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CONTENTS

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Allow Greece to Save Herself and We will Have Saved Our World

For the troubles of Greece are precisely those that have cut off the world economy at both head and knees. They ignore the prepaid investment in human capital, which only a few decades ago had been recognized by the US government as the most productive investment a government can make. At the end of World War II Washington had sent many hundreds of economists to Japan and Germany to predict how long it would be for those two nations to resume their roles as mighty traders. Some 16 years later one of these, Ted Schultz of the University of Chicago, wrote that it was amazing how wrong they had been in their forecasts. For they had concentrated on the physical destruction, and attributed little importance to the detail that those two great trading nations had come out of the war with their highly trained and talented human capital essentially intact.

For a few years Schultz was celebrated, decorated, but then completely forgotten along with his great discovery. The war, coming at the end of a couple of decades of depression, required a commitment of the American government for a more just distribution of the national income than had prevailed. By the time F.D. Roosevelt had been inaugurated at the beginning of 1938, 38% of US banks had already shut their doors, and one of the very first things the new President did on being inaugurated was to declare a total bank moratorium while the new president lent an eager ear to anybody with advice to offer. His lack of economic training, he made up for by a strong determination to do right by the millions of young men who had left years of unemployment and hunger to enlist. The camp of those who wanted no interference with the restoration of the monopoly position of finance capital set up their power centers in foreign territory. This lent key importance to the International Monetary Fund, which was itself under a cloud for having surrendered to the invading German army money entrusted to it for safekeeping.

Now that the promise of world-wide prosperity is crumbling, we must go back to the drawing-board to seek out what has blinded us to the grim reality ahead. But that is unlikely to happen. What pretends to be "economic science today" was fashioned to serve narrower interests. From time to time independent thinkers have attempted to remedy this. But invariably they have been blocked by those in power.

The belated encounter of economists with "systems theory" thirty or forty years ago sums up the situation. Systems theory tries identifying every significant factor in a problem, and then studying interactions of these "subsystems." Clearly such a belief is incompatible with the self-balancing of supply and demand on "pure and perfect" markets. Such a market never existed; but it does provide a pretext for bringing in some often irrelevant higher mathematics. Systems theory is hardly reconcilable with the sweeping belief in "free trade" or "globalization," which are essentially dogmas that by sheer heft of the interests they serve, suppress serious discussion of the real issues that face the world today.

If the policies they serve bring on disaster, that is simply interpreted to mean that globalization and deregulation have not been driven far enough. Pity then the poor academic in the economics department who must support his self-respect as a would-be scientist, without prejudicing his livelihood. Obviously if you globalize many instances

Continued on page 2

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Greece *from page 1*

where free trade, and the unhindered freedom of not only goods but capital to move across frontiers cannot make sense as far as nations as a whole are concerned. The results can only favour those in power and leave the powerless without protection.

The point had been made generations ago by a distinguished succession of economists from Robert Owen, Marx, Friedrich List, Henry George, Thornstein Veblen, John Kenneth Galbraith, François Perroux, and many others. But yet greater is the discard bin for concerned insights, but yet not so great as the rewards to those who keep it full with the lid clamped down.

That explains the present plight of economists in both academe and the business world to explain the stubborn collapse of the world economy.

Thus *The Wall Street Journal* (11/05, "Behind Surging Stock Market Old-Fashioned Economic Booms: The Return of 'Goldilocks'" by E.S. Browning) offers us a good example of the resulting confusion: "After Hurricane Katrina hobbled economic growth last year and as oil prices soared, many investors thought the economy, corporate profits, and the stock market would be running on empty now."

Right there the author has driven into a ditch. The late Lynn Turgeon of Hofstra University, and a leader of COMER, examined the record of economic performance after the natural disaster, and found that almost invariably served as tonic to a drooping economy. Tongue in cheek, he concluded that "God is a Keynesian, perhaps the last one in existence."

Anybody with a knowledge of the Great Depression of 1930s would have absorbed the essence of Keynes' conclusion: established economic theory can be more devastating than even the inclemencies of weather.

"And here a couple of decades later," continues the *WSJ*. "The economic rebound has sent corporate profits to an 11th consecutive quarter of double-digit gains, the longest streak since the 1950s. Surprisingly strong economic and profit growth have shaken the stocks out of their doldrums. The Dow Jones Industrial Average is now within sight of its record close."

Comparing Two Booms

"Unlike the great 1990s bull market, which was sustained by a wave of new technology, this one has the feel of an old-fashioned economic boom, the 1950s and 1960s. What many thought would be Chinese demand has turned into a long-running story as once unloved sectors such as commodity producers and oil drillers continue to thrive. Helping fuel the US stock surge are once-skeptical investors, who are now funneling money into the market in the hope of getting in on a lengthier boom.

"Despite yesterday's 16th consecutive interest-rate increase from the Federal Reserve, the Dow industrials finished just 80.33 points short of the record hit at the height of the technology bubble on January 14, 2000. After falling a little less than 1% last year, the Dow has risen 8.65 in 2006. In short it gained almost 60% since the bear market ended in October 2002 with the blue-chip average at 7,286.27. Bearish investors point to lurking inflation pressures and worry that the market is already showing signs of age, with fewer and fewer stocks hitting new highs.

"What helped drive stocks higher in the late 1990s was the rise of the Internet and Information technologies. They combined to boost labor productivity and spark the market's love affair with technology companies such as Cisco systems and Dell Inc.

"Today the stock market is benefitting from something broader: consumer demand at home and powerful economic growth abroad.

"A series of developments that skeptics thought would kill the bull market – resurgent inflation, rising labor costs, falling consumer spending, a collapsing housing market haven't materialized. Federal Reserve Chairman Ben Bernanke gave investors a boost in April when he told Congress that surging energy prices have so far failed to bleed into other prices.

"While the Fed raised its benchmark overnight lending rate to 5% yesterday, many investors saw the Fed's subsequent statement as an indication that it's prepared at least to temporarily pause in its rate increases, possibly as soon as its next meeting in late June. Any decision will depend on whether signs of inflation turn up in the economic data."

In actual fact, the decision on that matter is no longer in the hands of the Fed. By suppressing information and hence the memory of the disastrous clash of two of its incompatible dogmas in the mid-1990s the Fed almost brought on the collapse of the entire monetary system. The 1980s had been a period of busy deregulation of the US banks from restrictions imposed on them under the *Bank Act* of 1935. These had prevented the banks from acquiring interests in any of the other "financial pillars" – stock brokerages, insurance and mortgage companies. Ceilings had been placed on the interest rates banks could charge or pay.

Instead of depending on higher rates to cool an over-heated economy, the Act set forth an alternative policy tool – the statutory reserves that required the banks to redeposit with the central banks a small portion of the deposits they took in from the public. On this the central bank paid the banks no interest. There were good reason for that: to increase the effectiveness of raising or lowering these statutory reserves to discourage or encourage the banks.

W.K.

Our Limping, Lumping Middle Class

The New York Times (4/09) delivers a cluster of quarter-truths in a medley of official controls that keep society headed for the rocks: "The 5 percent of Americans with the highest incomes now account for 37 percent of all consumer purchases, according to the latest research from Moody's Analytics. That should come as no surprise. Our society has become more and more unequal.

"When so much income goes to the top, the middle class doesn't have enough purchasing power to keep the economy going without sinking ever more deeply into debt – which, as we've seen, ends badly. An economy so dependent on the spending of a few is also prone to great booms and busts. The rich splurge and speculate when their savings are doing well. But when the value of their assets tumble, they pull back. That can lead to wild gyrations."

Sound familiar?

"The economy won't really bounce back until America's surge toward inequality is reversed. Even if by some miracle President Obama gets support for a second big stimulus while Ben S. Bernanke keeps interest rates near zero, neither will do the trick without a middle class capable of spending. Pump-priming works only when a well contains enough water.

"Look back over the last hundred years and you will see the pattern. During periods when the very rich took home a much smaller proportion of total income – as in the Great Prosperity between 1947 and 1977 – the nation as a whole grew faster and median wages surged. We created a virtuous cycle in which an ever growing middle class had the ability to consume more goods and services, which created more and better jobs, thereby stoking demand. The rising tide did in fact lift all boats."

During periods when the very rich took home a larger proportion – as between 1918 and 1933, and in the Great Regression from 1981 to the present day – growth slowed, median wages stagnated and we suffered great downturns. It's no mere coincidence that over the last century the top earners' share of the nation's total income peaked in 1928 and 2007 – both those years just preceding the biggest downturns.

Starting in the late 1970s, the middle class began to weaken. Although productivity continued to grow and the economy to expand, wages began flattening in the 1970s, the middle class weakened – because new technologies – container ships, satellite communications, eventually computers and the Internet – undermined any American job that could be automated or done more cheaply abroad. The same technologies bestowed ever larger rewards on people who could use them to innovate and solve problems. Some were product entrepreneurs; a growing number were financial entrepreneurs. The pay of graduates of prestigious colleges and MBA programs – the "talent" who reached the pinnacles of power in executive suites and on Wall Street – soared.

The middle class nonetheless continued to spend, at first enabled by the flow of women, into the work force. (In the 1960s only 12 percent of married women with young children were working for pay; by the late 1990s, 55 percent were.) When that way of life stopped generating enough income, Americans went deeper into debt. From the late 1990s to 2007, the typical household debt grew by a third. As long as housing values continued to rise it seemed a painless way to get additional money.

The Exploited Middle Class

Eventually, of course, the bubble burst. That ended the middle class's remarkable ability to keep spending in the face of near-stagnant wages. The puzzle is why so little has been done in the last 40 years to deal with the subversion of the economic power of the middle class. With the continued gains from economic growth, the nation could have enabled more people to become problem solvers and innovators – through early childhood education, better public schools, expanded access to higher education and more efficient public transportation.

We might have enlarged safety nets – by having unemployment insurance cover part-time work, by giving transportation assistance to move to new jobs in new locations, by creating insurance for communities that lost a major employer. And we could have made Medicare available to everyone.

Big companies could have been required to pay severance to American workers they let go and train them for new jobs. The minimum wage could have been pegged at half the median wage, and we could have insisted that the foreign nations we trade with do the same, so that all citizens could share in gains from trade.

We could have raised taxes on the rich and cut them for poorer Americans.

But starting in the later 1970s, and with increasing fervor over the next three decades, government did just the opposite. It deregulated and privatized. It cut spending on infrastructure as a percentage of the national economy and shifted more of the costs of public higher education to families. It shredded safety nets. (Only 27 percent of the unemployed are covered by unemployment insurance.) And it allowed companies to bust unions and threaten employees who tried to organize. Fewer than 8 percent of private-sector workers are unionized.

More generally, it stood by as big American companies became global companies with no more loyalty to the United States than a GPS satellite. Meanwhile the top income tax rate was halved to 35 percent and many of the nation's richest were allowed to treat their income as capital gains subject to no more than 15 percent tax. Inheritance taxes that affected the topmost 1.5 percent of earners were sliced. Yet at the same time sales and payroll taxes – both taking a bigger chunk out of modest paychecks – were increased.

Most telling of all, Washington deregulated Wall Street while insuring it against major losses.

In so doing, it allowed finance – which until then had been the servant of American industry – to become its master, demanding short-term profits rather than long-term growth and raking in an ever larger portion of the nation's profits. By 2007, financial companies accounted for over 40 percent of American profits and almost as great a percentage of pay, up from 10 percent during the Great Prosperity.

Some say the regressive lurch occurred because Americans lost confidence in government. But this argument has cause and effect backward. The tax revolts that thundered across America starting in the late 1979s were no ideological revolts against government – Americans still wanted all the government services they had before, and then some – as against paying more taxes on incomes that had stagnated. Inevitably, government services deteriorated and government deficits exploded, confirming the public's cynicism about government's doing anything right.

Some say we couldn't have reversed the consequences of globalization and technological change.

Yet the experiences of other nations, like Germany, suggest otherwise. Germany has grown faster than United States for the last 15 years, and the gains have been more widely spread. While Americans' average hourly pay has risen only 6 percent since 1985, adjusted for inflation, German workers' pay has risen almost 30 percent. At the same time, the top 1 percent of German households now take home 11 percent of all income – about the same as in 1970. And although in the last months Germany has been hit by the debt crisis of its neighbours, its unemployment is still below where it was when the financial crisis started in 2007.

How has Germany done it? Mainly by focusing like a laser on education (German math scores continue their lead over American), and by maintaining strong labor unions.

The real reason for America's Great Regression was political. As income and wealth became more concentrated in fewer hands, American politics reverted to what Mariner S. Eccles, a former chairman of the Federal Reserve, described in the 1920s, when people "with great economic power had an undue influence in making the rules of the economic game." With hefty campaign contributions and platoons of lobbyists and public relations spinners, America's executive class has gained lower tax rates while resisting reforms that would spread the gains from growth.

Yet the rich are now being bitten by their own success. Those at the top would be better off with a smaller share of a rapidly growing economy than a large share of one that's almost dead in the water.

The economy cannot possibly get out of its current doldrums without a strategy to revive the purchasing power of America's vast middle class. The spending of the richest 5 percent alone will not lead to a virtuous cycle of more jobs and higher living standards. Nor can we rely on exports to fill the gap. It is impossible for every large economy, including the United States to become a net exporter.

Reviving the middle class requires that we reverse the nation's decades-long trend toward widening inequality. This hardly possible without breaking the political power of the executive class.

Moreover, an economy is not a zero-sum game. Even the executive class has an enlightened self-interest in reversing the trend, just as a rising tide lifts all boats, the ebbing tide is now threatening to beach many of the yachts. The question is whether, and when, we will summon the political will. We have summoned it before in even bleaker times.

As the historian James Truslow Adams defined the American Dream when he coined the term in the depths of the Great Depression, what we seek is 'a land in which life should be better and richer and fuller for everyone.'

That dream is still within our grasp.

Wall Street's Double-Vision Problem

"Pimco Off to Slow Start in Equities" by Mary Pilon in *The Wall Street Journal*, September 1:

"Newport Beach, Calif. – Noel Kashkari was hired to turn Pacific Investment Management Co., the manager of the world's largest bond fund into a big player in stocks.

"It hasn't happened yet.

"In 2009, Pimco brought in Mr. Kashkari, a former Treasury Department official and Goldman Sachs Group Inc. investment banker, to launch the firm's equity portfolios and diversify away from its core bond business.

"Since then, Pimco, a unit of Allianz SE with more than $1.3 trillion in assets under management, has rolled out two stock funds that combined make up slightly more than 0.1% of the firm's assets. Mr. Kaskari's division boasts only 20 investment professionals.

"Despite high aspirations at inception, the fund's performances have been lackluster so far. The $1.5 billion Pathfinder fund, launched in April 2010 and investing primarily in global stocks. has gained 0.4% through August 30, less than the 0.89% gain from its benchmark, the MSCI World Index, according to investment-research firm Morningstar Inc.

"The $376.1 million Emerging Markets equities fund, which debuted in March, has posted a loss of 10.0% from inception through August 30, compared with a loss of 8.04% for the benchmark MSCI Emerging Markets Index.

"Mr. Kashkari points to more recent performance as indicators of Pimco's strength. The equity funds incorporate the firm's overall strategy of managing for unforeseen selloffs, known as 'tail-risk.' The funds may lag when markets are calm, Mr. Kashkari said, but 'in a cratering or volatile market, (they) really shine.'

"In the past month, amid a global market swoon, the Pathfinder fund has lost 8.65%, compared with 8.21% for its benchmark. However, the Emerging Markets equities fund has lost 11.59%, compared with a loss of 10.66% for its benchmark.

"In diversifying away from bonds with stocks, the typically risk-averse Pimco is taking a gamble on that has been closely watched on Wall Street.

"'Any industry where a leading player makes a move, people are going to be looking' said Alan Kosan a managing director with Darien, Conn.-based consulting firm Rogerscasey.

"And it comes at a time when stock markets world-wide have hit records of volatility since the beginning of the financial crisis, and gloomy forecasts – including those from Pimco founder and co-chief investment officer William Gross – hang over the economy.

"Mr. Kashkari, 38 years old, rose to prominence during the financial crisis, when as a top Treasury official he led a staff of 140 people administering the controversial Troubled Asset Relief Program.

"Mr. Gross and Pimco Chief Executive Mohamed El-Erian said had long been looking to hire someone to build an equities operation, and Mr. Kashkari fit the bill.

"'When we hired Neel, he didn't know the first thing about being an equity manager,' Mr. Erian said. 'But we wanted a best athlete to build this at Pimco. We knew that there's huge opportunity there.

"Pimco, founded four decades ago with $50 million in assets, has been at the forefront of a 30-year bond rally. The Total

Return fund has beaten its benchmark over the past three-, five- and 10-year periods, putting the fund near the top in its category over the last decade, according to Morningstar.

"The fund held up especially well during the choppy markets of 2009, outgaining its benchmark by 7.9 percentage points. Since then, the firm has argued that the global economy has entered a 'new normal' period market by slow economic growth, market volatility and better opportunities in emerging markets than developed countries.

"The question is whether in this environment Finance will be able to be known for one specialty In Pimco's case, it faces the challenge of convincing investors to think of it as something other than a bond shop.

"Mr. Kashkari, a former vice president in Goldman's investment-banking division, is moving slowly. He plans to add about 30 investment professionals over the next three years, which would make a total of 50, still just a sliver of the roughly 2,000 people who work at Pimco.

"Mr. Kashkari has focused on international and market strategies, in part because of a firm-wide view that developing markets will offer more opportunity in coming years and in part because he believed such funds offered a better chance for Pimco to stand apart. We're trying to pick areas where we can have edge, said Mr. Kashkari."

In our view, however, is that they are trying to waltz to a tango.

W.K.

How the Debt-based Monetary System Functions in Canada

Presented by Connie Fogal in October 2010, leader of the Canadian Action Party at the time, at the Bromsgrove Conference in the UK.

Recent figures from Statistics Canada and the Bank of Canada show that the total debt of all levels of Canadian government, individuals, and corporations is $2.27 trillion. Canada has a total money and near-money supply of 800 billion dollars. Therefore, the debt owing is three times the amount of money around with which to pay it off.

Of the $800 billion money supply, only $38 billion is legal tender (currency in circulation) created by the Bank of Canada interest free. The remainder is credit created by the major chartered banks as loans (mortgages, credit card loans, home equity loans, business loans, etc.) on which interest must be paid.

Thus the Canadian economy is run on a debt-based monetary system, where legal tender amounts to 5% of the money supply and credit amounts to 95%.

We must ask ourselves:

1. How do we pay off a $2.27 trillion debt with a total money supply of $800 billion of which only $38 billion is legal tender?

2. What would happen to the Canadian economy if all Canadians stopped borrowing and started saving instead at the same time?

Canada is part of a world debt-based monetary system controlled and managed by bankers rather than sovereign governments. It was that world debt-based monetary system that was responsible for the Great Depression of 1929.

In recent years, millions of the world's people have lost all, or nearly all, of their retirement savings. Corporations and individuals have gone bankrupt. Millions have lost their jobs and homes. Governments have cut spending. Several nations around the world are trying to stave off banking and economic collapse. Over 4 billion people live on $3.00 a day or less.

By 1929, bankers, brokers, and corporate leadership ran the economic systems into collapse. In Canada, part of the solution was the nationalization of our Bank of Canada. The nationalized Bank of Canada did not materialize without work, struggle and deep political debate.

In Canada one such political person was Gerry G. McGeer. During 30 years of political life, he was a BC Liberal, a member of the BC Provincial Legislative Assembly, a Member of Parliament, a Senator. He was Mayor of Vancouver City in 1935 and 1936. In 1936, McGeer published a book called *Conquest of Poverty, or Money, Humanity and Christianity.*

Gerry McGeer — Trailblazer

In the preface of his book he wrote:

"Ever since the passage of the English *Bank Act* of 1844, the creation, issuance, and the regulation of the circulation of the current medium of exchange, though being duties that constitute the most conspicuous and sacred responsibilities of government, have been in large measure delegated in blind faith and absolute confidence to bankers and financiers.

"Necessity now compels all to recognize that the creation and issuance of the medium of exchange, the monetization of public credit, the circulation of the medium of exchange, and the general supervision of the monetary system must be restored to government."

McGeer's insight into the debt-based monetary system of the 20s and 30s and his persistent fight to change it was rewarded when the government of MacKenzie King in 1938 nationalized the Bank of Canada, returning to government the control of the creation of the nations' currency and credit.[1]

The legislated mandate of the nationalized Bank of Canada states:

"It is desirable to establish a central bank in Canada to regulate credit and currency in the best interest of the economic life of the nation to control and protect the external value of the national monetary unit, and to mitigate by its influence fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of Canada."

This mandate was followed from 1938 until the mid 1970s, Canada's best financial years in the interest of the citizens in financing our infrastructure, housing, and all our proud social programs. In the mid 70s, a change of policy took place which gradually gave back the control and creation of credit to the private banks.

It was the Conservative governments of Brian Mulroney that initiated the erosion of the legislative mandate of our Bank of Canada in a number of ways, and successive Liberal governments continued the abuse. The powerful mandate still remains, but government practice refuses to honour it. To wit by the following:

1. Since 1975, our governments have decreased the use of our Bank of Canada to hold Canada's debt. Result? A dramatic increase of unnecessary interest paid. In 1975 the total federal debt was $37 billion. By the year 2000 it was $585 billion. This dramatic

increase was due to borrowing money from foreign and domestic banks at market rates of interest, rather than borrowing from our own Bank of Canada at nominal rates of interest, the payment of which comes back into government coffers as dividends.

The Erosion of our Legislation

In 1975 our own Bank of Canada held about 22% of Canada's debt. By 1991 it held only 8% of our debt. By 2000, only 5%. Borrowing at market rates ranging from 6% to 18% (in the 80s) rather than at about 1% from our Bank of Canada.

When the Liberals replaced the Conservatives in government in 1993, the debt was $408 billion. By the year 2000, the debt was $585 billion. By year 2004, the Liberals reduced the debt to $510 billion. To effect this reduction, the Liberals viciously slashed social program spending, and created surpluses which they applied against the debt. They starved the people to feed the banks.

2. In the mid-80s the Mulroney government initiated a policy of "price stability" through the increase or decrease of interest rates rather than requiring the banks to increase or decrease their cash reserves (statutory reserves) with the Bank of Canada.

3. During the Mulroney years, the government further deregulated the banks. That is, the government removed the firewalls between banking, stock markets, real estate mortgages, and insurance. The regulations had been there since the mid-1930s to protect the public interest.

Deregulation allowed the banks to gamble in derivatives (an aspect of securities, instead of the securities themselves), merchant banking (trading and warehousing in entire non-banking companies), underwriting (guaranteeing the distribution of a new issue of stocks), stock brokering, and insurance.

With deregulation, banks could now access pools of capital previously unavailable to them. This process gave the banks inside information as a result of their now wearing many hats. Small business and farmers experienced increased difficulties in accessing loans, and local branches disappeared as banks chose to gamble in the great casino of international finance (except when they got burned and came back to peddle more credit cards at home).

4. It was to restore the capital that the banks had lost in their gambles that the Mulroney government eliminated the statutory reserves.

By law (statute) our chartered banks were required to deposit with our Bank of Canada a modest part of the short term deposits they received from the public. This "reserve" was the price that banks had to pay for the right to create most of our money supply as "near-money" (i.e., money bearing interest by its mere existence).

The reserves that were deposited with our Bank of Canada earned the banks no interest. Those reserves put at the disposal of our government over $120 billion of interest-free money that would grow from year to year with the economy (William Krehm, *Economic Reform*, Vol. 16, No. 1, January 2004). The quantum was even more when the amount of reserves, i.e., percentage of deposits, was higher. Prior to 1980 there had been "secondary reserves," income-earning securities required to support the deposits in chequing accounts.

To make matters worse, then Mulroney's government, having lost the use of that reserve money, turned around and borrowed from those same banks, either directly or indirectly, the money it needed to make up for the loss of the statutory reserves. It began paying those same banks $5 to $8 $billion per year on that money that previously had been interest free (William Krehm, *ibid.*). Naturally these figures go up as the economy expands.

After depriving itself of the use of the statutory reserves, interest free, the Federal government cut grants to provinces who then cut grants to the municipalities.

Deregulation Leads to a Larger Bank Casino

5. Bank deregulation and bank gambling resulted in the bankruptcy of a number of small Canadian banks. In the early 80s a number of minor banks went belly up in a cloud of scandal: Canadian Commercial Bank, Northland, Unity Bank and others (Walter Stewart, *Bank Heist*, Chapter 9). Depositors were caught. Business loans were caught. The government bailed out the banks paying off the protected deposits by underwriting deposit insurance, and negotiated settlements with the depositors and other creditors (called workouts).

"Cooking the Books" – Thereby Undervaluing Canada's Worth

6. "Cooking the Books" – thereby undervaluing Canada's worth. Until 2004, the Canadian government was "cooking its books" – an accusation made by Canada's own Auditor General in 1999. They used cash flow accounting when they should have been using accrual accounting (capital budgeting). They pretended that assets did not exist which did exist. For years, except for Crown corporations, governments did not show the full asset side of their balance sheet, thus exaggerating the net debt. Government was writing off assets like a bridge or a building in one year, and then showing them on their books at a token $1 value. It was by this method that government has sold off buildings, land, railways, to private parties at bargain-basement prices.

In 1999 after a fight with the auditor-general of Canada who refused to sign off unconditionally on two years' balance sheets Martin agreed eventually to using proper accounting procedures in two areas, environment and aboriginal matters. In the year 2004, our government finally committed itself to eventually reporting all its physical assets in such Canada's accounts. But this was not explained to the public or to Parliament. Nor was there a mention of the government investment in human capital – education, health and social services – which economists in the 1960s had recognized to be the most productive investments a nation can make.

Why have our governments been acting so contrary to the interest of its own citizens? It is because we have had leaders and parties in control who are part of and agree completely with the New World Order, i.e., globalization. They are willing participants and major players in the international financial regime being imposed on the world by the International Monetary Fund (IMF) and the World Bank. They are submitting Canada to the regime of "structural adjustments" – the process of removing government from its role in the economy – and "privatization" – the process of wholesale sellout of public assets and government responsibilities.

In 1995 Paul Martin slashed federal health care transfers to the provinces by $28 billion. Sheila Copps, a former MP in the Chrétien government cabinet, recently revealed that in 1995 Paul Martin was lobbying the Chrétien government hard to scrap the medical care program. In the June 2004 election campaign, Martin promised to return a mere $9 billion to health care. Martin's years of starving our once proud health care system are still ricocheting as provincial governments dismantle and privatize such services.

Between 1999 and 2003, in addition to slashing funding for health care, our Canadian government slashed funding for education, unemployment insurance and various other social programs. The results for people have been deaths, debts, drop-outs, poverty, homelessness, marriage breakdown.

The result for government has been massive surpluses. Between 1999 and 2003, the Canadian government accumulated a surplus of $46.7 billion (Alternative Budget of the Canadian Centre for Policy Alternatives).

Canada is in the process of being "structurally adjusted." It is just that the process cannot be accomplished so easily here as in underdeveloped countries. The phrase "structural adjustment" is a euphemism created by the IMF (International Monetary Fund). When countries need financial assistance they go to the IMF who in turn demand "structural adjustment" (the process of removing government from its role in the economy) and "privatization" (the process of wholesale sellout of public assets) in return for the money. This impoverishes the people as their resources are stolen out from under them. One structural demand is that national central banks be removed so that there is no national power to create and control their own money supply. Herein lies the explanation of why our governments refuse to use the power of our own Bank of Canada. They are complicit participants in the IMF regime and are moving Canada by stealth into the regime.

So what is to be done?

We have to inform people that they have a choice about money. Money can be their master, or money can be their servant. This will not change until we have politicians, i.e., true representatives of the interest of the people, who understand the issue of monetary sovereignty vs. monetary slavery; and more importantly, who have the will to say NO to monetary slavery.

Connie Fogal

1. The following interchange took place between McGeer and Graham Towers, the first governor of the Bank of Canada in 1938 when Towers, a former vice-president of the Royal Bank of Canada, testified before the Subcommittee of Banking and Commerce in 1939:

"McGeer: But there is no question about it that banks do create the medium of exchange?

"Mr. Towers: That is right. That is banking business in the same sense that a steel plant makes steel" (p. 287).

Reproduced in Vol. 5, No. 10 of *Economic Reform.* Carried in *Meltdown: Money, Debt and the Wealth of Nations,* COMER Publications, 1999, selections from the first decade of *Economic Reform,* p. 117.

Is There Hope for All Canadians?

The purpose of the attached letter is to wake people up to how government decisions are overly influenced by the financial sector to the *detriment* of most Canadians and *how* Canadians can change this.

I would appreciate your comments and ideas and suggest that you copy your reply to as many others as you wish – and at the same time invite *your* contacts to reply, and to copy to *their* contacts with the same suggestion. In that way we will get a snowball effect and many others will see the letter.

And maybe it will reach millions of Canadians in time to affect the next election and get people into Parliament who will support using the Bank of Canada for financing public debt to invest in public services and infrastructure. Only when that happens will the influence of the financial sector be broken.

The Way Things Are

Canadians paid $165 million per day in 2010 in unnecessary interest on federal, provincial and municipal debt.

We pay these costs through taxes of all kinds and fees for public services.

We pay in kind through cut-backs in public services such as education, health care, and support services.

We pay through the deterioration of infrastructure such as roads, sewers, water lines and affordable housing.

The 1.5 million unemployed pay through the loss of their jobs.

Public debt interest amounts to a little under $5 ($4.85) per day for every man, woman and child in the country. For a family of four that's about $20 ($19.40) per day or $136 per week, *every week, all year long.*

(These figures are easily verified by Statistics Canada, *Canadian Economic Observer: Historical Statistical Supplement:* www.statcan.gc.ca/pub/11-210-x/2010000/t008-eng.htm, Table 1.3-1. Scroll down to the second table, locate heading "Interest on the public debt," and you'll see there that interest on the public debt in 2010 amounted to $60.2 billion or $165 million per day.)

Could This be Changed?

The federal government could reduce the interest paid on public debt by borrowing from its own bank, the Bank of Canada, at near zero cost. This would lead to a reduction in the profits of the commercial banks and less income for holders of government bonds, but most Canadians would benefit.

More importantly the savings could be used to reinstate those services which have been cut back and to create good jobs for at least some of the 1.5 million Canadians currently walking the streets looking for work.

So, Why Aren't We Doing This?

Government's indebtedness to private financiers gives that sector *undue influence* on government policy decisions. Our federal government alone is up to its neck in debt ($519 billion, March 31, 2010) and when you owe that much it's not so hard to choose between the wants of your creditors and the needs of ordinary Canadians. *It is not in the interests of banks and wealthy bond holders for government to borrow from the Bank of Canada, and because government has become dependent on these private sources of capital for most of its financing it gives precedence to their opinions.*

To reduce the *influence* of private financiers and to save taxpayers billions of dollars every year *we must only elect politicians who support using the Bank of Canada for financing public debt to invest in public services and infrastructure, and who will try to get their Party's support if they are not elected as independents.*

Misinformation Leads to Lower Quality Of Life!

The Minister of Finance believes that government borrowing from the Bank of Canada causes inflation, but is he right? In a letter to Len Skowronski, Leader of the Alberta Social Credit Party, Minister Flaherty says (July 11, 2011): "…The Bank of Canada could create the money that it loaned to the Government (by printing currency for that purpose or by creating new deposits for the government at the Bank of Canada). While this would help to finance government spending, it would do so in just the same way that printing and spending new money does. As a result, this method of financing is inflationary.

"International experience has demonstrated time and time again that low-interest lending from the central bank to the government erodes the value of a country's currency. Other nations that have relied extensively on low-interest credit extended from central banks or printing money have experienced very high inflation and its costs."

Not everyone agrees with Minister Flaherty. According to the Bank of Canada most of our money is created by commercial banks and other financial institutions through loans made to individuals and businesses. "In that sense, financial institutions create, or can create money."[1] "…Money creation is money creation – whether by a private bank or the Bank of Canada."[2] Those who claim it is inflationary when the Bank of Canada creates money, but not when private banks do the same thing should be required to explain why, not simply declare that borrowing from the Bank is inflationary. In fact Canadian history shows that, with adequate controls and regulations, borrowing from the Bank of Canada has *not* been inflationary.

"When the Bank of Canada was brand new back in the 1930s, it produced most of the money supply from 1935 to 1939, and 62% of new money during the last years of World War II. This policy gave Canada the highest employment rate it has ever had, very low interest rates, and very low inflation. "After the war years and up to the mid-1970s, the Bank of Canada traditionally created enough new money to absorb (or "monetize") between 20% and 30% of the federal government deficit. Since the bank's conversion to monetarism in 1975, however, it steadily reduced its share of the deficit and therefore the broadly defined money stock."[3] The result: three serious recessions, an explosion of debt, drastic cutbacks in public services and deterioration of public infrastructure.

We *don't* need to repeat the experience of other nations which have had very high inflation resulting from low-interest credit extended from their central banks. We can learn from our own experience, avoid these problems and use Bank of Canada financing of public debt to improve the quality of life of all Canadians.

There *is* hope, *but only if we elect politicians who support using the Bank of Canada for financing public debt to invest in public services and infrastructure.*

Richard Priestman,
President, Kingston Chapter,
COMER

1. Bank of Canada – Backgrounders, *Canada's Money Supply.* "…Bank notes issued by the Bank represent only a small portion of all the money circulating in the economy at any one time. The bulk of the money supply consists of deposits that the public holds at financial institutions. Commercial banks and other financial institutions provide most of the assets used as money through loans made to individuals and businesses. In that sense, financial institutions create, or can create money."

2. Harold Chorney, Assoc. Professor of Political Economy and Public Policy, Concordia University, Montreal; John Hotson, Professor of Economics, University of Waterloo; Mario Seccareccia, Assoc. Professor of Economics, University of Ottawa – *The Deficit Made Me Do It,* p. 9.

3. Ibid, Harold Chorney et al, p. 9.

Notes

1. "If the Bank of Canada had to borrow the funds that it loaned to the Government, it would have to pay whatever interest rate prevailed in the market to get those funds. Accordingly, it could not afford to re-lend the funds to Government at low or zero interest." Jim Flaherty, Minister of Finance, July 11, 2011.

First, it is confusing to talk about the Bank of Canada borrowing funds to lend to Government. When the Government decides to borrow it does so through the sale, by the Bank of Canada on behalf of the government, of interest-bearing Government of Canada bonds and treasury bills. Some of these will be bought by the Bank of Canada, and when this occurs the Government will pay whatever interest is charged, but practically all interest paid reverts to the federal government, the sole shareholder of the Bank, as dividend.

William Krehm, *Meltdown – Money, debt and the Wealth of Nations*, vol. 2, p. 123: "When the Bank of Canada holds federal debt the interest paid on it returns to the government as dividends. For the Government has been the sole shareholder of the BoC since 1938." p. 162: *International Monetary and Financial Economics*, Joseph Daniels and David VanHoose, p. 241: "Most governments have at least partial ownership of their nation's central banking institutions. Furthermore, all governments receive at least a portion of the profits generated by central banks."

2. Statistics Canada, Summary Tables, Employment and unemployment 2010 www40.statcan.ca/l01/cst01/LABOR07A-eng.htm. Unemployment – 1,484,100. Rate 8.0 (1.5 million people). Labour population – 18,525,100 (at 08: unemplpyment – 1,482,008).

3. Annual Demographic Estimates: Canada, Provinces and Territories www.statcan.gc.ca/pub/91-215-x/2010000/t002-eng.htm. Table 1.1-1: Annual population estimates, July 1, 2010 – national perspective – 34,109,000.

The Urgent Need for a Critical History of Economic Accounting

The Toronto Star (17/08, "Unlocking the wealth in the public sector" by Nicki Thomas) reports a valiant effort of a an academic personality to reestablish basically critical thinking in Academia. It is heroic to the seeming hopeless of a single soldier armed with a rifle attempting to hold off the invasion of a hostile army. But don't mistake it for hopelessness.

What the heroic academic needs is full support of the all concerned faculties of our universities that should be responding to the challenge uttered by the few academic individuals who have put their professional careers and livelihood at risk to help getting through the message on which humanity's survival depends.

We quote: "Outspoken union advocate Elaine Bernard was in Toronto Tuesday to speak to delegates at the annual meeting of the Elementary Teachers' Federation of Ontario.

"The *Star* spoke with Bernard, executive director at Harvard Law School's Labor and Worklife Program, about unions, city workers and why the private sector doesn't have a lock on wealth creation.

"Toronto is grappling with how to deal with a deficit problem. What do you make of buyouts and layoffs of city workers as a strategy for saving money?"

"'It's short-sighted and ill-planned,' Bernard said. 'First, it often doesn't save money, if you look at buyouts…. And secondly, why would your undermine the infrastructure, the quality of life and the type of services that made Toronto or Ontario successful and a wonderful place to live?'

"Bernard said the approach stems from, a misconception that the public sector is an expense and only the private sector can create wealth.

"How does the public sector create wealth?

"'Clean, potable water is a form of wealth…. Quality public schools are a form of wealth. It doesn't become wealth creating only when you privatize it,' she said. Moving services from the public to the private isn't 'wealth-creating'; it's wealth shifting.

"The public sector is creating public value and I think we've got to get back to that sort of language, not just that it's an expense. They're not looking at the other side of the ledger."

Some might say that the things you're talking about are intangible. You can't balance the books with value or quality of life. How did you respond to that argument?

"'When it comes to balancing the books, you've got to look at revenue as well as expenditures,' Bernard said. Right now, governments are focusing on cuts instead of how to increase revenue through bringing "fairness into the tax code," for instance.'

"Plus, public employees help anchor a middle class lifestyle simply by having jobs, she said.

"What roles do unions have in this climate of belt-tightening by any means necessary?

"Think of unions beyond wages and benefits. Labour rights are human rights, Bernard said, and have been upheld as such by the Supreme Court of Canada.

"You can't say, well, we're facing a tough budget, so in the interim let's abolish democracy for a while."■

Overwhelming Hurricane Costs Leave No Alternative but Honest Accountancy

The New York Times (August 31, "Hurricane Cost Seen Ranking Among Top Ten" by Michael Cooper) should make it clear that there is no room for the bogus accountancy imposed by our enthroned speculative banks. There is an inescapable need for the real thing and fast.

"Hurricane Irene will most likely prove to be one of the 10 costliest catastrophes in the nation's history, and analysts said that much of the damage might not be covered by insurance because so much of it was caused not by winds but by flooding, which is excluded from many standard policies.

"Industry estimates put the cost of the storm at $7 billion, largely because the hurricane pummeled an unusually wide area of the East Coast. Beyond deadly flooding that caused havoc in upstate New York and Vermont, the hurricane flooded cotton and tobacco crops in North Carolina, temporarily halted shellfish harvesting in Chesapeake Bay, sapped power and kept commuters from their jobs in the New York area and pushed tourists off Atlantic beaches in the peak of summer.

"While insurers have typically covered about half of the total losses in past storms, they might end up covering less than 40 percent of the costs associated with Hurricane Irene, according to an analysis by the Kinetic Analysis Corporation. That is partly because so much damage was caused by flooding, and it is unclear how many damaged homes have flood insurance, and partly because deductibles have risen steeply in coastal areas in recent years, requiring some homeowners to cover $4,000 worth of damages or more before insurers pick up the loss.

"This could make it harder for many stricken homeowners to rebuild, and could dampen any short-term boost to the construction industry that typically accompanies major storms, Jan Vermeiren, the chief executive of Kinetic Analysis, said in an interview.

"'Especially now that the economy is tight, and people don't have money sitting around, local governments are broke, and maybe people can't even get loans from banks,' Mr. Vermeiren said.

"The governors of New York, New Jersey and Connecticut sought expedited disaster declarations from the federal government on Tuesday, which would pave the way for more federal aid. Gov. Andrew M. Cuomo of New York wrote President Obama that he had seen 'hundreds of private homes either destroyed or with major damage and an enormous amount of public infrastructure damage.' Gov. Chris Christie of New Jersey wrote the president that 'immediate federal assistance is needed now to give New Jersey's residents a helping hand at an emotionally and financially devastating time.'

"Flooding and widespread power failures tied to the storm continued to affect tens of thousands of people in New York, New Jersey and Connecticut on Tuesday. And rivers and inland streams were still rising in New Jersey and Connecticut, forcing the evacuation of thousands of home-owners.

"'I think this is going to end up being a bigger event than people think it is,' Connecticut's governor, Daniel P. Malloy, said in an interview. He added: 'All of this is massive in scope. What the final dollar amount is, I don't know.'

"Officials in states up and down the Eastern Seaboard said that it was far too early to tally the damage, and that they were still focused on clearing debris, restoring power, trying to reopen flooded roads and bridges, and in some areas, helping stranded people.

"In southern Vermont, the National Guard airlifted food, water and other supplies on Tuesday to hundreds of people stranded in 13 towns that have been cut off by floodwater since Sunday. Mark Bosma, a spokesman for the Vermont Office of Emergency Management, said most of the isolated towns had no electricity and none had potable water because floodwaters had overwhelmed local sewage and water treatment plants.

"'I think it's probably a very scary thing not to know when you can get out of town and to have a water system that's not working and a general store that has run out of bottled water,' Mr. Bosma said. 'People are extremely nervous about being isolated.'

"More than 260 roads and 30 state bridges remained at least partly closed Tuesday because of the flooding, which in some areas remains a threat as larger rivers, like the Connecticut, are expected to continue rising until at least Wednesday as they gather run-off and flow from tributaries, officials said.

"In Mendon, a part of Interstate 4, the main east-west route through central Vermont, was swept away, as were 35 bridges, including at least four historic covered bridges, officials said. Four railroad bridges in the state are also unpassable, and Amtrak has suspended train service indefinitely on its Vermont routes.

"'Some of the roads have literally washed away,' said Sue Minter, the state's deputy transportation secretary.

"Worried that the reports of the devastation could put off visitors as Vermont enters one of its prime tourist seasons – autumn always attracts legions of leaf peepers who come to gawk at foliage – the Vermont Chamber of Commerce opened a Facebook page, VisaVT, in which local inns and other businesses could leave posts explaining whether they are open and whether they were damaged.

"'While some are devastated, some are not,' said Betsy Bishop, the chamber president. In Delaware, where the popular beaches like Rehoboth Beach were evacuated last week-end shutting restaurants and emptying hotels, Gov. Jack Markell is urging people to come back for the Labor Day weekend – and to bring friends."

Improvised Non-accountancy

"'What I'm saying is if you planned to be at the beach last weekend, come back this weekend for Labor Day and bring somebody else,' he said in an interview. 'We'll try to even it out.'

"Mr. Markell unveiled a rapid response team on Tuesday to help small businesses cope with the fallout from the storm.

"Exactly how much economic activity was lost in the storm is difficult to say. Airports were closed. Broadway theaters stayed dark, ballgames were called, commuters could not get to the office, businesses lost power, and big plants were flooded. And how much economic activity will be generated by the cleanup and rebuilding efforts is hard to pinpoint. But economists are beginning to make educated guesses.

"Frederick R. Treyz, the chief economists of Regional Economic Models Inc., did an analysis of the possible impact of the storm.

"Assuming that direct damages totaled $7 billion, Dr. Treyz projected that the recovery

Another Reason for an Integral Concept of Investment in Human Capital as Society's Most Essential Investment

The Toronto Star ("The mother of all pregnancy studies" by Theresa Boyle) places the issue of maternity in the required perspective, not as another budgetary detail, but a key item in the view of investment in human capital as a prepaid crucial investment, rather than a detail for politicians to play around with.

"At 38, Nicole Dowling is part of a growing demographic. She is a first-time mother who experienced a few bumps on the royal road to parenthood.

"The largest Canadian study ever done on risks associated with advanced maternal age, released Thursday, examined more than one million hospital births from 2006 to 2009 to measure the impact that advanced maternal age can have on both mothers and their babies.

"Almost one in every five births is to a mother over 35, an age when risks associated with pregnancy and childbirth start increasing. Risks rise significantly after age 40, the study noted.

"Three weeks ago, Dowling gave birth to a son. After she had difficulties conceiving, went on bed rest for 12 weeks to prevent a premature delivery and then had a Caesarian section, the Toronto lawyer feels blessed that baby Brendan is thriving.

"'Relieved is a word I would use,' she said. 'I am a hopeful story.'

"Findings of the Canadian Institute for Health Information study, *In Due Time. Why Maternal Age Matters,* include:

"• Half of all first-time mothers age 40 and older have Caesarian sections. That compares to 41.3 percent of first-time mothers age 35 to 39 and 27.1 for those age 20 to 34.

"• The risk of delivering prematurely (before the 37th week of pregnancy) is one in 11 in the 35-to-39 age group and one in nine in the 40-and-older group, compared to only one in 13 babies among mothers age 20 to 34.

"• One out of every 127 babies born to a mother age 40 and older had chromosomal disorders such as Down syndrome, compared with one out of 370 born to mothers 35 to 39 and one out of 1,000 babies whose mothers were 20 to 34.

"Because of her age, Dowling had genetic counseling and was tested for such disorders at Mount Sinai Hospital early on in her pregnancy.

"The proportion of women 35 and older having babies varies across the country and is highest in Toronto, where 31.5 percent of all births are to women in this age group. The national average is almost 20 percent, up from 15 percent just five years ago and the number is expected to continue to grow.

"'Overall, we find that older moms are more likely to live in urban centres. They are more likely to be in a higher socio-economic status and have higher levels of education,' explained Kathleen Morris, director of Health system analysis with CIHI.

"Morris noted that other studies have indicated many women deliberately delay childbirth, because they want to get established, buy homes, and start careers. On the upside, older moms are more likely to be financially secure and breast-feed, factors that contribute to the health of their children.

"The findings highlight the need for good prenatal care and screening for potential problems, Morris said.

"Having another baby might be the furthest thing away from the mind of someone who has just given birth, but Dowling is already mulling the prospect. Mindful of the increased risks that come with age, she doesn't want to wait too long.

"'I definitely know it's a lot harder after 40. I would like it sooner than later."

These skewed distortions of a logical handling of these problems would be assured if society recognized as it once did, that investment in human capital is not a spending but a social investment, the most productive one society can make. That must be restored and taken out of hands of politicians and speculative financiers to play around with.

W.K.

would generate roughly 42,000 jobs – including construction workers, debris removers, and the jobs that would be generated by the money they earned and spent elsewhere. But he calculated that one day's business disruption across the affected region – a rough estimate that allows for some businesses that were not disrupted at all, and others that were for several days – would lead to losses that could cost roughly 62,000 jobs."

The great danger is our being mesmerized by the profusion of figures that must be translate into their real current purchasing power. For unless that it done we will be stepping into outer space with no means of correcting not only yesteryears' crooked accountancy, but those created by the current global meltdown. What is involved is the scrambling of our history, not once but repeatedly. The great lessons that came out of the Great Depression of the 1930s and the Great War should have been guarded as society's sacred heritage.

Were this taken in account it would become crystal clear the accountancy fraud that had been inflicted on society by ignoring the prepaid human capital that from the remotest times have been the most dynamic investment – entirely prepaid – that has allowed society to survive and flourish, while with political power clutched in the hands of our speculative banks, human capital is treated as an expense rather than as an asset. With that many of the natural catastrophes that have taken over the world could have been better handled or entirely avoided.

Yet that was no accident. Much of the current crisis in our public health and educational institutions can be traced to the bailing out of our chartered banks from the loss of much and even more than their capital in their speculative ventures during the 1980s – good examples are Dome Petroleum, Olympia and York's skyscrapers across Canada, New York and London, and Robert Campeau's hobby of collecting US department store chains. For the purpose, a bill was slipped through parliament in mid-1991 that changed the nature of the country's economy. The statutory non-interest-bearing reserves that the banks had had to deposit with the BoC as token backing for the deposits held from the public were phased out by mid-1993.

The annual tribute that resulted was of the same magnitude as the reduction of the federal grants to the provinces during the subsequent years. There was an obvious connection between the two.

W.K.

Living to 100 and Beyond

From The Wall Street Journal*, August 27, 2001, by Sonia Arrison*

Scientists are on the brink of radically expanding the span of a healthy life. Author Sonia Arrison on the latest advances – and what they mean for human existence.

In Jonathan Swift's "Gulliver's Travels," Gulliver encounters a small group of immortals, the struldbrugs. "Those excellent struldbrugs," exclaims Gulliver, "who, being born exempt from that universal calamity of human nature, have their minds free and disengaged, without the weight and depression of spirits caused by the continual apprehensions of death!"

But the fate of these immortals wasn't so simple, as Swift goes on to report. They were still subject to aging and disease, so that by 80, they were "opinionative, peevish, covetous, morose, vain, talkative," as well as "incapable of friendship, and dead to all natural affection, which never descended below their grandchildren." At 90, they lost their teeth and hair and couldn't carry on conversations.

Sonia Arrison, author of a new book on longevity, explains how scientific advances are making radical life expansion – to age 150 and beyond – a possibility, and what it could mean for human existence.

For as long as human beings have searched for the fountain of youth, they have also feared the consequences of extended life. Today we are on the cusp of a revolution that may finally resolve that tension: advances in medicine and biotechnology will radically increase not just our life spans but also, crucially, our health spans.

The number of people living to advanced old age is already on the rise. There are some 5.7 million Americans age 85 and older, amounting to about 1.8% of the population, according to the Census Bureau. That is projected to rise to 19 million, or 4.34% of the population, by 2050, based on current trends. The percentage of Americans 100 and older is projected to rise from 0.03% today to 0.14% of the population in 2050. That's a total of 601,000 centenarians.

But many scientists think that this is just the beginning; they are working furiously to make it possible for human beings to achieve Methuselah-like life spans. They are studying the aging process itself and experimenting with ways to slow it down by way of diet, drugs and genetic therapy. They are also working on new ways to replace worn-out organs – and even to help the body to rebuild itself. The gerontologist and scientific provocateur Aubrey de Grey claims that the first humans to live for 1,000 years may already have been born.

The idea of "conquering" aging has raised hopes, but it has also spurred a debate about whether people should actually aspire to live that long. What does a longer-living population mean for relationships and families? How can we afford to support massive numbers of aging citizens, and how can individuals afford to support themselves? Won't a society of centenarians just be miserable, tired and cranky?

A 2009 study found that restricting calories seems to slow aging in rhesus monkeys over a 20-year period. Both of the monkeys above are pictured at 27 years old. The one on the left (A, B) ate a regular diet. The more robust-looking monkey on the right (C, D) was fed a restricted diet with 30% fewer calories than usual.

The scientists working on these issues respond to such concerns by stressing that their aim is not just to increase the quantity of life but its quality as well. A life span of 1,000 may be optimistic, they suggest, but an average span of 150 years seems well within reach in the near future, with most of those years being vital and productive.

One key area of research is gene therapy. Cynthia Kenyon of the University of California, San Francisco, found that partially disabling a single gene, called daf-2, doubled the life of tiny worms called Caenorhabditis elegans. Altering the daf-16 gene and other cells added to the effect, allowing the worms to survive in a healthy state six times longer than their normal life span. In human terms, they would be the equivalent of healthy, active 500-year-olds.

Experiments with animals are not always applicable to humans, of course, but humans do have the same sort of genetic pathways that Dr. Kenyon manipulated. Other researchers have made similar findings. A laboratory at the University of Arkansas genetically altered worms to live 10 times longer than normal. Spain's National Cancer Research Center found an altogether different way to extend the lives of mice by 45%.

Other scientists are working to repair and replace worn-out body parts. The Wake Forest Institute for Regenerative Medicine, led by Anthony Atala, has successfully grown bladders in a lab and implanted them in children and teenagers suffering from a congenital birth defect. The basic structure of the bladders was built using biodegradable materials and was then populated with stem cells from the patients, so that their bodies wouldn't reject the transplant. It worked. Today the institute is working to grow more than 30 different organs and tissues, including livers, bone and hearts.

With heart disease the No. 1 killer in the US, building a human heart will be a major step forward. Doris Taylor announced in 2008 that her cardiovascular lab at the University of Minnesota had managed to grow a rat heart using a technique similar to Dr. Atala's, except that the structure she used was from a donor rat. Dr. Taylor is currently repeating the experiment on pigs, not only because their hearts are closer in size to human hearts but also because pig hearts are already used for replacement parts for some human heart patients.

Extending Life Span in the Lab

Worms: 900%
Fruit Flies: 100%
Monkeys: 60%*
Mice: 45%
**Study still ongoing, Source: Sonia Arrison*

Centenarians in the US

1950: 2,300
2010: 79,000
2050: 601,000*
**Based on current trends, Source: US Census Bureau*

Another promising new technology is organ printing, which is exactly what it sounds like: Cells, rather than ink, are put into a sophisticated 3-D printer and then printed onto a biodegradable material. The machine prints "pages" of cells on top of each other to make a three-dimensional shape. In December 2010, a company called Organovo announced that it had successfully printed human blood vessels – an important feature of all organs.

At the McGowan Institute for Regenerative Medicine at the University of Pittsburgh, Stephen Badylak is working with "extracellular matrix" – the material that gives structure to tissue – from pig bladders.

Dr. Badylak has used ECM to grow back the tips of patients' fingers that have been accidentally snipped off, and his colleagues have used it to cure early-stage esophageal cancer by removing the cancerous cells and replacing them with ECM. Scientists don't yet understand why the substance promotes new tissue growth, and ECM can't yet grow back entire limbs, but the results so far are impressive.

Assuming that the necessary technology eventually arrives, the big question is: what will life look like when we live to over 100?

One of the most important areas of potential change is family and relationships. With an average life expectancy of 150 years, it's possible that we might see age differences of as much as 80 or 90 years between spouses and partners. But the historical evidence suggests that such disparities in age probably won't be common.

Average Life Expectancy Through History

Cro-Magnon era: 18
The Renaissance: 30
America in 1850: 43
America today: 78
The developed world in 2300: 101

Research by Norway's government statistics bureau shows that between 1906 and 2002, life expectancy rose from around 57 years to around 79 years in that country. But the average age difference in relationships remained at around 3.5 years (men being slightly older).

One reason for the rarity of relationships with large age gaps is that modern societies tend to look down on them. Will the number of men marrying much younger women continue to grow as people live longer and such relationships become less stigmatized?

Research done at Stanford, the University of California, Santa Barbara, and the University of Wisconsin suggests that older men seek younger partners primarily to continue having children. If that is the case, such men won't need to find younger partners once it is easier for older women to have their own biological children using new fertility technologies.

And in the future, older women (and men) will likely look less "aged" because they will remain healthy for much longer. Remarriage for beauty or youth will lose some of its distinguishing force.

More time to live also raises the possibility of more divorces and remarriages – the seven-year itch turned into the 70-year itch. Today, some people get married two or even three times, but as people live longer, these numbers could increase, perhaps exceeding Liz Taylor proportions for at least a small slice of the population. But greater longevity might also lead to a higher incidence of serial monogamy, regardless of whether it leads to marriage, perhaps interspersed with periods of living alone.

As researchers further refine reproductive technology like egg freezing and ovary transplants, the ranks of older parents, currently on the rise, are bound to increase even more. This raises the prospect of families in which siblings are born many decades apart, perhaps 50 years or more. How would such age gaps between children change family dynamics?

We know that siblings of the same age cohort have more meaningful and longer-lasting relationships than those separated by more years, but it is difficult to predict how the relationship between siblings born decades apart would function. It probably would be akin to that of a child and an aunt or uncle, or even a child and a grandparent.

Living longer would also mean both making and spending money longer. What would an economy look like in which work lives extended into a second century of potential productivity?

Most of us already don't expect to retire at 65. The Social Security system cannot afford it even now, and in the future, going out to pasture at 65 will mean decades of boredom. People who live to 150 will use their additional years for second and third careers, and we are likely to see a greater movement toward part-time and flex-time work.

It has long been clear that wealth creates health. We now know that health also begets wealth. In a paper titled "The Health and Wealth of Nations," Harvard economist David Bloom and Queen's University economist David Canning explain that, based on the available research, if there are "two countries that are identical in all respects, except that one has a five-year advantage in life expectancy," then the "real income per capita in the healthier country will grow 0.3-0.5% per year faster than in its less healthy counterpart."

Although these percentages might look small, they are actually quite significant, especially when we consider that between 1965 and 1990 countries experienced an average per capita income growth of 2% per year.

Those numbers are based on only a five-year longevity advantage. What if a country had a 10-, 20-, or 30-year advantage? The growth might not continue to rise in linear fashion, but if the general rule holds – a jump in life expectancy causes an increase in economic growth per capita – then having a longer-lived population would generate enormous differences in economic prosperity.

In a 2006 study, the University of Chicago economists Kevin Murphy and Robert Topel painstakingly calculated that for Americans, "gains in life expectancy over the century were worth over $1.2 million per person to the current population." They also found that "from 1970 to 2000, gains in life expectancy added about $3.2 trillion per year to national wealth."

The world's advanced societies are finally in a position to launch a true offensive against the seemingly irresistible terms imposed on our lives by disease and death. That's good news for us as individuals and for humanity as a whole. A longer span of healthy years will lead to greater wealth and prospects for happiness.

But realizing the full potential of the longevity revolution will not be easy. We will need to tackle important and legitimate questions about the effects of greater health spans on population growth, resource availability and the environment. The decisions that we make in this regard will matter far more than the mere fact of greater numbers.

The very idea of radically greater longevity has its critics, on the right and the left. Leon Kass, who served as chairman of the President's Council on Bioethics under George W. Bush, sees the scientific effort to extend life as an instance of our hubris, an assault on human nature itself.

The environmental writer Bill McKibben, for his part, strongly opposes what he calls "techno-longevity," arguing that "like everything before us, we will rot our way back into the woof and warp of the planet."

I'm unconvinced. Arguments against life extension are often simply an appeal to the status quo. If humans were to live longer, we are told, the world, in some way, would not be right: it would no longer be noble, beautiful or exciting.

But what is noble, beautiful and exciting about deterioration and decline? What is morally suspect about ameliorating human suffering?

The answer is nothing. Everything that we have, socially and as individuals, is based on the richness of life. There can be no more basic obligation than to help ourselves and future generations to enjoy longer, healthier spans on the Earth that we share.

Adapted from "100 Plus: How the Coming Age of Longevity Will Change Everything, From Careers and Relationships to Family and Faith" by Sonia Arrison. Available from Basic Books. Copyright © 2011.

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It is amazing that with the exciting prospects of such longer lives well under way by the scientific community that the our governments should be operating with an illiterate substitute for anything that might be mistaken for serious accountancy. For serious accountancy would not confuse any rise in our price level for "inflation" to be suppressed with higher interest rates. If the price increase can seriously be traced to a greater demand than our economy has the capacity can satisfy, that might be called inflation. However when it covers training the scientists and financing their exciting research described in the *WSJ* article, classifying that as inflation calling for higher interest rates means that our government is operating with nothing that could be mistaken for "accountancy."

That not only needlessly raises interest rates, but cripples our government from looking after its finances in many other key respects. Assume we are building a subway and instead of dealing with the cost as a capital investment to be amortized and depreciated according to the rules of double-entry book-keeping, we treat is just as a financial deficit, our government will be in no position to take advantage of the many other investments resulting from the plans for a subway. For example a private entrepreneur in its position would profit by the foreseeable increase in the value of sites for blocks around the location of the future subway stations. A government incorrectly taken to be debt-ridden would sell such predictable sites to balance its supposed budget, The fact is that it has nothing that can could truthfully described as a budget. Indeed, there are international finance companies that specialize in buying or leasing for a song crucial highways, bridges and buildings that can only rise in value because of the capital investments that our government may be treating as a mere debt.

That would include of course investment in training the scientists and financing their most exciting work on the extension of feasible human life spans.

This note would be incomplete without our repeating how society was led to recognize the key important of human capital. As soon as the armistices were signed with Japan and German, Washington sent many hundreds of economists to Japan and Germany to study the extent of the wartime damage to predict how long it would take for the defeated leading Axis powers would take to become formidable traders again. Some sixteen years later one of these, Theodore Schultz University of Chicago wrote an essay on how wide off mark they had been in their forecasts. This he ascribed to their having concentrated on the physical destruction in he war, and assigned little importance to the fact that the highly trained and dedicated human personnel had come through the conflict almost intact. For a few years Schultz was honoured and decorated for his great conclusion, and then completely expunged from official memory.

Post-war Japan and Germany supported his great conclusion. The Japanese, who before the war had essentially a textile economy, for which they had to import the very fibre the needed for the purpose. In the reconstruction years they organized a complete replacement of what had been their pre-war economy with an engineering economy, that would leave more of the net proceeds of their exports in their land. It is no exaggeration to say that by their genius and insight the Japanese had reduced the damage of the first two economic bombs to the site clearance of the old Chicago lady's cow that kicked over the lamp that started the fire the led to Chicago's rebuilding as a great modern cosmopolis. Our governments, our universities, and our historians have urgent need of the suppressed heritage of Theodore Schultz.

W.K.

The Character Test

From The New York Times Magazine*, 9/18, by Paul Tough*

Dominic Randolph can seem a little out of place at Riverdale Country School – which is odd, because he's the headmaster. Riverdale is one of New York City's most prestigious private schools, with a 104-year-old campus that looks down grandly on Van Cortlandt Park from the top of a steep hill in the richest part of the Bronx. On the discussion boards of UrbanBaby.com, worked-up moms from the Upper East Side argue over whether Riverdale sends enough seniors to Harvard, Yale and Princeton to be considered truly "TT" (top-tier, in UrbanBabyese), or whether it is more accurately labeled "2T" (second-tier), but it is, certainly, part of the city's private-school elite, a place members of the establishment send their kids to learn to be members of the establishment. Tuition starts at $38,500 a year, and that's for prekindergarten.

Randolph, by contrast, comes across as an iconoclast, a disrupter, even a bit of an eccentric. He dresses for work every day in a black suit with a narrow tie, and the outfit, plus his cool demeanor and sweep of graying hair, makes you wonder, when you first meet him, if he might have played sax in a ska band in the 80s. (The English accent helps.) He is a big thinker, always chasing new ideas, and a conversation with him can feel like a one-man TED conference, dotted with references to the latest work by behavioral psychologists and management gurus and design theorists. When he became headmaster in 2007, he swapped offices with his secretary, giving her the reclusive inner sanctum where previous headmasters sat and remodeling the small outer reception area into his own open-concept work space, its walls covered with whiteboard paint on which he sketches ideas and slogans. One day when I visited, one wall was bare except for a white sheet of paper. On it was printed a single black question mark.

For the headmaster of an intensely competitive school, Randolph, who is 49, is surprisingly skeptical about many of the basic elements of a contemporary high-stakes American education. He did away with Advanced Placement classes in the high school soon after he arrived at Riverdale; he encourages his teachers to limit the homework they assign; and he says that the standardized tests that Riverdale and other private schools require for admission to kindergarten and to middle school are "a patently unfair system" because they evaluate students almost entirely by IQ. "This push on tests," he told me, "is missing out on some serious parts of what it means to be a successful human."

The most critical missing piece, Randolph explained as we sat in his office last fall, is *character* – those essential traits of mind and habit that were drilled into him at boarding school in England and that also have deep roots in American history. "Whether it's the pioneer in the Conestoga wagon or someone coming here in the 1920s from southern Italy, there was this idea in America that if you worked hard and you showed real grit, that you could be successful," he said. "Strangely, we've now forgotten that. People who have an easy time of things, who get 800s on their SATs, I worry that those people get feedback that everything they're doing is great. And I think as a result, we are actually setting them up for long-term failure. When that person suddenly has to face up to a difficult moment, then I think they're screwed, to be honest. I don't think they've grown the capacities to be able to handle that."

How Can Schools Impart Good Character?

Randolph has been pondering throughout his 23-year career as an educator the question of whether and how schools should impart good character. It has often felt like a lonely quest, but it has led him in some interesting directions. In the winter of 2005, Randolph read *Learned Optimism*, a book by Martin Seligman, a psychology professor at the University of Pennsylvania who helped establish the Positive Psychology movement. Randolph found the book intriguing, and he arranged a meeting with the author. As it happened, on the morning that Randolph made the trip to Philadelphia, Seligman had scheduled a separate meeting with David Levin, the co-founder of the KIPP network of charter schools and the superintendent of the KIPP schools in New York City. Seligman decided he might as well combine the two meetings, and he invited Christopher Peterson, a psychology professor at the University of Michigan, who was also visiting Penn that day, to join him and Randolph and Levin in his office for a freewheeling discussion of psychology and schooling.

Levin had also spent many years trying to figure out how to provide lessons in character to his students, who were almost all black or Latino and from low-income families. At the first KIPP school, in Houston, he and his co-founder, Michael Feinberg, filled the walls with slogans like "Work Hard" and "Be Nice" and "There Are No Shortcuts," and they developed a system of rewards and demerits designed to train their students not only in fractions and algebra but also in perseverance and empathy. Like Randolph, Levin went to Seligman's office expecting to talk about optimism. But Seligman surprised them both by pulling out a new and very different book, which he and Peterson had just finished: *Character Strengths and Virtues: A Handbook and Classification*, a scholarly, 800-page tome that weighed in at three and a half pounds. It was intended, according to the authors, as a "manual of the sanities," an attempt to inaugurate what they described as a "science of good character."

It was, in other words, exactly what Randolph and Levin had been looking for, separately, even if neither of them had quite known it. Seligman and Peterson consulted works from Aristotle to Confucius, from the Upanishads to the Torah, from the Boy Scout Handbook to profiles of Pokémon characters, and they settled on 24 character strengths common to all cultures and eras. The list included some we think of as traditional noble traits, like bravery, citizenship, fairness, wisdom and integrity; others that veer into the emotional realm, like love, humor, zest and appreciation of beauty; and still others that are more concerned with day-to-day human interactions: social intelligence (the ability to recognize interpersonal dynamics and adapt quickly to different social situations), kindness, self-regulation, gratitude.

In most societies, Seligman and Peterson wrote, these strengths were considered to have a moral valence, and in many cases they overlapped with religious laws and strictures. But their true importance did not come from their relationship to any system of ethics or moral laws but from their practical benefit: cultivating these strengths represented a reliable path to "the good life," a life that was not just happy but also meaningful and fulfilling.

Six years after that first meeting, Levin and Randolph are trying to put this conception of character into action in their schools. In the process, they have found themselves wrestling with questions that have long confounded not just educators but anyone trying to nurture a thriving child or simply live a good life. What is good character? Is it really something that can be taught in a formal way, in the classroom, or is it the responsibility of the family, something that is inculcated gradually over years of experience? Which qualities matter most for a child trying to negotiate his way to a successful and autonomous adulthood? And are the answers to those questions the same in Harlem and in Riverdale?

Levin had believed in the importance of character since KIPP's inception. But on the day of his trip to see Seligman, he was feeling a new urgency about the subject. Six years earlier, in 1999, the first group of students to enter KIPP Academy middle school, which Levin founded and ran in the South Bronx, triumphed on the eighth-grade citywide achievement test, graduating with the highest scores in the Bronx and the fifth-highest in all of New York City. Every morning of middle school they passed a giant sign in the stairwell reminding them of their mission: "Climb the Mountain to College." And as they left KIPP for high school, they seemed poised to do just that: not only did they have outstanding academic results, but most of them also won admission to highly selective private and Catholic schools, often with full scholarships.

But as Levin told me when we spoke last fall, for many students in that first cohort, things didn't go as planned. "We thought, OK, our first class was the fifth-highest-performing class in all of New York City," Levin said. "We got 90 percent into private and parochial schools. It's all going to be solved. But it wasn't." Almost every member of the cohort did make it through high school, and more than 80 percent of them enrolled in college. But then the mountain grew steeper, and every few weeks, it seemed, Levin got word of another student who decided to drop out. According to a report that KIPP issued last spring, only 33 percent of students who graduated from a KIPP middle school 10 or more years ago have graduated from a four-year college. That rate is considerably better than the 8 percent of children from low-income families who currently complete college nationwide, and it even beats the average national rate of college completion for all income groups, which is 31 percent. But it still falls well short of KIPP's stated goal: that 75 percent of KIPP alumni will graduate from a four-year college, and 100 percent will be prepared for a stable career.

As Levin watched the progress of those KIPP alumni, he noticed something curious: the students who persisted in college were not necessarily the ones who had excelled academically at KIPP; they were the ones with exceptional character strengths, like optimism and persistence and social intelligence. They were the ones who were able to recover from a bad grade and resolve to do better next time; to bounce back from a fight with their parents; to resist the urge to go out to the movies and stay home and study instead; to persuade professors to give them extra help after class. Those skills weren't enough on their own to earn students a BA, Levin knew. But for young people without the benefit of a lot of family resources, without the kind of safety net that their wealthier peers enjoyed, they seemed an indispensable part of making it to graduation day.

What appealed to Levin about the list of character strengths that Seligman and Peterson compiled was that it was presented not as a finger-wagging guilt trip about good values and appropriate behavior but as a recipe for a successful and happy life. He was wary of the idea that KIPP's aim was to instill in its students "middle-class values," as though well-off kids had some depth of character that low-income students lacked. "The thing that I think is great about the character-strength approach," he told me, "is it is fundamentally devoid of value judgment."

Still, neither Levin nor Dominic Randolph had a clear vision of how to turn an 800-page psychology text into a practical program. After that first meeting in Seligman's office, Levin and Randolph kept in touch, calling and e-mailing, swapping articles and Web links, and they soon discovered that they shared a lot of ideas and interests, despite the very different school environments in which they worked. They decided to join forces, to try to tackle the mysteries of character together, and they turned for help to Angela Duckworth, who at the time was a graduate student in Seligman's department (she is now an assistant professor). Duckworth came to Penn in 2002 at the age of 32, after working for a decade as a teacher and a charter-school consultant. When she applied to the PhD program at Penn, she wrote in her application essay that her experiences in schools had given her "a distinctly different view of school reform" than the one she started out with in her 20s. "The problem, I think, is not only the schools but also the students themselves," she wrote. "Here's why: learning is hard. True, learning is fun, exhilarating and gratifying – but it is also often daunting, exhausting and sometimes discouraging….

To help chronically low-performing but intelligent students, educators and parents must first recognize that character is at least as important as intellect."

Duckworth's early research showed that measures of self-control can be a more reliable predictor of students' grade-point averages than their IQs. But while self-control seemed to be a critical ingredient in attaining basic success, Duckworth came to feel it wasn't as relevant when it came to outstanding achievement. People who accomplished great things, she noticed, often combined a passion for a single mission with an unswerving dedication to achieve that mission, whatever the obstacles and however long it might take. She decided she needed to name this quality, and she chose the word "grit."

The Grit Scale

She developed a test to measure grit, which she called the Grit Scale. It is a deceptively simple test, in that it requires you to rate yourself on just 12 questions, from "I finish whatever I begin" to "I often set a goal but later choose to pursue a different one." It takes about three minutes to complete, and it relies entirely on self-report – and yet when Duckworth took it out into the field, she found it was remarkably predictive of success. At Penn, high grit ratings allowed students with relatively low college-board scores to nonetheless achieve high GPAs. Duckworth and her collaborators gave their grit test to more than 1,200 freshman cadets as they entered West Point and embarked on the grueling summer training course known as Beast Barracks. The military has developed its own complex evaluation, called the Whole Candidate Score, to judge incoming cadets and predict which of them will survive the demands of West Point; it includes academic grades, a gauge of physical fitness and a Leadership Potential Score. But at the end of Beast Barracks, the more accurate predictor of which cadets persisted and which ones dropped out turned out to be Duckworth's 12-item grit questionnaire.

Levin and Randolph asked Duckworth to use the new methods and tools she was developing to help them investigate the question of character at KIPP and Riverdale, and she and a handful of Penn graduate students began making regular treks from Philadelphia to New York. The first question Duckworth addressed, again, was the relative importance of IQ and self-control. She and her team of researchers gave middle-school students at Riverdale and KIPP a variety of psychological and IQ tests. They found that at both schools, IQ was the better predictor of scores on statewide achievement tests, but measures of self-control were more reliable indicators of report-card grades.

Duckworth's research convinced Levin and Randolph that they should try to foster self-control and grit in their students. Yet those didn't seem like the only character strengths that mattered. The full list of 24, on the other hand, felt too unwieldy. So they asked Peterson if he could narrow the list down to a more manageable handful, and he identified a set of strengths that were, according to his research, especially likely to predict life satisfaction and high achievement. After a few small adjustments (Levin and Randolph opted to drop love in favor of curiosity), they settled on a final list: zest, grit, self-control, social intelligence, gratitude, optimism and curiosity.

Over the course of the next year and a half, Duckworth worked with Levin and Randolph to turn the list of seven strengths into a two-page evaluation, a questionnaire that could be completed by teachers or parents, or by students themselves. For each strength, teachers suggested a variety of "indicators," much like the questions Duckworth asked people to respond to on her grit questionnaire, and she road-tested several dozen of them at Riverdale and KIPP. She eventually settled on the 24 most statistically reliable ones, from "This student is eager to explore new things" (an indicator of curiosity) to "This student believes that effort will improve his or her future" (optimism).

For Levin, the next step was clear. Wouldn't it be cool, he mused, if each student graduated from school with not only a GPA but also a CPA, for character-point average? If you were a college-admissions director or a corporate human-resources manager selecting entry-level employees, wouldn't you like to know which ones scored highest in grit or optimism or zest? And if you were a parent of a KIPP student, wouldn't you want to know how your son or daughter stacked up next to the rest of the class in character as well as in reading ability? As soon as he got the final list of indicators from Duckworth and Peterson, Levin started working to turn it into a specific, concise assessment that he could hand out to students and parents at KIPP's New York City schools twice a year: the first-ever character report card.

Can Character Be Quantified?

Back at Riverdale, though, the idea of a character report card made Randolph nervous. "I have a philosophical issue with quantifying character," he explained to me one afternoon. "With my school's specific population, at least, as soon as you set up something like a report card, you're going to have a bunch of people doing test prep for it. I don't want to come up with a metric around character that could then be gamed. I would hate it if that's where we ended up."

Still, he did think that the inventory Duckworth and Peterson developed could be a useful tool in communicating with students about character. And so he has been taking what one Riverdale teacher described as a "viral approach" to spreading the idea of this new method of assessing character throughout the Riverdale community. He talks about character at parent nights, asks pointed questions in staff meetings, connects like-minded members of his faculty and instructs them to come up with new programs. Last winter, Riverdale students in the fifth and sixth grades took the 24-indicator survey, and their teachers rated them as well. The results were discussed by teachers and administrators, but they weren't shared with students or parents, and they certainly weren't labeled a "report card."

As I spent time at Riverdale last year, it became apparent to me that the debate over character at the school wasn't just about how best to evaluate and improve students' character. It went deeper, to the question of what "character" really meant. When Randolph arrived at Riverdale, the school already had in place a character-education program, of a sort. Called CARE, for Children Aware of Riverdale Ethics, the program was adopted in 1989 in the lower school, which at Riverdale means prekindergarten through fifth grade. It is a blueprint for niceness, mandating that students "Treat everyone with respect" and "Be aware of other people's feelings and find ways to help those whose feelings have been hurt." Posters in the hallway remind students of the virtues related to CARE ("Practice Good Manners…Avoid Gossiping…Help Others"). In the lower school, many teachers describe it as a proud and essential part of what makes Riverdale the school that it is.

When I asked Randolph last winter about CARE, he was diplomatic. "I see the character strengths as CARE 2.0," he explained. "I'd basically like to take all of this new character language and say that we're in the next generation of CARE."

In fact, though, the character-strength approach of Seligman and Peterson isn't an expansion of programs like CARE; if anything, it is a repudiation of them. In 2008, a national organization called the Character Education Partnership published a paper that divided character education into two categories: programs that develop "moral character," which embodies ethical values like fairness, generosity and integrity; and those that address "performance character," which includes values like effort, diligence and perseverance. The CARE program falls firmly on the "moral character" side of the divide, while the seven strengths that Randolph and Levin have chosen for their schools lean much more heavily toward performance character: while they do have a moral component, strengths like zest, optimism, social intelligence and curiosity aren't particularly heroic; they make you think of Steve Jobs or Bill Clinton more than the Rev. Martin Luther King Jr. or Gandhi.

A Focus on Character Development

The two teachers Randolph has chosen to oversee the school's character initiative are K.C. Cohen, the guidance counselor for the middle and upper schools, and Karen Fierst, a learning specialist in the lower school. Cohen is friendly and thoughtful, in her mid-30s, a graduate of Fieldston, the private school just down the road from Riverdale. She is intensely interested in character development, and like Randolph, she is worried about the character of Riverdale students. But she is not yet entirely convinced by the seven character strengths that Riverdale has ostensibly chosen. "When I think of good character, I think: Are you fair? Are you honest in dealings with other people? Are you a cheater?" she told me. "I don't think so much about: Are you tenacious? Are you a hard worker? I think, Are you a good person?"

Cohen's vision of character is much closer to "moral character" than "performance character," and so far, that vision remains the dominant one at Riverdale. When I spent a day at the school in March, sitting in on a variety of classes and meetings, messages about behavior and values permeated the day, but those messages stayed almost entirely in the moral dimension. It was a hectic day at the middle school – it was pajama day, plus there was a morning assembly, and then on top of that, the kids in French class who were going on the two-week trip to Bordeaux for spring break had to leave early in order to make their overnight flight to Paris. The topic for the assembly was heroes, and a half-dozen students stood up in front of their classmates – about 350 kids, in all – and each made a brief presentation about a particular hero he or she had chosen: Ruby Nell Bridges, the African-American girl who was part of the first group to integrate the schools in New Orleans in 1960; Mohamed Bouazizi, the Tunisian fruit vendor whose self-immolation helped spark the recent revolt in that country; the actor and activist Paul Robeson.

In the assembly, in classes and in conversations with different students, I heard a lot of talk about values and ethics, and the values that were emphasized tended to be social values: inclusion, tolerance, diversity. (I heard a lot more about black history at Riverdale than I did at the KIPP schools I visited.) One eighth-grade girl I asked about character said that for her and her friends, the biggest issue was inclusion – who was invited to whose bat mitzvah; who was being shunned on Facebook. Character, as far as I could tell, was being defined at Riverdale mostly in terms of helping other people – or at least not hurting their feelings.

Randolph told me that he had concerns about a character program that comprised only those kind of nice-guy values. "The danger with character is if you just revert to these general terms – respect, honesty, tolerance – it seems really vague," he said. "If I stand in front of the kids and just say, 'It's really important for you to respect each other,' I think they glaze over. But if you say, 'Well, actually you need to exhibit self-control,' or you explain the value of social intelligence – this will help you collaborate more effectively – then it seems a bit more tangible."

When I spoke to Karen Fierst, the teacher who was overseeing the character project for the Riverdale lower school, she said she was worried that it would be a challenge to convince the students and their parents that there was anything in the 24 character strengths that might actually benefit them. For KIPP kids, she said, the notion that character could help them get through college was a powerful lure, one that would motivate them to take the strengths seriously. For kids at Riverdale, though, there was little doubt that they would graduate from college. "It will just happen," Fierst explained. "It happened to every generation in their family before them. And so it's harder to get them to invest in this idea. For KIPP students, learning these strengths is partly about trying to demystify what makes other people successful – kind of like, 'We're letting you in on the secret of what successful people are like.' But kids here already live in a successful community. They're not depending on their teachers to give them the information on how to be successful."

At KIPP Infinity middle school, which occupies one floor of a school on West 133rd Street, across from the MTA's giant Manhattanville bus depot, report-card night last winter fell on a cold Thursday at the beginning of February. Report-card night is always a big deal at KIPP schools – parents are strongly urged to attend, and at Infinity, almost all of them do – but this particular evening carried an extra level of anxiety for both the administrators and the parents, because students were receiving their very first character report cards, and no one knew quite what to expect.

Logistically, the character report card had been a challenge to pull off. Teachers at all four KIPP middle schools in New York City had to grade every one of their students, on a scale of 1 to 5, on every one of the 24 character indicators, and more than a few of them found the process a little daunting. And now that report-card night had arrived, they had an even bigger challenge: explaining to parents just how those precise figures, rounded to the second decimal place, summed up their children's character. I sat for a while with Mike Witter, a 31-year-old eighth-grade English teacher, as he talked through the character report card with Faith Flemister and her son Juaquin Bennett, a tall, hefty eighth grader in a gray hooded sweatshirt.

"For the past few years we've been working on a project to create a clearer picture for parents about the character of your child," Witter explained to Flemister. "The categories that we ended up putting together represent qualities that have been studied and determined to be indicators of success. They mean you're more likely to go to college. More likely to find a good job. Even surprising things, like they mean you're more likely to get married, or more likely to have a family. So we think these are really important."

Flemister nodded, and Witter began to work his way down the scores on Juaquin's character report card, starting with the good news: every teacher had scored him as a perfect 5 on "Is polite to adults and peers," and he did almost as well on "Keeps temper in check." They were both indicators for interpersonal self-control.

"I can tell this is a real strength for you," Witter said, turning to Juaquin. "This kind of self-control is something you've developed incredibly well. So that makes me think we need to start looking at: What's something we can target? And the first thing that jumps out at me is this." Witter pulled out a green felt-tip marker and circled one indicator on Juaquin's report card. "'Pays attention and resists distraction,'" Witter read aloud, an indicator for academic self-control. "That's a little lower than some of the other numbers. Why do you think that is?"

"I talk too much in class," Juaquin said, a little sheepishly, looking down at his black sneakers. "I sometimes stare off into space and don't pay attention."

The three of them talked over a few strategies to help Juaquin focus more in class, and by the end of the 15-minute conversation, Flemister seemed convinced by the new approach. "The strong points are not a surprise," she said to Witter as he got up to talk to another family. "That's just the type of person Juaquin is. But it's good how you pinpoint what he can do to make things easier on himself. Then maybe his grades will pick up."

A month later, I returned to KIPP to visit Witter's classroom. By that point in the school year, character language had permeated Infinity. Kids wore T-shirts with the slogan "Infinite Character" and Seligman's 24 character strengths listed on the back. The walls were covered with signs that read "Got self-control?" and "I actively participate!" (one indicator for zest). There was a bulletin board in the hallway topped with the words "Character Counts," where students filled out and posted "Spotted!" cards when they saw a fellow student performing actions that demonstrate character. (Jasmine R. cited William N. for zest: "William was in math class and he raised his hand for every problem.")

I came to Witter's class to observe something that Levin was calling "dual-purpose instruction," the practice of deliberately working explicit talk about character strengths into every lesson. Levin wanted math teachers to use the strengths in word problems; he explained that history teachers could use them to orient a class discussion about Harriet Tubman and the Underground Railroad. And when I arrived in Witter's class at 7:45 on a Thursday morning in March, he was leading a discussion about Chinua Achebe's novel *Things Fall Apart*. Above Witter's head, at the front of the class, the seven character strengths were stenciled in four-inch-high letters, white on blue, from optimism to social intelligence. He asked his students to rank Okonkwo, the protagonist, on his various character strengths. There was a lot of back and forth, but in the end, most students agreed that Okonkwo rated highest on grit and lowest on self-control. Then a student named Yantzee raised his hand. "Can't a trait backfire at you?" he asked.

"Sure, a trait can backfire," Witter said. "Too much grit, like Okonkwo, you start to lose your ability to have empathy for other people. If you're so gritty that you don't understand why everyone's complaining about how hard things are, because nothing's hard for you, because you're Mr. Grit, then you're going to have a hard time being kind. Even love – being too loving might make you the kind of person who can get played." There was a ripple of knowing laughter from the students. "So, yes, character is something you have to be careful about. Character strengths can become character weaknesses."

Though the seven character strengths aren't included in every lesson at KIPP, they do make it into most conversations about discipline. One day last winter, I was speaking with Sayuri Stabrowski, a 30-year-old seventh-and-eighth-grade reading teacher at KIPP Infinity, and she mentioned that she caught a girl chewing gum in her class earlier that day. "She denied it," Stabrowski told me. "She said, 'No, I'm not, I'm chewing my tongue.' " Stabrowski rolled her eyes as she told me the story. "I said, 'OK, fine.' Then later in the class, I saw her chewing again, and I said: 'You're chewing gum! I see you.' She said, 'No, I'm not, see?' and she moved the gum over in her mouth in this really obvious way, and we all saw what she was doing. Now, a couple of years ago, I probably would have blown my top and screamed. But this time, I was able to say: 'Gosh, not only were you chewing gum, which is kind of minor, but you lied to me twice. That's a real disappointment. What does that say about your character?' And she was just devastated."

Change is Not Obvious

Stabrowski was worried that the girl, who often struggled with her behavior, might have a mini-meltdown – a "baby attack," in KIPP jargon – in the middle of the class, but in fact, the girl spit out her gum and sat through the rest of the class and then afterward came up to her teacher with tears in her eyes. "We had a long conversation," Stabrowski told me. "She said: 'I'm trying so hard to just grow up. But nothing ever changes!' And I said: 'Do you know what does change? You didn't have a baby attack in front of the other kids, and two weeks ago, you would have.'"

To Tom Brunzell, who as the dean of students at KIPP Infinity oversaw the implementation of the character report card, what is going on in character conversations like that one isn't academic instruction at all, or even discipline; it's therapy. Specifically, it's a kind of cognitive behavioral therapy, the very practical, nuts-and-bolts psychological technique that provides the theoretical underpinning for the whole positive psychology field. Cognitive behavioral therapy, or CBT, involves using the conscious mind to understand and overcome unconscious fears and self-destructive habits, using techniques like "self-talk" – putting an immediate crisis in perspective by reminding yourself of the larger context. "The kids who succeed at KIPP are the ones who can CBT themselves in the moment," Brunzell told me. Part of the point of the character initiative, as he saw it, was to give their students the tools to do that. "All kids this age are having mini-implosions every day," he said. "I mean, it's middle school, the worst years of their lives. But the kids who make it are the ones who can tell themselves: 'I can rise above this little situation. I'm OK. Tomorrow is a new day.'"

For Randolph, the experience that Brunzell was describing – the struggle to pull yourself through a crisis, to come to terms on a deep level with your own shortcomings and to labor to overcome them – is exactly what is missing for so many students at academically excellent schools like Riverdale. And perhaps surprisingly, it may turn out to be an area where the students at KIPP have a real advantage over Riverdale kids. On the professional development day in February when I visited Riverdale, Randolph had arranged a screening for his entire faculty of "Race to Nowhere," a movie about the stresses facing mostly privileged American high-school students that has become an underground hit in many wealthy suburbs, where one-time showings at schools, churches and community centers bring out hundreds of concerned parents. The movie paints a grim portrait of contemporary adolescence, rising in an emotional crescendo to the story of an overachieving teenage girl who committed suicide, apparently because of the ever-increasing pressure to succeed that she felt both at school and at home. At Riverdale, the film seemed to have a powerful effect on many of the staff; one teacher who came up to Randolph afterward had tears in her eyes.

"Race to Nowhere" has helped to coalesce a growing movement of psychologists and educators who argue that the systems and methods now in place to raise and educate well-off kids in the United States are in fact devastating them. One central figure in the movie is Madeline Levine, a psychologist in Marin County who is the author of a best-selling book, *The Price of Privilege: How Parental Pressure and Material Advantage Are Creating a Generation of Disconnected and Unhappy Kids.* In her book, Levine cites studies and surveys to back up her contention that children of affluent parents now exhibit "unexpectedly high rates of emotional problems beginning in junior high school." This is no accident of demographics, Levine says, but instead is a direct result of the child-raising practices that prevail in well-off American homes; wealthy parents today, she argues, are more likely to be emotionally distant from their children, and at the same time to insist on high levels of achievement, a potentially toxic blend of influences that can create "intense feelings of shame and hopelessness" in affluent children.

Cohen and Fierst told me that they also see many Riverdale parents who, while pushing their children to excel, also inadvertently shield them from exactly the kind of experience that can lead to character growth. As Fierst put it: "Our kids don't put up with a lot of suffering. They don't have a threshold for it. They're protected against it quite a bit. And when they do get uncomfortable, we hear from their parents. We try to talk to parents about having to sort of make it OK for there to be challenge, because that's where learning happens."

Cohen said that in the middle school, "if a kid is a C student, and their parents think that they're all-A's, we do get a lot of push-back: 'What are you talking about? This is a great paper!' We have parents calling in and saying, for their kids, 'Can't you just give them two more days on this paper?' Over-indulging kids, with the intention of giving them everything and being loving, but at the expense of their character – that's huge in our population. I think that's one of the biggest problems we have at Riverdale."

This is a problem, of course, for all parents, not just affluent ones. It is a central paradox of contemporary parenting, in fact: we have an acute, almost biological impulse to provide for our children, to give them everything they want and need, to protect them from dangers and discomforts both large and small. And yet we all know – on some level, at least – that what kids need more than anything is a little hardship: some challenge, some deprivation that they can overcome, even if just to prove to themselves that they can. As a parent, you struggle with these thorny questions every day, and if you make the right call even half the time, you're lucky. But it's one thing to acknowledge this dilemma in the privacy of your own home; it's quite another to have it addressed in public, at a school where you send your kids at great expense.

And it's that problem that Randolph is up against as he tries to push forward this new kind of conversation about character at Riverdale. When you work at a public school, whether it's a charter or a traditional public school, you're paid by the state, responsible, on some level, to your fellow citizens for the job you do preparing your students to join the adult world. When you work at a private school like Riverdale, though, even one with a long waiting list, you are always conscious that you're working for the parents who pay the tuition fees. Which makes a campaign like the one that Randolph is trying to embark on all the more complicated. If your premise is that your students are lacking in deep traits like grit and gratitude and self-control, you're implicitly criticizing the parenting they've received – which means you're implicitly criticizing your employers.

When I asked Randolph to explain just what he thought Riverdale students were missing out on, he told me the story of his own scholastic career. He did well in boarding school and was admitted to Harvard, but when he got to college, he felt lost, out of step with the power-tie careerism of the Reagan '80s. After two years at Harvard, Randolph left for a year to work in a low-paying manual job, as a carpenter's helper, trying to find himself. After college, he moved for a couple of years to Italy, where he worked odd jobs and studied opera. It was an uncertain and unsettled time in his life, filled with plenty of failed experiments and setbacks and struggles. Looking back on his life, though, Randolph says that the character strengths that enabled him to achieve the success that he has were not built in his years at Harvard or at the boarding schools he attended; they came out of those years of trial and error, of taking chances and living without a safety net. And it is precisely those kinds of experiences that he worries that his students aren't having.

"The idea of building grit and building self-control is that you get that through failure," Randolph explained. "And in most highly academic environments in the United States, no one fails anything."

Most Riverdale students can see before them a clear path to a certain type of success. They'll go to college, they'll graduate, they'll get well-paying jobs – and if they fall along the way, their families will almost certainly catch them, often well into their 20s or even 30s, if necessary. But despite their many advantages, Randolph isn't yet convinced that the education they currently receive at Riverdale, or the support they receive at home, will provide them with the skills to negotiate the path toward the deeper success that Seligman and Peterson hold up as the ultimate product of good character: a happy, meaningful, productive life. Randolph wants his students to succeed, of course – it's just that he believes that to do so, they first need to learn how to fail.

Paul Tough, a contributing writer, is the author of Whatever It Takes: Geoffrey Canada's Quest to Change Harlem and America. *His book,* The Success Equation*, will be published next year.*

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Our Comment. There is, of course, a vast range of failure – from adjusting to getting through college and finding a job in a dwindling market, to society being blown to perdition because our governments have persisted in treating the most productive of prepaid of social investments – human capital in all its forms – as wasteful expenditure. That deprives the world of all serious accountancy, and can only lead to the final atomic war. The technology of atomic warfare, thank you, remains well-funded.

W.K.

PROFITS AND EDUCATION SHOULDN'T HAVE TO BE SUCH AN UGLY COMBINATION

How to Improve on an F

From The New York Times*, "Why We Need For-Profit Colleges," 9/16, by Joe Nocera*

Last month, a company called Education Management Corporation was sued by the Department of Justice. Education Management is a for-profit education company; in fact, it is the country's second-largest such company, with more than 150,000 students attending classes on more than 100 campuses, where it offers degrees in business, accounting and nursing, among other subjects.

According to the government, Education Management had a "'boiler-room'-style sales culture." Its recruiters used "high-pressure sales techniques, and inflated claims about career placement to increase student enrollment, regardless of applicants' qualifications," as the *Times* put it in an article about the lawsuit. And it supposedly paid recruiters bonuses based solely on how many students they enrolled – which is against the law.

Although Education Management vehemently denies the charges and vows to fight them, this is hardly the first time a for-profit university has been accused of impropriety. Indeed, during the last half-dozen years or so, scandal has dogged the industry. In recent years, Kaplan, a division of the Washington Post Company, faced allegations that it recruited unqualified students and had an unacceptably high percentage of defaults on its student loans. This summer, it settled a lawsuit (without admitting wrongdoing) that claimed it failed to place students in externships.

The allegations all stem from one essential fact: the for-profit college industry makes its money by recruiting students – overwhelmingly poor and working-class students – who must draw from the federal till to pay tuition. In many cases, as much as 90 percent of the revenue of a for-profit college company comes from the federal government, in the form of Pell Grants and student loans. The more students the companies enroll, the more federal money they get – and the more profit they make.

This has led to a widespread view that the for-profits will do just about anything to get that federal money. Although for-profit colleges enroll 12 percent of the nation's college students, they soak up about 25 percent of the federal government's student-aid budget. Fewer than half the students who enroll in the four-year for-profit schools graduate. Roughly 47 percent of those who were paying back their loans in 2009 defaulted by 2010.

The Shadow of Scandal

The shadow of scandal has, in turn, done a lot to color the way the larger society thinks about the industry. No one is much willing to listen to its defenders, who point out, for instance, that higher default rates are inevitable given the higher-risk populations being served, or that state schools also receive enormous taxpayer subsidies that just don't happen to be as obvious, or that the allegations hurled at the for-profit schools are sometimes overblown or unfair. Educating the poor and the working class is something that should be encouraged, rather than scorned, they say. Jeffrey Leeds, whose private-equity firm owns a big chunk of Education Management, says, "Our mission is straightforward, and one we are proud to take on – to help students, typically nontraditional students, successfully complete college programs with workplace skills that enable them to get good jobs in a tough economy."

Instead, the industry's transgressions have led many critics to conclude that the only way to "fix" for-profit education is to get rid of it entirely. One such critic is Steve Eisman, the famous short-seller and hero of Michael Lewis's book, *The Big Short*. Last year, he said in a speech that the for-profit education industry was "as socially destructive and morally bankrupt" as the subprime-mortgage industry. Having bet against for-profit education stocks, he then made similar remarks in Congressional testimony. Not surprisingly, this caused more stock declines in the sector.

All of this obscures what really ought to be the most important fact about the industry: the country can't afford to put it out of business. On the contrary, America needs it – and needs it to succeed – desperately.

To start with the obvious, a college education has never been more necessary for a decent life in America. Many manufacturing jobs now demand a level of skill and education that virtually requires a college degree. A lot of white-collar employers won't even consider a job applicant who hasn't graduated from college.

And yet for the poor and the working class, that education is not easy to attain. State university systems have become increasingly expensive. Community colleges are terribly overcrowded. The schools most capable of meeting the country's growing education needs are the for-profits. In the decade beginning in 1998, enrollment in public and private universities went up less than 25 percent.

Enrollment in the for-profit colleges,

meanwhile, was up 236 percent.

What's more, the traditional university isn't really set up to educate a person who has a full-time job. The for-profits can offer class times that are convenient for students, rather than for professors. They can offer online classes, which many traditional universities have been reluctant – or unable – to dive into. They pay professors to teach, not conduct research. A well-run for-profit college could teach its nonprofit counterparts a thing or two about efficiency and innovation. That's the part of the profit motive that grades well.

The bad part, of course, is that capitalists will always behave more or less like greyhounds chasing a mechanical rabbit, motivated by whatever incentives are put in front of them. Just as the federal government created perverse incentives that helped bring about the subprime crisis, so have the government's rules for the for-profit industry unwittingly led to its excesses. When industry reaps all the profit from student loans and the taxpayer has to pick up the losses, how can we be surprised when things turn out badly? What is needed now is creative, enlightened policymaking that will change the incentives so that good outcomes matter more than sheer volume.

Recently, the Department of Education issued a series of regulations that are supposed to do just that. Unfortunately, the new rules are cumbersome, complicated – and more than a little punitive. The most controversial of them, known as the gainful employment rule, is built in part on the actual earnings of all the graduates of a given for-profit college. Yet, astonishingly, the schools themselves are never allowed to see the income numbers of individual graduates because the government considers them private. Rules like that aren't likely to help fix anything.

There is an easier way. Robert Silberman, the chairman and chief executive of Strayer Education, widely regarded as one of the better for-profit companies, suggests replacing the plethora of regulations with two simple changes. First, he says, the government should force the for-profits to share in the losses when a student defaults. And second, the government should set up a national eligibility test to screen out students who lack the skills to attend college. Would there still be defaults? Of course. But plenty of students at nonprofit universities default, too. Silberman's solution would help ensure that both the government and for-profit companies are taking smarter risks on the students they enroll and educate.

There is nothing inherently wrong with the idea of for-profit education. The for-profits have flaws, but so do nonprofits, with their bloated infrastructure, sky-high tuition, out-of-control athletic programs and resistance to change. In a country where education matters so much, we need them both.

Joe Nocera is an Op-Ed columnist for the Times and the co-author of All the Devils Are Here: The Hidden History of the Financial Crisis.

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Editor: If human capital where recognized for what it is – the best prepaid investment the government can make, we would have a serious system of accountancy. As it is, prepaid human capital which had been recognized briefly by our governments can make is mistaken for an irresponsible expenditure. As a result our government is flying blind without serious accountancy.