-reality, when I opened *The Wall Street Journal* (19/7/1999, "Defense Firms Mull Trans-Atlantic Deals" by Anne Marie Squeo and Jeff Cole). At the time the bickering over Kosovo within NATO lay sultry in the air. The members of the European Union were squabbling over mergers of transnationals even unrelated to defense. But with so much fur flying, the *WSJ* pops the surprising question: "Is the US ready for a wave of mergers between its own defense giants and those of Europe?"

"It should be soon, say the aerospace unit of Daimler-Chrysler executives, experts and some members of Congress. Recent encouragement from top Pentagon brass such as Undersecretary of Defense Jacques Gansler has touched off a new round of industry maneuver aimed at major trans-Atlantic mergers in the months and years ahead."

"The aerospace unit of Daimler-Chrysler AG of Germany is moving quickly towards a small deal. Its board has been expected to vote soon on a purchase of about a 12% stake in US space-shuttle contractor Spacehab Inc. of Washington for about 12 million. In other steps to expand its US presence, the company is exploring a possible US public offering and more frequent high-level sessions at the Pentagon." That would help build up an American constituency in obtaining approval of larger mergers and military orders.

Note that this was some three years prior

to the Twin Tower attack and the declaration of war against a faceless enemy of no postal or other address. Are we not reduced to Baudrillard's phrase about "the relation of word to image or meaning and referent being broken and restructured so that its force is directed not to the referent of use value, but to desire." The desire, of course, is for Himalayan stock market values ever ascending on a scale not seen since very continents collided head on. Once that takes over, other details shrivel into footnotes printed in illegible type in fading ink. For example, what assurance would we have that on the board of one of the Daimler-Benz subsidiaries – cloned across the world and all ravishingly hungry for high-tech orders, bin Laden might not be seated disguised with a shave and a haircut? Might the US ambassador to the local government be lobbying it for a high-tech order to Daimler-Chrysler in return for turning over to it some of the latest high-tech?

Lower the cost of advanced armament exports means that more will be have to be produced and sold cheap to reap the same benefits for the US – and relaunching the stock market and keeping it going is an important motive both in mergers and armament sales. Otherwise expressed, since the cost of killing a man will come down with the increased efficiency from the merger, more men will have to be killed, if the merged company is not to bomb on the stock market rather than just in the Third World countries being liberated.

The *WSJ* item adds, "Senator John McCain, R-Arizona, who heads the Commerce Committee, has expressed concern about maintaining competition in the event of major trans-Atlantic mergers. But he says that US economic health is closely tied to the free-flow of goods and services between countries: You may find this irrelevant to advanced military technology – to say nothing of the actual trade policy of Washington – for example in lumber, steel, and much else. But remember we are in 'virtual territory.'"

You can pick up the frayed threads of logic so hopelessly entangled at countless points. That sends us back to de Saussure's distinction between the structural and functional dimensions of language. The functional dimension has to do with the use of words as symbols to evoke important non-verbal relationships. The structural one deals with the degree of autonomy be taken over by language itself. There are fields when this can unleash imaginative creativity – notably in the case of the poet and the scientist

striving to understand unfamiliar areas of reality. But it can also take on purely predatory forms. That is particularly the case when quantification is cut loose from what is being quantified.

That provides us with the necessary compass to find our way out of the resulting chaos. In rapid succession the entire structure of Globalization and Deregulation has caved in under the sheer weight of false assumptions. Accountancy is becoming a cover-up. The bursting of the stock market bubble mistaken for the economy followed suit. The banking system was bailed out by allowing it to pipe into the public treasury in the early nineties, and deregulated at the same time to make full use of its new entitlements as a platform for launching its speculations. In the inspired confusion ensuing, high executives are too often feathering their private nests at the expense of their employees and even their shareholders. The crisis of our economy has become a crisis of morality.

We must start groping our way back by reclaiming the invaluable heritage of economic thought that is still to be found on our library shelves, indeed, even in the *Bank of Canada Act*. Above all, we must restore dialogue. There is no other way out of this jungle.

William Krehm

1. Mayer, Martin (2001). *The Fed – The Inside Story of How the World's Most Powerful Financial Institution Drives the Markets* (p. 148). New York, The Free Press.

2.“For several years the Bank, in trading treasury bills, had progressively widened the spread between its buying and selling levels to create an incentive for the chartered banks to look elsewhere for buyers. These efforts had little success and in early 1953 a number of new steps were taken.

“The objective was to broaden the market for treasury bills and other short-term paper by encouraging some of the larger investment dealers to act as ‘jobbers,’ i.e., to hold an inventory of short-term securities and stand ready to buy or sell. The Bank of Canada undertook to provide investment dealers prepared to take a jobber position with an alternative means of financing inventories of short-term Government securities through the Purchase and Resale Agreements (PRA). The Bank would provide dealers with short-term accommodation by purchasing treasury bills and/or short-term Government bonds under an arrangement to resell the securities at a predetermined cost to them.

“Initially these facilities were made available to ‘approved’ dealers at a rate lower than that charged by the banks for call loans, but it was hoped that a true call loan market would develop and that the Bank would become a lender of the last resort” (Watts, George S. (1993). In Rymes, Thomas K. (Ed.). *The Bank of Canada – Origins and Early History*. Ottawa: Carleton University Press). That in itself widened the gap between the real and the speculative economy. What is most vital for the real economy is the availability of long-term financing. Speculators, however, are interested in quick sorties for predatory profits.

3.Krehm, William (2002). *Towards a Non-Autistic Economy – A Place at the Table for Society* (p. 66). Toronto: COMER Publications.

4.Baudrillard, Jean (1993). *The Transparency of Evil* (James Benedict, Trans., pp. 11-13). New York: Verso.

US Pursues Sale of Armed Drones

By Adam Entous and Julian E. Barnes,
The Wall Street Journal, December 15, 2011

The Obama administration has been quietly pushing to sell armed drones to key allies, but it has run into resistance from US lawmakers concerned about the proliferation of technology and know-how.

The Pentagon wants more North Atlantic Treaty Organization members to have such pilotless aircraft to ease the burden on the US in Afghanistan and in future conflicts like the alliance’s air campaign in Libya this year.

In an image on an Iranian website, Iran showed off what it said was a downed US drone that crashed in eastern Iran last week.

Administration officials recently began informal consultations with lawmakers about prospective sales of armed drones and weapons systems to NATO members Italy and Turkey, while several US allies in the Persian Gulf have been pressing Washington to authorize drone sales, officials said.

The Pentagon’s proposed sales have set off a behind-the-scenes debate between the administration and some members of Congress over whether the US should speed the spread of a technology that will allow other countries to carry out military strikes by remote control.

The growing debate comes at a time when human-rights groups are stepping up their campaign against the Obama administration’s use of drones to kill suspected militants around the world.

Within the administration, military, Central Intelligence Agency and State Department officials have sparred over the scope of drone campaigns, which have expanded from Pakistan to Yemen and Somalia.

So far, the US has sold unarmed drones to several countries, including Italy, but has only allowed sales of armed drones to Britain, citing its relationship with the US and large troop presence in Afghanistan.

Republican and Democratic committee leaders have been pressing the administration to spell out its policy on drone exports. Outside experts, meanwhile, have urged the White House to start thinking about the broader implications of sharing a technology that could transform how a growing number of countries wage war.

The administration is required by law to notify key congressional committees about

prospective arms sales. Congress generally signs off quickly when deals involve NATO allies, but officials say the proposed transfer of armed drones, also known as unmanned aerial vehicles, or UAVs, faces added scrutiny.

Taking Off

Some countries that have or are developing armed drone aircraft (source: Teal Group; WSJ research):

- China: Development has been under way since mid-1990s. Early versions were built by reverse engineering a Northrop drone obtained from Vietnam in the late 1960s, US experts say. A recent Defense Department report notes Beijing’s push to develop longer-range unmanned aircraft, including armed drones.

- India: Started buying drones from Israel in the mid-1990s and has been developing its own systems with Israeli help.

- Iran: Tehran has ramped up domestic production and is likely to try to exploit technology from a stealth US drone that went down in Iran this month.

- Israel: A drone pioneer, Israel has surveillance and hunter-killer variants. Last year, it introduced a fleet of drones that can stay aloft for nearly a day and fly as far as the Persian Gulf.

- Britain: Recently unveiled a stealthy combat prototype. The only nation to purchase armed drones from the US.

- Turkey: Developing a long-endurance drone comparable in size and payload to the Predator.

“There are some military technologies that I believe should not be shared with other countries, regardless of how close our partnership,” said Senate Intelligence Committee Chairwoman Dianne Feinstein, a California Democrat. “The United States should be trying to control the proliferation of certain weapons, and I would put armed UAVs in that category.”

US proliferation concerns were highlighted by the loss of a stealth US surveillance drone in Iran this month. The US fears Tehran will try to copy some of the technology, or will share the intelligence it collects with China and Russia to help them design similar stealth systems, US officials and experts say.

Supporters of drone sales say that a US refusal to sell the systems will encourage

allies to develop their own versions of the aircraft. They could also buy armed drones from other countries developing similar capabilities, depriving the US of export sales and jobs, supporters of such sales say.

Italy first made the case to arm its drones in order to better protect its forces in western Afghanistan. It renewed its request during the Libyan conflict.

A proposal to provide Italy with weapons systems and arms for up to six unarmed Reaper drones it already owns has been presented informally to key lawmakers but has yet to be submitted to Congress for review. The six-drone package was estimated to cost as much as \$393 million.

The Reaper, which along with the Predator is made by General Atomics and is one of the most widely deployed US drones, can carry more warheads than a Predator and can fly higher. Both can loiter for long periods so operators have more time to vet their targets for strikes using precision-guided munitions.

The cool congressional response in early discussions has slowed the Italian proposal, administration and congressional officials say.

Administration officials notified House and Senate oversight committees this week that formal submission of the Italy sale for congressional review would be delayed. The administration officials didn't explain why it was being held up. Officials said the administration intended to resubmit the package for consideration early next year.

Several key lawmakers have told the administration privately that they worry the sale could set a dangerous precedent that would make it harder for the US to deny similar requests from other states.

"We're anticipating that the floodgates will open" if the Italy sale is approved, said a US official briefed on the proposal.

A spokesman for the Italian Embassy in the US declined to comment on the proposed sale.

The Pentagon also wants to sell Turkey up to two armed drones and four surveillance drones, according to officials briefed on the discussions. But they say the Turkey deal is unlikely to move forward if lawmakers refuse to sign off on the Italian sale.

Turkey wants to use the drones against the outlawed Kurdistan Workers' Party, or PKK. The Pentagon has been sharing with Turkey real-time intelligence from US drone missions in northern Iraq and along the border, helping Turkey's air force pinpoint PKK positions for strikes, US officials

say. Turkey wants to do the missions itself, a shift supported by the Pentagon.

Turkish officials are expected to press Defense Secretary Leon Panetta for updates on the proposed sale when he visits Turkey this week.

US officials said that the deal could be a hard sell in Congress, where many lawmakers are concerned about the deterioration in Turkey's relationship with longtime ally Israel.

Some lawmakers have threatened to block far less sensitive arms sales to Turkey to protest Ankara's stance toward Israel.

Drones Could Affect the Balance of Power

Several of America's allies in the Persian Gulf region are also pushing to purchase armed drones. US officials say such requests could also prove controversial in Congress because of lawmakers' concerns about the potential impact on Israel's military edge in the region.

Lawmakers have told the administration they are concerned US exports of armed drones could make it harder for Washington to make the case to Israel, a pioneer in drone development, to limit its own foreign sales of drones that could rival the US's. Israel already sells drones to India and other countries.

Some US and Israeli drones have similar capabilities, while China has aggressively stepped up its own development efforts.

Supporters of the proposed sales say that providing armed drones to America's closest NATO allies would allow the alliance to increase its reconnaissance capabilities.

It would also improve its ability to conduct precise strikes, even in urban areas where the risk of collateral damage is high.

Advocates of the sales say US allies would use drones to protect their forces in Afghanistan and to hunt down suspected terrorists, much as the US does in hot spots around the world. Officials say the sales would also, over time, reduce NATO's dependence on the US for drone capabilities.

US officials, including Mr. Panetta, have complained that America's NATO allies haven't built up their own reconnaissance capabilities and are too dependent on the United States.



Editor: Mixes up the prospect of allowing the high technology of killing to flourish by being interbraided with the keenest competitive finance.

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Men Struggle for Rape Awareness

By Roni Caryn Rabin, *The New York Times*, January 24, 2012

Keith Smith was 14 when he was raped by a driver who picked him up after a hockey team meeting. He had hitchhiked home, which is why, for decades, he continued to blame himself for the assault.

When the driver barreled past Hartley's Pork Pies on the outskirts of Providence, RI, where Mr. Smith had asked to be dropped off, and then past a firehouse, he knew something was wrong.

"I tried to open the car door, but he had rigged the lock," said Mr. Smith, of East Windsor, NJ, now 52. Still, he said, "I had no idea it was going to be a sexual assault."

Even today, years after the disclosure of the still-unfolding child abuse scandal in the Catholic Church and the arrest of a former Pennsylvania State University assistant football coach accused of sexually abusing boys, rape is widely thought of as a crime against women.

Previous Statistics Very Misleading

Until just a few weeks ago, when the federal government expanded its definition of rape to include a wider range of sexual assaults, national crime statistics on rape included only assaults against women and girls committed by men under a narrow set of circumstances. Now they will also include male victims.

While most experts agree women are raped far more often than men, 1.4 percent of men in a recent national survey said they had been raped at some point. The study, by the Centers for Disease Control and Prevention, found that when rape was defined as oral or anal penetration, one in 71 men said they had been raped or had been the target of attempted rape, usually by a man they knew. (The study did not include men in prison.)

And one in 21 said they had been forced to penetrate an acquaintance or a partner, usually a woman; had been the victim of an

attempt to force penetration; or had been made to receive oral sex.

Other estimates have run even higher. A Department of Justice report found that 3 percent of men, or one in 33, had been raped. Some experts believe that one in six men have experienced unwanted sexual contact of some kind as minors.

But for many men, the subject is so discomfiting that it is rarely discussed – virtually taboo, experts say, because of societal notions about masculinity and the idea that men are invulnerable and can take care of themselves.

"We have a cultural blind spot about this," said David Lisak, a clinical psychologist who has done research on interpersonal violence and sexual abuse and is a founding board member of 1in6, an organization that offers information and services to men who had unwanted or abusive sexual experiences as children.

"We recognize that male children are being abused," Dr. Lisak said, "but then when boys cross some kind of threshold somewhere in adolescence and become what we perceive to be men, we no longer want to think about it in this way."

Even when high-profile cases dominate the news, said Mai Fernandez, executive director of the National Center for Victims of Crime advocacy organization in Washington, "attention goes to the things we feel more comfortable talking about – such as whether Penn State had done enough, and what will happen to their football program – and not to the question, 'What do we do to prevent boys from being sexually assaulted?'"

In an interview with *The Washington Post* this month, Joe Paterno, the Penn State football coach who was fired after the abuse scandal erupted and who died of lung cancer on Sunday, said that when an assistant had told him about witnessing an inappropriate encounter between a young boy and Jerry Sandusky, the former assistant coach who is facing charges of sexual abuse, he had been confused and unsure how to proceed. Mr. Paterno said the assistant "didn't want to get specific. And to be frank with you, I don't know that it would have done any good, because I never heard of, of rape and a man."

Much of the research on the sexual assault of men has focused on prisons. But

men are also raped outside of prison, usually by people they know, including acquaintances and intimate partners, but occasionally by complete strangers. They are raped as part of violent, drunken or drug-induced assaults; war crimes; interrogations; antigay bias crimes; and hazing rites for male clubs and organizations, like fraternities, and in the military.

In one study of 3,337 military veterans applying for disability benefits for post-traumatic stress disorder, 6.5 percent of male combat veterans and 16.5 percent of non-combat veterans reported either in-service or post-service sexual assault. (The rates were far higher for female veterans, 69.0 percent and 86.6 percent respectively.)

A Pentagon report released on Thursday found a 64 percent increase in sexual crimes in the Army since 2006, with rape, sexual assault and forcible sodomy the most frequent violent sex crimes committed last year; 95 percent of all victims were women.

The Hidden Facts of Raped Males

Some studies have reported that the risk of rape is greatest for men who are young, are living in poverty or homeless, or are disabled or mentally ill. The CDC study found that one-quarter of men who had been raped were assaulted before they were 10, usually by someone they knew.

And young men raised by poor single mothers are especially vulnerable to male predators, said Dr. Zane Gates, an internist who cares for low-income patients on Medicaid at a community health center in Altoona, PA.

"You're looking for a male figure in your life desperately, and you'll give anything for that," he said.

Eugene Porter, a therapist in Oakland, Calif., and the author of the book *Treating the Young Male Victim of Sexual Assault*, said that while some assailants seek power and dominance, others "find that aggression enhances their sexual experience."

"There is no arena in which rape takes place between men and women that it does not take place between men and men," he said.

Like women, men who are raped feel violated and ashamed and may become severely depressed or suicidal. They are at increased risk for substance abuse, problems with interpersonal relationships, physical

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page 15 for details.**

impairments, chronic pain, insomnia and other health problems.

But men also face a challenge to their sense of masculinity. Many feel they should have done more to fight off their attackers. Since they may believe that men are never raped, they may feel isolated and reluctant to confide in anyone. Male rape victims may become confused about their sexual orientation or, if gay and raped by a man, blame their sexual orientation for the rape.

"If you're sexually assaulted, there's this idea that you're no longer a man," said Neil Irvin, executive director of the organiza-

tion Men Can Stop Rape. "The violence is ignored, and your sexual orientation and gender are confronted."

Many rape crisis centers – which often also provide services for victims of domestic violence – do not have the resources to counsel male victims. Remarkably few male victims seek professional help for injuries, screening for sexually transmitted diseases or counseling after an attack, often waiting years or decades.

One study of 705 men in Virginia found that 91, or 13 percent, had been sexually assaulted, a vast majority of them before they

turned 18. Fewer than one-fifth of victims had ever received professional services related to the assault.

"Men are affected – they have high rates of PTSD and depression – but the majority don't get help," said Dr. Saba W. Masho, the lead author of the Virginia study and an associate professor of epidemiology and community health at Virginia Commonwealth University. "It's easy for you and I to talk about it, but when you put yourself in that victim's shoes, they're asking, 'Do I want people to know? How do I seek help?'

Continued on page 19

Commission on Quality Public Services and Tax Fairness — January 5, 2012

Commissioner Judy Wasylcya-Leis

Like the Commission on Quality Public Services and Tax Fairness, the Committee on Monetary and Economic Reform (COMER) is also concerned about Ontario's deficit and debt and, indeed, about the debts and deficits of our three levels of government all across the nation. We hope that the Commission will find the information that COMER can provide on the creation and control of money will help it to achieve its goals.

COMER focuses on monetary policy and making better use of the Bank of Canada for the benefit of all Canadians. Your first reaction may be, as Minister Gerretsen said during the provincial election, "This is a federal responsibility." This is true, but because monetary policy has been so disastrous for the past 35 years, contributing to massive public debts and cuts in public services, provinces can and should act on behalf of their citizens even where responsibility lies with the federal government.

Canadians paid \$165 million per day in 2010-11 in unnecessary interest on federal, provincial and municipal debt. We pay these costs through taxes of all kinds and fees for public services. We pay in kind through cutbacks in public services such as education, health care, and support services. We pay through the deterioration of infrastructure such as roads, sewers, water lines and affordable housing. The 1.5 million unemployed pay through the loss of their jobs.

Public debt interest amounted to a little under \$5 (\$4.85) per day for every man, woman and child in the country. For a family of four that's about \$20 (\$19.40) per day

or \$136 per week, *every week, all year long.*

These figures are easily verified by Statistics Canada, Canadian Economic Observer: Historical Statistical Supplement; www.statcan.gc.ca/pub/11-210-x/2010000/t008-eng.htm Table 1.3-1. You will see there that interest on the public debt for total government in 2010 amounted to \$60.2 billion or \$165 million per day.

For 2010-11 Ontario paid \$9.5 billion or \$26 million per day in unnecessary interest. This money was not available for public services and amounted to 8.5% of the government's programs budget. *More important than the money is that the government uses the interest costs and the debt as a reason for cutting services.*

Could this be changed?

The *federal* government could reduce the interest paid on public debt by borrowing more from the Bank of Canada, at near zero cost, and less from private sources. This would lead to a reduction in the profits of the commercial banks and less income for holders of government bonds, but most Canadians would benefit. *More importantly* the savings could be used to reinstate those services which have been cut back and to create good jobs for at least some of the 1.5 million Canadians currently walking the streets looking for work.

So, why aren't we doing this?

Governments' indebtedness to private financiers gives that sector *undue influence* on government policy decisions. The federal government is up to its neck in debt (\$550 billion, March 31, 2011) and when you

owe that much it's not so hard to choose between the wants of your creditors and the needs of ordinary Canadians. *It is not in the interest of banks and wealthy bond holders for government to borrow from the Bank of Canada, and because government has become dependent on private sources of capital for most of its financing it gives precedence to their opinions.*

The people currently wielding influence on government policy decisions *must be replaced* with others who support tax fairness and quality public services. *This can be done by electing politicians who support using the Bank of Canada for financing public debt to invest in public services and infrastructure.* Voters can say to political candidates, if you want *my* vote you will have to make that commitment. This is necessary in order to sever the grip of debt and the influence of private financiers. Giving the government this *alternate* source of capital will break its dependence on *private* capital and will mean it can make policy decisions based on principles of good government rather than on what their financiers want.

The Commission has responded to the assignment given to Don Drummond saying, "All of us recognize that Ontario's deficit must be tackled. However, there are approaches other than arbitrarily cutting, eliminating or privatizing public services." Will you tell our governments, both provincial and federal, that *one* approach is to use our central bank to reduce deficits? Will you act to get community support for this?

*Richard Priestman President
Kingston Chapter Committee on
Monetary and Economic Reform*

Kodak Readies Bankruptcy Filing

By Mike Spector and Dana Mattioli, *The Wall Street Journal*, January 5, 2012

Eastman Kodak Co. is preparing to seek bankruptcy protection in the coming weeks, people familiar with the matter said, a move that would cap a stunning comedown for a company that once ranked among America's corporate titans.

The 131-year-old company is still making last-ditch efforts to sell off some of its patent portfolio and could avoid Chapter 11 if it succeeds, one of the people said. But the company has started making preparations for a filing in case those efforts fail, including talking to banks about some \$1 billion in financing to keep it afloat during bankruptcy proceedings, the people said.

A Kodak spokesman said the company "does not comment on market rumor or speculation."

A filing could come as soon as this month or early February, one of the people familiar with the matter said. Kodak would continue to pay its bills and operate normally while under bankruptcy protection, the people said. But the company's focus would then be the sale of some 1,100 patents through a court-supervised auction, the people said.

That Kodak is even contemplating a bankruptcy filing represents a final reversal of fortune for a company that once dominated its industry, drawing engineering talent from around the country to its Rochester, NY, headquarters and plowing money into research that produced thousands of breakthroughs in imaging and other technologies.

The company, for instance, invented the digital camera – in 1975 – but never managed to capitalize on the new technology.

Casting about for alternatives to its lucrative but shrinking film business, Kodak toyed with chemicals, bathroom cleaners and medical-testing devices in the 1980s and 1990s, before deciding to focus on consumer and commercial printers in the past half-decade under Chief Executive Antonio Perez.

None of the new pursuits generated the cash needed to fund the change in course and cover the company's big obligations to its retirees. A Chapter 11 filing could help Kodak shed some of those obligations, but the viability of the company's printer strategy has yet to be demonstrated, raising questions about the fate of the company's

19,000 employees.

Such uncertainty was once unthinkable at Kodak, whose near-monopoly on film produced high margins that the company shared with its workers. On "wage dividend days," a tradition started by Kodak founder George Eastman, the company would pay out bonuses to all workers based on its results, and employees would use the checks to buy cars and celebrate at fancy restaurants.

Former employees say the company was the Apple Inc. or Google Inc. of its time. Robert Shanebrook, 64 years old, who started at the company in 1967 and was most recently world-wide product manager for professional photographic film, recalls young talent traipsing through Kodak's sprawling corporate campus. At lunch, they would crowd the auditorium to watch a daily movie at an on-site theater. Other employees would play basketball on the company courts.

"We had this self-imposed opinion of ourselves that we could do anything, that we

were undefeatable," Mr. Shanebrook said.

Kodak's troubles date back to the 1980s, when the company struggled with foreign competitors that stole its market share in film. The company later had to cope with the rise of digital photography and smartphones.

It wasn't until 10 years ago that the mood began to sour, said Mr. Shanebrook. By 2003, Kodak announced it would stop making investments in film. "I didn't want to stick around for the demise," he said.

Kodak shares closed Wednesday at 47 cents, down 28% after *The Wall Street Journal* reported the company was preparing a Chapter 11 filing.

Kodak has lost money each year but one since Mr. Perez, who previously headed the printer business at Hewlett-Packard Co., took over in 2005. The company's problems came to a head in 2011, as Mr. Perez's strategy of using patent lawsuits and licensing deals to raise cash ran dry.

Hoping to plug the hole, Kodak put some of its digital patents up for sale in August. Efforts to sell the portfolio have been slowed by bidders' concerns that Kodak might seek bankruptcy protection. The company has talked to hedge funds about

Rarer Types of Cancer Rise in US

Bloomberg News, Toronto Star, January 5, 2012

New York – There's been an unexpected rise in seven types of less-common cancers in the United States, in some cases linked to growing obesity rates, says an American Cancer Society report urging more study to determine the underlying causes.

The warning comes as overall cancer death rates dropped between 2004 and 2008, by 1.8 percent per year in men and 1.6 percent in women, according to the study.

Better prevention – including anti-smoking campaigns, added screening and improved nutrition – helped decrease mortality from the most-prevalent malignancies, in lungs, breast and colons.

While higher incidences of pancreatic, liver and esophageal cancers may be the result of added testing or rising obesity, it's not clear why other less-common cancers are growing in prevalence, the report said.

People are living longer, so lifestyle choices at earlier ages and viruses they were exposed to, such as hepatitis or the hu-

man papilloma-virus, may spur tumours as people get older, the report suggested.

Other cancers with increasing prevalence rates include kidney cancer, melanoma and different types of oropharyngeal tumours, according to the report in the journal *CA: A Cancer Journal for Clinicians*.

There was also good news in the report. A decline in lung cancer accounted for 40 per cent of the drop in the cancer death rates in men, while a decrease in breast cancer cut women's death rates by a third.

The most rapid declines in death rates occurred among black and Hispanic men, according to the report.

Still, black men have a 15 per cent higher incidence rate and a 33 per cent higher death risk than white men, the study found.



Editor: There is an important message in the higher death rate amongst black men. It reflects the lower valuation attributed to them as workers and as social investment. The final evidence rests with the undertakers.

borrowing hundreds of millions of dollars to bridge its finances until the patents sell, but the talks have faltered, people familiar with the matter said.

The first sign of acute cash pressure came in late September, when Kodak drew \$160 million from its credit line at a time when it had told investors it would be building cash. The move sent Kodak's stock tumbling and raised fresh concerns about the company's viability.

Soon after, Kodak hired restructuring lawyers and advisers to help shore up its finances.

Eastman Kodak Co. said it received a notice from the New York Stock Exchange warning that the photography icon is out of compliance with listing requirements, helping to send its shares lower.

The company and its board have weighed a potential bankruptcy filing for months. Advisers told Kodak a filing would make its patent sale easier and likely allow the company to command a higher price, people familiar with the matter have said. The obligation to cover pension and health-care costs for retirees could also be purged through bankruptcy proceedings, the people said.

Those obligations – which run to hundreds of millions of dollars a year – as well as the unprofitable state of Kodak's new businesses, have made the company undesirable as a takeover target, people familiar with the matter said.

During a two-day meeting of the company's board, management and advisers in mid-December, executives were briefed on how Kodak would fund itself during bankruptcy proceedings should efforts to sell its patents fall short, a person familiar with the matter said.

Kodak is in discussions with large banks including J.P. Morgan Chase & Co., Citigroup Inc. and Wells Fargo & Co. for so-called debtor-in-possession financing to keep the company operating in bankruptcy court, people familiar with the matter said.

The Cemetery for Firms Failing to Adapt to Rapidly Changing Debtor-in-possession Financing

Kodak has also held discussions with bondholders and a group led by investment firm Cerberus Capital Management LP about a bankruptcy financing package, the people said.

Should it seek bankruptcy protection, Kodak would follow other well-known companies that have failed to adapt to rapidly

changing business models. They included Polaroid Corp., which filed for bankruptcy protection a second time in December 2008; Borders Group Inc., which liquidated itself last year; and Blockbuster Inc., which filed for bankruptcy protection in 2010 and was later bought by Dish Network Corp. A bankruptcy filing would kick off what is expected to be a busier year in restructuring circles, as economic growth continues to drag and fears about European sovereign debt woes threaten to make credit markets less inviting for companies that need to refinance their debts.

Mr. Perez decided to base the company's future on consumer and commercial ink-jet printing. But the saturated market has proved tough to penetrate, and Kodak is paying heavily to subsidize sales as it builds a base of users for its ink.

The company remains a bit player in a printer market dominated by giants like H-P. Kodak ranks fifth world-wide, according to technology data firm IDC, with a market share of 2.6% in the first nine months of 2011.

As the company works on a restructuring

Awareness from page 17

Do I want my doctor to know? Where do I go?" "

Mr. Smith told his older brother and father about what had happened as soon as he got home, and the three went to the police to file a report. Mr. Smith had memorized the license plate number of the car, and the owner, who was known to the police because of a conviction for distributing pornography, was arrested. He was killed on the streets of Providence before he could stand trial.

Today, Mr. Smith is a member of the speakers bureau for Rainn, the Rape, Abuse and Incest National Network, which provides online counseling for victims. For years, he said, he suffered from nightmares in which he was fleeing his assailant's car, scared that the man, who had handed him \$10 and dropped him off almost three hours after picking him up, was coming back.

"I was waking up screaming," he said.

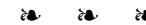
Our Comment

The New York Times (January 24, 2012) gives us a detailed report on the male victims for the mere official awareness that when rape was defined as oral or anal penetration, one in 71 men sued they had been the target of attempted rape, usually by a man they knew. (The study did not include men

plan, a key issue for creditors is whether the printer operations are worth supporting, or whether the bulk of the company's value is in its patents.

Nortel Networks Corp., a company that also had fallen behind the technology curve, opted to liquidate itself in bankruptcy court rather than reorganize, raising a greater than expected \$4.5 billion for its patent trove.

Kodak's founder, Mr. Eastman, took his life at the age of 77 in what is now a museum celebrating the founder and Kodak's impact on photography. His suicide note read: "To my friends, my work is done. Why wait?"



Editor: Contrasting with the US corporate gloom is the spry situation of many petroleum – rich Latin American countries. Even seemingly thriving American cities are being hit by the scarcity of fuel resources. Oil-rich South American capitals are casting deep shadows on the prospects of US mega-cities and economies, Canada is relatively favored in this budding fuel-starved universe.

in prison.) And one in 21 said they had been forced to penetrate an acquaintance or a partner, usually a woman: had been the victim of an attempt to force penetration, or had been made to receive oral sex.

"Other estimates have been even higher. A department of Justice report found that a 3 per cent of men, or one in 33 had been raped. Some Experts believe that one in six men have experienced unwanted sexual contact of some kind as minors.

"But for many men the subject is discomfiting that is never discussed – virtually taboo, say because of social notions about masculinity, and the idea that men are invulnerable and can take care of themselves.

"We have a cultural blind spot about this; said David Lisak, a clinical psychologist who has done research on interpersonal violence and sexual abuse and is a funding board member of 1 in 6, an organization that offers information and services to men who had unwanted or abusive sexual experiences as children.

"We recognize that male children are being abused," Dr Lisak said, "but then when boys cross some kind of threshold somewhere in adolescence and become what we perceive to be men, we no longer want to think about it in this way."

W.K.

Border Deal Aims to Reduce “Tyranny of Small Differences” in Regulation

By Richard Blackwell, *The Globe and Mail*, December 9, 2011

When Campbell Soup Co. makes canned vegetable soup, it has to run separate production lines, with different can sizes, for the Canadian and US markets.

That's because Canadian regulations specify that only 19-ounce cans of certain processed fruits and vegetable products can be sold in Canadian stores. The company would like to sell 16-ounce cans – the preferred size for US consumers – but it is not allowed to sell them in Canada. In the United States, any can size is permitted.

That's just one of a “tyranny of small differences” in regulation that drives up manufacturing costs and makes cross-border commerce incredibly complex, said Kelly Johnston, vice-president of government affairs at Campbell Soup Co.

The new US-Canada border deal, announced in Washington Wednesday by Prime Minister Stephen Harper and President Barack Obama, is trying to eliminate some of those regulatory hurdles, as part of its broader effort to smooth trade across the border while making both countries more secure.

A key component of the border plan is to co-ordinate and harmonize some of the vast array of regulations that affect companies operating on both sides of the boundary – to get rid of unnecessary differences and duplications that can add huge costs to a wide range of organizations.

Businesses shouldn't hold their breath, however. While a Regulatory Co-operation Council has been working since February to narrow the areas of most serious concern, it

could be months or years before many of the changes are implemented.

Among the key sectors that have been pegged for reform are food and agriculture, transportation (including clearing up conflicting vehicle safety standards), and health and personal care products.

The food businesses is a crucial target for regulatory reform because of the complex inspection and safety systems in place on both sides of the border. Some discrepancies seem bizarre, such as the different names used in each country for the same cuts of meat. In Canada, producers are not allowed to use the terms “peameal bacon” or “chicken tenderloin,” for example.

Mr. Johnston cited a number of regulatory differences that make Campbell Soup's business more complex and add to its costs. For example, Canada does not allow vitamins and minerals to be added to many food products, while the US does. In the United States there are two different food safety regulators, depending on whether a product contains meat, while Canada has just one.

And he said it is rare for the Canadian Food Inspection Agency to accept the word of the US agencies, or vice versa, when products are moving between countries.

“This complicates our ability to move products over the border, and it ties up food safety resources [that could be] dispatched elsewhere, where there is higher risk,” Mr. Johnston said.

For the veterinary drug business, better regulatory harmonization “will make a huge difference,” said Graeme McRae, president of Bioniche Life Sciences Inc. of Belleville,

Ont. One of the company's key products is a cattle vaccine that helps prevent E. coli infections, but “when we went with [it] to the US, the [regulatory] requirements were totally different than what was required for Canada,” Mr. McRae said. “It is going to cost several million dollars to do again [for the US] what we had to do for Canada.”

An Improvement in Cross-border Attitudes?

However, Bioniche recently noticed an improvement in the cross-border attitude when it went to the US to register one of its new animal drug products. Mr. McRae said he hopes this new approach, where US regulators accepted Canadian regulatory data, will become common practice.

Reducing the high costs – and long wait times – in getting veterinary products accepted south of the border is crucially important, he said, because of the size of the US market.

In the transportation sector, Canada's truckers believe the cross-border agreement delivers on promises made by the government. The industry's trade association said that it had been consulting with Ottawa for months, and was most impressed by the plan for harmonizing data requirements for goods in transit.

Canadians were virtually shut out of transporting domestic loads through the United States after September 11, 2001, because they'd have to fill in full customs documentation. This will be changed, making it easier to shorten delivery distances between parts of Canada by crossing through the United States.

“Restoring carriers' ability to move in-transit means more efficient trade, lower costs and faster truck transit times for Canadian carriers moving domestic goods through the US,” the association said.



Editor: While scientists are seriously concerned about sources of usable energy available for human survival available even in deeply subterranean aquifers, our speculative financiers go on viewing the pollution of our environment as their private playground.

This calls for immediate attention.