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Grotesque Plan for Detroit: Fleece Working People to Save the Banks

By Ellen Brown, www.alternet.org, August 5, 2013

Municipal workers could be robbed of pension funds to pay big banks for payments due on interest rate swaps.

The Detroit bankruptcy is looking suspiciously like the bail-in template originated by the G20's Financial Stability Board in 2011, which exploded on the scene in Cyprus in 2013 and is now becoming the model globally. In Cyprus, the depositors were "bailed in" (stripped of a major portion of their deposits) to re-capitalize the banks. In Detroit, it is the municipal workers who are being bailed in, stripped of a major portion of their pensions to save the banks.

Bank of America Corp. and UBS AG have been given priority over other bankruptcy claimants, meaning chiefly the pensioners, for payments due on interest rate swaps they entered into with the city. Interest rate swaps – the exchange of interest rate payments between counterparties – are sold by Wall Street banks as a form of insurance, something municipal governments "should" do to protect their loans from an unanticipated increase in rates. Unlike ordinary insurance, however, swaps are actually just bets; and if the municipality loses the bet, it can owe the house, and owe big. The swap casino is almost entirely unregulated, and it is a rigged game that the house virtually always wins. Interest rate swaps are based on the LIBOR rate, which has now been proven to be manipulated by the rate-setting banks; and they were a major contributor to Detroit's bankruptcy.

Derivative claims are considered "secured" because the players must post collateral to play. They get not just priority but "super-priority" in bankruptcy, meaning they go first before all others, a deal pushed through

by Wall Street in the *Bankruptcy Reform Act* of 2005. Meanwhile, the municipal workers, whose pensions are theoretically protected under the Michigan Constitution, are classified as "unsecured" claimants who will get the scraps after the secured creditors put in their claims. The banking casino, it seems, trumps even the state constitution. The banks win and the workers lose once again.

Systemically Dangerous Institutions Are Moved to the Head of the Line

The argument for the super-priority of derivative claims is that nonpayment on these bets represents a "systemic risk" to the financial scheme. Derivative bets are cross-collateralized and are so inextricably entwined in a \$600-plus trillion house of cards that the whole financial scheme could go down if the betting scheme were to collapse. Instead of banning or regulating this very risky casino, Congress has been persuaded by the masterminds of Wall Street that it needs to be preserved at all costs.

The same tortured logic has been used to justify the fact that the federal government deigned to bail out Wall Street but

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Detroit from page 1

not Detroit. Supposedly, the mega-banks pose a systemic risk and Detroit doesn't. On July 29, former Obama administration economist Jared Bernstein pursued this line of reasoning on his blog, writing:

[T]he correct motivation for federal bailouts – meaning some combination of managing a bankruptcy, paying off creditors (though often with a haircut), or providing liquidity in cases where that's the issue as opposed to insolvency – is *systemic risk*. The failure of large, major banks, two out of the big three auto companies, the secondary market for housing – all of these pose unacceptably large risks to global financial markets, and thus the global economy, to a major industry, including its upstream and downstream suppliers, and to the national housing sector.

Because (a) there's not much of a case that Detroit is systemically connected in those ways, and (b) Chapter 9 of the bankruptcy code appears to provide an adequate way for it to deal with its insolvency, I don't think anything like a large scale bailout is forthcoming.

Detroit's bankruptcy poses no systemic risk to Wall Street and global financial markets. Fine. But it does pose a systemic risk to Main Street, local governments, and the contractual rights of pensioners. Credit rating agency Moody's stated in a recent report that if Detroit manages to cut its pension obligations, other struggling cities could follow suit. The Detroit bankruptcy is establishing a template for wiping out government pensions everywhere. Chicago or New York could be next.

There is also the systemic risk posed to the municipal bond system. Bryce Hoffman, writing in *The Detroit News* on July 30, warned: "Detroit's bankruptcy threatens to change the rules of the municipal bond game and already is making it more expensive for the state's other struggling towns and school districts to borrow money and fund big infrastructure projects.

"In fact, one bond analyst told *The Detroit News* that he has spoken to major institutional investors who have already decided to stop, for now, buying any Michigan bonds."

The real concern of bond investors, says Hoffman, is not the default of Detroit but the precedent the city is setting. General obligation municipal bonds have always been viewed as virtually risk-free. They are unsecured, but bondholders have considered themselves protected because the bonds are

backed by the "unlimited taxing authority" of the government that issued them. Detroit, however, has shown that the city's taxing authority is far from unlimited. It already has the highest property taxes of any major city in the country, and it is bumping up against a ceiling imposed by the state constitution. If Detroit is able to cut its bond debt in half or more by defaulting, other distressed cities are liable to look very closely at following suit. Hoffman writes: "The bond market is warning that this will make Michigan a pariah state and raise borrowing costs – not just for Detroit and other troubled municipalities, but also for paragons of fiscal virtue such as Oakland and Livingston counties."

However, writes Hoffman: "Gov. Rick Snyder dismisses that threat and says the bond market is just trying to turn Detroit away from a radical solution that could become a model for other struggling cities across America."

A Safer, Saner, More Equitable Model

Interestingly, Lansing Mayor Virg Bernero, Snyder's Democratic opponent in the last gubernatorial race, proposed a solution that could have avoided either robbing the pensioners or scaring off the bondholders: a state-owned bank. If the state or the city had its own bank, it would not need to borrow from Wall Street, worry about interest rate swaps, or be beholden to the bond vigilantes. It could borrow from its own bank, which would leverage the local government's capital into credit, back that credit with the deposits created by the government's own revenues, and return the interest to the government as a dividend, following the ground-breaking model of the state-owned Bank of North Dakota.

There are other steps that need to be taken, and soon, to prevent a cascade of municipal bankruptcies. The super-priority of derivatives in bankruptcy needs to be repealed, and the protections of Glass Steagall need to be restored. While we are waiting on a very dilatory Congress, however, state and local governments might consider protecting themselves and their revenues by setting up their own banks.

Ellen Brown is an attorney, author, and president of the Public Banking Institute. She is the author of Web of Debt, and a sequel, The Public Bank Solution.



Our Comment. Readers very much like Ellen Brown's opening paragraph, which should warn us that we are chasing our tail – a hardened object to keep up with. *W.K.*

Can Public Banking Work? Ask North Dakota.

By Ian Jenkins

Plaid Cymru are proposing a Public Bank for Wales: but what is public banking and is it the answer to the challenges facing the Welsh economy?

Since 2008 states across the US have faced years of debt crises and austerity: but not North Dakota. It is fair to say that North Dakota is not the highest-profile of the States of the Union: lying on the Canadian border between Minnesota and Montana it does not have the globally impressive multi-billion GDP of a California, a New York or a Texas (in fact has the lowest per capita GDP for US states) and lacks the iconic Hollywood resonances of these mighty behemoths, despite the cameo appearance of its largest city Fargo in the wonderful Coen brothers' film of the same name. Yet North Dakota has two things that none of its more heavyweight fellow states can boast – a budget surplus for every year since the economic crisis began in 2008 and an unemployment rate of 3.3%, the lowest in the US: they must be doing something right in the Peace Garden State.

So what makes North Dakota different from other US states, allowing it to navigate the stormy seas of recession without recourse to brutal austerity measures (the effectiveness of which is a question for another time) or suffering crippling unemployment? The first answer given is usually “oil”: North Dakota does have substantial reserves of oil and is currently the second largest US producer, ahead of Alaska and behind Texas. Yet Texas will run a huge government deficit this year, despite its enormous oil wealth, and although Alaska has not declared a deficit for the current financial cycle a recent report warns that the state faces a future deficit if drastic cuts are not made. It would seem, then, that oil alone is an insufficient explanation for the prosperity of this tiny state of just under 700,000 people; other states have oil and yet they face the pain of austerity either now or in the near future. So the question must again be asked: what makes North Dakota different?

The answer may lie in the existence within North Dakota of a form of banking as exotic in the context of the Anglo-American financial model as a nest of Hyacinth Macaw might be on the Great Plains of the state: a public bank. Put simply, a public bank is a banking institution owned by a

state or local government which is able to make, and indeed is tasked with making, productive loans within its geographical sphere of operations. A public bank uses the ability possessed by all banks to leverage their deposit base through fractional reserve banking (meaning effectively the ability to make more loans than they have deposits), whilst returning the profits made on the interest from these loans (the “spread”) to its government owners. There are two broad advantages to this system: firstly, unlike private banks, public banks can be directed at their founding to make loans to the productive economy (the manufacture of new capital goods), instead of merely lending for asset price inflation and bubble creation (bidding up the price of pre-existing assets, like real estate) and secondly, the profits from all loans, after overheads are covered, is returned to the state to be spent in ways which serve the public interest.

The state government of North Dakota owns its own bank, the Bank of North Dakota (DND, official title “State of North Dakota doing business as the Bank of North Dakota”), which was founded in 1919 under the direction of the populists of the socialist Non-Partisan League, in order to protect the agricultural economy of the Dakotan plains from the depredations of Wall Street financiers. The BND operates an extremely conservative lending policy (no subprime lending or “casino banking”) and does not pay bonuses to its employees. Following this model, and retaining an ethos of public service, the BND is able to return a dividend of around \$30 million a year to the state coffers, while also being instrumental in growing the economy of the state through its portfolio of productive loans to industry and agriculture. North Dakota is only one example of the success of public banking, which worldwide accounts for 40% or more of financial institutions, with plentiful examples also existing in Europe and in the BRIC nations. Where public banking is a vital component of continued economic growth and development.

So could such a strategy work in Wales? Plaid Cymru certainly seem to think so and it is difficult, in the face of the evidence of the successes of public banking models from economies elsewhere, including small regional economies analogous to that of Wales, to think of convincing reasons why

such a strategy would not work, or should not be discussed and investigated at the very least. It is true to say that the process of establishing a new bank in the UK is laborious and time-consuming, but it presents no challenges which should be able to defeat the combined energies, skills and knowledge found in Wales. What is certain is that the issue of public banking should be brought into the debate on the Welsh economy, as to ignore it would be to exclude a potentially democratizing and sustainable banking system from the national conversation.

There is a widely perceived need for reform of the way in which banking operates, with the majority of people feeling that there is “something wrong” with the way in which the economy, and particularly banking, currently functions. Already there are calls for a public bank in Scotland, spurred on in part by anger at the damage done to the image of the nation by the actions of private banks such as RBS and HBOS, and the last few months have seen articles in the Scotsman as well as lectures at the Royal Society of Arts in Edinburgh by public banking experts such as Ellen Brown of the American Public Banking Institute and any campaign in Wales could surely draw inspiration, and no doubt receive support, from those calling for a public bank in our fellow devolved nation. Plaid Cymru are, at this stage, the only party in Wales to have identified a Welsh public bank, properly instituted with all due diligence and care for regulation, objectives, sane employee remuneration and arms-length democratic supervision, as a potential direction for sustainable changes in Wales and beyond, and for this they are to be applauded, but there is a long way to go to convince the Welsh public of the wisdom of such a plan and a campaign of misrepresentation and obfuscation can be anticipated from those on the right whose interests are allied with those of private finance. This is an issue on which Wales could provide leadership on an EU-wide level, a matter in which a small nation could make a big difference.



Our Comment. Should be enough for the Europeans to recognize for the European leadership to be in that present power. The hard fact, harder to face with the teeth alone, is just not that. *W.K.*

Elaborate Takeover Scheme Gives Corporations Absolute Power

By Ed Finn, *The CCPA Monitor*, July–August, 2013

“The corporate agenda had to be given academic credibility. This became the primary role of the Fraser and C.D. Howe Institutes, whose officers and minions quickly became adept at giving economic trends and statistics the requisite right-wing spin.”

A *coup d'etat*, especially a non-violent one, can't succeed without a shrewd, careful, long-term strategy. The takeover of Canada by its big business executives could not have been achieved if they had not planned it so meticulously. Even a shade less forethought, less daring, less patience, less attention to detail could have aborted their mission long before it was accomplished.

Before examining the various stages and elements of their grand design, let's concede that Canada's top CEOs had a lot of help from the new computer technologies and the globalization of business and finance that started to be developed in the 1970s and '80s. To some extent, these developments alone would have increased corporate power considerably. But to seize absolute power, an elaborate takeover scheme was still required.

Conceived in the early 1970s by corporate leaders chafing under political, regulatory, and jurisdictional constraints, the plot aimed to bring Canada under corporate rule within the next two decades. This had to be done quietly, stealthily, incrementally, to avert the mobilization of effective opposition. It had to be given the appearance of a natural evolutionary process, driven by impersonal and inexorable global forces.

The first and most important step, then, was to mould and influence public opinion. The CEOs knew from their brilliant product marketing campaigns that people's preferences could be shaped by slick advertising. They knew that people's thinking about economic and social issues could be similarly manipulated by the same techniques. Repeated and heard often enough, the biggest falsehoods can be twisted into unquestioned beliefs.

Here, then, in rough chronological order, are the steps and stages that comprised the cunning corporate blueprint.

1. Get organized. To coordinate the

various elements of their plan, the CEOs of the 150 largest corporations set up and generously funded the Business Council on National Issues. The BCNI – which has since morphed into the Canadian Council of Chief Executives (CCCE) – was to be the “quarterback” in planning and executing their long-term offensive.

2. Set up or co-opt conservative think-tanks. The corporate agenda had to be given academic credibility. This became the primary role of the Fraser and C.D. Howe Institutes, whose officers and minions quickly became adept at giving economic trends and statistics the requisite right-wing spin.

3. Cultivate and support articulate spokespeople. Tom d'Aquino, the first and long-serving CEO of BCNI, adroitly filled this role, as did the voluble Michael Walker of the Fraser institute. They were supported by such high-profile media “neo-cons” as Jeffrey Simpson, David Frum, Terence Corcoran, Barbara Amiel, and Andrew Coyne, and academics like John Crispo, Michael Bliss, and William Watson.

4. Create and control the terminology. The terms coined by the neo-cons (and later the neo-liberals) – e.g., “big government,” “the nanny state,” “disastrous “tax-and-spend” policies, “welfare cheats,” “the debt/deficit crisis,” “special interest groups,” “stride-mad unions,” “downsizing,” etc. – soon came to dominate public discourse, forcing those on the left to debate key issues in the language of the right.

5. Control the media. This was easy. Most newspapers, magazines, TV and radio networks, after all, were owned by BCNI members. Three newspaper moguls at the time – Ken Thomson, Conrad Black, and Paul Desmarais – owned or controlled 72 of the country's 110 dailies. The same concentration of corporate power prevailed in the broadcast media (except the CBC), and in the most popular magazines. Little wonder that news and views that supported the corporate agenda flowed easily through the media, while the voices of dissent got scant space or time. They were mainly confined to the *Toronto Star* among the largest newspapers, and to low-circulation journals like the *Canadian Forum*, and later in the mid-1990s the *CCPA Monitor*.

6. Control or coerce all major political parties. This was not difficult, either. The Liberal and the various versions of the Conservative parties, being mostly run by and for the corporations anyway, proved willing – even eager – to help advance the corporate *coup d'etat*. Business leaders such as Brian Mulroney, Jean Chrétien, Paul Martin and Michael Wilson took sabbaticals from their executive suites to assume political leadership on behalf of the BCNI. The NDP, when it formed a provincial government, could usually be confined to modestly progressive policies, sometimes by the threat of a massive business exodus or an engineered financial crisis. The truly great legislative breakthroughs pioneered by the Saskatchewan CCF government under Premier Tommy Douglas in the 1950s and '60s – Medicare being the loftiest – came nowhere near being emulated by successive NDP governments anywhere in the country. The CEOs could be confident that their agenda would continue to be implemented, no matter which party was favoured by the voters.

7. Achieve maximum global corporate mobility. This was done mainly by having their subservient government vassals negotiate first the *Canada-US Free Trade Agreement* (FTA) and then the *North American Free Trade Agreement* (NAFTA), later followed by other worldwide trade pacts under the aegis of the corporate-controlled World Trade Organization (WTO). Promoted as measures to expand trade and lower import costs, their chief purpose was to enable the corporations to move anywhere in the world to exploit the cheapest labour, lowest taxes, and weakest environmental protection laws. They could also much more easily “shed” Canadian workers, relocate their plants abroad, and still send and sell their goods back home duty-free. The simultaneous development of high-tech communications technologies also gave them world-spanning financial mobility.

8. Escape from Legal and regulatory restrictions. Rules and regulations that compel the corporations to abide by certain minimal standards – on corporate taxes, wages, health and safety, service to the public, toxic emission levels, consumer protection, etc. – were incompatible with the goal of total corporate power and freedom. They had to be eliminated, or at least reduced to token levels. So, one by one, all the major industries have been deregulated, or regulations still on the books studiously left unenforced. The corporations were entrusted

with the responsibility of “regulating” themselves, as if “good corporate citizenship” had not become the most ironic of oxymorons.

9. Dismantle the public sector. By creating and then demonizing the “debt/deficit crisis,” the CEOs and their tame politicians and PR experts gave themselves a convenient all-purpose excuse to slash government spending on social programs. In the span of a couple of decades, they rampaged through the public sector, privatizing services, slashing or shrinking those they couldn’t privatize, laying off thousands of public employees, and subjecting health care, education, and social assistance to the “death of a thousand cuts.” Private sector rule means public sector subjugation.

10. Disarm and debilitate the opposition. The right-wing propagandists have done a good job of discrediting and even ridiculing any person or organization daring to oppose or even disagree with the corporate takeover. They are dismissed as cranks or troublemakers, as special interest groups, as welfare state parasites, as Ludites foolishly trying to keep the economy from growing. To make sure they don’t seriously threaten corporate rule, unemployment is kept high and social security payments low. And if the dissidents’ NGOs are dependent on government funding such as financial support is cut or completely withdrawn.

11. Curb the rights and effectiveness of organized labour. One of the few corporate objectives that hadn’t been accomplished up to the 1990s was the enfeeblement of the labour movement. But since then, unions in the private sector have had their bargaining strength sapped immensely by the rising power and mobility of corporate employers. Thousands of manufacturing plants were shut down and many thousands of union members’ jobs eliminated when production was shifted offshore. Unemployment rates were kept high and unemployment insurance rates low. In the public sector, increasingly anti-labour.

12. Exalt and protect the size and value of wealth. The ultimate objective of the corporate agenda, the one that subsumes all others, is to protect the rich and make them richer. The normal workings of unfettered free enterprise have that effect, in any case, but other measures include the steady reduction of taxes on the wealthy and corporations, elevating them to the highest positions of power and influence, lavishing them with social status and privilege, and of course providing them with police pro-

tection from their resentful working-class victims.

13. Preserve the illusion of democracy. This is quite a feat, considering how absolute corporate rule has become in this country, and indeed in most other developed countries around the world. But so far the CEOs have managed to pull it off. They do it mainly by preserving the outward trappings of a democratic state. We still have several political parties, still have “free” elections, still have legislatures in session for at least a few months in the year. Protesters

are still free to demonstrate, free to lobby their MPs and MLAs, free to present briefs to parliamentary committees. They can even, occasionally, get their alternative views reported in the media.

For most Canadians – even most of the dissidents – the exercise of these traditional democratic “freedoms” is sufficient to maintain the illusion of a true democracy. Unfortunately, they are no more substantive than a politician’s promise, no more real than a TV soap opera. They work because most of us accept the illusion as reality. ■

THE SILENT DEATH OF THE AMERICAN LEFT

No Organized Resistance to the Horrors of Neoliberalism

By Jeffrey St. Clair, The CCPA Monitor, July–August, 2013

“Hunger and homelessness, though unmentioned in the mass media, are clearly rampant across America. But there are no mass demonstrations, no nation-wide strikes, no campus walkouts.”

Is there a Left in the United States today?

There is, of course, a Left ideology, a Left of the mind, a Left of theory and critique. But is there a Left *movement*? Does the Left exist as an oppositional political, cultural or economic force? Is anyone intimidated or restrained by the Left? Is there a counterforce to the grinding machinery neoliberal capitalism and its political managers?

At CounterPunch, we can and do publish analyses of capitalism and its inherent vulnerabilities, catalogue its predations and wars of military conquest and imperial exploitation. But where is our capacity to confront the daily horrors of drone strikes, kill lists, mass layoffs, pension raids and the looming nightmare of climate change?

It is a bitter reality, brought into vivid focus by five years of Obama, that the Left is an immobilized and politically impotent force in the US at the very moment when the economic inequalities engineered by our overlords at Goldman Sachs who manage the global economy, should have recharged a long-moribund resistance movement back to life.

Instead, the Left seems powerless to coalesce, to translate critique into practice, to mobilize against wars, to resist incursions against basic civil liberties, powerless to confront rule by the bondholders and hedgefunders; unable to meaningfully obstruct the cutting edge of a parasitical economic

system that glorifies greed while preying on the weakest and most destitute; and incapable of confronting the true legacy of the man they put their trust in.

This is the politics of exhaustion. We have become a generation of leftovers. We stand on the margins, political exiles in our own country.

Consider this. Two-thirds of the American electorate oppose the ongoing war in Afghanistan. An equal number objected to US intervention in Libya. Even more recoil at the grim prospect of entering the Syrian theater. Yet there is no anti-war movement to translate that seething disillusionment into action. There are no mass demonstrations. No systematic efforts to obstruct military recruiting. No nation-wide strikes. No campus walkouts. No serious divestment campaigns against companies involved in drone technology.

Similar popular disgust is evident regarding the imposition of harsh austerity measures during a prolonged and enervating recession. But once again this smoldering outrage has no political outlet in the current political climate, where both parties have fully embraced the savage bottom-line math of neoliberalism.

Homelessness, rampant across America, is a verboten topic, unmentioned in the press, absent from political discourse. Hunger, a deepening crisis in rural and urban America, is a taboo subject, something left to religious pray-to-eat charities or the fickle whims of corporate write-offs.

What do they offer us, instead?

Pious homilies about the work ethic, the sanctity of the family unit, the self-correcting laxative of market forces.

The self-evident need for large-scale public works projects to green the economy and put people to work goes unmentioned, while the press and the politicians engage in a faux debate over the minutia of seques-

tration and sharpen each others knives to begin slashing Social Security and Medicare. Where's the collective outrage? Where are the marches on the Capitol? The sit-ins in congressional offices?

I recently wrote an essay on the Obama administration's infamous memo justifying drone strikes inside countries like Pakistan and Yemen that the US is not officially at war against. In one revealing paragraph, a

The Dangerous Rise of the Millionaires

Chrystia Freeland, The Globe and Mail, June 20, 2013

New York – The rich are getting richer. That's the conclusion of the World Wealth Report, the landmark annual study of the world's millionaires, which was released this week by RBC Wealth Management and Capgemini Financial Services.

The report found that the number of people in the world with more than \$1 million to invest soared to a record of 12 million in 2012, a 9.2 percent increase from 2011. The aggregate wealth of this group hit a new high, too – \$46.2 trillion (US) – a 10-percent increase from the previous year.

What is particularly striking is that even within this rich group, the very, very rich are doing best of all. The ranks of the ultrarich, whom the report defines as people with investable assets of at least \$30 million, surged 11 percent, an even greater rate than the mere millionaires. This small sliver of the global population – 111,000 people – accounted for 35.2 percent of the entire wealth of all the world's millionaires taken together.

What are the winner-take-all forces driving this extreme concentration of wealth at the top? One explanation was offered earlier this month by Alan Krueger, the Princeton economist and departing chairman of President Barack Obama's Council of Economic Advisers. Drawing on his own previously published academic work, Mr. Krueger used the economics of what he calls "the rock and roll industry" to illustrate the forces more broadly at work in the world economy.

"We are increasingly becoming a 'winner-take-all' economy, a phenomenon that the music industry has long experienced," Mr. Krueger argued in a speech in Cleveland. "Over recent decades, technological change, globalization and an erosion of the institutions and practices that support shared prosperity in the US have put the middle class under increasing stress. The lucky and the talented – and it is often hard to tell the difference – have been doing better and better, while the vast majority has struggled to keep up."

The classic free-market capitalist answer

to this has been, "So what?"

N. Gregory Mankiw, a professor of economics at Harvard University, thoughtfully makes that case in "Defending the One Percent," a paper to appear in the summer issue of the *Journal of Economic Perspectives*, which will showcase a number of studies on the rise of the global 1 percent.

Prof. Mankiw begins his argument with a thought experiment, in which an imagined "egalitarian utopia" is disrupted "by an entrepreneur with an idea for a new product."

"Think of the entrepreneur as Steve Jobs as he develops the iPod, J.K. Rowling as she writes her *Harry Potter* books, or Steven Spielberg as he directs his blockbuster movies. When the entrepreneur's product is introduced, everyone in society wants to buy it. They each part with, say, \$100. The transaction is a voluntary exchange, so it must make both the buyer and the seller better off. But because there are many buyers and only one seller, the distribution of economic well-being is now vastly unequal. The new product makes the entrepreneur much richer than everyone else."

Prof. Mankiw argues that this imagined scenario "captures, in an extreme and stylized way, what has happened to US society over the past several decades," and it forms the basis of his self-described defence of the winner-take-all economy.

Of course, as Prof. Mankiw himself realizes, this stylized story of the rise of the 1 percent presents the group in their most attractive guise. It doesn't include the commodities barons who have become rich by securing control of natural resources, or the bankers who have benefited from the heads-I-win-tails-you-lose deregulation of the financial services industry, or the CEOs who haven't invented anything but have profited from a culture of soaring executive pay.

Yet, even with those caveats, Prof. Mankiw makes an essential point, and one that anyone who is worried about rising income inequality needs to reckon with – many of the ultra-high-net-worth individuals flourishing in today's global economy are admirable entrepreneurs, and we would all be poorer without them.

What, then is the problem? The biggest one, alluded to by Mr. Krueger, is that the rise of the ultrarich isn't occurring in isolation. It is taking place in lockstep with a darker phenomenon – the hollowing out of the global middle class. The 2012-13 *Global Wage Report* by the International Labour Organization, a UN agency, found a world trend of a decreasing workers' share in the national income. That is true even in China, where wages are rising fast but gross domestic product is growing even more strongly.

What is most worrying is that labour productivity – which used to be the secret sauce for making everyone better off – has a diminished impact on wages. In the United States, according to the ILO, labour productivity in the non-farm business sector has increased about 85 percent since 1980, while real wages have grown just 35 percent. Even in Germany, which we often see as a middle-class success story, labour productivity grew by nearly a quarter over the past 20 years, but real wages remained flat.

The second big, bad consequence is declining social mobility. Miles Corak, a Canadian economist whose paper is due to be published alongside Prof. Mankiw's, shows that rising income inequality coincides with declining equality of opportunity. The 1 percent is very good at passing on its privilege, and those born at the bottom are finding it harder to climb up.

That is the great paradox of today's winner-take-all economy. At its best, it is driven by adopted dropouts like Steve Jobs or struggling single mothers like J.K. Rowling, who come up with something amazing and manage to prosper – and to enrich us all. But the winner-take-all economy will make such breakthroughs for anyone who didn't make the wise choice of being born into the 1 percent harder and harder in the future, which is why we urgently need to come up with ways to soften its impact.



Our Comment. We must courageously swallow the unswallowable to perfect our test. Here goes our serious attempt to do so. *W.K.*

Justice Department lawyer cited Richard Nixon's illegal bombing of Cambodia during the Vietnam War as a precedent for Obama's killer drone strikes. Let's recall that the bombing of Cambodia prompted several high-ranking officials in the Nixon cabinet to resign. It also sparked the student uprising at Kent State, which led the Ohio Governor Jim Rhodes to declare a state of emergency, ordering the National Guard to rush the campus. The Guard troops promptly began firing at the protesters, killing four and wounding nine. The war had come home.

Where are those protests today?

The environment is unraveling, thread by thread, right before our eyes. Each day brings more dire news. Amphibians are in stark decline across North America. Storms

of unimaginable ferocity are strafing the Great Plains week after week. The Arctic will soon be ice-free. The water table is plummeting in the world's greatest aquifer. The air is carcinogenic in dozens of California cities. The spotted owl is still going extinct. Wolves are beginning gunned down by the hundreds across the Rocky Mountains. Bees, the great pollinators, are disappearing coast-to-coast, wiped out by chemical agriculture. Hurricane season now lasts from May to December.

And about all the environmental movement can offer in resistance are a few designer protests against a pipeline which is already a *fait accompli*.

Our politics has gone sociopathic and liberals in America have been pliant to every abuse, marinated in the toxic silt of Obama's

mordant rhetoric. They eagerly swallow every placebo policy Obama serves them, dutifully defending every incursion against fundamental rights. And each betrayal only serves to make his adoring retinue crave his smile, his occasional glance and nod all the more urgently.

One looks in vain across this vast landscape of despair for even the dimmest flickers of real rebellion and popular mutiny, as if surveying a nation of somnambulists.

We remain strangely impassive in the face of our own extinction.

Jeffrey St. Clair is the editor of CounterPunch. His most recent book [with Joshua Frank] is Hopeless: Barack Obama and the Politics of Illusion. This is a condensed version of a talk he delivered at the University of Oregon.

What About Workers' Share of Income?

By Alan Wheatley, Reuters, July 23, 2013

London – Nothing lasts forever but a global trend that set in 30 years ago shows no sign of ending: a steep rise in the share of income that goes to profits and a corresponding decline in labour's slice of the economic pie.

The imbalance, which is driven by technical change, the waning clout of unions and the rise of financial markets, raises issues that are primarily political.

At what point will public opinion decide that the pendulum has swung too far towards the owners of capital? Should taxes and transfers be tweaked to redistribute income more fairly?

But the trend also feeds into an economic debate over the conventional assumption that modest wages are good for growth because they help productivity gains and hold down inflation.

Jeff Madrick with the New America Foundation in Washington argues that low wages are restraining recovery from the Great Recession and were a root cause of the financial crisis that triggered it.

That is because surplus countries such as China and Germany held down wages to promote exports, thereby eroding growth and wages in deficit economies such as the United States, where consumers racked up debt to sustain living standards.

The International Labour Organisation's *Global Wage Report 2012/13* says the effects of changes in the labour share on aggregate demand and incomes are ambiguous. But

a presumption that wage moderation is always beneficial for economic activity would be misguided.

"The challenge is to strike a balance between wages and profits and between household consumption, investment and exports. The idea that you simply cut wages and growth will follow is a simplistic one," said Patrick Belser, an economist with the Geneva-based UN body.

Indeed, while indebted countries on the rim of the euro zone need to put their house in order, officials are coming round to the view that deep cuts in real wages can be self-defeating.

"If in the name of competitiveness and internal devaluation you just compress wages constantly, you also kill demand and you can kill the recovery," European Employment Commissioner Laszlo Andor told Reuters.

The Trend Is Not the Worker's Friend

According to the ILO, labour's share of national income in 16 developed countries dropped from about 75 percent on average in the 1970s to 65 percent just before the financial crisis.

The mirror image of the decline in workers' compensation is an increased share for capital, or profit.

Labour productivity has increased more than twice as much as average wages since 1999, the ILO says, and the surplus is going to the owners of capital, notably via much higher dividends.

"This is an enormous upheaval in the distribution of income in the global economy, and it has happened in an almost continuous straight line over the entire period," Gavyn Davies, former chief economist of Goldman Sachs, wrote in a blog.

What makes the shrinking labour share even more remarkable is that the trend is evident across industries and in rich and poor economies alike. The labour share of China's GDP dwindled to less than 50 percent in 2008 from nearly 65 percent in 1992.

Globally, the labour share rebounded during the recession due to a slump in profits but the decline has since resumed.

"There are no signs that tell us that anything has changed," said Andrea Bassani with the Organisation for Economic Cooperation and Development in Paris.

The OECD attributes 80 percent of the shrinkage in the labour share to growth in productivity and capital deepening made possible by new information and communication technologies.

These have led to unprecedented advances in innovation and production processes that boost productivity. Workers are also being replaced by machines, especially in routine jobs.

Blame the Financiers

By contrast, the ILO estimates 46 percent of the fall in the labour share is due to global "financialisation" – the increased role played by the financial sector since the

Continued on page 11

Searching Big Data for “Digital Smoke Signals”

By Steven Lohr, *The New York Times*, August 8, 2013

The office has the look and feel of an Internet start-up. The workers are young, the dress is casual and the computer of choice is an Apple notebook. They inhabit a single open room. The walls have white-boards for scribbling ideas when inspiration strikes.

But the office in Manhattan is not dedicated to the latest app. It is the base camp of the United Nations Global Pulse team – a tiny unit inside an institution known for its sprawling bureaucracy, not its entrepreneurial hustle. Still, the focus is on harnessing technology in new ways – using data from social networks, blogs, cellphones and online commerce to transform economic development and humanitarian aid in poorer nations.

“We work hard, play hard and tend to stay well-caffeinated,” said Robert Kirkpatrick, who leads the group. “This is an exercise in entrepreneurship.”

The efforts by Global Pulse and a growing collection of scientists at universities, companies and nonprofit groups have been given the label “Big Data for development.” It is a field of great opportunity and challenge. The goal, the scientists involved agree, is to bring real-time monitoring and prediction to development and aid programs. Projects and policies, they say, can move faster, adapt to changing circumstances and be more effective, helping to lift more communities out of poverty and ever save lives.

Research by Global Pulse and other groups, for example, has found that analyzing Twitter messages can give an early warning of a spike in unemployment, price rises and disease. Such “digital smoke signals of distress,” Mr. Kirkpatrick said, usually come months before official statistics – and in many developing countries today, there are no reliable statistics.

Finding the signals requires data, though, and much of the most valuable data is held by private companies, especially mobile phone operators, whose networks carry text messages, digital-cash transactions and loca-

tion data. So persuading telecommunications operators, and the governments that regulate sometimes won them, to release some of the data is a top task for the group. To analyze the data, the groups apply tools now most widely used for pinpointing customers with online advertising.

“We’re trying to track unemployment and disease as if it were a brand,” Mr. Kirkpatrick said.

Global Pulse is small, employing 11 people in New York. Seven more people work at a laboratory in Jakarta, Indonesia, that opened last fall. And Global Pulse is hiring for another lab in Kampala, Uganda, to open this fall.

The research labs are initially working on demonstration projects to show the potential of the technology. “But the larger role of Global Pulse is as a catalyst to foster a data ecosystem for development, bringing together the private sector, universities and governments,” said William Hoffman, an associate director who leads the data-driven development program at the World Economic Forum, which has worked with Global Pulse.

Its United Nations pedigree helps Global Pulse serve as an impresario for data-driven development efforts. “Global Pulse has been central in raising awareness,” said Alex Pentland, a data scientist and director of the Human Dynamics Lab at the Massachusetts Institute of Technology. “And it is a trusted party in an area that is sensitive for many governments and companies.”

The group traces its origins to the 2008 financial crisis and concerns about how the economic pain would sweep through the developing world. But as Secretary General Ban Ki-moon of the United Nations said in a speech, “Our traditional 20th-century tools for tracking international development cannot keep up.”

Global Pulse is intended as a 21st century answer to that problem. It was set up in 2009, as an innovation arm in the office of the secretary general. Mr. Kirkpatrick joined in early 2010, began assembling a team and emphasized tightly focused projects and rapid experimentation, while traveling the world to spread the data-for-development gospel at conferences and in private meetings.

There are several nonprofit organizations dedicated to using Internet technology

and data for humanitarian ends, including DataKind, Ushahidi, Crisis Mappers and InSTEDD. But those groups typically respond after natural disasters and emergencies. Yet Global Pulse is also focused on re-engineering traditional development projects in transportation, water supplies and food distribution. Its deputy director is Makena Walker, a 15-year veteran of the United Nations’ World Food Program.

For all of its goals, Global Pulse needs corporate partners. In addition to working for nonprofits, Mr. Kirkpatrick spent years in the corporate world, having been a founder of the humanitarian systems teams at both Microsoft and Groove Networks, a software company bought by Microsoft in 2005.

In Indonesia, for example, Global Pulse has worked with both Crimson Hexagon, a start-up, and SAS Institute, a large data analytics software company, to mine Twitter messages and other online media for clues to price trends. The smart algorithms must identify not just words, but context and often sentiment. “I had rice for breakfast” is not a signal. “The price of rice is getting scary” is. The research found that surges in online mentions accurately capture price increases a month or two before official statistics.

“Sentiment analysis of social media is where our technology is headed,” said I-Sah Hsieh, global manager for international development at SAS. “We certainly never expected that the UN would be our partner for cutting-edge research.”

Cellphones are mobile sensors of human behavior. So the data collected by mobile carriers is often particularly useful for development programs. But the collection and sharing of that data often raises questions about privacy.

Mr. Kirkpatrick has been an advocate of “data philanthropy” and the creation of a public “data commons,” in which companies contribute large customer data sets, stripped of personally identifying information, for research on development and public health. For companies, Mr. Kirkpatrick insists, it should be a matter of self-interest, since economically healthy communities are more attractive markets.

Orange, formerly France Telecom, took a significant step last year when it released a data set containing 2.5 billion records of calls and text messages exchanged between

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five million anonymous cellphone users in Ivory Coast. It was done for research purposes and with the cooperation of the Ivory Coast government.

The result was a global contest of ideas, with hundreds of university and corporate scientists participating. The research projects were presented, and winners were announced in May at a conference at MIT; Mr. Kirkpatrick was on a jury selecting the winners.

The winner in the development category was an IBM team of scientists, who analyzed travel patterns, derived from call location

data. Minor changes to the bus network, they concluded, could cut the average commute time in Abidjan, the Ivory Coast's largest city, by 10 percent, making it easier for children to travel to school, for rural residents to seek work in the city and to reduce pollution.

Before submitting the call records, Orange executives sent the data set to three European universities, where computer experts probed the anonymous data and made suggestions to improve security.

"It is a gray zone, and there are risks, but we think it's really worth it," said Nicolas

de Cordes, vice president for marketing vision at Orange. "We hope this simulates the desire of other mobile operators to work on best practices for sharing their data."



Our Comment. "Best practices" refers to, of course, controlling "the bombs *without* spilling them." Beans according to this armory guide should be cast with an eye on sportsmanship, rather than on much else. With so many masters and masterlets to be made happy, it is hardly difficult to unwrap the art that hides as much as it reveals. *W.K.*

Marx's Lesson for the Muslim Brothers

By Sheri Berman, The New York Times, August 11, 2013

Karl Marx wrote that history repeats itself, first as tragedy, then as farce. He had in mind the Revolution of 1848, when a democratic uprising against the French monarchy collapsed into a Bonapartist dictatorship just as the French Revolution had six decades earlier.

In 1848, workers joined with liberals in a democratic revolt to overthrow the French monarchy. However, almost as soon as the old order collapsed, the opposition fell apart, as liberals grew increasingly alarmed by what they saw as "radical" working class demands. Conservatives were able to co-opt fearful liberals and reinstall new forms of dictatorship.

Those same patterns are playing out in Egypt today – with liberals and authoritarians playing themselves, and Islamists playing the role of socialists. Once again, an inexperienced and impatient mass movement has overreached after gaining power. Once again, liberals have been frightened by the changes their former partners want to enact and have come crawling back to the old regime for protection. And as in 1848, authoritarians have been happy to take back the reins of power.

If Egypt's army continues its crackdown and liberals continue to support it, they will be playing right into the hands of Marx's contemporary successors. "Islamists of the world, unite!" they might say; "you have nothing to lose but your chains." And, unfortunately, they will be right.

It should come as no surprise that Egyptian liberals would implore the military to begin a coup to end the country's first experiment with democracy just two years

after they joined hands with Islamists to oust an authoritarian regime. In the early stages of a country's political development, liberals and democrats often don't agree on anything other than the desirability of getting rid of the ancient régime.

Establishing a stable democracy is a two-stage process. First you get rid of the old regime, then you build a durable democratic replacement. Because the first stage is dramatic, many people think the game is over when the dictator has gone. But the second stage is more difficult. There are many examples of broad coalitions coming together to oust dictators but relatively few of them stayed together and agreed on what the new regime should look like. Opposition movements tend to lose steam, falling prey to internal squabbles and the resurgent forces of the old regime.

The year 1848, the original "springtime of the peoples," was the first time that an organized workers' movement had appeared on the political scene, and its demands frightened liberals. The middle-class wanted economic liberalization; many workers demanded more radical economic and social change. Liberals favored a limited opening of the political system, while workers' groups wanted full democratization and the power that came with it. When it became clear that workers and socialists might win, liberals balked, and many of them turned back to the conservatives, seeing the restoration of authoritarianism as the lesser of two evils.

This is almost exactly what is playing out in Egypt now. Years of authoritarian rule meant that political and social institutions allowing the peaceful articulation of popular dissent were systematically suppressed.

And the state deliberately deepened social divisions. So when democratization came, long-dormant distrust and animosity exploded in extremist rhetoric, mass protests and violence. These things always frighten liberals, who favor order and moderation and dislike radical social experiments. This was true in Europe in 1789 and 1848, and it's true of Egyptian liberals today.

The problem is how liberals react to such fears. During the late 20th-century transitions to democracy in Southern and Eastern Europe, extremism and religion weren't major factors. Different groups were thus able to agree on the rules of the game. Also, it was not the first try at democracy in most European countries, and the European Union was there to help. But in Egypt and other parts of the Arab world, the threat of extremism terrifies liberals, and thanks to years of authoritarianism, there isn't a culture of compromise, nor is there a strong democratic neighbor to guide them.

The 1848 fiasco strengthened the radical elements of the socialist movement at the expense of the moderates and created a poisonous and enduring rift between liberals and workers. After liberals abandoned democracy, moderate socialists looked like suckers and radicals advocating a nondemocratic strategy grew stronger. In 1850, Marx and Engels reminded the London Communist League that they had predicted that a party representing the German liberal bourgeoisie "would soon come to power and would immediately turn its newly won power against the workers. You have seen how this forecast came true." They went on to warn, "To be able forcefully and threateningly to oppose this party, whose betrayal

Continued on page 11

Global Looting: The New EU Bailin Law was Passed 8 Days Ago. Did You Notice?

The Slog, August 9, 2013

Revealed: official details on how the EU will steal from us.

Three beaming eurocrats – Barroso, Van Rompuy and Lithuanian Dalia Grybauskaitė – emerged triumphant from a session two days ago, in which they mapped out the biggest bank heist in world history. This is to put flesh on the eurozone law hastily passed on August 1st (while EU citizens were on holiday) to deal with the event of a bank collapse. Under this draft proposal – which many expect to be applied to the entire EU – no depositor big or small will in future be able to feel safe with money deposited in a bank. The Slog now calls for those who represent us, across the entire cultural spectrum of European society – to do something.

In a barely read piece a month ago, the *International Business Times* reported on the rapidly drafted new EU law for “overhauling its policy on how banks receive bumper bailouts.” Be aware: this is an EU move, not a eurozone move: it is already law (it passed on August 1) and although for now it applies only to the eurozone, it is an EU law. Hardly anyone has commented on this, but the approach being taken matches word for word the 3-card trick George Osborne used six weeks ago when he said:

“In future, taxpayers will not be called upon to bail banks out. It will be down to the creditors and the owners.”

The most remarkable example of double-speak to date, at the time I pointed out that creditors are taxpayers (they’re account holders, simple as that) and so as the Establishments aren’t ask us for higher taxes to bail out their mates in the banking system, they will take it via, if you like, Direct Debit. It is exactly the same principle of stealing the Troika wishes to apply to Greek private pension funds.

The initial piece at the IBT website noted that ‘Eurozone leaders agreed upon the major policy shift and also confirmed that the new rules will help protect the taxpayer and move the burden of bailing out the banks onto shareholders and junior debt holders.’ Again, more bollocks: how will ripping your money out *protect* you? And note – *junior* debt holders...aka, you and I.

But yesterday from the German site *Deutsche Wirtschafts Nachrichten* (Ger-

man Economic News) came a piece reporting that all bets are off as far as the “guarantee of all funds under €100,000” pledge is concerned. Under the current Lithuanian Presidency of Dalia Grybauskaitė (*seen left between a Trot and a poet*), the proposal as drafted – and almost entirely ignored by the Western media – states as follows:

- Treatment will not be the same regardless of size of deposit, BUT small account holders will have to wait up to four weeks to get their money....“depending on how serious the insolvency is.” During that time, there will be a maximum withdrawal of €100-200 per day – again, perhaps less depending on the seriousness of the failure. (*Based on the Cyprus experience, the haircut in the end will be at least 60%.*)

- The EU Parliament – allegedly – is demanding that deposits of €100,000+ euros should be confiscated within five days. (*So much for MEPs offering us some kind of protection from the Sprouts.*)

- In the event of a banking collapse, all previous government commitments are null and void. The force majeure of “exceptional circumstances” can lead to ways round such pledges. Part of the new plan suggests savers could also be subject to a “penalty tax” if they have less than €100,000 in the bank. (*So much for Merkel’s promise to the German people.*)

George Orwell could’ve dropped acid and still not come up with a scheme quite so assumptive and brazenly deranged as this one. It is based on the following insane principles:

1. Putting money in a bank makes every citizen a creditor of that bank, equally prone to confiscation in order to repay – who exactly? The answer is, other banks it owed money. So it’s not really our money after all, it’s the banking sector’s money. After it’s been taxed by the Government, despite the fact that we earned it...it’s really all bankers’ money after all. Unbelievable.

2. If we are prudent enough to keep money in smaller amounts in lots of accounts, we will have to pay a “penalty tax” – well of course we will: I mean, given it’s never our money really – we’re just borrowing it, or something – then quite right too. And because it isn’t really our money, we shall be given strictly limited spending

money per day. The brass neck is beyond belief.

3. If you have been seditious enough in your life to actually make quite a lot of money legally, then within five days the money that was never really yours will be taken back by its rightful owners...the bankers...or the Government rescuing the bankers but without doing it in our taxes. Why five days – why not five seconds? I mean, it’s their money: we were just earning it for safe keeping, right? Of course we were.

4. Anything is an exceptional circumstance if they say it is. Even the Nazis in 1933 had to burn down the bloody Reichstag to declare a State of Emergency. In 2013, it requires just one dumb, over-leveraged, F**kwittered bank to collapse under the weight of its CEO’s ego, and we’re all pauperised *by Law*.

I think the time has finally come when we must give our legislators and “leaders” here in the UK a gigantic kick up the jacksy. And I think the time has come for every decent organisation to mobilise even Wayne and Waynetta to GTF off the sofa and start making it clear to the scheming Wankers of Westminster that we’re not having any of this crap here in Britain.

As I tried to point out two years ago, this is no longer a political issue. This is a case of one simple rule by which decent citizens must abide: *stealing things is wrong...especially when it’s done to repair your own stupid decisions in the past.*

These are the questions we should address to everyone supposed to represent us, *starting today*:

1. To German Sloggers, demand Angela Merkel make the safety of *all* EU citizens’ bank money a solid Election pledge next month.

2. To the Christian, Jewish, Muslim and humanist leaderships of Britain: start an outcry in the media. Why aren’t you giving your parishioners more support? Where is the outcry about pilfering from innocent citizens? Where is the condemnations of illegal, amoral confiscation?

3. To the anti-EU Conservative Right, to UKIP and its leader Nigel Farage, to our MEPs – especially Dan Hannan: do you realise the delayed referendum on EU membership will come far too late to stop this?

When are you going to start spelling this out to your supporters and media contacts that this is now a matter of citizen survival? Why hasn't there been uproar in the European Parliament about this? You guys talk a good game, but where's the line in the sand?

4. To the TUC: Your members are about to be fleeced by the Co-op's management, and stand to be ruined by the EU's ECB-driven policy of slashing both the wages and assets of the European workforce. Can we have less political point-scoring, and more ecumenical organising action?

Muslim Brothers *from page 9*

of the workers will begin with the very first hour of victory, the workers must be armed and organized." This is not the lesson anybody wants Islamists to learn now.

The mistake that liberals made in 19th-century Europe was to see all socialists as fanatics. But while some socialists were extremists, others were opposed to violence

Share of Income *from page 7*

1980s, accompanied by an emphasis on maximising short-term shareholder returns.

Put differently, capitalists have been calling the shots since Ronald Reagan and Margaret Thatcher championed financial deregulation. Workers have been politically powerless to resist, their bargaining strength sapped by globalisation.

One question is whether the post-crisis re-regulation of the financial sector augurs a broader reassessment of how societies distribute income – especially as an ever-greater proportion of falling labour income is going to a few very high earners.

Germany is debating whether to introduce a minimum wage, while Switzerland passed a referendum in March imposing strict controls on executive pay.

"Where has the economic growth gone over the last 15 years?" Belser with the ILO asked. "It's gone into the remuneration of the top 1 percent of earners and the owners of capital. But you don't see a big revolt against this distribution at the moment; it's more frustration."

That frustration might be reduced if firms were re-investing more of their profits, generating growth and jobs. But companies from the United States to Japan are sitting on huge cash piles.

A Question of Fairness

Germany's gross fixed investment spending has fallen steadily as a share of GDP for 20 years and is now one of the lowest among

5. To the Labour Party leadership: show that you truly are our friend in tough times. Stop doing bloody focus groups and poncing about between the lines of bland policy statements designed to make you look harmlessly voteworthy. Come back off your holidays and take a stand – when are you going to start hounding Camerlot bigtime on this iniquitous policy? Or are you complicit in it? Please tell us.

6. To the whingers and it-won't-make-any-difference-it's-nothing-to-do-with-me brigade: sorry, but you just ran out of road.

and dedicated to democracy. Those socialists – who later became Europe's social democrats rather than communists – wanted social and economic reforms, but not ones that were mortal threats to capitalism or democracy. Yet, for too long, European liberals were unwilling to recognize those differences; they opposed full democratization and worked actively to repress the entire

OECD countries, even though its wage share dropped by five percentage points between 1995 and 2010.

Adam Posen, head of the Peterson Institute for International Economics in Washington, said Germany should force companies to distribute reserves that are not invested or handed out as pay. Profit-sharing should be the norm.

"Growth in low-wage jobs and in corporate cash hoardings put pressure downwards on investment and consumption, reinforcing the dependence on exports," Posen wrote.

Bassani with the OECD said the issue was one of equity and, as such, a political choice for voters to make. But he cautioned against interfering with market forces to limit the decline in labour income as this might harm long-term growth.

Rather, governments should help workers with education and training to win the "race against the machine" and temper inequality through bold use of taxes and transfers.

"At the end of the day I still believe it's better to have a bigger pie and to make big slices out of it rather than have a small pie with equal slices," Bassani said.



Our Comment. The hidden lies bloodred on the sidewalk. That is that conclusion – what goes on in actual distribution circles is spoken as a reported lie rather than an honoured conclusion. *Bill Krehm*

Like it or not, you're involved. Start a movement now to remove every penny of current account and deposit monies from the bank. Are you a live Homo sapiens, or a braindead lobster?

The Co-operative scandal is just the beginning. They are going to take our money and leave us all penniless....at their mercy. To combat this, we really don't need any slogan beyond this one:

The Slog was founded by John Ward. It is written, edited, published, designed and monitored by John Ward.

movement. The results were disastrous.

Radical, violent and nondemocratic elements within the socialist movement began to ask why workers should participate in a system unwilling to accept the possibility of their victory. And when socialists became the largest political force across Europe, liberals accepted unsavory bargains with conservatives to keep the Left out of power. As a result, European societies became increasingly divided and conflict-ridden.

Egypt's liberals are repeating those mistakes today. Once again, they see their opponents as zealots determined to abolish everything liberals value. But just as not all socialists were pro-Stalinists, not all Islamists want to implement a theocratic regime. There are moderate Islamists today who are willing to play by the rules of the game, and they should be encouraged to do so.

Islamism is still the largest and best organized popular political force in Egypt, and it is vital that the Egyptian Army and its liberal allies let Islamists know there is a place for them in the region's democratic future. If all Islamists are demonized, the divisions within Egyptian society will grow, the moderate Islamists will become marginalized, and Egypt's political future will be troubled.

A century after 1848, social democrats, liberals and even moderate conservatives finally came together to create robust democracies across Western Europe – an outcome that could and should have happened earlier and with less violence. Middle Eastern liberals must learn from Europe's turbulent history instead of blindly repeating it.



Our Comment. Europe's turbulent history lends itself to a useful reorganization, that will be more open-minded to the most recent trends, not ignoring ways and means of enlisting what is currently most useful and the changing standards by which those new trends must be judged. *W.K.*

How Laura Poitras Helped Snowden Spill His Secrets

By Peter Maass, *The New York Times*, August 18, 2013

This past January, Laura Poitras received a curious e-mail from an anonymous stranger requesting her public encryption key. For almost two years, Poitras had been working on a documentary about surveillance, and she occasionally received queries from strangers. She replied to this one and sent her public key – allowing him or her to send an encrypted e-mail that only Poitras could open, with her private key – but she didn't think much would come of it.

The stranger responded with instructions for creating an even more secure system to protect their exchanges. Promising sensitive information, the stranger told Poitras to select long pass phrases that could withstand a brute-force attack by networked computers. "Assume that your adversary is capable of a trillion guesses per second," the stranger wrote.

Before long, Poitras received an encrypted message that outlined a number of secret surveillance programs run by the government. She had heard of one of them but not the others. After describing each program, the stranger wrote some version of the phrase, "This I can prove."

Seconds after she decrypted and read the e-mail, Poitras disconnected from the Internet and removed the message from her computer. "I thought, OK, if this is true, my life just changed," she told me last month. "It was staggering, what he claimed to know and be able to provide. I just knew that I had to change everything."

Poitras remained wary of whoever it was she was communicating with. She worried especially that a government agent might be trying to trick her into disclosing information about the people she interviewed for her documentary, including Julian Assange, the editor of WikiLeaks. "I called him out," Poitras recalled. "I said either you have this information and you are taking huge risks or you are trying to entrap me and the people I know, or you're crazy."

The answers were reassuring but not definitive. Poitras did not know the stranger's name, sex, age or employer (CIA? NSA? Pentagon?). In early June, she finally got the answers. Along with her reporting partner, Glenn Greenwald, a former lawyer and a

columnist for *The Guardian*, Poitras flew to Hong Kong and met the NSA contractor Edward J. Snowden, who gave them thousands of classified documents, setting off a major controversy over the extent and legality of government surveillance. Poitras was right that, among other things, her life would never be the same.

Greenwald lives and works in a house surrounded by tropical foliage in a remote area of Rio de Janeiro. He shares the home with his Brazilian partner and their 10 dogs and one cat, and the place has the feel of a low-key fraternity that has been dropped down in the jungle. The kitchen clock is off by hours, but no one notices; dishes tend to pile up in the sink; the living room contains a table and a couch and a large TV, an Xbox console and a box of poker chips and not much else. The refrigerator is not always filled with fresh vegetables. A family of monkeys occasionally raids the banana trees in the backyard and engages in shrieking battles with the dogs.

Greenwald does most of his work on a shaded porch, usually dressed in a T-shirt, surfer shorts and flip-flops. Over the four days I spent there, he was in perpetual motion, speaking on the phone in Portuguese and English, rushing out the door to be interviewed in the city below, answering calls and e-mails from people seeking information about Snowden, tweeting to his 225,000 followers (and conducting intense arguments with a number of them), then sitting down to write more NSA articles for *The Guardian*, all while pleading with his dogs to stay quiet. During one especially fever-pitched moment, he hollered, "Shut up, everyone," but they didn't seem to care.

Amid the chaos, Poitras, an intense-looking woman of 49, sat in a spare bedroom or at the table in the living room, working in concentrated silence in front of her multiple computers. Once in a while she would walk over to the porch to talk with Greenwald about the article he was working on, or he would sometimes stop what he was doing to look at the latest version of a new video she was editing about Snowden. They would talk intensely – Greenwald far louder and more rapid-fire than Poitras – and occasionally break out laughing at some shared joke or absurd memory. The Snowden story, they

both said, was a battle they were waging together, a fight against powers of surveillance that they both believe are a threat to fundamental American liberties.

Two reporters for *The Guardian* were in town to assist Greenwald, so some of our time was spent in the hotel where they were staying along Copacabana Beach, the toned Brazilians playing volleyball in the sand below lending the whole thing an added layer of surreality. Poitras has shared the byline on some of Greenwald's articles, but for the most part she has preferred to stay in the background, letting him do the writing and talking. As a result, Greenwald is the one hailed as either a fearless defender of individual rights or a nefarious traitor, depending on your perspective. "I keep calling her the Keyser Soze of the story, because she's at once completely invisible and yet ubiquitous," Greenwald said, referring to the character in "The Usual Suspects" played by Kevin Spacey, a mastermind masquerading as a nobody. "She's been at the center of all of this, and yet no one knows anything about her."

As dusk fell one evening, I followed Poitras and Greenwald to the newsroom of *O Globo*, one of the largest newspapers in Brazil. Greenwald had just published an article there detailing how the NSA was spying on Brazilian phone calls and e-mails. The article caused a huge scandal in Brazil, as similar articles have done in other countries around the world, and Greenwald was a celebrity in the newsroom. The editor in chief pumped his hand and asked him to write a regular column; reporters took souvenir pictures with their cellphones. Poitras filmed some of this, then put her camera down and looked on. I noted that nobody was paying attention to her, that all eyes were on Greenwald, and she smiled. "That's right," she said. "That's perfect."

Poitras seems to work at blending in, a function more of strategy than of shyness. She can actually be remarkably forceful when it comes to managing information. During a conversation in which I began to ask her a few questions about her personal life, she remarked, "This is like visiting the dentist." The thumbnail portrait is this: She was raised in a well-off family outside Boston, and after high school, she moved to San

Francisco to work as a chef in upscale restaurants. She also took classes at the San Francisco Art Institute, where she studied under the experimental filmmaker Ernie Gehr. In 1992, she moved to New York and began to make her way in the film world, while also enrolling in graduate classes in social and political theory at the New School. Since then she has made five films, most recently *The Oath*, about the Guantánamo prisoner Salim Hamdan and his brother-in-law back in Yemen, and has been the recipient of a

Peabody Award and a MacArthur award.

On September 11, 2001, Poitras was on the Upper West Side of Manhattan when the towers were attacked. Like most New Yorkers, in the weeks that followed she was swept up in both mourning and a feeling of unity. It was a moment, she said, when “people could have done anything, in a positive sense.” When that moment led to the pre-emptive invasion of Iraq, she felt that her country had lost its way. “We always wonder how countries can veer off course,”

she said. “How do people let it happen, how do people sit by during this slipping of boundaries?” Poitras had no experience in conflict zones, but in June 2004, she went to Iraq and began documenting the occupation.

Shortly after arriving in Baghdad, she received permission to go to Abu Ghraib prison to film a visit by members of Baghdad’s City Council. This was just a few months after photos were published of American soldiers abusing prisoners there. A promi-

The Simmering Stew of Income Inequality

Chrystia Freeland, The Globe and Mail, May 16, 2013

One of the most urgent questions in economics today is the connection between inequality and growth. That is because one of the big economic facts of our time is the surge in income disparity, particularly between those at the very top and everyone else. The other big fact is the recession set off by the financial crisis and the consequent imperative to jump-start economic growth.

There are two main and contradictory ideas about how that relationship might work. One is that inequality is the price of robust economic growth. Creating a system that encourages the best and the brightest to pull away from everyone else is how you shift your economy into highest gear.

A second theory, however, has been winning adherents in the aftermath of the financial crisis. It sees rising income inequality not as a symptom of a fast-growing economy or an incentive to help create one, but rather that too much inequality crushes economic growth.

One argument for why that might happen is that high income inequality creates an unstable system that is vulnerable to costly booms and busts. Another is that when too much of the income goes to the very top and not enough goes to the middle, then spending slumps, putting a brake on growth.

David Howell, a professor of economics at the New School in New York, has written a draft paper for the Center for American Progress that investigates the first argument. He argues that the United States and Britain have acted over the past three decades on what he calls the *laissez-faire* theory, that the equation of rising inequality and increasing gross domestic product is correct.

As he puts it, “the *laissez-faire* case for high inequality is grounded in the belief that

growth in output and employment depends mainly on strong incentives to work and invest.”

He tested that view by comparing the United States and Britain with their peers. He asked whether “compared to other rich countries, US income inequality has paid off in relatively high growth.” His answer: not particularly. He finds that “there is no simple correlation between our measures of growth and income inequality.”

At least some of those allegedly sclerotic European economies, dragged down by their highly redistributive welfare states, have out-performed the United States. But although his work suggests inequality is not needed to get growth, Prof. Howell does not show that inequality hurts growth, either: “I don’t show a strong measurable inverse effect.”

Lars Osberg, an economist at Dalhousie University in Halifax, takes on the second argument – that inequality can stifle growth. He, too, adopts a comparative lens, looking at Canada, the United States and Mexico.

Prof. Osberg argues that a growing chasm between those at the very top and everyone else imperils the overall economy. His worry is financial instability, as explained in a paper published by the Canadian Centre for Policy Alternatives last year.

“The added savings of the increasingly affluent must be loaned to balance total current expenditure,” he wrote, “but increasing indebtedness implies financial fragility, periodic financial crises, greater volatility of aggregate income and, as governments respond to mass unemployment with counter-cyclical fiscal policies, a compounding instability of public finances.”

This is a variation of an argument by University of Chicago Professor Raghuram

Rajan, who has suggested that rising income inequality was one of the drivers of the financial crisis. As inequality grew, and the incomes of the middle class stagnated, the US government responded by increasing the consumer credit available to the middle class.

For a while, that was a win-win scenario: consumption, and therefore the economy, grew, and the middle class was quiescent because stagnating incomes were masked by increasing consumer debt. But then it broke down: the middle-class consumption bubble and the Wall Street bubble it helped finance popped, with devastating consequences.

Professors Howell and Osberg are skeptical about the value of rising income inequality as a driver of economic growth. Combine that with the arithmetic of democracy – rising income inequality means a majority of voters are on the losing end of the deal – and a political backlash seems inevitable.

“Can capitalism survive?” is one of the trendiest conference topics among red-blooded capitalists and left-leaning professors alike. So far, at the ballot box and on the street, the question has not been as salient. That does not mean it will not be in the future, and in ways we cannot predict.



Our Comment. What has happened in effect is that those who plotted the currently accepted policy chose to attribute to “the market” (also taking on the status of market prediction) something that has been put there just to serve this disguised purpose. That is the relevant evidence of what has been quite transparently hidden, so that it will roar out its supposedly “hidden purpose.” The upshot of it all is that society has been hiddenly bribed to kid itself. *W.K.*

nent Sunni doctor was part of the visiting delegation, and Poitras shot a remarkable scene of his interaction with prisoners there, shouting that they were locked up for no good reason.

The doctor, Riyadh al-Adhath, invited Poitras to his clinic and later allowed her to report on his life in Baghdad. Her documentary, *My Country, My Country*, is centered on his family's travails – the shootings and blackouts in their neighborhood, the kidnapping of a nephew. The film premiered in early 2006 and received widespread acclaim, including an Oscar nomination for best documentary.

Attempting to tell the story of the war's effect on Iraqi citizens made Poitras the target of serious – and apparently false – accusations. On November 19, 2004, Iraqi troops, supported by American forces, raided a mosque in the doctor's neighborhood of Adhamiya, killing several people inside. The next day, the neighborhood erupted in violence. Poitras was with the doctor's family, and occasionally they would go to the roof of the home to get a sense of what was going on. On one of those rooftop visits, she was seen by soldiers from an Oregon National Guard battalion. Shortly after, a group of insurgents launched an attack that killed one of the Americans. Some soldiers speculated that Poitras was on the roof because she had advance notice of the attack and wanted to film it. Their battalion commander, Lt. Col. Daniel Hendrickson, retired, told me last month that he filed a report about her to brigade headquarters.

There is no evidence to support this claim. Fighting occurred throughout the neighborhood that day, so it would have been difficult for any journalist to not be near the site of an attack. The soldiers who made the allegation told me that they have no evidence to prove it. Hendrickson told me his brigade headquarters never got back to him.

For several months after the attack in Adhamiya, Poitras continued to live in the Green Zone and work as an embedded journalist with the US military. She has screened her film to a number of military audiences, including at the US Army War College. An officer who interacted with Poitras in Baghdad, Maj. Tom Mowle, retired, said Poitras was always filming and it “completely makes sense” she would film on a violent day. “I think it's a pretty ridiculous allegation,” he said.

Although the allegations were without evidence, they may be related to Poitras's

many detentions and searches. Hendrickson and another soldier told me that in 2007 – months after she was first detained – investigators from the Department of Justice's Joint Terrorism Task Force interviewed them, inquiring about Poitras's activities in Baghdad that day. Poitras was never contacted by those or any other investigators, however. “Iraq forces and the US military raided a mosque during Friday prayers and killed several people,” Poitras said. “Violence broke out the next day. I am a documentary filmmaker and was filming in the neighborhood. Any suggestion I knew about an attack is false. The US government should investigate who ordered the raid, not journalists covering the war.”

In June 2006, her tickets on domestic flights were marked “SSSS” – Secondary Security Screening Selection – which means the bearer faces extra scrutiny beyond the usual measures. She was detained for the first time at Newark International Airport before boarding a flight to Israel, where she was showing her film. On her return flight, she was held for two hours before being allowed to re-enter the country. The next month, she traveled to Bosnia to show the film at a festival there. When she flew out of Sarajevo and landed in Vienna, she was paged on the airport loudspeaker and told to go to a security desk; from there she was led to a van and driven to another part of the airport, then taken into a room where luggage was examined.

“They took my bags and checked them,” Poitras said. “They asked me what I was doing, and I said I was showing a movie in Sarajevo about the Iraq war. And then I sort of befriended the security guy. I asked what was going on. He said: ‘You're flagged. You have a threat score that is off the Richter scale. You are at 400 out of 400.’ I said, ‘Is this a scoring system that works throughout all of Europe, or is this an American scoring system?’ He said, ‘No, this is your government that has this and has told us to stop you.’ “

After 9/11, the US government began compiling a terrorist watch list that was at one point estimated to contain nearly a million names. There are at least two subsidiary lists that relate to air travel. The no-fly list contains the names of tens of thousands of people who are not allowed to fly into or out of the country. The selectee list, which is larger than the no-fly list, subjects people to extra airport inspections and questioning. These lists have been criticized by civil rights groups for being too broad and arbitrary

and for violating the rights of Americans who are on them.

In Vienna, Poitras was eventually cleared to board her connecting flight to New York, but when she landed at JFK, she was met at the gate by two armed law-enforcement agents and taken to a room for questioning. It is a routine that has happened so many times since then – on more than 40 occasions – that she has lost precise count. Initially, she said, the authorities were interested in the paper she carried, copying her receipts and, once, her notebook. After she stopped carrying her notes, they focused on her electronics instead, telling her that if she didn't answer their questions, they would confiscate her gear and get their answers that way. On one occasion, Poitras says, they did seize her computers and cellphones and kept them for weeks. She was also told that her refusal to answer questions was itself a suspicious act. Because the interrogations took place at international boarding crossings, where the government contends that ordinary constitutional rights do not apply, she was not permitted to have a lawyer present.

“It's a total violation,” Poitras said. “That's how it feels. They are interested in information that pertains to the work I am doing that's clearly private and privileged. It's an intimidating situation when people with guns meet you when you get off an airplane.”

Though she has written to members of Congress and has submitted *Freedom of Information Act* requests, Poitras has never received any explanation for why she was put on a watch list. “It's infuriating that I have to speculate why,” she said. “When did that universe begin, that people are put on a list and are never told and are stopped for six years? I have no idea why they did it. It's the complete suspension of due process.” She added: “I've been told nothing, I've been asked nothing, and I've done nothing. It's like Kafka. Nobody ever tells you what the accusation is.”

After being detained repeatedly, Poitras began taking steps to protect her data, asking a traveling companion to carry her laptop, leaving her notebooks overseas with friends or in safe deposit boxes. She would wipe her computers and cellphones clean so that there would be nothing for the authorities to see. Or she encrypted her data, so that law enforcement could not read any files they might get hold of. These security preparations could take a day or more before her travels.

It wasn't just border searches that she had

to worry about. Poitras said she felt that if the government was suspicious enough to interrogate her at airports, it was also most likely surveilling her e-mail, phone calls and Web browsing. “I assume that there are National Security Letters on my e-mails,” she told me, referring to one of the secretive surveillance tools used by the Department of Justice. A National Security Letter requires its recipients – in most cases, Internet service providers and phone companies – to provide customer data without notifying

the customers or any other parties. Poitras suspected (but could not confirm, because her phone company and ISP would be prohibited from telling her) that the FBI had issued National Security Letters for her electronic communications.

Once she began working on her surveillance film in 2011, she raised her digital security to an even higher level. She cut down her use of a cellphone, which betrays not only who you are calling and when, but your location at any given point in time. She

was careful about e-mailing sensitive documents or having sensitive conversations on the phone. She began using software that masked the Web sites she visited. After she was contacted by Snowden in 2013, she tightened her security yet another notch. In addition to encrypting any sensitive e-mails, she began using different computers for editing film, for communicating and for reading sensitive documents (the one for sensitive documents is air-gapped, meaning it has never been connected to the Internet).

Harper Helped Push World Toward Austerity

By Linda McQuaig, *The Toronto Star*,
June 27, 2013

Part of larger agenda that's led to dramatic rise in inequality.

At the time, the transformation of the city's downtown core into a pseudo war zone seemed like the worst aspect of the Harper government's handling of the G20 summit in Toronto in June 2010. But perhaps just as insidious was Stephen Harper's personal role at that summit in pushing the developed world to abandon stimulus spending and veer sharply towards austerity.

That embrace of austerity has led to deep government spending cuts, with devastating consequences particularly in some southern European nations. Canadians have suffered too.

Harper likes to boast that he's shepherded the Canadian economy to a full recovery from the 2008 crash – even though 1.4 million Canadians remain unemployed. Our employment rate is stuck at 61.9 percent, down from 63.8 percent just before the crash, notes Jim Stanford, economist for the Canadian Auto Workers.

This explains Canada's poor ranking in a recent *OECD Employment Outlook* report, where Canada ranks 20th out of 34 nations.

Similarly, Canada's Parliamentary Budget Office estimated last fall that Ottawa's spending reductions will cost Canada approximately 125,000 jobs in 2016. (Reports like that angered the Harper government, which last spring ended Parliamentary Budget Officer Kevin Page's impressive stint in the watchdog job.)

The embrace of austerity at the 2010 Toronto summit was a dramatic reversal of the stimulus spending that the world's rich nations had quite effectively adopted to counter the devastating 2008 financial crash – in line with the lessons taught by the

great 20th century British economist John Maynard Keynes.

Keynes argued that, when businesses are unwilling to invest during a major downturn, the only solution is for governments to invest, and on a massive scale. This insight sharply contradicted the dogma of austerity that prevailed after the 1929 crash, prolonging the 1930s Depression. Although fiercely resisted, Keynes' insight was eventually accepted.

But right-wing economists, including Stephen Harper, have long bristled at Keynesianism – with its important role for government – and opposed its revival after the 2008 crash. (The minority Harper government only introduced a stimulus package in Canada because the opposition threatened to topple it otherwise.)

By early 2010, Keynesianism was losing ground on the international scene. But it was the G20 summit in Toronto later that year which “above all” resulted in the world's rich nations changing course and embracing austerity, according to a recent article by British financial journalist Martin Wolf in the *New York Review of Books*.

Harper played a key role in that lamentable change of direction. At his urging, the G20 nations agreed to commit themselves to halve their deficits by 2013 – a draconian approach that returned the developed world to obsessing about deficits and ignoring unemployment.

Ironically, the high unemployment produced by austerity reduces tax revenues and increases social spending, making deficit-reduction difficult.

(Ironically, the high unemployment produced by austerity reduces tax revenues and increases social spending, making deficit-reduction difficult. Much to its embarrassment, the Harper government has had to

revise its deficit estimates upward. So far this year, Canada's deficit is rising, not falling.)

But the fixation on deficits, which has dominated public discourse for much of the last thirty years, has helped divert attention from the fact that austerity is part of a larger agenda (including tax cuts and privatization) that's redistributed money towards the top.

While members of the public are guilty into believing they're living beyond their means and must tighten their belts, they've been distracted from noticing the transfer of income and wealth to the rich.

Thaddeus Hwong, a professor of tax policy at York University, has calculated just how much inequality has increased in Canada.

Using the model developed by University of California professor Emmanuel Saez, one of the world's leading experts in income inequality, Hwong found that between 1982 and 2010, the top-earning 1 percent of Canadians captured fully 60.3 percent of all the income growth in Canada.

That was even more dramatic than the US, where the top 1 percent captured 59.6 percent of income growth in the same period. This highlights that, while inequality is more extreme in the US, it is growing faster in Canada.

But with all those deficits to obsess about, who's noticing the rich, slightly off-stage, quietly getting richer.

Linda McQuaig is a journalist and author. Her most recent book is The Trouble with Billionaires (co-authored with Neil Brooks).



Our Comment. There is an excessive overlay of concern about “chronicity” that puts the very essence of our monetary system in grave doubt. *W.K.*

These precautions might seem paranoid – Poitras describes them as “pretty extreme” – but the people she has interviewed for her film were targets of the sort of surveillance and seizure that she fears. William Binney, a former top NSA official who publicly accused the agency of illegal surveillance, was at home one morning in 2007 when FBI agents burst in and aimed their weapons at his wife, his son and himself. Binney was, at the moment the agent entered his bathroom and pointed a gun at his head, naked in the shower. His computers, disks and personal records were confiscated and have not yet been returned. Binney has not been charged

with any crime.

Jacob Appelbaum, a privacy activist who was a volunteer with WikiLeaks, has also been filmed by Poitras. The government issued a secret order to Twitter for access to Appelbaum’s account data, which became public when Twitter fought the order. Though the company was forced to hand over the data, it was allowed to tell Appelbaum. Google and a small ISP that Appelbaum used were also served with secret orders and fought to alert him. Like Binney, Appelbaum has not been charged with any crime.

Poitras endured the airport searches for

years with little public complaint, lest her protests generate more suspicion and hostility from the government, but last year she reached a breaking point. While being interrogated at Newark after a flight from Britain, she was told she could not take notes. On the advice of lawyers, Poitras always recorded the names of border agents and the questions they asked and the material they copied or seized. But at Newark, an agent threatened to handcuff her if she continued writing. She was told that she was being barred from writing anything down because she might use her pen as a weapon.

“Then I asked for crayons,” Poitras re-

Goodbyes and Grief in Real Time

By Brian Stelter, *The New York Times*, August 1, 2013

Scott Simon’s first Twitter message about his mother, dated July 16, squeezed a universal story involving heartbreak and humor into 21 words. He wrote: “Mother called: ‘I can’t talk. I’m surrounded by handsome men.’ Emergency surgery. If you can, hold a thought for her now...”

The ellipsis hinted that he’d have more to say later, and he did. “We never stop learning from our mothers, do we?” he asked on July 25. By then his mother Patricia Lyons Simon Newman, 84, had spent several nights in the intensive care unit of a Chicago-area hospital. And Twitter users around the world were getting to know her thanks to the short bursts of commentary by Mr. Simon, the host of *Weekend Edition Saturday* on NPR.

The tweets captured the attention of a significant portion of the social-media world for days.

Mr. Simon wrote on Monday morning that “her passing might come any moment,” and that evening it did, when she died after being treated for cancer. Borrowing from *Romeo and Juliet*, he wrote, “She will make the face of heaven shine so fine that all the world will be in love with night,” and then stopped tweeting for half a day.

“When I began to tweet, I had almost no thought that this was going to be my mother’s deathbed,” Mr. Simon said in a telephone interview on Wednesday, after the outpouring of emotion – his Twitter audience’s as well as his own – had made national headlines. His mother, he said, had originally gone into the hospital for a blood test.

“As it got more serious, she was just so

marvelously entertaining and insightful,” he said. “I found it irresistible.”

In the past he might have done that through a book or a recorded segment for his radio program. (Mr. Simon commented on the deaths of his father and stepfather in his 2000 memoir, *Home and Away*.)

But the Internet enabled him to celebrate his mother and mourn her in real time, creating the sense this week that an online community was collectively grieving with him.

The online reactions were overwhelmingly positive; some people thanked Mr. Simon for letting them get to know Ms. Newman and described what she had in common with their own mothers. A smattering of online comments, he said were critical, suggesting that sharing such intimate moments was inappropriate. “Exploiting his mother’s last days for ratings and fame,” read one comment accompanying an article about Mr. Simon’s tweets on ABC-News.go.com.

“Social media is most poignant when it gives us a window on stories that would otherwise go untold,” said Burt Herman, a cofounder of Storify, an Internet company that markets what it calls social storytelling tools, “The stories can be voyeuristic, like a couple fighting at a Burger King. But at their best, these stories give us a deeply personal view into life’s inflection points, whether it’s a revolution abroad or an intimate moment between a mother and son.”

Mr. Simon said he wanted people to know that “I wasn’t holding my mother in my arms and tweeting with my free hand.”

He added: “As you may know, an incurable illness like this is a lot like war. There

are moments of panic and anxiety, separated by hours of tedium.”

Sometimes Ms. Newman gave Mr. Simon, and by extension some of his 1.2 million Twitter followers, a reason to smile or chuckle: “Believe me,” she told him on Saturday, “those great deathbed speeches are written ahead of time.” Sometimes, she seemed to want Mr. Simon to share bits of advice. On Sunday, he encapsulated this thought from his mother: “Listen to people in their 80s. They have looked across the street at death for a decade.”

Mr. Simon resumed posting to Twitter on Tuesday; he jocularly recounted how the couple who run a cremation service call themselves “postheath professionals.” During the interview on Wednesday he cried while expressing thanks for the “love and support and prayers” from people. He said he had given precisely no thought to the societal implications of sharing his mother’s life and death.

But others have. “We have reached a point in the way we think about our lives where our stories of struggle and loss feel like they no longer belong solely to us,” said Joe Lambert, founder of the Center for Digital Storytelling in Berkeley, Calif. Being able to broadcast them, on Twitter or elsewhere online, “feels like a gift to those grieving in our families, our communities and as far as a tweet might reach.”



Our Comment. With an adequate social sense, the reach of that liberated sense can in fact go around the globe and come back to us to tie our shoe-laces in a historically more useful manner. *W.K.*

called, “and he said no to crayons.”

She was taken into another room and interrogated by three agents – one was behind her, another asked the questions, the third was a supervisor. “It went on for maybe an hour and a half,” she said. “I was taking notes of their questions, or trying to, and they yelled at me. I said, ‘Show me the law where it says I can’t take notes.’ We were in a sense debating what they were trying to forbid me from doing. They said, ‘We are the ones asking the questions.’ It was a pretty aggressive, antagonistic encounter.”

Poitras met Greenwald in 2010, when she became interested in his work on WikiLeaks. In 2011, she went to Rio to film him for her documentary. He was aware of the searches and asked several times for permission to write about them. After Newark, she gave him a green light.

“She said, ‘I’ve had it,’” Greenwald told me. “Her ability to take notes and document what was happening was her one sense of agency, to maintain some degree of control. Documenting is what she does. I think she was feeling that the one vestige of security and control in this situation had been taken away from her, without any explanation, just as an arbitrary exercise of power.”

At the time, Greenwald was a writer for Salon. His article, “US Filmmaker Repeatedly Detained at Border,” was published in April 2012. Shortly after it was posted, the detentions ceased. Six years of surveillance and harassment, Poitras hoped, might be coming to an end.

Poitras was not Snowden’s first choice as the person to whom he wanted to leak thousands of NSA documents. In fact, a month before contacting her, he reached out to Greenwald, who had written extensively and critically about the wars in Iraq and Afghanistan and the erosion of civil liberties in the wake of 9/11. Snowden anonymously sent him an e-mail saying he had documents he wanted to share, and followed that up with a step-by-step guide on how to encrypt communications, which Greenwald ignored. Snowden then sent a link to an encryption video, also to no avail.

“It’s really annoying and complicated, the encryption software,” Greenwald said as we sat on his porch during a tropical drizzle. “He kept harassing me, but at some point he just got frustrated, so he went to Laura.”

Snowden had read Greenwald’s article about Poitras’s troubles at US airports and knew she was making a film about the government’s surveillance programs; he had

also seen a short documentary about the NSA that she made for *The New York Times* Op-Docs. He figured that she would understand the programs he wanted to leak about and would know how to communicate in a secure way.

By late winter, Poitras decided that the stranger with whom she was communicating was credible. There were none of the provocations that she would expect from a government agent – no requests for information about the people she was in touch with, no questions about what she was working on. Snowden told her early on that she would need to work with someone else, and that she should reach out to Greenwald. She was unaware that Snowden had already tried to contact Greenwald, and Greenwald would not realize until he met Snowden in Hong Kong that this was the person who had contacted him more than six months earlier.

There were surprises for everyone in these exchanges – including Snowden, who answered questions that I submitted to him through Poitras. In response to a question about when he realized he could trust Poitras, he wrote: “We came to a point in the verification and vetting process where I discovered Laura was more suspicious of me than I was of her, and I’m famously paranoid.” When I asked him about Greenwald’s initial silence in response to his requests and instructions for encrypted communications, Snowden replied: “I know journalists are busy and had assumed being taken seriously would be a challenge, especially given the paucity of detail I could initially offer. At the same time, this is 2013, and [he is] a journalist who regularly reported on the concentration and excess of state power. I was surprised to realize that there were people in news organizations who didn’t recognize any unencrypted message sent over the Internet is being delivered to every intelligence service in the world.”

In April, Poitras e-mailed Greenwald to say they needed to speak face to face. Greenwald happened to be in the United States, speaking at a conference in a suburb of New York City, and the two met in the lobby of his hotel. “She was very cautious,” Greenwald recalled. “She insisted that I not take my cellphone, because of this ability the government has to remotely listen to cellphones even when they are turned off. She had printed off the e-mails, and I remember reading the e-mails and felt intuitively that this was real. The passion and thought behind what Snowden – who we didn’t know

was Snowden at the time – was saying was palpable.”

Greenwald installed encryption software and began communicating with the stranger. Their work was organized like an intelligence operation, with Poitras as the mastermind. “Operational security – she dictated all of that,” Greenwald said. “Which computers I used, how I communicated, how I safeguarded the information, where copies were kept, with whom they were kept, in which places. She has this complete expert level of understanding of how to do a story like this with total technical and operational safety. None of this would have happened with anything near the efficacy and impact it did, had she not been working with me in every sense and really taking the lead in coordinating most of it.”

Snowden began to provide documents to the two of them. Poitras wouldn’t tell me when he began sending her documents; she does not want to provide the government with information that could be used in a trial against Snowden or herself. He also said he would soon be ready to meet them. When Poitras asked if she should plan on driving to their meeting or taking a train, Snowden told her to be ready to get on a plane.

In May, he sent encrypted messages telling the two of them to go to Hong Kong. Greenwald flew to New York from Rio, and Poitras joined him for meetings with the editor of *The Guardian’s* American edition. With the paper’s reputation on the line, the editor asked them to bring along a veteran *Guardian* reporter, Ewen MacAskill, and on June 1, the trio boarded a 16-hour flight from JFK to Hong Kong.

Snowden had sent a small number of documents to Greenwald, about 20 in all, but Poitras had received a larger trove, which she hadn’t yet had the opportunity to read closely. On the plane, Greenwald began going through its contents, eventually coming across a secret court order requiring Verizon to give its customer phone records to the NSA. The four-page order was from the Foreign Intelligence Surveillance Court, a panel whose decisions are highly classified. Although it was rumored that the NSA was collecting large numbers of American phone records, the government always denied it.

Poitras, sitting 20 rows behind Greenwald, occasionally went forward to talk about what he was reading. As the man sitting next to him slept, Greenwald pointed to the FISA order on his screen and asked Poitras: “Have you seen this? Is this saying

what I'm thinking it's saying?"

At times, they talked so animatedly that they disturbed passengers who were trying to sleep; they quieted down. "We couldn't believe just how momentous this occasion was," Greenwald said. "When you read these documents, you get a sense of the breadth of them. It was a rush of adrenaline and ecstasy and elation. You feel you are empowered for the first time because there's this mammoth system that you try and undermine and subvert and shine a light on – but you usually can't make any headway, because you don't have any instruments to do it – [and now] the instruments were suddenly in our lap."

Snowden had instructed them that once they were in Hong Kong, they were to go at an appointed time to the Kowloon district and stand outside a restaurant that was in a mall connected to the Mira Hotel. There, they were to wait until they saw a man carrying a Rubik's Cube, then ask him when the restaurant would open. The man would answer their question, but then warn that the food was bad. When the man with the Rubik's Cube arrived, it was Edward Snowden, who was 29 at the time but looked even younger.

"Both of us almost fell over when we saw how young he was," Poitras said, still sounding surprised. "I had no idea. I assumed I was dealing with somebody who was really high-level and therefore older. But I also knew from our back and forth that he was incredibly knowledgeable about computer systems, which put him younger in my mind. So I was thinking like 40s, somebody who really grew up on computers but who had to be at a higher level."

In our encrypted chat, Snowden also remarked on this moment: "I think they were annoyed that I was younger than they expected, and I was annoyed that they had arrived too early, which complicated the initial verification. As soon as we were behind closed doors, however, I think everyone was reassured by the obsessive attention to precaution and bona fides."

They followed Snowden to his room, where Poitras immediately shifted into documentarian mode, taking her camera out. "It was a little bit tense, a little uncomfortable," Greenwald said of those initial minutes. "We sat down, and we just started chatting, and Laura was immediately unpacking her camera. The instant that she turned on the camera, I very vividly recall that both he and I completely stiffened up."

Greenwald began the questioning. "I

wanted to test the consistency of his claims, and I just wanted all the information I could get, given how much I knew this was going to be affecting my credibility and everything else. We weren't really able to establish a human bond until after that five or six hours was over."

For Poitras, the camera certainly alters the human dynamic, but not in a bad way. When someone consents to being filmed – even if the consent is indirectly gained when she turns on the camera – this is an act of trust that raises the emotional stakes of the moment. What Greenwald saw as stilted, Poitras saw as a kind of bonding, the sharing of an immense risk. "There is something really palpable and emotional in being trusted like that," she said.

Snowden, though taken by surprise, got used to it. "As one might imagine, normally spies allergically avoid contact with reporters or media, so I was a virgin source – everything was a surprise.... But we all knew what was at stake. The weight of the situation actually made it easier to focus on what was in the public interest rather than our own. I think we all knew there was no going back once she turned the camera on."

For the next week, their preparations followed a similar pattern – when they entered Snowden's room, they would remove their cellphone batteries and place them in the refrigerator of Snowden's minibar. They lined pillows against the door, to discourage eavesdropping from outside, then Poitras set up her camera and filmed. It was important to Snowden to explain to them how the government's intelligence machinery worked because he feared that he could be arrested at any time.

Greenwald's first articles – including the initial one detailing the Verizon order he read about on the flight to Hong Kong – appeared while they were still in the process of interviewing Snowden. It made for a strange experience, creating the news together, then watching it spread. "We could see it being covered," Poitras said. "We were all surprised at how much attention it was getting. Our work was very focused, and we were paying attention to that, but we could see on TV that it was taking off. We were in this closed circle, and around us we knew that reverberations were happening, and they could be seen and they could be felt."

Snowden told them before they arrived in Hong Kong that he wanted to go public. He wanted to take responsibility for what he was doing, Poitras said, and he didn't want others to be unfairly targeted, and he as-

sumed he would be identified at some point. She made a 12½-minute video of him that was posted online June 9, a few days after Greenwald's first articles. It triggered a media circus in Hong Kong, as reporters scrambled to learn their whereabouts.

There were a number of subjects that Poitras declined to discuss with me on the record and others she wouldn't discuss at all – some for security and legal reasons, others because she wants to be the first to tell crucial parts of her story in her own documentary. Of her parting with Snowden once the video was posted, she would only say, "We knew that once it went public, it was the end of that period of working."

Snowden checked out of his hotel and went into hiding. Reporters found out where Poitras was staying – she and Greenwald were at different hotels – and phone calls started coming to her room. At one point, someone knocked on her door and asked for her by name. She knew by then that reporters had discovered Greenwald, so she called hotel security and arranged to be escorted out a back exit.

She tried to stay in Hong Kong, thinking Snowden might want to see her again, and because she wanted to film the Chinese reaction to his disclosures. But she had now become a figure of interest herself, not just a reporter behind the camera. On June 15, as she was filming a pro-Snowden rally outside the US consulate, a CNN reporter spotted her and began asking questions. Poitras declined to answer and slipped away. That evening, she left Hong Kong.

Poitras flew directly to Berlin, where the previous fall she rented an apartment where she could edit her documentary without worrying that the FBI would show up with a search warrant for her hard drives. "There is a filter constantly between the places where I feel I have privacy and don't," she said, "and that line is becoming increasingly narrow." She added: "I'm not stopping what I'm doing, but I have left the country. I literally didn't feel like I could protect my material in the United States, and this was before I was contacted by Snowden. If you promise someone you're going to protect them as a source and you know the government is monitoring you or seizing your laptop, you can't actually physically do it."

After two weeks in Berlin, Poitras traveled to Rio, where I then met her and Greenwald a few days later. My first stop was the Copacabana hotel, where they were working that day with MacAskill and another visiting reporter from *The Guardian*, James Ball.

Poitras was putting together a new video about Snowden that would be posted in a few days on *The Guardian's* Web site. Greenwald, with several *Guardian* reporters, was working on yet another blockbuster article, this one about Microsoft's close collaboration with the NSA. The room was crowded – there weren't enough chairs for everyone, so someone was always sitting on the bed or floor. A number of thumb drives were passed back and forth, though I was not told what was on them.

Poitras and Greenwald were worried about Snowden. They hadn't heard from him since Hong Kong. At the moment, he was stuck in diplomatic limbo in the transit area of Moscow's Sheremetyevo airport, the most-wanted man on the planet, sought by the US government for espionage. (He would later be granted temporary asylum in Russia.) The video that Poitras was working on, using footage she shot in Hong Kong, would be the first the world had seen of Snowden in a month.

"Now that he's incommunicado, we don't know if we'll even hear from him again," she said.

"Is he OK?" MacAskill asked.

"His lawyer said he's OK," Greenwald responded.

"But he's not in direct contact with Snowden," Poitras said.

When Greenwald got home that evening, Snowden contacted him online. Two days later, while she was working at Greenwald's house, Poitras also heard from him.

It was dusk, and there was loud cawing and hooting coming from the jungle all around. This was mixed with the yapping of five or six dogs as I let myself in the front gate. Through a window, I saw Poitras in the living room, intently working at one of her computers. I let myself in through a screen door, and she glanced up for just a second, then went back to work, completely unperturbed by the cacophony around her. After 10 minutes, she closed the lid of her computer and mumbled an apology about needing to take care of some things.

She showed no emotion and did not mention that she had been in the middle of an encrypted chat with Snowden. At the time, I didn't press her, but a few days later, after I returned to New York and she returned to Berlin, I asked if that's what she was doing that evening. She confirmed it, but said she didn't want to talk about it at the time, because the more she talks about her interactions with Snowden, the more removed she feels from them.

"It's an incredible emotional experience," she said, "to be contacted by a complete stranger saying that he was going to risk his life to expose things the public should know. He was putting his life on the line and trusting me with that burden. My experience and relationship to that is something that I want to retain an emotional relation to." Her connection to him and the material, she said, is what will guide her work. "I am sympathetic to what he sees as the horror of the world [and] what he imagines could come. I want to communicate that with as much resonance as possible. If I were to sit and do endless cable interviews – all those things alienate me from what I need to stay connected to. It's not just a scoop. It's someone's life."

Poitras and Greenwald are an especially dramatic example of what outsider reporting looks like in 2013. They do not work in a newsroom, and they personally want to be in control of what gets published and when. When *The Guardian* didn't move as quickly as they wanted with the first article on Verizon, Greenwald discussed taking it elsewhere, sending an encrypted draft to a colleague at another publication. He also considered creating a Web site on which they would publish everything, which he planned to call NSA disclosures. In the end, *The Guardian* moved ahead with their articles. But Poitras and Greenwald have created their own publishing network as well, placing articles with other outlets in Germany and Brazil and planning more for the future. They have not shared the full set of documents with anyone.

"We are in partnership with news organizations, but we feel our primary responsibility is to the risk the source took and to the public interest of the information he has provided," Poitras said. "Further down on the list would be any particular news organization."

Unlike many reporters at major news outlets, they do not attempt to maintain a facade of political indifference. Greenwald has been outspoken for years; on Twitter, he recently replied to one critic by writing: "You are a complete idiot. You know that, right?" His left political views, combined with his cutting style, have made him unloved among many in the political establishment. His work with Poitras has been castigated as advocacy that harms national security. "I read intelligence carefully," said Senator Dianne Feinstein, chairwoman of the Senate Intelligence Committee, shortly after the first Snowden articles appeared.

"I know that people are trying to get us.... This is the reason the FBI now has 10,000 people doing intelligence on counterterrorism.... It's to ferret this out before it happens. It's called protecting America."

Poitras, while not nearly as confrontational as Greenwald, disagrees with the suggestion that their work amounts to advocacy by partisan reporters. "Yes, I have opinions," she told me. "Do I think the surveillance state is out of control? Yes, I do. This is scary, and people should be scared. A shadow and secret government has grown and grown, all in the name of national security and without the oversight or national debate that one would think a democracy would have. It's not advocacy. We have documents that substantiate it."

Poitras possesses a new skill set that is particularly vital – and far from the journalistic norm – in an era of pervasive government spying: she knows, as well as any computer-security expert, how to protect against surveillance. As Snowden mentioned, "In the wake of this year's disclosure, it should be clear that unencrypted journalist-source communication is unforgivably reckless." A new generation of sources, like Snowden or Pfc. Bradley Manning, has access to not just a few secrets but thousands of them, because of their ability to scrape classified networks. They do not necessarily live in and operate through the established Washington networks – Snowden was in Hawaii, and Manning sent hundreds of thousands of documents to WikiLeaks from a base in Iraq. And they share their secrets not with

Reader Letter

May 14, 2013

Hello from BC,

I do endorse the call wholeheartedly, having been raised by a couple of card carrying Socreds from birth on out. Hopefully you guys will win your court case, Rocco Galati being a pretty good egg IMHO. Another possible way forward will come during the next federal election.

If the outcome looks too close to call and a CAP candidate is taking critical, if however small in percentage votes from the mainstream parties, then one of them may be forced to publicly endorse monetary reform to pull the extra support over.

We can only hope.

Christopher Drew Hoff

the largest media outlets or reporters but with the ones who share their political outlook and have the know-how to receive the leaks undetected.

In our encrypted chat, Snowden explained why he went to Poitras with his secrets: “Laura and Glenn are among the few who reported fearlessly on controversial topics throughout this period, even in the face of withering personal criticism, [which] resulted in Laura specifically becoming targeted by the very programs involved in the recent disclosures. She had demonstrated the courage, personal experience and skill needed to handle what is probably the most dangerous assignment any journalist can be given – reporting on the secret misdeeds of the most powerful government in the world – making her an obvious choice.”

Snowden’s revelations are now the center of Poitras’s surveillance documentary, but Poitras also finds herself in a strange, looking-glass dynamic, because she cannot avoid being a character in her own film. She did not appear in or narrate her previous films, and she says that probably won’t change with this one, but she realizes that she has to be represented in some way, and is struggling with how to do that.

She is also assessing her legal vulnerability. Poitras and Greenwald are not facing any charges, at least not yet. They do not plan to stay away from America forever, but they have no immediate plans to return. One member of Congress has already likened what they’ve done to a form of treason, and they are well aware of the Obama administration’s unprecedented pursuit of not just leakers but of journalists who receive the leaks. While I was with them, they talked about the possibility of returning. Greenwald said that the government would be unwise to arrest them, because of the bad publicity it would create. It also wouldn’t stop the flow of information.

He mentioned this while we were in a taxi heading back to his house. It was dark outside, the end of a long day. Greenwald asked Poitras, “Since it all began, have you had a non-NSA day?”

“What’s that?” she replied.

“I think we need one,” Greenwald said. “Not that we’re going to take one.”

Poitras talked about getting back to yoga again. Greenwald said he was going to resume playing tennis regularly. “I’m willing to get old for this thing,” he said, “but I’m not willing to get fat.”

Their discussion turned to the question of coming back to the United States. Greenwald said, half-jokingly, that if he was arrested, WikiLeaks would become the new traffic cop for publishing NSA documents. “I would just say: ‘OK, let me introduce you to my friend Julian Assange, who’s going to take my place. Have fun dealing with him.’”

Poitras prodded him: “So you’re going back to the States?”

He laughed and pointed out that unfortunately, the government does not always take the smartest course of action. “If they were smart,” he said, “I would do it.”

Poitras smiled, even though it’s a difficult subject for her. She is not as expansive or carefree as Greenwald, which adds to their odd-couple chemistry. She is concerned about their physical safety. She is also, of course, worried about surveillance. “Geolocation is the thing,” she said. “I want to keep as much off the grid as I can. I’m not going to make it easy for them. If they want to follow me, they are going to have to do that. I am not going to ping into any GPS. My location matters to me. It matters to me in a new way that I didn’t feel before.”

There are lots of people angry with them and lots of governments, as well as private entities, that would not mind taking possession of the thousands of NSA documents they still control. They have published only

a handful – a top-secret, headline-grabbing, Congressional-hearing-inciting handful – and seem unlikely to publish everything, in the style of WikiLeaks. They are holding onto more secrets than they are exposing, at least for now.

“We have this window into this world, and we’re still trying to understand it,” Poitras said in one of our last conversations. “We’re not trying to keep it a secret, but piece the puzzle together. That’s a project that is going to take time. Our intention is to release what’s in the public interest but also to try to get a handle on what this world is, and then try to communicate that.”

The deepest paradox, of course, is that their effort to understand and expose government surveillance may have condemned them to a lifetime of it.

“Our lives will never be the same,” Poitras said. “I don’t know if I’ll ever be able to live someplace and feel like I have my privacy. That might be just completely gone.”

Comment

The US government collecting and analyzing – with the assistance of major internet providers – the communications of ordinary citizens: that in itself would make for a big story, and cause for concern.

Add the secret passwords, the travel to foreign cities for clandestine information exchanges, the fact that one of the companions of Glenn Greenwald was recently questioned for nine hours using legislation aimed at protecting us from authentic terrorists, together with the knowledge that much further information on the data collection activities of the US and other countries will still find its way into our daily papers – it’s fair to say that this story will be with us for some time yet.

Of course the larger story is not new. *The New Yorker* recently quoted Steve Kroft in a *60 Minutes* show from February of 2000: “If you made a phone call today or sent an e-mail to a friend, there’s a good chance what you said or wrote was captured and screened by the country’s largest intelligence agency.” (And that was before the 9/11 attacks!)

Big Brother has indeed been watching us for some time. Edward J. Snowden and the NSA tactics that he has laid bare are important reminders that our ominous older sibling updates from time to time his technology and every once in a while expands his ambitions.

Peter O’Brien