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FOCUS ON EUROPE

Greek Election Defuses One Crisis, but More Lurk

By Nathaniel Popper, The New York Times, June 18, 2012

Investors expressed relief over the projected victory of pro-bailout parties in the Greek elections on Sunday, but they quickly turned their attention to the structural problems in southern Europe that continue to threaten the global economy.

The electoral success of the mainstream New Democracy party in Greece averted, at least for the time being, the doomsday prospect that had investors on edge in recent weeks: a sudden and messy exit of Greece from the euro currency had the leftist Syriza party won.

With a coalition led by New Democracy in power, Greece is likely to continue receiving the international aid it has needed to pay the interest on its debt and keep its economy afloat.

"We came close to the abyss and we have taken a step away from it," said Marc Chandler, a global head of currency strategy at Brown Brothers Harriman.

Investors wasted little time signaling their approval on Sunday night, pushing up value of the euro, which had fallen in recent weeks amid fear that the currency would be certain to collapse after a Greek exit. In early trading on Monday in Asia, stock markets were up solidly across the board.

There are questions over how long the relief will last, however, given the failure of past efforts to resolve the Greek crisis and the country's deepening recession.

"Unless they make a radical change, we will be back with another Greek cliffhanger in three or four months' time," said Darren Williams, a European economist at AllianceBernstein in London.

What is more, economists remain concerned about the debt and banking crises in several larger European nations, including Spain and Italy. These issues will take center stage at a series of coming international political gatherings, including a meeting of the Group of 20 nations that is set to begin on Monday in Mexico.

Later in the week, the leaders of the four largest European economies will meet to begin discussing ways to stimulate growth on the Continent while still shrinking budget deficits and debts.

Investors question whether European leaders can achieve the type of increased fiscal and political integration viewed as necessary to keep the Continent's common currency alive.

Specifically, some European leaders have called for some kind of guarantee on bank deposits throughout the euro zone, which would help stop the flight of capital from banks, and for the European Central Bank to have the ability to issue euro zone bonds to help spread risk away from troubled borrowers like Spain and Italy.

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Spain Reels as Bailout Fears Rise

By Brian Milner, The Globe and Mail, June 19, 2012

Spain suffered its worst drubbing in the bond market since the inception of the euro, raising the spectre of an enormously expensive debt restructuring and bailout for the fourth-largest country in the euro zone.

Sunday's Greek election results signalled support for the euro in the economically ravaged country, but failed to ease deepening worries about much larger Spain's own deteriorating finances, ailing banks and darkening economic prospects.

The yield on the benchmark 10-year government of Spain bond zoomed nearly a third of a percentage point to close above 7 percent for the first time since the country became a charter member of the monetary union in 1999.

Spain's central bank provided extra fuel for the bond assault when it reported that troubled loans held by Spanish banks climbed close to a record 8.7 percent in April – or €152.74 billion ($197 billion). Non-performing loans across the euro zone total just under 7 percent, as a region-wide slump takes its toll. By comparison, such loans at Canadian banks are less than 1 percent.

Battered Italy also saw bond yields rise to 6.08 percent, and equity markets in both countries took a beating, underscoring a prevailing lack of confidence in the ability of European leaders, many of whom remain focused on austerity, to resolve the crisis.

"While Greek euro exit fears have… eased, this outcome does little to alleviate the weak fundamentals that currently weigh on Spain and Italy," Michala Marcussen, head of global economics with Société Générale, said in a note. "To ease these fears… additional risk-sharing at the euro-area level is required."

Greece, Portugal and Ireland were all forced to seek bailouts when their own borrowing costs reached the 7-percent mark. Like them, Spain and its banks had tapped the capital markets aggressively to take advantage of a strong euro and low interest rates in the early 2000s. The Spanish 10-year rate reached a record low of 3 percent in September, 2005.

The profligate borrowing left a mountain of debt and soaring budget deficits when the Spanish property bubble exploded during the financial meltdown of 2008. But unlike that unfortunate troika, vastly larger Spain is regarded by many analysts as simply too big for Europe to rescue on its own.

Spain has to refinance about €200 billion in sovereign debt in the next three years and its banks potentially need another €250 billion in debt refinancing, said Michael Yhip, president of Toronto-based Garrison Hill Capital Management. "Spain will need a full-blown bailout."

The government has warned that it cannot cope with sky-high interest rates, which have been driven in part by fears of a restructuring that would force private creditors to take large haircuts. Finance Minister Cristobal Montoro called on the European Central Bank to resume its purchases of Spanish bonds to drive rates down. Mr. Montoro warned earlier this month that he was running short of financing options, as "the door to the markets is not open for Spain." But the ECB has said it has no plans to resume its intervention in the secondary market.

Madrid is proceeding with plans to sell between €2 billion and €3 billion of 12-month and 18-month treasury bills Tuesday and up to €2 billion worth of longer-term bonds Thursday. Like other euro zone countries facing unreceptive markets, Spain has largely focused on easier-to-sell short-term debt while reducing the amount of longer-term offerings. But that is a costly and inefficient way to refinance.

The European Union has agreed to a bank bailout of as much as €100 billion for Spain. But analysts say it may not be enough to recapitalize the crumbling sector, especially as the economy continues to weaken and loan losses mount. Another concern is that the bailout merely adds to the government's growing tab, since it will be responsible for paying back the money.

"Today has been a difficult day," Spanish Economy Minister Luis de Guindos told reporters at the G20 meeting in Los Cabos, Mexico, insisting that the country remains solvent and its austerity program is working.

"The current situation of market penalization doesn't reflect the efforts and the potential of the Spanish economy."■

Greek Election *from page 1*

Mario Draghi, president of the European Central Bank, last week promised a blueprint for increased integration "in a matter of days."

"If there are not more decisions toward more integration in Europe, the euro will certainly not survive in its current shape with its current members," said Antonio Garcia Pascual, the chief southern European economist at Barclays.

The situation is still better than many investors had expected immediately after the Greek elections in early May, which highlighted a surge in the popularity of the left-wing Syriza party.

The Syriza party had vowed to repudiate the country's bailout agreement with the so-called troika of the European Union, the European Central Bank and the International Monetary Fund.

Without financing from the troika, Greek banks would have been unable to continue operating, forcing the country to drop the euro and return to the drachma, at great cost. This in turn would have raised doubts about whether other southern European countries could keep the currency alive.

Stocks fell for weeks after the May election, as investors sought to put their money in assets that could withstand a European crisis, most of all American Treasury securities.

But investors recently turned more optimistic about the Greek situation after signs that New Democracy would garner enough votes to form a coalition and, if it did not, that the world's central banks would step in to provide greater liquidity in the financial system.

New Democracy's victory appeared to alleviate the need for any coordinated action by central banks.

Both the European Central Bank and the Federal Reserve were silent after the results were announced.

Even with New Democracy in power, there are questions about whether the government will have the political will to adopt the budget cuts the troika has mandated. But leaders from elsewhere in Europe signaled on Sunday that they would be willing to negotiate with the new government to make the necessary budget cuts less onerous.

For many investors, though, Greece has long been a threatening sideshow to the banking and budgetary problems confronting the Continent's fourth largest economy, Spain, and, to a lesser degree, its third-largest economy, Italy. (France is no. 2, and Germany no. 1.)

The Spanish economy has been increasingly hobbled by big losses in the country's real estate sector.

The European Union tried to address the problem two weeks ago by giving the Spanish government up to 100 billion euros, or $125 billion, to prop up its banks.

But the optimism that initially greeted that plan faded fast. Since then Spaniards have withdrawn their money from the country's banks. Investors have shown their distaste by selling Spanish government bonds, sending the yields on those bonds to record levels.

In case Europe's turmoil was not enough to discourage investors, markets have also been hit by a string of economic reports showing that growth has been slowing in both the United States and China.

The recent uptick in the United States jobless rate has created hope among some investors that the board of the Federal Reserve will offer a stimulus plan when it meets this Tuesday and Wednesday.

"Generally the markets are looking for central banks to do something," Mr. Chandler of Brown Brothers Harriman said.■

A Sidebar to the Europe Articles

From the Encyclopedia Britannica, Vol. 14, 15th edition, p. 540.

Ever-growing multiple of directions in which Platonism functioned: "Middle Platonism was significant through the influence it exerted in more than one direction: (in ever-growing different references)" of the Jewish philosophical Philo of Alexandria to create a philosophical background on the basis of the Old Testament heritage. Though the origins of Middle Platonicism became clear in the first century AD, it seems to have been linked from the beginning with the closely related revival of Pythagoreanism (a philosophy that reality is number, showing after the revival, a tendency to superstitious occultism). The somewhat Platonized Stoicism of Poseidonius (c. 135-50 BC) whose dualism of matter and reason enhanced the roles of emotion and will, may have influenced its beginnings; and Stoic influence, especially in the ethical field, remained important in its later developments. There was sometimes a considerable influence of Aristotle, though there was also a strong anti-Aristotle tradition.… Though the origins of Middle Platonism are obscure, the outlines of its main direction of development became clear in the first century AD….

Neoplatinism is the modern name given to the form of Platonism developed by Plotinus in the third century AD, which came to dominate the Greek philosophical schools in the 4th century, and remained predominant till the teaching of philosophy by pagans ended in the second half of the 6th century AD….

The leading ideas in the thought of philosophers who can properly be described as Neoplatonists seem always have included the following:

1. There is plurality of spheres of being, arranged in hierarchical descending order, the last and lowest comprising the universe, which exists in time and space and is perceptible to the senses.

2. Each sphere of being is derived from its superior, a derivation that is not a process in time or space.

3. Each derived being is established in its own reality by turning back toward its superior in a movement of contemplative desire, which is implicit in the original creative impulse of outgoing that it receives from its superior; thus the Neoplatonic universe is characterized by a double movement of outgoing and return.

4. Each sphere of being is an image of expression on a lower level of the sphere above it. The relation of archetype in image runs through the whole Neoplatonic scheme.

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Our Comment. Our handling of this vastly important relationship requires that we avoid the key current neglect of this destructive oversight of the defective social setup that has taken over because relatively minor adjustments of earlier injustices of past ages have been amended. That is the case of Aung San Suu Kyi finally receiving the Nobel Peace Prize awarded to her some 20 years ago, but that she has finally been able to travel to Oslo to receive, because her confinement in house arrest in Burma. As much as we applaud the lifting of her confinement in her home, however, we must not lose sight of the disturbing deterioration of human liberties and the modicum of economic freedom that has taken over throughout the world today threatens the survival of humanity, and must be dealt with.

Worried Banks Resist Fiscal Union

By Landon Thomas Jr., The New York Times, June 18, 2012

The seemingly endless series of euro zone crises has European officials pushing for a banking union that would watch over and bind together the currency group's faltering financial institutions.

But for Europeans, there seems to be little appetite for such a compact right now. In fact, banks and their national regulators, anxious about the Greek elections and Spain's hastily arranged bailout, are behaving more parochially than ever.

That poses a threat to the interbank lending across borders that is crucial to maintaining liquidity – the free flow of money that is the lifeblood of the global financial system.

French and German banks have clamped off much of the lending to their counterparts in Italy and Spain, which in turn are primarily giving loans to their own debt-laden governments.

And in Madrid, even after European finance ministers agreed to a 100 billion euro, or $125 billion, rescue of Spain's failing banks, the always proud Spanish government is insisting that it – and not Brussels bureaucrats – will take charge of how and where the funds are deployed.

With interbank cooperation at perhaps its lowest level since the creation of the euro currency union, European officials say they are moving toward a broader solution.

Experts warn, though, that what is needed now is not another working paper proposing new levels of euro bureaucracy, but a clear action plan that addresses the root issue: markets and investors have lost faith in Europe's ability to regulate its banks.

"Why do you think European banks won't lend to Spanish banks?" asked Karel Lannoo, chief executive of the Brussels-based Center for European Policy Studies and an expert on bank regulation in Europe. "Because they do not trust Spanish regulators. Has Citigroup stopped lending to California? No. What we need is a single banking supervisor and a single settlement system as in the United States. And we have no time to lose."

Top officials at the United States Treasury and the International Monetary Fund have also been warning for more than a year that there can be no easy resolution to the euro crisis until Europe solves its banking problem.

Mario Draghi, the head of the European Central Bank in Frankfurt – right now the closest thing the euro zone has to a banking coordinator – said Friday that he and top European Union officials in Brussels would present a master plan for the euro project in a matter of days.

A blueprint is only that, however. Substantial changes that would affect banks and national budgets would probably require treaty changes and voter approval. That process could take many months and there is no guarantee of success.

As part of the push, the European Commission published proposals this month that would include creation of a Europe-wide banking supervisor whose oversight powers would trump those of local regulators.

And to discourage the flight of bank deposits from weaker countries, a problem that has plagued Greece and now Spain, the European Commission proposed a deposit insurance fund for the entire euro zone, analogous to the Federal Deposit Insurance Corporation in the United States. Individual euro zone member nations already have deposit insurance. But the Spanish fund, for one, is nearly insolvent.

Under the Brussels proposal, a new banking regulator would also have the authority to share the financial pain of bank bailouts by forcing some holders of the bonds of bailed-out banks to absorb losses.

Hoping to impose such changes sooner than formal treaty revisions would allow, Mr. Lannoo of the Center for European Policy Studies proposed an elegant solution in a recent paper.

He says there is already an article in the European Union treaty (Article 127.5, to be exact) that would let the European Central Bank take on supervision of euro zone members' banks, provided that the finance ministers of the 17 countries that use the euro approve such a step unanimously. That would be faster than getting the approval of 17 national governments.

And it would be in tune with a global trend of giving central banks ultimate responsibility for bank safety, while giving the European Central Bank the ability to spot and address banking disasters in countries like Ireland and Spain before they become a Europe-wide threat.

But even if support were gathering for greater banking consolidation in Europe, there would be political obstacles.

For one thing, putting the European Central Bank in charge would neuter the London-based European Banking Authority, which was set up by Brussels to oversee European banks. Although the authority has been widely ridiculed for its toothless stress tests that missed banking fiascos in Ireland and Spain, entrenched bureaucracies are seldom easy to eliminate.

Even as the policy debate proceeds, nervous European banks have been slashing their short-term loans to Italy and Spain at a time when those banks, which depend largely on such loans to survive, are desperate for capital.

French loans to Spanish banks plunged 34 percent in the fourth quarter of 2011 compared with the previous quarter, according to the latest data from the Bank for International Settlements.

For Italian banks, French bankers cut their exposure by 16 percent. German banks have also been increasingly wary of their Italian and Spanish peers, reducing lending to them by about 19 percent last year.

More recent data, once available, are almost certain to show even tighter purse strings, analysts say.

In the last six months, as fear about Spain and Greece has intensified, Spanish and Italian banks have been by far the biggest users of the European Central Bank's program of cut-rate, three-year loans to banks that cannot find money elsewhere.

But instead of funneling that money back into the Spanish and Greek economies as loans to cash-starved businesses and individuals, these banks have become the primary buyers of their governments' bonds. That has perpetuated a nasty cycle in which the problems of the government become the problems of its banks, and vice versa.

"What we are seeing is a localization of risk in Europe," said Alberto Gallo, a senior credit strategist at the Royal Bank of Scotland in London. "Or, a reverse integration of financial and banking markets. And as this continues, it will be much harder to go back to normal."

In many ways, the extent to which Brussels is committed to going beyond words and working papers will be tested soon in Spain. Even though Europe has agreed to lend Spain money to fix its banks, Spanish government officials continue to resist European advice on how to proceed.

For example: when Joaquín Almunia, the Spanish-born European Union commissioner for competition, said recently that at least one Spanish bank might need to be shut down, officials in Madrid rejected his suggestion. In some quarters, Mr. Almunia's patriotism was even questioned.

Most delicate will be whether the Spanish banks receiving the largest cash injections, like the nationalized mortgage giant Bankia, will be forced to impose losses on holders of their subordinated bonds. Those are the investors whose bonds are not backed by collateral and are thus considered more risky.

Such a "bail-in" feature is a central plank of Brussels's banking union plan, and it is widely supported by industry experts because it would punish investors for taking undue risks. In Ireland, those types of bondholders were wiped out when Irish banks were recapitalized.

In Spain, though, the problem is that 62 percent of the holders of Bankia's subordinated debt are Spanish individual investors, not overseas hedge funds and investment banks. It is not likely that Madrid will be willing to hit those citizens with a 65 percent loss – the loans are currently priced at about 35 cents on the dollar – at a time of 25 percent unemployment in the country.

It is too early to know whether Brussels will override Spanish political considerations and force such a write-down as a condition for lending bailout money. If it does not, doubts will continue over Europe's ability to deliver a banking union plan with real authority.

"There are compelling reasons for the euro zone to insist on losses for subordinated and even senior bondholders, the least of which is a reduction in moral hazard," said Adam Lerrick, an expert on banking and sovereign debt at the American Enterprise Institute. "Losses for bondholders is now euro zone policy, so Europe's credibility is also at stake."■

FOCUS ON EUROPE

Spain: Bond Yields Hit New High as Investors Shed Debt Despite Bank-Bailout Plan

By Jonathan House and William Kemble-Diaz, The Wall Street Journal, June 15, 2012

Madrid – Spain's borrowing costs jumped to a record Thursday, fanning concerns that the €100 billion ($125 billion) aid package planned for its banks won't suffice to stave off a much larger bailout for the entire country.

Spain agreed last weekend to a bank-recapitalization plan it hoped would restore investor confidence in the country's creditworthiness. Instead, investors have continued to jettison Spanish debt amid concerns that the deal for as much as €100 billion in aid will saddle the government with more debt at a time of deepening economic malaise.

The yield on Spain's 10-year government bond ended Thursday's active trading at a euro-era record 6.931%, up from 6.184% before the deal was announced last weekend. That is worrying because foreign investors' appetite for new Spanish debt has already dried up, forcing the government to rely heavily on the country's troubled banks to refinance its debt.

Economists say the deepening dependence between the state and its beleaguered banks is unsustainable and will eventually force Spain to follow Greece – which has crucial national elections on Sunday – Portugal and Ireland in seeking a full-blown bailout.

"At the levels yields are now, it looks like some sort of state-level assistance is on its way," said Lyn Graham-Taylor, fixed-income strategist at Rabobank in London.

Such an outcome would likely require a commitment of several hundred billion euros, analysts said. That would push Europe's financial resources to the limit because Spain, the euro zone's fourth-largest economy, is significantly larger than any of the other countries that have needed assistance. A bailout of that magnitude would also test the euro zone's political cohesion amid growing resistance to the rescues in Germany and other northern European countries.

The high stakes in Spain have made it the focal point of the crisis. Spain will likely top the agenda at next week's meeting of the Group of 20 industrial and developing countries in Mexico. Prime Minister Mariano Rajoy may meet Monday with German Chancellor Angela Merkel, French President François Hollande and US President Barack Obama, officials said.

Mr. Obama and his top economic lieutenants have held a flurry of calls with G-20 leaders in recent days, trying to build a unified message for faster and stronger action from Europe on its debt crisis.

Spanish officials, meanwhile, continued to insist they have the situation under control. "It's important to remain calm, we have a road map in terms of economic policy and measures that need to be taken," said Finance Minister Luis de Guindos, although he added that current borrowing costs aren't sustainable.

Ratings firm Moody's Investors Service undermined confidence further late Wednesday as it downgraded Spain by three notches to Baa3.

"Moody's action to place the government's one notch above speculative grade reflects the ratings agency's view that Spain has moved much closer to needing to seek direct support" from the EU's bailout funds, Moody's said.

Analysts at J.P. Morgan said a three-year lending program for the Spanish government, the country's banks and its regional government and banks would cost around €350 billion-€450 billion. That would stretch the resources of euro-zone bailout funds, which are scheduled to have just over €700 billion from July, especially if Italy, the region's third-largest economy was to need support.

In a new sign of economic distress, the decline of Spanish housing prices accelerated to an 12.6% annual rate in the first quarter, after falling 11.2% in the fourth quarter and 7.4% in the third, signaling that Spain's housing bust will continue to weigh on its economy.

After falling 26% since their peak in the third quarter of 2007, many economists estimate they have to still fall around 25% before bottoming out.

Separately, Spain's central bank published data showing that average net borrowings for Spanish banks from the European Central Bank in May rose to €287.31 billion from €263.54 billion in April. As the result of the difficulties local banks faced in accessing international financial markets, Spain now accounts for around 35% of ECB lending, much more than its 20% share of the euro-zone economy.

"I think this is probably flagging some warning signs at this point.…They could pressure Spanish banks to get funding elsewhere," said BNP Paribas economist Ricardo Santos.

That would raise pressure on the Spanish government, which has come to rely on

Seniors Beware: The Age of No-cost Banking Might Be Ending

By Rob Carrick, The Globe and Mail, June 19 2012

The more seniors there are, the more expensive it is to give them freebies and special discounts.

So with our aging population, it's easy to see Toronto-Dominion Bank's decision to stop opening no-cost bank accounts for clients aged 60 and older as a trendsetting move. As of March, TD Canada Trust branches have been offering three different account packages to older clients with a 25-percent discount off regular account fees. Other banks and credit unions still offer no-cost banking to seniors, but you can bet they'll be studying TD's move.

Canada's second-largest bank has forestalled a backlash by allowing more than two million current holders of its no-cost Plan 60 account to maintain the status quo. But clients who turn 60 now have to pay fees of $8.20 to $22.45 a month after discounts unless they maintain large enough balances to qualify for fees to be waived entirely. That takes a minimum $2,500 to $5,000 a month, depending on the account.

TD spokeswoman Barbara Timmins said the free seniors account was chopped as part of a regular review of how the bank's products mesh with changing demographics.

"With an evolving boomer group, that means offering accounts to customers over 60 that reflect their diverse situations – whether that's something basic, mid-range or premium," she said. "We also have to balance those considerations with the bank's longer-term needs for continued growth."

Statistics Canada estimates that the country's population could exceed 40 million by 2036, and that as many as 10 million to 11 million people could be seniors. Offering free banking to that many people is a lost revenue opportunity of major proportions. Banks would be extra sensitive to that in today's world, where low interest rates and treacherous financial markets have hurt other lines of business.

But there's another trend at work here. Bluntly put, many baby boomers don't need banking discounts.

"The seniors of today are quite different from what they were back when the senior's plan was invented [decades ago]," said David McVay of McVay and Associates, a financial services consulting firm. "Many are still working, and many are better off than [seniors] were back then. The question at the banks is always, why are we discounting banking services for what turns out to be our wealthiest customers?"

Other banks may be asking that question, but they still offer no-cost accounts to seniors. Bank of Nova Scotia's Scotia Plus Program for Seniors offers cost-free banking for seniors with a refreshing lack of fine print or hidden fees. It also kicks in when customers turn 59, not the usual 60. Bank of Montreal and Canadian Imperial Bank of Commerce also offer free plans to seniors.

A couple of other banks have also done away with dedicated seniors accounts, but they haven't been so bold as TD in eliminating free banking for this group. Royal Bank of Canada offers a seniors' rebate that offsets the monthly cost of a variety of accounts to varying degrees. Note: In some cases, the client may need to have certain RBC products to qualify for a full rebate. HSBC Canada offers a fee waiver on an unlimited chequing account to seniors.

Credit unions are also an option for seniors seeking no-hassle, no-fee bank accounts. Here's what Southern Ontario's Meridian Credit Union offers to clients age 60 and older: free unlimited debits, one free order of cheques a year, no charge for paper monthly statements, no charge for using a passbook (remember those?), free certified cheques and travellers cheques, a limited number of free money orders and discounts on safe deposit boxes.

TD's updating of its seniors accounts represents a modernization in more ways than one. With two of the three accounts, customers must pay $2 for a monthly paper statement and $2.25 for a passbook. Otherwise, they can use paperless recordkeeping, where you monitor your account online or download online statements. Both paper statements and passbooks are free to existing Plan 60 clients.

The aging population may eventually put an end to free chequing accounts for people 60 and older, but seniors shouldn't feel forsaken. Notice the growing numbers of financial planners in branches to help with retirement planning, and also the availability of sit-down teller windows and low ATMs. Wait a second – if seniors are such important customers, doesn't that suggest they should insist on free banking? Just asking.

Banking Charges for Seniors

Toronto-Dominion Bank's TD Canada Trust branches have stopped offering free chequing to seniors signing up for a new account. Options for the bank's clients aged 60 and over now include three chequing accounts offered with a 25-percent discount. (See Table 1.)

Existing customers of TD's no-cost Plan 60 account can continue with that option.

Table 1

Account	Monthly fee (after discount)	Fee waived with this minimum balance	Number of debit transactions
1. Select Service	$22.45	$5,000	unlimited
2. Infinity	$11.20	$3,500	unlimited
3. Value Plus	$8.20	$2,500	25 per month

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Our comment. Wouldn't it be shorter and more relevant to note that our senior citizens provide a valuable reminder that our elder citizens – just like the younger ones – present an invaluable social asset. It helps the peace of mind and the human heritage vital to society as a whole.

local banks using ECB funds to buy sovereign debt. According to the latest Spanish Treasury data, while foreign investors have reduced their holdings of Spanish bonds to 32% of the total in March from 36% in December, Spanish banks have raised their holdings to 41% of the total in March from 35% in December.

Still, many observers say they believe Spain has some room to maneuver. The Spanish Treasury has completed about €50 billion of its €86 billion scheduled 2012 bond issuance, and analysts believe it has around €44 billion of cash on hand. It has large bond redemptions in July and another in October, but these coincide with big seasonal inflows of tax revenue.

Huw Worthington, European rates strategist at Barclays Capital, said a 10-year bond yield of 7% doesn't necessarily mean Spain will lose access to financial markets. "Italian 10-year yields traded as high as 7.14% late last year" and then settled again, he noted.■

FOCUS ON EUROPE

Europe on Edge Over Crisis: UK Unveils "New Firepower" to Shield Financial System; Fed Readies 2008 Playbook

By David Enrich, Jason Douglas and Ainsley Thomson, The Wall Street Journal, June 15, 2012

London – The UK on Thursday unveiled an extraordinary series of measures designed to insulate the British financial system and economy from the euro zone's deepening crisis.

Chancellor of the Exchequer George Osborne and Bank of England Gov. Mervyn King announced plans to flood banks with cheap funds in an attempt to jump-start lending to British households and businesses and to fend off potential financial problems at big UK lenders.

The British programs resemble some of the emergency measures enacted by central banks in Europe and the US earlier in the financial crisis. The British announcement on Thursday, at an annual black-tie dinner with bankers in central London, reflects leaders' intensifying concerns that Europe's crisis threatens to drag down the UK economy and financial system.

"These are very difficult economic times – as difficult perhaps as any our country or our continent has faced outside of war," Mr. Osborne said. "Together we can deploy new firepower to defend our economy from the crisis on our doorstep."

The moves in Britain are the latest in a flurry of recent actions taken by European governments and central banks trying to arrest the continent's more-than-two-year crisis. Late last year, the European Central Bank started doling out more than €1 trillion, or about $1.25 trillion, of cheap three-year loans to hundreds of banks that were at risk of running short of funds. Last week, the Spanish government said it would request up to €100 billion to help its crippled banking system.

In the US, Fed officials say they are prepared to reactivate several programs to provide short-term funding to markets if conditions deteriorate. Those programs, originally created during the 2008-09 financial crisis, offered cheap loans to banks and flooded the US financial system with liquidity to prevent strains.

The US central bank is also providing dollar funding to Europe through the European Central Bank to ensure that continent's financial institutions have access to the US currency, which they use to make loans around the world.

Fed Chairman Ben Bernanke last week said those currency swap lines were "very helpful in reducing stress in dollar-funding markets."

At a meeting in Mexico next week, leaders from the Group of 20 countries are preparing to discuss further steps to defuse the European crisis and, failing that, to protect their economies from any fallout.

US stocks rallied as signs of a worsening US labor market and European crisis bolstered investors' hopes that central bankers will again come to the rescue. The Dow Jones Industrial Average closed at 12,651.91, up 155.53.

On Friday, Asian markets were mixed in early trading. Japan was up 0.1%, Hong Kong was up 1% and Australia was up 0.3%, but South Korea was down 0.9%.

In the UK, Messrs. Osborne and King said that in coming weeks they will start offering banks multiyear loans at below-market interest rates so they can make loans to support the "real economy" – British businesses and individuals complaining about a lack of available credit.

Separately, they said the central bank for the first time will activate an emergency liquidity facility that will offer six-month loans to UK banks in exchange for a wide range of collateral. The program, set up at the end of last year, is designed to be used "in response to actual or prospective market-wide stress of an exceptional nature," in which banks could find themselves locked out of normal funding markets.

If conditions suddenly deteriorate, for example, in the wake of a Greek exit from the euro zone, the bank could start doling out the loans immediately. Analysts said the program could be ready to launch as soon as the start of next week, following Sunday's pivotal Greek elections.

There aren't signs that British banks are encountering liquidity problems. But in countries like Greece and Spain, some banks have been suffering from an exodus of customer deposits and are unable to borrow from market sources. That has fanned fears of problems at major banks across Europe – even in countries like Britain, whose financial system is widely regarded as among the region's strongest.

Details of the programs remain vague. But British officials said they could translate into tens of billions of pounds being funneled into UK lenders.

The emergency measures come on the heels of increasingly frenzied lobbying by some British bank officials in recent weeks for the government to take action.

The chief executives of some top UK banks have been pushing Mr. Osborne and Mr. King to launch a lending program along the lines of what was announced Thursday, according to bank officials. They were fearful that an intensifying European crisis could spill into the UK, potentially destabilizing its banking system, they said.

While the UK isn't part of the euro

zone, the common-currency area is one of Britain's biggest trading partners, and its crumbling economy is being felt across the English Channel. In addition, several of the UK's giant banks have extensive operations in multiple euro-zone countries, representing another source of British vulnerability to Europe's crisis.

The British economy recently tipped back into recession, and economists expect it will struggle to expand at all this year.

The Bank of England and the Treasury already have deployed a series of unusual measures. The central bank since 2009 has authorized the purchase of £325 billion ($505 billion) of UK government bonds with freshly created money in an effort to boost demand. It also has kept interest rates at 0.5% – a record low for the bank's 317-year history.

The Treasury, meanwhile, has been pushing banks to do more lending. In March, it launched a £20 billion program designed to give small businesses discounted loans from British banks.

So far, though, the programs' impact has been muted. Pressure on the Bank of England and the government has been mounting.

The new series of measures announced Thursday appears to be taken partly from playbooks designed by European and US central bankers.

During the first phase of the financial crisis, in 2008, the US Federal Reserve launched the Term Asset-Backed Securities Loan Facility, or TALF, to create a market for small-business loans, credit cards, student loans and other assets.

The UK's new "funding for lending" program, expected to be operating within weeks, loosely resembles that approach. Lenders will be able to borrow from the Bank of England at rates cheaper than those prevailing in normal funding markets. The catch is that the banks have to channel that money into loans to households and nonfinancial businesses. The Bank of England will closely monitor lending data to ensure banks comply, officials said.

The effectiveness of the program could be constrained by lackluster demand for loans among jittery customers reluctant to take on new debt in the midst of an economic downturn.

Meanwhile, the emergency-liquidity program announced Thursday will let banks take six-month loans from the Bank of England using a wider range of collateral than previously allowed – similar to the European Central Bank's move earlier this year to loosen its restrictions on the types of assets it allows to be pledged as collateral in exchange for cheap, three-year loans.■

Planes and Trains Could Offer Low-cost Route to Profit

By David Berman, The Globe and Mail, June 19, 2012

Industrials might not look like an obvious sector within the stock market to hang out right now, given their cyclical nature and the mounting economic threats at home and abroad. But, in a contrarian sort of way, perhaps that's what makes trains and planes so appealing.

Brian Belski, chief investment strategist at BMO Nesbitt Burns, is a big fan of the sector. He argues that the recent retreat – driven by depressing news out of Europe, weak US economic performance and signs of trouble in China – simply provides another reason to load up in anticipation of better days ahead.

"We recommend that investors focus on higher quality areas with consistent-to-improving operating performance, reasonable valuations and strong cash flow generation," he said in a note. "Industrials is one area exhibiting all these characteristics and is a main reason for our stance on the sector."

Big US industrials include the likes of FedEx Corp., General Electric Co, Boeing Co. and Union Pacific Corp. – which are definitely companies that tend to rise and fall with the global economy.

Many observers are growing concerned about this backdrop, which helps explain why industrials have underperformed the S&P 500 since it began to decline from its near-term high at the beginning of April.

Mr. Belski, too, believes that the stock market will remain volatile for the rest of the year, unless there is a pick-up in the pace of job growth.

However, he also believes that industrials are already reflecting pessimism about the global economy, making the downside look relatively limited.

His valuation model – which takes into account factors like trailing and estimated operating earnings, price-to-free cash flow and price-to-book value – shows that the sector is trading at a significant discount to historical norms, using data going back more than two decades. In fact, it was only during the recessions of 1990-91 and 2008-09 that valuations were lower.

"As we have mentioned in prior reports, we believe there is a low likelihood of a severe global economic recession in the coming months, yet it appears that investors have 'priced this in' for Industrials," Mr. Belski said.

"Therefore, discount valuations are likely to provide formidable tailwind for sector performance in the coming months as the global economy continues to grow at a slow but steady pace."

But the sector has more than cheapness going for it. It also happens to be performing well. Mr. Belski pointed to the sector's trailing earnings growth over the past several quarters: it has been solid, beating the historical average. Now, more analysts are upgrading estimates than downgrading them, reversing a recent trend.

"True, growth rates have subsided recently but the fact that they have not collapsed given all the uncertainty and volatility around the world speaks volumes to the fundamental strength of the sector," he said.

Despite this overall strength, he also drilled into the sector looking for individual stocks that have particularly low valuations (an estimated price-to-earnings ratio below 15), high growth rates (an estimated earnings-per-share growth above 10 percent in both 2012 and 2013) and strong cash flow (free cash flow yield is greater than the dividend yield).

He also looked for companies with foreign revenue exposure below 60 percent, given his view that the US economy will outpace global economic growth on a relative basis in the coming years.

Some of his discoveries: Cintas Corp., Danaher Corp., FedEx Corp., General Electric Co., Illinois Tool Works Inc., Southwest Airlines Co., Tyco International Ltd., Union Pacific Corp. and United Parcel Service Inc.

If you're looking for good deals on stocks following the recent market turbulence, these names might be a good place to start.■

Greeks Choose Stability: Fearful Voters Give Narrow Mandate to Austerity-minded Conservatives

By Daniel Dale in Athens, Toronto Star, June 18, 2012

Greece's conservative party will get another chance to form a government after a narrow election victory Sunday over the anti-austerity leftist coalition that had spooked the world leaders and financial markets.

New Democracy's win will reassure investors, and Greeks, who worried that a government headed by the Coalition of the Radical Left would force Greece out of the European common currency and set off a chain reaction that would devastate other vulnerable countries on the debt-ridden continent.

The New Democracy leader, Antonis Samaras, has promised to negotiate a friendlier bailout agreement but not to unilaterally annul the current harsh terms – as the left had pledged. He ran a largely negative campaign that successfully played on fears of the consequences of a victory for the inexperienced and hard-line leftists.

"We have to abide by European principles. We have to abide by the euro. And at the same time, we have to have recovery for our people…because unemployment is reaching unprecedented levels," Samaras, a 61-year-old economist, told reporters in Syntagma Square Sunday night as he walked to his car surrounded by dozens of journalists.

New Democracy also narrowly won the election on May 6, but it was not able to form a coalition government before the three-day legal limit. It earned about 30 percent support this time, up from 19 percent, and other parties – including the humbled former socialist powerhouse PASOK – are now much more likely to join it in a ruling pact.

Wolfgang Schaeuble, finance minister of Germany, Europe's economic engine and staunch proponent of the austerity measures, said in a Sunday statement that he considers New Democracy's win "a decision by Greek voters to forge ahead with the implementation of far-reaching economic and fiscal reforms in the country."

But the anti-austerity leftist party, known by its acronym Syriza, made major gains in popular support – underscoring the depth of Greeks' unhappiness with the status quo. Syriza was obscure a mere two years ago; it earned about 27 percent of the vote on Sunday, up from a then-stunning 17 percent in May. "Some think they won the elections, but our people won the elections," Syriza's leader, 37-year-old Engineer and former student activist Alexis Tsipras, told a jubilant crowd of supporters out side the University of Athens.

Unemployment Stands at 23%, an All-time High

"Now they cannot go on with (bailout) memoranda and they know it in Greece and Brussels. They know it very well," Tsipras said.

Many voters cast ballots for New Democracy without much hope that the party would improve a dreadful economy that has been in recession for five years. They feared, however, that Syriza would make it worse. Samaras, echoed by European officials, had warned that Tsipras's policies would send Greece back to the drachma and into full-blown social collapse.

"it's very dangerous for Syriza to get elected. Their intention is to get us out of the euro-zone and get us to be like the Soviet Union," Danai Della, a pensioner, said after voting at a high school in a middle-class central neighbourhood.

Antigoni Vintiadi, 26, was laid off from her job; her sister Emmanouela, 20, says she will be forced to emigrate to find a suitable career after she finishes her studies. Both reluctantly voted for New Democracy.

"We didn't want to. But we had to choose between New Democracy and Syriza. We didn't vote for something we want – that's what's bad – but it's the best option," Emmanouela said at the school.

Greece's leaders have warned that the country could run out of money later this month. The bloated government is reliant on a second bailout package, this one worth about $169 billion, finalized in the winter. But the so-called "troika" that provided the funding – the European Union, European Central Bank and International Monetary Fund – did so on strict conditions that have contributed to the misery of Greek citizens.

Under the agreement with the troika, the minimum page has been cut by 22 percent, taxes have been raised, social services spending has been slashed, and 15,000 state jobs have been eliminated – with 135,000 more scheduled for elimination within three years. Making matters worse, little of the bailout money ends up circulating in the economy.

Unemployment stands at 23 percent, an all-time high – and the rate is about 50 percent for people 25 and under. Crime has skyrocketed. On Sunday, drug addicts openly injected heroin on the stoops of posh shops closed for the day as illegal immigrants from Africa and Asia scrounged for discarded metal to sell as scrap. A once-minuscule fascist party, Golden Dawn, received 7 percent of vote for the second election in a row.

PASOK took most of the blame for the economic crisis and the bailouts. But New Democracy also drew intense ire for endorsing the second bailout agreement, known derisively here as simply "the memorandum."

Aris Papagrigoriou, 25, has a master's degree in information systems from England but cannot find a job that pays a living wage. He lives with his parents. Syriza, he said at a polling station in chic Kolonaki, is the only major party with clean hands.

"I just want to give a chance to someone who didn't sign the memorandum. That's all it is. I couldn't vote for anyone who voted for the memorandum," he said. "A lot of stuff has to be fixed here. But I don't think Greek people can stand another two years of austerity. I don't think austerity is a solution."

Dimosthenis Avgerinos, a 55-year-old Syriza voter, had his salary cut in half in November after 12 years as a translator and book editor. "I'm fed up with both New Democracy and PASOK," he said. "I don't know what Syriza's going to do, but I know what they did."

Though New Democracy's win will likely calm markets in the short term, an exit from the euro remains possible if the country's economy continues its freefall. And Syriza's strong showing signals to Samaras that he will be on a short leash.

"Unfortunately, the parties of the memorandum have the power. But in Greece, there is now an uprising," Syriza MP George Varemenos told the *Star*. ■

US, Europe Ready to Deal with Greek Turmoil

By Carol E. Lee, Sudeep Reddy and Brian Blackstone, The Wall Street Journal, June 16-17, 2012

Obama administration officials said they are confident the US and Europe are prepared to absorb any shock to their financial systems in case of market upheaval following Greece's election Sunday, as European Central Bank President Mario Draghi suggested the ECB could step in with additional bank loans.

US officials, speaking to reporters Friday ahead of the Group of 20 summit of advanced and developing economies in Mexico, said they expect next week's gathering of world leaders to help guide more detailed discussions at the continent's own summit later this month.

But Greece's election results, which will come the night before the summit begins, are expected to weigh heavily on leaders at their annual gathering even though Athens may take days or weeks to determine its new government and its future in the euro zone.

I think everyone is well-prepared to in the wake of the elections in Greece to work together to ensure that there's a path forward that's sustainable for Greece and bolsters confidence more broadly," said Lael Brainard, US Treasury under secretary for international affairs.

She said the US has "a set of tools" to address any problems. "We are, across the US government, always making sure that we have a toolkit and that we are well-prepared for any set of exigencies that may arise," she said.

Nations around the world are preparing for the risks of market disorder if Greece's elections spark fresh turmoil across the 17-nation currency union. The UK, worried about those risks, on Thursday unveiled a series of measures intended to flood banks with cheap funds and jump-start lending in the British economy.

With Greece poised to vote on austerity measures, the Euro zone is on the verge of a painful rupture that could be its dissolution. If Greece chooses to exit the Euro, the resulting chain of events may be hard to contain.

On Friday, Mr. Draghi suggested the ECB could offer additional bank loans if needed. He began his speech saying the ECB plays a "crucial role" in providing credit to "sound" banks.

The central bank "will continue to supply liquidity to solvent banks where needed," he said. The ECB has already issued over €1 trillion ($1.26 trillion) in three-year loans in a pair of operations late last year and in February.

In reserve is the ECB's dormant government bond-purchase program. This has the potential to rapidly ease contagion risks by bringing Spanish and Italian government bonds yields down. But the large scale of purchases that would be required – and the controversy the program has already generated in Germany where it is seen as a dangerous move into fiscal policy – makes it unlikely to occur in anything other than a worst-case scenario of worsening financial turmoil throughout the euro zone.

The ECB's first line of defense against spreading financial distress would probably be to lower interest rates. Mr. Draghi suggested rate cuts were on the table as recently as last week's monthly policy meeting when he said "a few" ECB board members favored a reduction from the current 1% level.

The benefits would be two-fold. First, cutting rates below 1% would send a signal to financial markets that the ECB is willing to take unconventional steps to stabilize markets. It would also reduce the cost of

Mail Box

Dear William,

My name is Alan Griffiths and I live in Sydney, Australia.

I have followed your writings and have great admiration and respect for COMER and the work you have done.

I have been involved with a couple of Australian organizations such as Economic Reform Australia (ERA), TOES, etc., that share your understanding and support your efforts to expose the inherent flaws and dangers in the structure and policy of central banking and the cyclic and catastrophic outcomes that flow from it, such as the "unforeseen" GFC [global financial crisis]! (My keyboard doesn't have a sarcasm key so the ! will have to suffice. LOL.)

An Australian Senate "Inquiry into the post GFC banking sector" is currently seeking public submissions, and I am hoping you may be able to assist us if you are able by making a submission.

I realize that you have a heavy work load, but this may be our last chance here in Australia to obtain government policy change before global events or Goldman Sachs overwhelm us.

The following is part of an email we have sent out to hundreds of supporters…which gives some relevant information for your consideration.

Please let me know what you think, and if you are unable to make a submission then perhaps you may at least be able to help us with some advice and guidance.

Please feel free to pass this information on to any organizations or colleagues you think may be interested

Yours sincerely,

Alan Griffiths

Dear Supporter,

I only learned of the Senate "Inquiry into the post GFC banking sector" via the 4 Corners Programme "Dicing with Debt" where they referred to the initiator of the inquiry, Senator John Williams from Inverell.

From a cursory look at the terms of reference at www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=economics_ctte/post_gfc_banking/tor.htm, it appears that here is an opportunity which would benefit from our input, especially with specific solutions such as the re-establishment of a People's Bank as the original CBA was intended and empowered to be, along with a host of possible recommendations from the Social Credit perspective. Especially under sections (d) (e) and (f) of the terms of Inquiry.

Regrettably your letter reached me after the closing date on May 31.

However, I know and cherish Australia and its potential.

If you can arrange for meetings at a minimum of 4 cities, I will come to Australia at COMER's expense and address the meetings.

With friendly regards,

William Krehm

borrowing for banks, whose ECB loans are tied to the central bank's main policy rate.

Mr. Draghi signaled Friday that the ECB isn't constrained by its mandate to keep inflation just under 2%.

Annual consumer-price growth is currently above that target at 2.4%, but it has fallen quickly in recent months. "There is no inflation risk in any euro area country," Mr. Draghi said in a speech.

Market expectations mounted in recent days for action by central banks around the world to address the concerns emanating from Europe. The Federal Reserve, which concludes its own two-day policy meeting on Wednesday, is "prepared to take action as needed to protect the US financial system and economy in the event that financial stresses escalate," Chairman Ben Bernanke has said.

Central bankers won't attend next week's Mexico gathering, so the summit itself is unlikely to produce any announcements about direct action by central banks.

"It's not something the G-20 heads of state can do given the independence of the central banks," said Fred Bergsten, director of the Peterson Institute for International Economics.

The European crisis remains the dominant threat hanging over the global economy and the US recovery, just as it was when the G-20 leaders gathered in France this past November.

It has become a central focus for President Barack Obama, who is to arrive in Mexico Sunday night for the G-20 meeting.

The two-day summit may be Mr. Obama's final opportunity before the November election to prod European leaders in person to take stronger action to quell a crisis that threatens the US economy and his re-election.

US officials sought to play down expectations of immediate action at the summit, which will include just four of the euro zone's 17 members. Leaders from all 27 European nations will meet in late June.

Mike Froman, deputy national security adviser for international economics, said the G-20 meeting would allow European officials to "to lay out a vision of where they want to take Europe and the euro zone going forward."■

RENEW TODAY
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FOCUS ON EUROPE

Before Vote, Greeks Move Cash, Hire Gurads

By Gordon Fairclough, The Wall Street Journal, June 15, 2012

As Greece prepares for a weekend vote that could determine whether the country stays in Europe's common currency, many Greeks are gripped by uncertainty and taking measures large and small to prepare for what may come next.

"I don't know whom to trust or what to believe," said Ilias Daskalopoulos, a 28-year-old unemployed writer who earlier this year went to the bank and withdrew his entire life savings – a few thousand euros that he now keeps stashed in a secret hiding spot.

With the stakes so high, Mr. Daskalopoulos said, he is nervous about the outcome of Sunday's national elections, the second to be held since May. "The situation could be very precarious," he said.

Other Greeks are transferring money out of the country, hiring security guards, stocking up on groceries and keeping their cars' gas tanks full – measures of the anxiety many feel as the country's economy collapses and government institutions struggle to cope. Unemployment passed 22% in the first three months of the year, and crime rates are climbing.

The elections pit the left-wing Syriza party, which has pledged to annul Greece's bailout deal with the European Union and International Monetary Fund, against its conservative rival, New Democracy, which backs the rescue package.

Stern warnings from EU leaders that deviating from the strict – and widely unpopular – terms of Greece's loan agreements could force the country out of the euro zone have set voters on edge.

"I feel anxious, who doesn't? But I also feel angry," said Nikos Bakriniotis, 27 years old. "The media and the politicians, Greek and foreign, are trying to scare us" by saying that if the next government doesn't back the bailout, "chaos will ensue," he said.

Mr. Bakriniotis, who two weeks ago shut down a restaurant he ran in the center of Athens because of falling sales and rising taxes, said he doesn't want Greece to leave the euro. But the current debt-repayment terms, he said, are sinking the economy.

As a precaution, he said, he has sent some of his savings abroad in the early spring. His plan now: "Wait and see."

Bankers say that in recent days, there has been a surge in withdrawals from Greek banks, with one person familiar with the situation estimating that €600 million to €900 million ($750 million to $1.1 billion) is flowing out daily.

For years now, Greeks have been moving money abroad or deciding to keep their holdings in cash – with the varying pace of flows serving as a barometer of public unease. Since 2009, Greek bank deposits have fallen by about one-third.

Mr. Daskalopoulos, who withdrew his money earlier this year, said friends are "hiding money in jars, under the bed, even burying it in the mountains." He said he plans to vote for Syriza, in hopes Greece can get a better deal with its creditors.

The economic downturn has also contributed to a much-publicized rise in robberies and burglaries and an erosion in people's feelings of personal safety.

Dimitrios Kalkantzakos, who runs a gun shop near Athens's City Hall, said sales in recent months are 60% ahead of last year's pace. Most customers want to buy pump-action shotguns to defend their homes and families against intruders, he said.

"People don't know what going to happen in the elections and what will come afterward. People are afraid," said Mr. Kalkantzakos. "It's not logical. I personally don't think anything drastic is going to happen."

Others are turning to security companies. Michalis Leontiadis, a spokesman for Puma Security, said his firm has seen a rise in demand recently for night watchmen, especially in Athens's wealthier northern suburbs.

Analysts said the popular fear and uncertainty could strengthen the hand of New Democracy, a long-time mainstream party here that is seen as more supportive of the status quo, more accommodating of the EU's demands and has campaigned heavily on law-and-order issues.

Syriza plays down the risks of its stance against the bailout deal, saying the EU has no real alternative to easing Greece's terms. "We're not going to blow up everything," said Nikos Pappas, a senior Syriza official.

"We want to calm the markets."

Some Greeks say they are making plans to leave the country if the situation worsens.

Harry Vafias, chief executive of shipping company StealthGas Inc. and the scion of a prominent Greek shipping family, said that if the next government leads the country on a path out of the euro, "We would have to relocate."

"We don't want to leave. We love Greece," Mr. Vafias said. "But if we go back to the drachma, people won't have money even to fill their cars with gasoline. You won't be able to ensure people's safety."■

New Data on Elusive Particle Is Shrouded in Secrecy

By Dennis Overbye, The New York Times, June 20, 2012

Dr. Higgs, I presume?

A team of physicists gathered in a room at CERN on Friday to begin crunching new data from the Large Hadron Collider this year. And they will be at it all week.

What they are seeing nobody knows.

What they are looking for is the beginning to the end of the longest and most expensive manhunt in the history of physics, one that has involved several generations of larger and larger particle accelerators: the spoor of a hypothetical particle that endows other elementary particles with mass. Known as the Higgs boson, it is the cornerstone of modern physics, but confirmation of its existence has eluded scientists for 40 years.

In December, scientists went into a qualified tizzy when two teams of physicists working on the Large Hadron Collider at CERN, outside Geneva, reported hints – but only hints – of a bump in their data that could be the boson.

The new data will show whether that was a fluke or whether they are really on the road to discovering the long-lost boson, physicists say. They are racing to make a deadline to report the results at the International Conference on High Energy Physics, or Ichep, in Melbourne, Australia, starting July 4.

This, all agree, is the boson's last stand. If the December signal fades, it probably means that the Higgs boson, at least as physicists have envisioned it for the past 40 years, does not exist, and that theorists have to go back to their drawing boards.

If the signal is still there, the work is just beginning. In order for it to be certified as a "discovery," there has to be less than one chance in 3.5 million that it is a fluke background fluctuation. Last fall's signals were at the level of one chance in a thousand, which sounds good, but you would not board an airplane that crashed every thousand flights.

For now, the whole physics world is waiting and wondering.

Nobody who has seen the new data is talking, except to say not to believe the blogs, where a rumor of an enhanced signal has ricocheted around, and to warn that even if the signal is real, it may require much more data and analysis to establish that it actually acts like the Higgs boson and not an impostor.

"Please do not believe the blogs," Fabiola Gianotti, the spokeswoman for the team known as Atlas, after its huge detector, pleaded in an e-mail. For what it is worth, however, on the market prediction Web site Intrade, the price of a bet that the Higgs will be found before the end of this year zoomed over the weekend.

Right now, most of the physicists doing the work do not even know what they have. In order to avoid bias, the physicists involved avoided looking at most of the crucial data until last week, when they "unblinded" it. About 500 physicists on each team are analyzing eight different ways a Higgs boson, once produced in the collider, might decay and leave its signature.

They all have to sign off on the final results, making for a very tight timetable.

"Our final Ichep results will not be even seen by the collaboration before the last day of June and then will require the usual final cosmetics for presentation," wrote Joe Incandela of the University of California, Santa Barbara, spokesman for the team known as CMS, in an e-mail.

The particle is named for the University of Edinburgh scientist Peter Higgs, who was one of six physicists who suggested that a sort of cosmic molasses pervading space is what gives particles their heft. Particles trying to wade through it gather mass the way a bill moving though Congress gains riders and amendments, becoming more and more ponderous.

It was Dr. Higgs who pointed out that this cosmic molasses, normally invisible and, of course, odorless, would produce its own quantum particle if hit hard enough, by the right amount of energy, and so the branding rights went to him.

The current run of the Large Hadron Collider, which accelerates protons to energies of four trillion electron volts around a 17-mile underground racetrack at CERN, the European Organization for Nuclear Research, before banging them together into tiny fireballs of primordial energy, was designed to get the two experiments enough data so that they could each independently decide by the end of the year whether the Higgs boson exists.

Another possible hangup is that the two groups disagreed slightly last fall on the mass of the putative particle. The Atlas group put it at 124 billion electron volts, while the CMS group came up with 126 billion electron volts, in the units of mass and energy favored by physicists. By comparison, a proton weighs in at one billion electron volts and an electron at half a million.

If the discrepancy persists, it could undermine attempts to reach that statistical rigor. Failure to find the Higgs would not be the end of the theory in which it is embedded, known as the Standard Model, which has passed every test for 30 years. But it would require physicists to go back to their blackboards for another method of imputing mass to particles.

Without such a mechanism, said Steven Weinberg of the University of Texas in Austin, who won a Nobel for using the Higgs theory to unify the electromagnetic and weak nuclear forces, the universe would be bleak. Elementary particles like quarks and electrons would be mass-less. "Atomic nuclei would still exist, but electrons but there would be no atoms," he said. "And of course no life. Not even physicists."

❧ ❧ ❧

Our Comment. It is staggering to note the elusive nature of basic relationships in the universe that stump the greatest physicists. They impose a message of modesty – and warn of the irresponsibility of governments in reading their balances backwards and forward, as though it makes no difference. Such irresponsibility can only put humanity's survival at risk.

Unwed Mothers Now a Majority in Births in 20s

By Jason DeParle and Sabrina Tavernise, The New York Times, February 18, 2012

Lorain, Ohio – It used to be called illegitimacy. Now it is the new normal. After steadily rising for five decades, the share of children born to unmarried women has crossed a threshold: more than half of births to American women under 30 occur outside marriage.

Once largely limited to poor women and minorities, motherhood without marriage has settled deeply into middle America. The fastest growth in the last two decades has occurred among white women in their 20s who have some college education but no four-year degree, according to Child Trends, a Washington research group that analyzed government data.

Among mothers of all ages, a majority – 59 percent in 2009 – are married when they have children. But the surge of births outside marriage among younger women – nearly two-thirds of children in the United States are born to mothers under 30 – is both a symbol of the transforming family and a hint of coming generational change.

One group still largely resists the trend: college graduates, who overwhelmingly marry before having children. That is turning family structure into a new class divide, with the economic and social rewards of marriage increasingly reserved for people with the most education.

"Marriage has become a luxury good," said Frank Furstenberg, a sociologist at the University of Pennsylvania.

The shift is affecting children's lives. Researchers have consistently found that children born outside marriage face elevated risks of falling into poverty, failing in school or suffering emotional and behavioral problems.

The forces rearranging the family are as diverse as globalization and the pill. Liberal analysts argue that shrinking paychecks have thinned the ranks of marriageable men, while conservatives often say that the sexual revolution reduced the incentive to wed and that safety net programs discourage marriage.

Here in Lorain, a blue-collar town west of Cleveland where the decline of the married two-parent family has been especially steep, dozens of interviews with young parents suggest that both sides have a point.

Over the past generation, Lorain lost most of two steel mills, a shipyard and a Ford factory, diminishing the supply of jobs that let blue-collar workers raise middle-class families. More women went to work, making marriage less of a financial necessity for them. Living together became routine, and single motherhood lost the stigma that once sent couples rushing to the altar. Women here often describe marriage as a sign of having arrived rather than a way to get there.

Meanwhile, children happen.

Amber Strader, 27, was in an on-and-off relationship with a clerk at Sears a few years ago when she found herself pregnant. A former nursing student who now tends bar, Ms. Strader said her boyfriend was so dependent that she had to buy his cigarettes. Marrying him never entered her mind. "It was like living with another kid," she said.

When a second child, with a new boyfriend, followed three years later – her birth

FOCUS ON EUROPE

Germany Is Urging New Efforts from Big Economies

By Christopher Lawton and Franziska Scheven, The Wall Street Journal, June 15, 2012

Berlin – Germany alone can't solve the euro-area sovereign debt crisis, German Chancellor Angela Merkel warned on Thursday, as she urged the world's largest economies to play their part in helping to restore growth.

Speaking ahead of a meeting of the Group of 20 industrial and developing nations, Ms. Merkel told parliament in Berlin: "The causes of the weakening global economy are indeed not only in the euro area.

"Everyone must be prepared to overcome their specific weaknesses," she said.

Since the start of the debt crisis, Ms. Merkel and Germany have come under intense pressure to do everything possible to keep the monetary union from breaking apart. As the euro zone's largest economy, Germany has accepted the greatest financial share of the bailout packages. The country has taken responsibility for as much as €401 billion ($503.54 billion) of the agreed temporary and permanent bailout programs' entire resources, according to an estimate from Credit Suisse.

Less than a week after Spain said it would seek help for its struggling banks, Italy has also seen its borrowing costs surge, escalating fears that the euro-zone's third-largest economy may also need assistance.

World leaders will gather for the Group of 20 meeting in Mexico next week to discuss affairs such as poverty, youth unemployment and the environment, although the main issue is likely to be the continuing debt crisis, Ms. Merkel said. While all eyes will be on the German chancellor for an answer to the crisis, she warned leaders not to expect too much from her country.

"Germany's strength isn't infinite. Germany's strength isn't unlimited," she said. Ms. Merkel urged the G-20 nations to resist the temptation to refinance debt. There is still work to be done for all nations to boost growth globally, she said, adding that the global crisis began with the fall of US firm Lehman Brothers in 2008.

She called on the US to reduce its budget deficit and urged China and other newly industrialized countries to allow their currencies to be more flexible. Free trade between G-20 nations is still limited, Ms. Merkel said, adding that the G-20 economies haven't taken their obligation to promote free trade seriously enough.

Addressing Europe, Ms. Merkel warned against "false solutions" to the debt crisis and again pressed for the euro zone to implement tighter fiscal controls before member states embark upon joint liability for each other's debts.

She also called for the European Central Bank to play a more significant role in the supervision of Europe's banks, following the inaccurate results of stress tests in Spain. Ms. Merkel has previously accused the European Banking Authority's stress tests of being undermined by national authorities.

"I wouldn't mind the ECB having a more supervisory power to stop us from dragging out these problems," she said.■

control failed, she said – her boyfriend, a part-time house painter, was reluctant to wed.

Ms. Strader likes the idea of marriage; she keeps her parents' wedding photo on her kitchen wall and says her boyfriend is a good father. But for now marriage is beyond her reach.

"I'd like to do it, but I just don't see it happening right now," she said. "Most of my friends say it's just a piece of paper, and it doesn't work out anyway."

The recent rise in single motherhood has set off few alarms, unlike in past eras. When Daniel Patrick Moynihan, then a top Labor Department official and later a United States senator from New York, reported in 1965 that a quarter of black children were born outside marriage – and warned of a "tangle of pathology" – he set off a bitter debate.

By the mid-1990s, such figures looked quaint: a third of Americans were born outside marriage. Congress, largely blaming welfare, imposed tough restrictions. Now the figure is 41 percent – and 53 percent for children born to women under 30, according to Child Trends, which analyzed 2009 data from the National Center for Health Statistics.

Still, the issue received little attention until the publication last month of *Coming Apart*, a book by Charles Murray, a longtime critic of non-marital births.

Large racial differences remain: 73 percent of black children are born outside marriage, compared with 53 percent of Latinos and 29 percent of whites. And educational differences are growing. About 92 percent of college-educated women are married when they give birth, compared with 62 percent of women with some post-secondary schooling and 43 percent of women with a high school diploma or less, according to Child Trends.

Almost all of the rise in non-marital births has occurred among couples living together. While in some countries such relationships endure at rates that resemble marriages, in the United States they are more than twice as likely to dissolve than marriages.

In a summary of research, Pamela Smock and Fiona Rose Greenland, both of the University of Michigan, reported that two-thirds of couples living together split up by the time their child turned 10.

In Lorain as elsewhere, explanations for marital decline start with home economics: men are worth less than they used to

Graduations Rise, Suspensions Drop for Students who have Healthy Eating Habits, TDSB Study Finds

By Kristin Rushowy, Toronto Star, May 12, 2012

Eating breakfast boosts behaviour, grades and graduation rates while curbing suspensions and sick days, an extensive Toronto District School Board study has found.

"What we found was quite statistically stunning," said Catherine Parsonage of the Toronto Foundation for Student Success, a charitable arm of the Toronto public board that worked with TDSB on the study.

"Children who don't eat breakfast are twice as likely to be struggling in reading, twice as likely to be struggling in science," Parsonage said.

But the study of 6,000 students at seven middle and high schools in the city's needy northwest end found that when they are provided with a morning meal daily:

- 78 percent of teens are set to graduate, compared to 61 percent who only ate breakfast a few days or not at all.
- The number of suspensions dropped in half to 3 percent, compared to 6 percent and absenteeism also went down.
- Students in grades 7 and 9 scored 10 percent higher in reading levels than those who skipped breakfast.
- The number of students considered "at-risk" in science dropped to 28 percent, compared to 44 percent among those who didn't eat in the morning.

Across the Toronto District School Board an estimated 40 percent of students come to school hungry each morning, Among students involved in the study, that rate was initially 68 percent.

Parsonage said the study, which she called the first of its kind in Canada, comes as Ontario school boards and a handful of politicians are pushing for a national nutrition program for kids, They argue that Canada is the only developed country without a national program.

In Toronto, the foundation has been running a breakfast program for school kids, since 1999. It now helps about 140,000 students.

Dr. Kristy Duncan, the Liberal MP for Etobicoke North, has put forward a motion for Ottawa to start something along the lines of the Toronto breakfast program "so that every child gets the healthy start each morning that they need to help enhance both their learning opportunities in school and their personal health."

The Ontario Public School Boards' Association is asking the Canadian School Board's Association to lobby the federal government for a nutrition program.

"The only way that we are going to have a successful national nutrition program is if we get ministers of education in every province on side," said Catherine Fife, the association's president. That likely won't be a problem, she added, "but we may have trouble getting the federal government on side."

Students who took part in the two-year Toronto study were fed a whole-brain product (bread, muffin or bagel), fruit or vegetable and protein (like cheese or yogurt) and milk each day. Beside academic improvements, they reported being healthier as well.

After the first year, teachers and principals started anecdotally reporting improved behaviour and focus in the classroom.

"Now we have definitive proof," Parsonage said, "that if we nourish children, they will do better in core subjects – reading, math and science – and we know that, in high school, 86 percent of kids eating breakfast every day are on track to graduate."

The study also found that conflict resolution, problem-solving and class participation was up between 11 to 16 percent for the kids in the study.

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Our Comment. Feeding school kids so that they may learn, is not surprising news. It just confirms that human capital is an indispensable investment that society must make. This is the key message that COMER has delivered from the roof-tops throughout much of the world for the past half-century. It cannot be addressed when speculative banks do their games with other people's money. Such vital social investments must be recognized as such in our government's accounting.

be. Among men with some college but no degrees, earnings have fallen 8 percent in the past 30 years, according to the Bureau of Labor Statistics, while the earnings of their female counterparts have risen by 8 percent.

"Women used to rely on men, but we don't need to anymore," said Teresa Fragoso, 25, a single mother in Lorain. "We support ourselves. We support our kids."

Fifty years ago, researchers have found, as many as a third of American marriages were precipitated by a pregnancy, with couples marrying to maintain respectability. Ms. Strader's mother was among them.

Today, neither of Ms. Strader's pregnancies left her thinking she should marry to avoid stigma. Like other women interviewed here, she described her children as largely unplanned, a byproduct of uncommitted relationships.

Some unwed mothers cite the failures of their parents' marriages as reasons to wait. Brittany Kidd was 13 when her father ran off with one of her mother's friends, plunging her mother into depression and leaving the family financially unstable.

"Our family life was pretty perfect: a nice house, two cars, a dog and a cat," she said. "That stability just got knocked out like a window; it shattered."

Ms. Kidd, 21, said she could not imagine marrying her son's father, even though she loves him. "I don't want to wind up like my mom," she said.

Others noted that if they married, their official household income would rise, which could cost them government benefits like food stamps and child care. W. Bradford Wilcox, a sociologist at the University of Virginia, said other government policies, like no-fault divorce, signaled that "marriage is not as fundamental to society" as it once was.

Even as many Americans withdraw from marriage, researchers say, they expect more from it: emotional fulfillment as opposed merely to practical support. "Family life is no longer about playing the social role of father or husband or wife, it's more about individual satisfaction and self-development," said Andrew Cherlin, a sociologist at Johns Hopkins University.

Money helps explain why well-educated Americans still marry at high rates: they can offer each other more financial support, and hire others to do chores that prompt conflict. But some researchers argue that educated men have also been quicker than their blue-collar peers to give women equal authority. "They are more willing to play the partner role," said Sara McLanahan, a Princeton sociologist.

Reviewing the academic literature, Susan L. Brown of Bowling Green State University recently found that children born to married couples, on average, "experience better education, social, cognitive and behavioral outcomes."

Lisa Mercado, an unmarried mother in Lorain, would not be surprised by that. Between nursing classes and an all-night job at a gas station, she rarely sees her 6-year-old daughter, who is left with a rotating cast of relatives. The girl's father has other children and rarely lends a hand.

"I want to do things with her, but I end up falling asleep," Ms. Mercado said.

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Our Comment. Marshall McLuhan had covered the issue in a masterful way in

Man Lay Hidden Under Stairs, Alive or Dead, for 2 weeks

By Raveena Aulakh, Toronto Star, June 14, 2012

Neighbours complained about a foul odor coming from a vacant property but everyone assumed it was a dead raccoon and didn't look for the source. For about two weeks, the odour permeated a stretch of Parliament Street, just north of Shuter Street.

To hear people describe it, it was so bad some covered their mouth and nose when walking by a vacant property. Others started taking a different route.

Everyone talked about the odour, nobody did anything. Finally, on Tuesday, local handyman Ali Mohamo got a flashlight and poked around a covered alcove under the stairs. There was some garbage, a pair of boots and behind that a leg curled up, a shabby blue and white blanket covering the rest of the body.

Police say the body is that of a man and that his death wasn't a homicide. But they couldn't say who he was, how he died or how long he had been dead.

He was likely homeless and died alone, anonymous and seemingly forgotten.

He lay there, alive or dead, for two weeks before being discovered.

"It says a lot about downtown Toronto, I know," said John Nguyen, who runs Panzerotto Pizza next door. "But there are so many homeless people around here…no one knows what they are doing."

Nguyen, like other restaurateurs in the area, gives food away if someone asks for it. But he keeps his distance from people he doesn't know. Some people on the street can be abrasive and loud at night, he said.

Hassan Dostyar, who runs Kabul Farms a few doors down, pointed out the homeless man was in the alcove which was mostly boarded up. "If someone had seen him lying out…we would have called for help."

But Dostyar admitted the odour was really foul and he, like everyone, assumed it was a dead raccoon on the vacant property and didn't look for the source.

"Look, there are always homeless people around there…. One time I saw a naked woman too," he said. "What do you do? Look away."

Even the police didn't care to check thoroughly, said Omar Habib, owner of Juba Restaurant, also in the neighbourhood. After a complaint about the foul odour, officers visited a few days ago and told the neighbouring businesses there was nothing, said Habib.

"What could we have done?"

To be fair, the dead man was well inside the boarded-up alcove.

A lot of homeless people don't like to be seen, said Anne-Marie Batten, a street nurse in the area. In some cases, people go where they won't be seen, "not necessarily to hide but so that cops don't ask them to move."

The dead man likely thought he was safe in the alcove, said Batten, who is now trying to find information about him.

On Wednesday, many homeless people quietly walked by the vacant property where the body was found and a police cruiser still sat.

There was some garbage near the stairs, a pair of glasses and a shabby shirt.

No one knew who he was.

"It's a terrible thing, what happened…. Who knows how long he was there or in pain," said Joan, who wouldn't give her last name but said she lived in a boarding house at Sherbourne and Dundas Sts.

"But it's a big city…things happen."

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Our Comment. A costly end for human capital, unrecognized and unvalued.

his immortal summation: "The medium is the message" which sensitized him to my emphasis on the key importance of human capital. He therefore invited me to explain my view at the monthly meeting that the University of Toronto allowed him to present unorthodox views. On his death, I was invited to speak on the implications of his many unorthodoxies, when the freedom of thought was in general suffering curtailment. It is a reassuring strand in the wind that Marshall McLuhan's heritage should be undergoing a revival. His family had even insisted on my being included in the memorial radio program on his great contribution when other members of the memorial radio panel were a bit envious of his threatening immortality.

Bombardier Buys Land in Casablanca for New Plant

Report on Business, The Globe and Mail, June 19, 2012

Bombardier Aerospace says it has bought land near the airport in Casablanca's free zone that offers five years of no taxes and other financial incentives for a manufacturing facility set to open next year.

The Montreal-based aircraft manufacturer said Monday that it signed a deal with Moroccan property holding and management company Midparc Investment S.A. for the land in a free zone in Nouaceur.

Midparc is owned by a state financial agency and three private industrial companies specializing in aeronautics and electronics fields.

Bombardier Aerospace president Guy Hachey said the selection of the site for the manufacturing facility is "an important first step" in establishing the world's third-largest aircraft manufacturer in the North African country.

"The site met our stringent requirements and high standards and we look forward to the start of the construction and production of the first Moroccan-built Bombardier aircraft components," he stated in a news release.

Mr. Hachey said it hopes the long-term relationship will serve as a catalyst for the aircraft industry in Morocco.

Bombardier joins other aerospace manufacturers in setting up shop in Morocco, which has established an aerospace training program and offers many tax and financial incentives to attract companies.

The company will pay no taxes for five years, 8.75 percent for another 20 years and 17.5 percent thereafter.

On its website, Midparc boasts about low wages being one of Morocco's advantages, It said the average monthly wage is $327 (US), lower than in Tunisia and Turkey, 10 times lower than Spain and a quarter of what's earned in South Africa. It wasn't immediately clear how Bombardier wages will compare to this average.

Midparc said free-trade agreements with Morocco offer investors free duty access to 55 countries with more than one billion consumers and 60 percent of the world's GDP.

Morocco also offers training subsidies and financial aid from a government fund for new capital goods.

Bombardier didn't disclose the purchase price for the 10-hectare piece of land, but said it plans to invest about $200 million in equipment, buildings and start-up costs over the next eight years.

Construction of the plant will take place in phases starting in 2012. The midparc free zone is an industrial gated community, with just one main entrance and constant video surveillance.

"We're on track to begin production in 2013," spokeswoman Haley Dunne said in an interview.

Bombardier has about one dozen employees temporarily working to establish the facility in Morocco.

Capabilities at the new plant, which will complement Bombardier Aerospace existing manufacturing sites, will initially include sub-assembly for simple structures. Details on the type of components to be manufactured are being finalized.

By the end of 2020, employment at the Morocco facility is expected to reach about 850. Bombardier said it selected Morocco because of competitive manufacturing costs, low shipping and transportation costs and proximity to Europe.

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Our Comment. What is missing in this prospectus is the treatment of human capital – and it is on this unrecognized "detail" that the survival of a functioning society depends.

Massive Rome Debt for Sale Suggests Trouble Ahead

By Daryl Jones, The Globe and Mail, June 19, 2012

Europe's sovereign debt woes will be high on the agenda as the G20 countries continue their meetings today in Mexico. For much of the past two years, the focus has been on Greece and Spain. In the coming months, though, we expect Italy to become a more significant concern than either of those countries.

With gross domestic product (GDP) of $2.2 trillion (US), the Italian economy is more than 20 percent larger than the combined economies of both Greece and Spain, so it has much more influence than those nations on the future of both the euro zone and the global economy.

In the accompanying chart, we compare the 10-year yields on Spanish and Italian sovereign debt over the past year. Italian yields hit cyclical highs last fall and then started a gradual decline on the back of austerity programs passed in Italy. Over the course of the past month, yields have once again accelerated upward and are tracking those of Spain.

The most recent indicator of how the market perceives Italian credit worthiness was the auction for Italian three-year debt last Thursday. The auction was successful in that the debt sold. More disconcerting was the fact that it did so at a yield of 5.3 percent. This was a 36 percent increase in yield from just a month prior. To the extent this trend continues, Italy will effectively be shut out of sovereign debt markets, except at usurious rates.

Two key issues are driving the acceleration in Italian yields. First, the market is signalling it does not believe that Italian Prime Minister Mario Monti's austerity measures will get passed and improve the Italian fiscal outlook. Second, there is the burden of broader European bailouts, such as the recently announced aid for the Spanish banking sector. Euro zone members are expected to participate in these bailouts and the cost will further strain an already precarious Italian government balance sheet.

To make matters worse, economic stagnation in Italy shows no signs of abating. GDP growth has been negative for three quarters in a row and contracted at a 0.8 percent clip in the first three months of this year. Meanwhile, unemployment climbed to a seasonally adjusted 9.8 percent, the highest level since 2000. Italy's ability to grow its way out its debt balance is dubious, at least in the short term.

Compared to many of its peers, Italy has an almost reasonable deficit that is expected to come in around 3 percent of GDP this year. The core issue with Italy is that its accumulated debt stands at more than 120 percent of GDP. Not only does this debt create a headwind for economic growth, but it also requires the need to constantly refinance it with new bond issues. These refinancing requirements are likely to be the catalyst that pushes Italy over the sovereign debt precipice.

In aggregate, Italy has €1.9 trillion in outstanding government debt versus €720 billion in outstanding debt for Spain. Even more concerning is Italy's repayment schedule. According to our research, Italy has an accelerated repayment schedule over 2012 of more than €255 billion. The collective repayment requirements for the remainder of 2012 and 2013 for Italy are more than €515 billion.

Many pundits have highlighted the fact that Italy is not Spain or Greece. This is true. In fact, Italy has more than twice as much debt to sell than both of those countries combined over the next 18 months. This massive backlog of Italian debt for sale is likely to be the fundamental inflection point that shifts the eye of the European sovereign debt storm from Greece and Spain, to Italy. ■

Component Maker Shifts Strategy as It Loses RIM Contract

By Iain Marlow and Tim Kiladze, The Globe and Mail, June 19, 2012

The fallout from Research In Motion Ltd.'s downward spiral has rippled beyond its home base of Waterloo, Ont., killing a contract that accounts for nearly one-fifth of the revenue of Toronto-based electronics manufacturer Celestica Inc.

RIM, which is preparing for the launch of a new line of smart phones in the second half of the year, has seen sales of its current BlackBerry 7 devices drop off sharply, and is in the middle of a global restructuring aimed at shaving off roughly $1 billion (US) in costs by the end of fiscal 2013.

Although the termination of the contract can't be directly tied to the failure of a particular RIM device, it is understood that Celestica mainly made BlackBerry components in Mexico for the North American market – the region where RIM's sales have declined the most. The BlackBerry has ceded large chunks of market share in the United States to Apple Inc.'s iPhone and phones running Google Inc.'s Android software.

RIM accounted for 19 percent of Celestica's $1.69 billion (US) in revenue in the first quarter. Despite that, Celestica shares went up slightly on Monday's news, rising 3.7 percent to $7.89 (Canadian) in Toronto. Celestica management had warned Bay Street analysts that the company's relationship with RIM could end, and they are trying to shift focus to higher-margin services.

Celestica makes components and provides other services to a variety of companies, including makers of computers, mobile devices and other consumer products. But it has been hit by fierce competition from Asian rivals, and suffers from exceedingly thin profit margins. Last year, Celestica earned just 1.6 cents in profit for every dollar in revenue.

So the company has hatched a new strategy, one that would see it make up for the loss of RIM by focusing on selling its services to aerospace and defence, medical, industrial, green technology and semiconductor equipment firms, where it believes it can make bigger profits. This group, which Celestica calls its "diversified" unit, represented 14 percent of the company's $7.2 billion (US) in revenue last year and currently accounts for about 19 percent. The diversified business offers profit margins in the 5- to 7-percent range, much higher than in its consumer unit.

On Monday, as Celestica announced it was winding down BlackBerry production in the next three to six months, RIM issued a statement, breaking with its usual practice

Continued on page 18

Carrefour Checks Out of Greece

By Inti Landauro, The Wall Street Journal, June 16-17, 2012

Paris – Carrefour SA said Friday it will sell its Greek supermarket to its local partner and walk away from the country at a loss, offering concrete evidence of foreign investors severing ties with Greece amid a deeply contracting economy and political upheaval.

The announcement comes just two days ahead of pivotal elections that could prove decisive in whether Greece stays in the euro zone or not. A host of international companies have said they are preparing contingency plans for such risk, with many voicing concerns about how to retrieve cash in the event of Greece leaving the 17-nation common currency.

For Carrefour, the decision to exit Greece represents a strategic shift under new chief executive Georges Plassat, who took over from Lars Olofsson last month with a mission to turn the struggling retailer around. Mr. Plassat is due to make his first public presentation as CEO to the annual shareholders meeting on Monday.

The French retailer said it would sell its 50% stake in its supermarket chain in Greece to the Marinopoulos family and take a mostly non-cash charge of €220 million ($277.9 million), comprised largely of a write-down of its investment in Greece. Carrefour didn't disclose further details, notably on the cash component of the financial charge. Carrefour had already written down its Greek business by €188 million in 2011.

A banker for the Marinopoulos family, which will now fully own Carrefour Marinopoulos, said it has agreed to pay Carrefour a symbolic euro for the stake. Jean-Marc Forneri of Paris-based investment bank Bucéphale Finance, which advised the family on the deal, said the Greek buyer will invest €300 million in the stores.

A Carrefour spokeswoman said upon completion of the deal the company will no longer have any exposure to Greece, suggesting that any debt associated with the Greek supermarket business was transferred alongside the assets. Mr. Forneri declined to comment on whether the Greek family assumed any debt as part of the deal.

Carrefour said the sale of the stake will allow the Greek joint venture "to meet the challenges of Greece's prevailing economic environment." Carrefour added that the Marinopoulos family is firmly committed to Greece and is "best placed" to handle the supermarket chain "in the current context."

Carrefour's move represents an effort to cut ties with a country that it recently described as its sole loss-making market.

Though Greece contributes a small part of its overall revenue, the world's second-largest retailer after US giant Wal-Mart Stores Inc. has over 800 stores in the country, along with its local partner, and is one of Greece's biggest private employers. Sales have plummeted in the country, now in its fifth year of recession, as the banking system reels from mounting bad loans, the economy nose-dives with fear over an eventual exit from the euro zone as consumer confidence is shattered.

Mr. Forneri said negotiations between the two sides began a few weeks ago, shortly after Mr. Plassat joined Carrefour. Both sides reached agreement quickly as Carrefour wanted the deal to be ready for the shareholders meeting on Monday, he said.

While Mr. Plassat has yet to publicly outline his plans for the retailer, since his arrival at the company's helm Carrefour has announced a reorganization of its real-estate operations. On late Thursday it said it will expand in Argentina, where business is brisk. But for Mr. Plassat, rejigging its international business will only account for part of the battle to turn Carrefour around, as the difficulties facing the company's domestic market – where sales are stagnant and it is losing market share – are likely to be his greatest challenge.

Sales at Carrefour have slumped as consumers pinch pennies against the backdrop of Europe's sovereign debt crisis. Carrefour is also feeling the pressure as some consumers turn away from hypermarkets – supercenters selling everything from baguettes to bicycles – which are losing business to more conveniently located and price-competitive supermarkets.

Investors welcomed Carrefour's decision to leave Greece and increase its exposure to Argentina, where it plans to buy 129 stores in supermarket chain Eki. Carrefour shares ended Paris trading up 5.9% at €14.49.

"Leaving Greece is rather good news, given the plummeting commercial performance of the company in the country, but the cost of the exit is high and shows the company's difficulty in the region," said Aurel BGC analyst Jean-Marie L'Homé. He said the expansion in Argentina will strengthen the company's position in Buenos Aires, the capital, as it will be able to get synergies with the stores it already owns.

Besides buying the Greek unit, the Marinopoulos family secured the exclusive franchise rights of Carrefour for Greece, Cyprus, Bulgaria, Albania and other Balkan countries. The transaction will be completed in the coming weeks, providing antitrust authorities approve it, Carrefour said.■

RIM *from page 17*

of not commenting on its supply chain relationships. "We are making changes to our supply chain as part of wider efforts to improve the efficiency and cost effectiveness of RIM's operations," a RIM spokesperson said.

RIM declined to elaborate on its supply chain, but is now said to be left with three main electronics component manufacturers: Quanta Computers, a Taiwanese company that makes RIM's PlayBook tablet and reportedly implemented large layoffs in Taiwan after the device failed to sell as well as expected; Jabil Circuit Inc., a US company with dozens of locations across Europe, Asia, the US, Mexico and Brazil; and Flextronics, a Singapore-headquartered firm with some plants in Asia and the Americas, but with most facilities in Europe, where BlackBerry production was focused, according to one former RIM executive.

Todd Coupland, a technology analyst with CIBC World Markets, said the loss of the RIM contract is "not a shortcoming of Celestica," and that it was simply a cost-cutting move on RIM's part as it seeks to streamline during rough times. "It's just a function of lower volumes, you consolidate suppliers and get scale," Mr. Coupland said.

Over the past year, RIM has lost roughly 75 percent of its value, shook up its top management with the appointment of new CEO Thorsten Heins, and has essentially staked its future on new lineup of BlackBerry 10 smart phones, due out either in late summer or early fall.

Until those devices come out, and perhaps for a while after as well, industry observers expect to hear more bad news from RIM as its top managers attempt to rally a shrinking work force and try to orchestrate a turnaround.■

Drug R&D Investment in BC Marks "Global Shift"

By Barrie McKenna, The Globe and Mail, June 19, 2012

British Columbia is challenging Quebec as a hub for pharmaceutical R&D in Canada, attracting a flurry of new investment as drug multinationals close up shop in Montreal.

The BC government will announce Tuesday that it is pumping nearly $40 million into two private-public research institutes in Vancouver: $29 million for the Centre for Drug Research and Development at the University of British Columbia, and $10 million for Genome British Columbia.

But it's the investment coming from outside the province that impresses BC Health Minister Mike de Jong.

"We see a shift happening, a global shift," Mr. de Jong said in an interview. "We see more people recognizing that British Columbia is the bridge between Canada – occasionally North America – and Asia."

Roughly $1.5 billion of mainly private-sector investment has flowed into the province's life-sciences industry in the past 18 months, including new investments in local startups such as Welichem Biotech Inc., Allon Therapeutics Inc., Tekmira Pharmaceuticals Corp. and Xenon Pharmaceuticals Inc., according to BC government figures.

The industry now employs 11,700 people in British Columbia and includes 340 companies.

"We decided some time ago that if we were smart and provided the right environment, that eventually national and international agencies would begin to take advantage," Mr. de Jong explained. "That's part of the story that has emerged."

Among the key factors driving investment is the province's low business tax rate, the creation of a pharmaceutical sciences faculty at UBC, the university's large medical school, and a growing pool of skilled researchers, Mr. de Jong said.

While British Columbia has made strides in basic drug research and commercialization, the province is still a small player in manufacturing, he noted.

"The next step is to marry some of that research and development of technology with production capability on the West Coast," Mr. de Jong said from Boston, where he is attending a major international biotech conference.

"A critical mass has been achieved where that becomes the logical next step."

Quebec's pharmaceutical industry has been hit hard by a series of closings of R&D centres by drug companies such as AstraZeneca, Johnson & Johnson, and Merck, resulting in the loss of hundreds of jobs. Earlier this year, French pharmaceutical company Sanofi-Aventis laid off 100 workers as part of a downsizing of its research and development centre in Laval, Que.

Canada's drug industry has come under criticism in recent months for failing to live up to pledges made in the 1980s when Ottawa extended patent protection for pharmaceuticals. At the time, drug makers vowed to spend the equivalent of 10 percent of their annual sales on R&D in Canada. The ratio has been consistently below that threshold since 2001, according to the Patented Medicine Prices Review Board.

Clinical trials typically account for a large percentage of pharmaceutical R&D, and companies are doing less trials in Canada. Applications to test brand name drugs dropped to 596 in 2010, from 777 in 2006, according to a recent report.

The federal government is once again facing pressure to extend patent protection for drugs – both by Europe in the Canada-European Union free trade talks, and by the United States as a condition for joining the Trans-Pacific Trade Partnership.

Vancouver's Centre for Drug Research and Development was created in 2007 with contributions from Ottawa and the BC and Alberta governments, as well as several drug companies. Its aim is to turn university research into commercially viable products.

Genome BC invests in and manages large genetics-related research projects.■

Literacy Test Scores Drop Again: Poorest Results Among Applied English Classes

By Kristin Rushowy, Toronto Star, June 14, 2012

Almost 8 percent of Grade 10 students who failed the province's literacy test this year also struggled with reading tests in Grade 6 and schools need to do a better job helping them, said the Education Quality and Accountability Office in releasing this year's results.

Overall, Ontario's literacy scores dipped slightly this year, with 82 percent of Grade 10 students passing the mandatory test down from 83 percent last year. A high of 85 percent was reached in 2008-09.

While 93 percent of students taking academic-level English passed, just 53 percent of teens taking applied level classes did.

"Although 2 percent (33,142) of all Grade 10 students who wrote the test are enrolled in the applied English course, students from this course represent more than half (58 percent) of all those who were unsuccessful on the (literacy test) this year," the EQAO said in a news release.

"Since this pattern has been observed for a number of years, the findings suggest the effectiveness of the applied English course should be reviewed." Students who failed the test were also behind in previous literacy tests administered in Grade 6, it said.

"This analysis revealed that of the Grade 10 students who were not successful on the (literacy test) this year, 78 percent had also not met the provincial reading standard in 2008. There continues to be a significant group of students progressing through the grades without receiving the literacy support they need to be successful."

The literacy test measures teens' reading and comprehension skills, as well as writing. Students must pass it to graduate.

Across Greater Toronto, school boards said they are already focusing on struggling students and fining ways to help them.

Sheila McWatters, program superintendent at the Dufferin-Peel Catholic board, said schools now offer remedial support for Grade 9 and 10 and results have improved.

The Peel public board noted that it has seen a huge boost in pass rates among English language learners, with 63 percent of them passing compared to 47 last year.

Board-by-board and school-by-school results are available at www.eqao.com.■

Economic Turmoil, Borrowed Credit, Wayward Leaders: What's New?

By Peter O'Brien

During the dog days of summer, some of us have the time and the inclination to lament the state of the world. Take your pick – the flailing EU, political unrest, religious extremism, culture wars – there's a lot to choose from.

Perhaps it is both wise and comforting, though, to take a very deep breath and remember that we have seen similar societal, political and economic tumult before, and more-or-less survived.

The Roman era brought us the elegant wisdom of Virgil and Ovid, and classic architecture that still stands and impresses. But it also brought us borrowed credit and government waste on a massive scale, gluttony and gambling of epic proportions, every type of sexual excess, notions of exceptionalism that would make any President-in-waiting blush with pride, as well as pan-handling, mud-wrestling, graffiti and scatological insults of the first order.

Think that infantile or idiotic entertainments dominate our lives now? It's instructive to remember that the three-tiered Circus Maximus, home to jugglers, fortune-tellers, plays and horse races, could hold 250,000 people at a time when the population of Rome was about 1,000,000. Festivals and Ludi, the public games put on to entertain the population and keep their minds off hunger, political corruption and the staggering costs of war in the provinces, sometimes occupied 180 days of the year, a mere pittance compared to the 2012 Olympic Games.

And let's not forget that the Colosseum opened around 80 AD with a gladiatorial spectacle lasting 100 days.

Worried that our age is overrun by violence and senseless wars? Plutarch reminds us that after one civil war battle in northern Italy the corpses were piled higher than the eagle standards (maybe 10-12 feet), because of course in Roman civil wars no prisoners were taken. And in 71 BC, Marcus Crassus, in celebrating his victory over the slave revolt led by Spartacus, crucified 6,000 slaves along the Appian Way between Rome and Capua.

Perhaps you are worried about piracy off the coast of Somalia or other hotspots that threatens vital international shipping routes. Various Roman historians remind us that during the height of the Roman Empire there were perhaps 20,000 pirates in the Mediterranean, and their presence was so pervasive that the sea was all but closed to commercial traffic.

For staggering government-sanctioned waste and sexual extravagances that make recent scandals whither in comparison, read Suetonius on the "insolence, lust, luxury, and greed" of Nero, or on the "appalling deeds" and "shamelessness" of Caligula, or on the "ingenious and unpredictable" cruelty of Domitian.

For an all-consuming exceptionalism, read Cicero as he describes himself and his home city of Rome in his famed Catiline speeches, especially where he documents his "unambiguous signs from the immortal gods, under whose guidance I have arrived."

For an update on the scale of gambling and gluttony and mud-wrestling and cross-dressing and witchcraft 2,000 years ago, don't miss Horace, Apuleius and Ovid.

And to reassure yourself that obsessing over fashion really has never gone out of fashion, read Seneca the Elder and his comments on "the luxury of this generation" which has led, it seems, only to "idle" and "sluggish" youth who seem to care only for "sleep and apathy" and the need to "crimp their hair" and spend all their time "grooming themselves."

For scatological and sexual insults that are breathtaking in their crudeness – and that make the various Jackass and Hangover movies seem downright docile – you really can't do much better than Catullus, although Martial's epigrams come close. (Sorry, you'll have to seek out those quotations for yourself.)

All of this is, of course, to say nothing of tumult in Libya (see CNN or Virgil's *Aeneid*), and the troubles with Greece (follow the IMF website or read Plautus's comedies), and that small chunk of land on the eastern edge of the Mediterranean that seems to be constantly at war within itself (read *The Jerusalem Post* or *The Annals* by Tacitus).

Intertwined with and fixated on our own time and space, we may perhaps find some solace in recalling that the frivolities and violences and stupidities of our age were present, in abundance, in other ages. Two thousand years ago Juvenal documented the "thousand risks of this terrible city, Rome," which included public belching, the stench of body-odor, traffic-jams, muggings in the streets, inflation, and living beyond our means on borrowed credit.

Here's some advice for those enjoying down-time during these lazy days of summer, especially if your unwinding brings on unbidden concerns about the troubling state of our current world: relax, we've seen all this, and worse, before. We'll get through this too.

Peter O'Brien (obrien@carboncomm.com) lives in Toronto. He is currently writing a book about studying Latin with his teen-aged daughter. This article originally appeared in Argyle magazine, www.argylemagazine.com.

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Our Comment. We are then not the first to try penetrating the contradictions of our times by misreading the evidence available.