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Phony Claims of Getting Out of the Depression

The Wall Street Journal (1/10, "AIG, US Agree on an Exit deal; Making It Work Will be Tougher" by Serena Ng, Deborah Solomon, and Joann S. Lublin) questions some dubious official claims: "The US government will sell off its stake in American International Group Inc., [AIG] under a plan that could end the controversial bailout sooner than many thought but that remains fraught with risk.

"Analysts cautioned that executing the plan, which will involve the Treasury selling at least \$50 billion of shares to private investors over months or years, could prove difficult and that a smooth and swift exit from the giant insurer [AIG] was far from certain.

"For the Treasury, a successful exit would fill in the biggest gap in federal officials' efforts to wrap up its unprecedented rescue of the financial system two years ago.

"While the government has recouped and even made money on the investments in many of the nation's biggest banks, AIG has been one of the biggest contributors to the government's loss on TARP.

"More than \$120 billion in taxpayer support provided to AIG remains outstanding, of which \$40 billion came from the TARP program."

The *WSJ* adds some supporting figures: "Washington's Targeted Investment Program (TARP) advanced \$79.7 billion to the Auto Industry Financing Program of which \$11.2 billion has been repaid; \$204.9 billion to banks of which \$147.9 has been repaid. Most major banks have repaid their loans, but hundreds of smaller banks haven't yet done so. \$40 billion lent under the Targeted Investment Program has been entirely repaid. Of the \$13.5 billion lent under the

Legacy Securities Public-Private Investment Program, only a trifling amount has been returned.

"Administration and AIG say they now believe the US will ultimately make money on its AIG investment and the White House on Thursday lowered its projected loss associated with TARP to about \$50 billion from \$105 billion.

"The announcement of the deal itself could help the Obama administration combat anti-bailout sentiment, ahead of mid-term elections.

"As the Treasury prepares to sell shares to raise funds, AIG management will need to convince investors that even as a fraction of its former self and eventually without government support, the once iconic insurer will emerge with a strong future.

"Equally important to the plan's success: how the Treasury manages the disposal of its shares over time, balancing the desire to raise funds quickly against pressuring the share price. So far, some analysts say, the government's track record selling off securities in bailed-out firms is mixed. Treasury officials say they are well-equipped to sell AIG's shares, the Treasury is in the midst of selling Citigroup Inc. shares and will eventually sell shares in General Motors Corp.

"In an encouraging sign for AIG and the government, AIG shares rose \$1.65, or 4.41%, to \$30.10 on Thursday.

"Treasury Secretary, Timothy Geithner, who has been dogged by criticism for his role in the bailout and government oversight of AIG, said: 'While there is a lot of work ahead to execute the terms of this agreement, today we are much closer to see-

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Depression from page 1
ing a clear path out.’

“The plan, which won the blessing of major credit-rating firms before it was announced on Thursday, involves converting \$49.1 billion of preferred shares that the Treasury hold in AIG into common shares and increasing the government’s ownership stake in the company to 92.1% from 79.8% currently.

“The conversion, which could take place in early 2011 if AIG can meet certain conditions, would position the government to sell off its stake in AIG through a series of share sales in the open market.

“In crafting the plan, the Treasury sought to ensure private shareholders – whose interest the government needs to make the exit successful – won’t reap a windfall before the government receives its money, people familiar with the matter said.

“The Treasury stands to profit on its AIG shares if it can sell them at about \$29 apiece. The goal is to sell them at around \$45 per share, the same price at which private shareholders can exercise warrants to buy more shares over the next 10 years. If the Treasury sells all its shares at \$45 or more, it could collect a profit of at least \$20 billion for taxpayers, estimate company executives.

“Such an outcome will depend among other things, on stock market conditions, the performance of AIG’s core insurance businesses, and how the Treasury manages the disposal of its shares over time.

“It is a huge amount. Bob and I have guessed it will be one or two years before Treasury can monetize its AIG holdings,’ said AIG chairman Robert S. ‘Steve’ Miller, referring to AIG Chief Executive Robert Benmosche.

“‘The Treasury,’ he said, ‘has to balance how fast they want to monetize the stake with how much value they want to get over time.’

“Hedge fund Fairhome Capital Management, which owns over \$1 billion of AIG stock on behalf of its shareholders and clients, said it ‘strongly’ supports to return AIG to independence and repay taxpayers.

“Maurice R. ‘Hank’ Greenberg, AIG’s former longtime leader who remains a shareholder and one of the most vocal critics of the AIG bailout, this week said he would not spend ‘even a nickel’ to buy more AIG shares and predicted the government would take more than a decade to sell down its stake.

“Before the conversion of the Treasury’s shares can occur, AIG has to repay a \$20

billion in secured debt from the Federal Reserve Bank of New York in full. AIG said it plans to use proceeds from major asset sales and the planned initial public-offering of its pan-Asian life-insurance unit to pay down its taxpayer debt and terminate the New York Fed credit line well before it is scheduled to expire in 2013.

“To consolidate AIG’s obligations to the government, under one roof, the Treasury also is going to take over the majority of the New York Fed’s interest in two special-purpose vehicles that are positioned to recoup \$26 billion from the sales of AIG’s overseas assets.

“At AIG’s current stock price, the 92.1% stake the Treasury is expected to hold in AIG under the plan implies a total stock market value for the company of roughly \$70 billion, which would make it one of the largest publicly traded financial institutions in the US after the conversion.

“On Thursday morning, AIG announced it has reached a deal to sell two Japanese life-insurance units to Prudential Financial Inc. for \$4.8 billion, of which \$4.2 billion in cash AIG will use to repay the New York Fed.

“Morgan Stanley advised the New York Fed on the AIG exit plan.”

From the *WSJ*’s review of the situation it is evident not only that the US government is hopelessly entangled in the obligations incurred trying to bail out our deregulated sporting banks – allegedly “insured.” However, what was lost in this exercise of standing everything on its head, human capital proven from the results of the rapid recovery of Japan and Germany after WWII to be the most productive investment a government can make.

That was formulated succinctly by one of the hundreds of economists that Washington had sent to Japan and Germany immediately that the armistice was signed to study the damage to predict how long it would take before those two great trading countries could resume such roles.

One of these, Theodore Schultz of the University of Chicago, some sixteen years later published a study in which he explained how wide of the mark he and his colleagues had been in their forecasts. Going further, he explained why: they had concentrated on the physical destruction, and paid little heed to the detail that the two leading axis lands had come out of the war with their highly educated, dedicated, and talented personnel, almost intact. Going further, he deduced from this failed prediction that investment in human capital

– which, of course, includes health care, the environment and adequate infrastructures for the world push to urbanize – was the best investment a government can make. For a very few years Schultz was celebrated, decorated, and then completely forgotten.

As was everything else that stood in the way of the ascendancy to absolute powers of speculative banking – not only the lessons of the Great Depression, but the important fact that you can depend on insurance against what is risky, but not against what is wrong. For example, there is no insurance against the proposition that $2 + 2 = 5$. For that is not risky but wrong. Take out insurance against that and both the insurer and the insured will go broke.

Precisely at the time when his great conclusion – the greatest lesson to come out of World War II, is most needed, the disasters of AIG, begun as government insurance agencies, but then switched to the private insurers of the impossible.

For the convenience of our gambling banks just about every lesson learned not only from WWII, but during the Depression of the 1930s has been expunged from human memory. Not least of these was that banks must not be allowed to acquire control over non-banking “financial pillars,” in those distant days: stock brokerages, insurance and mortgage companies. For if that were permitted they would make a bee-line to the reserves needed by these “other financial businesses” and use them as capital for their own speculative investments.

Our readers will not have missed that the sub-prime mortgage crisis could never have happened if the *Glass-Steagall* law brought in under Roosevelt in 1935 had not been ignored and finally repealed.

A disregard of a further lesson went overboard.

The Bank of Canada is wholly owned by the Government of Canada, and instead of the Ottawa government having to borrow its capital needs from banks, it is able to create them through its own central bank at a nominal cost. That made it possible for Canada to finance its part in World War II on better terms than either the UK or Washington. That nationalized central bank still exists but is scarcely made use of. But, more significantly, the Federal Reserve of New York – the only bank of the Federal Reserve system that is owned by the nation, served that nation in contracting the phony insurance that helped get the US government into endless indebtedness incurred by bailing out gambling mega-banks, bedazzled by

the fiction of being able to insure the uninsurable. And the state of federal finances is an unending tale of the nationally owned Federal Reserve of New York financing the phony real estate deals from which Washington finds so hard to shake free.

The naked truth is that what ails the US is the suppression of the great discovery that human capital is the greatest investment a government can make. Instead, it treats that investment as debt, and the government’s towering bad debts incurred in bailing out banks and tottering insurance companies that have gambled beyond sense

or solvency.

Our world has extradited its history, the hard lessons learned by great economists and sociologists in the past, the double-entry bookkeeping that a crusading order brought home from the Holy Land, that made possible the financing of the great voyages that sought the sea routes to China, and came up with the discovery of America, and much, much else.

Unremedied, it can only lead to the ultimate gamble – atomic war. For that there has been little penny-pinching.

W.K.

Henry V's Greatest Victory Reassessed for Clues by Military Brass Today

The New York Times (St. Crispin’s Day, October 25) reassesses the complex factors that gave the British their greatest military victory. But defence historians are studying the factors that eventually robbed the English of their triumph. What are the Brits looking for? You’ve guessed it right, the defence historical teams are looking for clues that might help them understand what is going wrong in Iraq and Afghanistan. James Glanz picks up the tale from Maisoncelle, France.

“The heavy clay-laced mud behind the cattle pen on Antoine Renault’s farm looks as treacherous as it must have been nearly 600 years ago, when King Henry V rode from a spot near here to lead a sodden and exhausted English Army against a French force that was said to outnumber his by as much as five to one.

“No one can ever take away the shocking victory by Henry and his ‘band of brothers,’ as Shakespeare would famously call them, on St. Crispin’s day, October 25, 1415. They devastated a force of French nobles who had gotten bogged down in the region’s sucking mud, riddled by arrows from English longbowmen and outmaneuvered by common soldiers with much lighter gear. It would become known as the Battle of Agincourt.

“But Agincourt’s status as perhaps the greatest victory against overwhelming odds in military history – and a keystone of the English self-image – has been called into doubt by a group of historians in Britain and France. These have painstakingly combed an array of military and tax records

from that time and now take a skeptical view of the figures handed down by medieval chroniclers.

“The historians have concluded that the English could not have been outnumbered by more than about two to one. And depending on how the math is carried out, Henry may well have faced something closer to an even fight, said Anne Curry, a professor at the University of Southampton who is leading the study.

“‘It’s just a myth, but it’s a myth that’s part of the British psyche,’ Ms. Curry said.

“The work, which has received both glowing praise and sharp criticism from other historians in the UK and Europe, is the most striking of the revisionist accounts to emerge from the new science of military history. The new accounts tend to be not only more quantitative but also more attuned to political, cultural and technological factors, and focus more on the experience of the common soldier than on grand strategies and heroic deeds.

“The approach has drastically changed views on everything from Roman battles with Germanic tribes, to Napoleon’s disastrous occupation of Spain, to the Tet offensive in the Vietnam War. But the most telling gauge of the respect being given the new historians and their penchant for tearing down established wisdom is that it has now become almost routine for American commanders to call on them for advice on strategy and tactics in Afghanistan, Iraq and other present-day conflicts.

“The most influential example is the *Counterinsurgency Field Manual* adopted

in 2006 by the US Army and Marines and smack in the middle of the debate over whether to increase troop levels in Afghanistan, Gen. David H. Petraeus, who oversees the wars in Iraq and Afghanistan as the head of the US Central Command, drew on dozens of academic historians and other experts to create the manual. And he named Conrad Crane, director of the US Army Military History Institute at the Army War College, as the lead writer.”

The Need to Win Over the General Population

“Drawing on dozens of historical conflicts, the manual’s prime conclusion is the assertion that insurgencies cannot be defeated without protecting and winning over the general population, regardless of how effective direct strikes on enemy fighters may be. Mr. Crane said that some of his own early historical research involved a comparison of strategic bombing campaigns with attacks on civilians by rampaging armies during the Hundred Years’ War, when England tried to assert control over continental France. Agincourt was perhaps the most stirring victory the English would achieve on French soil during the conflict.

“The Hundred Years War never made it into the field manual – the name itself may have served as a deterrent but after sounding various cautions on the vast differences in time, technology and political aims, historians working in the area say that there are some uncanny parallels with contemporary foreign conflicts.

“I’m not one who sees history repeating itself, but I think a lot of attitudes do, said Kelly DeVries, a professor of history at Loyola College in Maryland who has written extensively on medieval warfare. Mr. DeVries said that fighters from across the region began filtering towards the Armagnac camp as soon as Henry became allied with their enemies. ‘Very much like Al Qaeda in Iraq, there were diverse forces coming from very, very different places to fight,’ Mr. DeVries said.

“But first Henry would have his chance at Agincourt. After taking Harfleur, he marched rapidly north and crossed the Somme River east of Calais, his army depleted by dysentery and battle losses and growing hungry and fatigued.

“At the same time, the fractious French forces hastily gathered to meet him.

“It is here that historians themselves begin fighting, and several take exception to the new scholarship by Ms. Curry’s team.

“Based on chronicles that he consid-

RENEW TODAY!
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ers broadly accurate, Clifford J. Rogers, a professor of history at the US Military Academy at West Point, argues that Henry was in fact vastly outnumbered. For the English, there were about 1,000 so-called men-at-arms in heavy steel armor from head to toe and 5,000 lightly armored men with long-bows. The French assembled roughly 10,000 men-at-arms, each with an attendant called a *gros valet* who could also fight, and around 4,000 men with crossbows and other fighters.

“Although Mr. Rogers writes in a recent paper that the French crossbowmen were ‘completely outclassed’ by the English archers, who could send deadly volleys farther and more frequently, the grand totals would result in a ratio of four to one, close to the traditional figures. Mr. Rogers said in an interview that he regarded the archival records so incomplete as to substantially change those estimates.

“Still, several French historians said in interviews this month that they seriously doubted that France, riven by factional strife and drawing from a populace severely depleted by the plague, could have raised an army in so short a time. The French king, Charles VI, was also suffering from bouts of insanity.

“‘It was not the complete French power at Agincourt,’ said Bertrand Schnerb, a professor of medieval history at the University of Lille, who estimated that there were 12,000 to 15,000 French soldiers.

Ms. Curry, the Southampton historian, said she was comfortable with something close to that lower figure, based on her reading of historical archives, including military pay records, muster rolls, ships’ logs, published rosters of the wounded and dead, wartime tax levies and other surviving documents.

“On the English side, Ms. Curry calculates that Henry probably had at least 8,680 soldiers with him on his march to Agincourt. She names thousands of the likely troopers, from Adam Adrya, a man-at-arms to Philip Evan, an archer.

“And an extraordinary online database listing around a quarter-million names of men who served in the Hundred Years’ War, compiled by Ms. Curry and her collaborators at the University in Southampton and Reading, shows that whatever the numbers,

Henry’s army really was a band of brothers; many of the soldiers were veterans who had served on multiple campaigns together.

“‘You see tremendous continuity with people who knew and trusted each other,’ Ms. Curry said.

“That trust must have come in handy after Henry through a series of brilliant tactical moves, provoked the French cavalry – mounted men-at-arms – into charging the masses of longbowmen positioned on the English flanks in a relatively narrow field between two sets of woods that still exist not far from Mr. Renault’s farm in Maisoncelle.

“The series of events that followed as the French men-at-arms slogged through the muddy, tilled fields behind the cavalry were quick and murderous. Volley after volley of English arrow fire maddened the horses, killed many of the riders and forced the men-at-arms into a mass so dense that many of them could not even lift their arms.

“When the heavily armored French men-at-arms fell wounded, many could not get up and simply drowned in the mud as other men stumbled over them as order in the French lines broke down completely and panic set in. The much nimbler archers ran forward, killing thousands by stabbing them in the neck, eyes, armpits, and groin through gaps in the armor, or simply ganged up and bludgeoned the Frenchmen to death.

“‘The situation was beyond grisly: it was horrific in the extreme,’ Mr. Rogers wrote in his paper.

“King Henry V had emerged victorious, and as some historians see it, the English crown then mounted a public relations effort to magnify the victory by exaggerating the disparity in numbers.

“Whatever the magnitude of the victory, it would not last. The French populace gradually soured on the English occupation as the fighting continued and the civil war remained unresolved in the decades after Henry’s death in 1422, Mr. Schnerb said.

“They came into France saying, ‘You Frenchmen have civil war, and now our king is coming to give you peace,’ Mr. Schnerb said. ‘It was a failure.’

“Unwilling to blame a failed counter-insurgency strategy, Shakespeare pinned the loss on poor Henry VI: “Whose state so many had the managing, that they lost France and made his England bleed.”

The great bard said it all in the fewest words. What would he say about the US involvement in Afghanistan were he alive today?

W.K.

Safer Bets for Frightened Banks

The New York Times (11/10, "Seismic Shift in Cash Clout" by Sewell Chan) deals with the sudden semi-paralysis of the world's stock markets: "Washington – At a private dinner on Friday at the Canadian Embassy, finance officials from seven world economic powers focussed on the most vexing international economic problem facing the Obama administration.

"Over seared scallops and beef tenderloin, Treasury Secretary Timothy F. Geithner urged his counterparts from Europe, Canada and Japan to help persuade China to let its currency, the renminbi, rise in value – a crucial element in redressing the trade imbalances threatening recovery around the world.

"But the next afternoon, the annual meetings of the International Monetary Fund ended with a tepid statement that made only fleeting and indirect references to the simmering currency tensions.

"The divergence between the mounting anxieties over Chinese policy and the cautious official response was a striking display of the difficulty of securing international economic cooperation, two years after the financial crisis began.

"Above all, officials say, the crisis had shifted influence from the richest powers towards Asia and Latin America, whose economies have weathered the recession much better than those of the US, Europe and Japan.

"We have come to the end of a model where seven advanced economies can make decisions for the world without the emerging countries," said one European official involved in the weekend talks. "Like it or not, we simply have to accept it."

"The shifting dynamics have most drastically affected the US, which pushed more forcefully than its counterparts for stronger pressures on China but has been unable to persuade them to stand with it at the forefront of the debate.

"World leaders broadly agree for the global economy to be stable, imbalances between creditor countries like China and Germany and debtor countries like the US and Britain must be manageable.

"Most Web users are familiar with so-called cookies, which make it possible, for example, to log on to Web sites without having to retype user names and passwords, or to keep track of items placed in virtual shopping carts before they are bought.

"The new Web language and its additional features present more tracking opportunities because the technology uses a process in which large amounts of data can be collected and stored on the user's hard drive while online. Because of that process, advertisers and others could, experts say, see weeks or several months of personal data. That could include a user's location, time zone, photographs, texts from blogs, shopping carts contents, e-mails and a history of the Web pages visited.

"The new Web language 'gives trackers one more bucket to put tracking information into,' said Hakon Wium Lie, the chief technician at Opera, a browser company.

"Or as Pam Dixon, the executive director of the World Privacy Forum in California, said: 'HTML.5 opens Pandora's box of tracking in the Internet.'

"The additional capabilities provided by the new Web language are already being put to use by a California programmer who has created what, at first glance, could be a major threat to online privacy."

Speeding Up and Reversing Information Flows

"Sammy Kamkar, a California programmer best known in some circles for creating a virus called the 'Sammy worm,' which took down MySpace.com in 2005, has created a cookie that is not easily deleted, even by experts – something he calls an 'Evercookie' because it stores information in at least 10 places on a computer, far more than usually found. It combines traditional tracking tools with the new Web language.

"In creating the cookie, Mr. Kamkar has drawn comments from bloggers across the Internet whose descriptions of it range from 'extremely persistent' to 'horrible.'

"Mr. Kamkar, however, said he did not create it to violate anyone's privacy. He said he was curious about how advertisers tracked him on the Internet. After cataloging what he found on his companies, he made the Evercookie to demonstrate just how thoroughly people's computers could be infiltrated by the latest internet technology.

"I think it's OK for them to say we want to provide better service,' Mr. Kamkar said of advertisers who placed tracking cookies on his computers. 'However, I should like to be able to opt out because it is my computer.'

"Mr. Kamkar, whose 2005 virus circumvented browser safeguards and added more than a million 'friends' to his MySpace page in less than 20 hours, said he had no plans to profit from the Evercookie and did not intend to sell it to advertisers.

"That wouldn't have been difficult,' he said. Instead, he has made the code open to anyone who wants to examine it and says the cookie should be used for preventing tracking.

"A recent spate of class-action lawsuits have accused large media companies like the Fox Entertainment Group and NBC Universal and technology companies like Clearspring Technologies and Quantcast of violating users' privacy by tracking their online activities even after they took steps to prevent that.

"Most people control their online privacy by adjusting settings in today's most common Web Browsers, which include Internet Explorer by Microsoft, Firefox by Mozilla, Safari by Apple and Opera, which is used mostly in Europe and Asia and on mobile devices.

"Each browser has different privacy settings, but not all of them have obvious settings for removing data created by the new Web language. Even the most proficient software engineers and developers acknowledge that deleting [such] data is tricky and may require multiple steps.

"Now there are so many sources of data storage, it's very hard for browser manufacturers to handle that,' Mr. Cox said.

"Mr. Kamkar and privacy experts say that companies like Microsoft and Firefox should agree on one control for eliminating all tracking capabilities at once. 'There should be simple enough controls to take care of every single thing,' said Ms. Dixon, who added that some browsers automatically collected large amounts of data unless a user told them not to.

"Mr. Lie acknowledged that such companies 'do have a lot of power.' But he said that they worry that if the privacy settings they develop are too strict, they could make it difficult for users to see things like movies. For example, he said Opera once tried to put more controls on certain types of cookies, but users in Russia complained that the controls prevented a popular social networking site from working properly.

"Representatives from the World Wide

Web Consortium say they are taking questions about user privacy very seriously. The organization, which oversees the specification developers turn to for the new Web language, will hold a two-day workshop on Internet technologies and privacy.

“Ian Jacobs, head of communications at the consortium, said the development process for the new Web language would include a public review. ‘There is accountability,’ he said. ‘This is not a secret cabal for global adoption of these core standards.’

“But technologies like the new Web language, and the speed at which they are adopted, also represent an opportunity for people to rethink the social contracts that govern our relationship with the Web.

“‘You can do more, but you need to be aware of how your information might be used or misused,’ Mr. Jacobs said. ‘It’s the human questions.’”

In short, technology is determining the basic patterns of human relationships. And all this comes at a very critical time when suppression of anything that could be mistaken for serious accountancy even with all lights out has taken over in the relationships of our governments and the banks. Our banks have gotten themselves in a pickle once again, with their powers of financing stock market gambles severely curtailed. Washington is attempting to mobilize pressure from other nations looking for financing and markets for their exports by pressuring the Chinese to raise their exchange rate. However, since it is no longer in a position to provide either the financing for industrial development in or a market for their exports other nations are ever more reluctant to offend the Chinese. And it is here that the unreliability of securing internet information comes into crucial play. There can be no secure internet secrets of who is doing what to pressure the Chinese government to follow a course to raise its exchange rates with the rest of the world. And with the US banks no more the power financiers and the ever reliable markets of exports from these lesser lands, it is getting ever more difficult for Washington to organize other nations into a reliable block to pressure China. On an ever frailer world market, if you are an addicted gambler, you can safely wage your last renmibi that Beijing is following the secret messages of Washington’s efforts to line up other government to support its efforts to exert alliances to pressure China to do its bidding. And that would be sticking a nation’s neck out.

William Krehm

Lessons from the Sinking of the Titanic

The Globe and Mail (23/09, “Family secrets rise to surface, shed light on sinking of the Titanic” by Mark Brown, London) tells a shattering tale of the steering error that led to the pilot making the wrong turn into the iceberg, instead of driving away from it as he intended.

“Family secrets...cast new light on the sinking of the Titanic, one of the most enduring 20th-century disaster stories. Just as remarkable is the detail that the first-hand testimony has been kept secret for nearly 100 years.

“Louise Patten, the grand-daughter of the most senior surviving officer from the Titanic, on Wednesday revealed family secrets that, she says, get to the heart of why the ship went down overnight on April 14-15, 1912, resulting in the death of more than 1,500 people.

“If true, the secrets reveal two things: that the ship was steered toward the iceberg that sank it because of a simple mistake.

“There is a caveat to the revelations. Ms. Patten, the wife of the former British education secretary Lord John Patten, and a London high flier, is making them known because they are a part of the of her new novel, *Good as Gold*.

“But ‘that should not detract from their veracity,’ she told *The Guardian*. ‘I’ve known since I was 10.’

“The secrets come from Ms. Patten’s grandfather, Commander Charles Lightoller, who was serving as second officer on board the Titanic. He was in a unique position to know exactly what happened, and told the story to his wife – but not to the official inquiries.

“That Titanic hit the iceberg could be attributed to a misunderstanding. Because the ship sailed during the transition from sail to steam, there were two different systems in operation: rudder orders for steamships and tiller orders for sailing ships. ‘The two steering systems were the completely opposite of one another,’ Ms. Patten said. ‘So a command to turn “hard a-starboard” meant turn the wheel right under one system and left under the other.’

“The man at the wheel, Quartermaster Robert Hitchens, was trained under rudder orders – but tiller orders were still in use in the North Atlantic. So when First Officer

William Murdoch first spotted the iceberg and gave a ‘hard a-starboard’ order, a panicked Mr. Hitchens turned the liner into the course of the iceberg.

“By the time the error was corrected, two minutes were lost. Nothing could stop the iceberg breaching the hull.

“Cdr. Lightoller was also privy to shocking decisions that followed. Shortly before the Titanic went down, there was a final meeting of four senior officers in the first officer’s cabin. It was there that Cdr. Lightoller heard of the communication mistake. He also discovered that after the iceberg struck, the captain, Edward Smith, was persuaded to keep sailing by the chairman of White Star Line, Bruce Ismay, perhaps fearful of damaging the company’s reputation.

“‘My grandfather described the decision to try and keep Titanic moving forward as criminal,’ Ms. Patten said. Pressing on added to the pressure of water in the hull, forcing it over the bulkheads and sinking the ship many hours earlier than it otherwise would have sunk.”

“Ms. Patten added – ‘the nearest ship was four hours away. Had she remained at ‘stop’ it’s probable that Titanic would have floated until help arrived.

“There is a third part to the story, one that reflects less well on Ms. Patten’s grandfather. Why did he not tell the truth at the inquiries into the Titanic’s sinking?

“Ms. Patten said he felt duty bound to protect his employers, fearing it would bankrupt the company and every job would be lost.... It was for the best of reasons.”

Our Policy Mistakes Today Mimic the Titanic’s Sinking

Ours is an epoch when we are increasingly absorbed with the basic structures of our social thinking and behavior. We can hardly fail to note some surprising similarities in the most seemingly unrelated areas.

Identifying the patterns of thought and behavior on the deck of the doomed Titanic and in the unending economic crisis that has closed in on the economies of the world today is alarming, not because the solutions are unknown – but have been systematically suppressed. I need only mention that our society is ever more mobile and inventive in advancing its technologies, but, nonethe-

less ever meaner, and more thoughtless in its non-recognition of human capital. That is not because it is an expenditure that we cannot afford, for it comes prepaid since it had long since been recognized as the most important investment a government can make.

It helped the transition from sailing vessels to steam engines, and much, much more. It exposes our society to the depths of the oceans, icebergs, and much, else, around which we must guide the ship of state. If we avoid the resulting perils, we must constantly refer to the record we had learned or have still to learn from our history. Learning from our past successes and failures was recognized as the most valuable investment that society can make.

Thus *The Toronto Star* (30/09, "Stay tuned on EI hike plan: Flaherty" by Les Whittington) informs us from Ottawa: "Finance Minister Jim Flaherty is waffling on the Conservative government's much-disputed plan to begin collecting billions of dollars more on payroll taxes as of January 1. Significantly, this has to do with what is known as the Harmonized Tax having to do with the losses of expected income to the federal government from its previously having downloaded its social obligations onto the provincial governments.

"He also said Canada's economic growth number for July, due out on Thursday, may be negative.

"Facing massive budget deficits, the government said in its March budget that unemployment insurance premiums would rise on January 1. The increases are expected to generate an estimated \$24 billion in extra revenue for Ottawa over the next four years.

"The Harper government has been under fire from both business and labour groups to cancel the scheduled premium increase while unemployment remains high. The proposed hike of 15 cents per \$100 of insurable earnings would be paid for by employers and workers."

Sounds dreadfully business-like, except what is being double-taxed as an expenditure of government, was in fact recognized as prepaid human capital investment which in turn was classified as the most productive investment a government can make. That investment, in human capital, not only includes education, but care for health and the environment, and the infrastructure of urbanization.

Yet while spending on human education is being treated as a luxury, spending

on innovative technologies is extending to oceanic depths far greater than the Titanic ended up in, and mining projects in a moon of the outlying planet Saturn where iron is found in a different chemistry than that with oxygen, as occurs on our planet Earth.

How a frantically urbanizing world is to cope with governments readier to build more prisons than schools is the exact equivalent

of the helmsman of the Titanic confusing the rudder and tiller opposite turns of the wheel – using the one appropriate for sailing vessels for the one for steamships.

In essence what we are up against is running an ever more complex high-tech world with nothing that could qualify as serious accountability.

William Krehm

An Oil Company's Advertising Agency Marks the Exit Door from Our Society's Fatal, Blind Alley

The Wall Street Journal (18/10): "Oil Companies SHOULD Support the Communities They're a Part Of. We agree.

"Chevron Ad Campaign Enters Critics Head-On," by Ben Casselman, sets an example that should echo through society at large:

"As Big Oil struggles to repair its image in the wake of the disastrous Gulf of Mexico oil spill, Chevron Corp. is responding head-on to industry critics.

"The company's new ads, designed to evoke anti-industry posters, feature slogans such as 'Oil companies should put their profits to good use' and 'It's time oil companies got behind renewable energy.' Stamped red below are the words 'We agree.'

"The ad campaign, which will debut Monday, is a departure for an industry that usually promotes itself with generic images: frolicking children, serious scientists, splendid vistas of mountains and rivers.

"It was a conscious decision on our part to take on some of the more frequent questions that were being asked," said Rhonda Zygocki, vice-president for policy, government and public affairs at Chevron, which is based in San Ramon, Calif.

"The directness of this campaign, we're hoping will at least draw attention," she said, adding that the timing of the campaign wasn't influenced by the oil spill.

"But the campaign comes as the industry is trying to recover from the April 20 blow-out of a well owned by BP PLC, one of the world's largest oil companies. The explosion on the Deepwater Horizon drilling rig killed 11 workers in the wake of the disastrous Gulf of Mexico oil spill. Chevron Corp. is responding head-on to industry critics.

"For weeks, images of the burning rig, the spewing well and oil-covered pelicans dominated television news programs and

newspaper front pages.

"The disaster only worsened the image of an industry that the public has consistently ranked dead last among 25 business sectors in Gallup polls, below even the health care, airline and banking industries.

"Coming out of the Gulf spill, companies are facing an even steeper climb, to improve their public images, said Chris Gidez, a senior vice-president at communications firm Hill & Knowlton and a former public-relation executive in the oil industry who isn't involved in the Chevron campaign.

"BP has made a high-profile efforts to defend its image with a campaign pledging to 'make this right' by cleaning up the spill and compensating the victims. The ads, created by Washington public affairs firm Purple Strategies, cost the company \$93 million through September, according to documents provided by BP to Congress. The company declined to update this figure.

"Chevron's ads, which will run in print, on television and online, will initially target Washington and San Francisco, but will eventually appear throughout the US and overseas. They were created by McGarry-Bowen, a unit of Dentsu Holdings; the firm also developed Chevron's 'Human Energy' campaign launched in 2007.

"Environmental groups have responded to Chevron's previous attempts to improve its image with their own ads and protests. Earlier this month, broom-carrying activists demonstrated outside Chevron stations in San Francisco and called on the company to 'clean up' its operations.

"Chevron's rhetoric and the public image that they put forward is very different from how they're operating," said Maria Ramos, campaign director for the Rainforest Action Network, the environmental group that organized the protests."

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Stamped in Red: “We Agree”

“The company’s new ads, designed to evoke anti-industry posters, feature slogans such as ‘Oil company should put their profits to good use,’ ‘It’s time oil companies got behind renewable energy.’ Stamped in red are the words, ‘We agree.’

“Chevron has enlisted the help of outside groups to push back against such criticism. Some of the new ads are designed by non-profit groups that work with Chevron, such as the Global Fund to Fight Aids, Tuberculosis and Malaria, and Cleantech Open, an organization that promotes companies specializing in renewable energy and green technologies.”

That is why, as the issues that are handled with the rhetoric of professional advertisers become ever more tenable, we should approach the political parties left in the lurch in a helpful spirit. We must point out that the provisions in the *Bank of Canada Act* are still on our law books, but unused and forgotten.

We must propose that government help the industries out of their current mess, by making use of public money-creating resources that are still on the law books, but regally ignored, ever since the days of Brian Mulroney. Of course these would not be made use of as charity, but would require a recognition of the unique achievement of using credit created by our national bank to safeguard not only the country’s human capital, but to help our government and the hard-pressed corporations to recognize what was done in reconstructing Canada after World War II. This caught up with the neglect of a decade of depression, and then of the war, and at the same time enabling Canada to accept and assimilate millions upon millions of mostly penniless emigrants from war-torn Europe.

That is why the concept of human capital which was the most valuable lesson to come out of World War II must be salvaged. The facts have long been buried, but can readily

be restored with a bit of our history. At the end of WWII, Washington sent hundreds of economists to Japan and Germany to study the wartime damage, and from their studies to predict how long it would be before those defeated great trading nations would be able to resume such roles.

Years later, one of these, Theodore Schultz, wrote a book explaining why he and his colleagues had been so wide of the mark: because they had concentrated on the physical destruction, but attributed little importance to the fact that the highly talented, dedicated and talented human resources had come out of the conflict basically intact. Schultz went further, concluding that human capital is the most rewarding investment a government can make. Schultz was decorated and feted for a few years and then completely forgotten. COMER would prefer to be proven wrong, but we regret to report that we are the only ones who seem to remember the name of the man and his epoch-making discovery.

Until this is done, we will go on treating our government’s greatest investment as debt. In other words we are operating the world economy without anything that could be mistaken as accountancy. What is advanced as balancing the books is in fact flying blind without map or compass.

It is high time to call in the other scholarly disciplines to restore the meaning of the very name “university.” It implies a gathering place where all the disciplines and attainments meet to exchange mutual ideas. Starting from the detail that a proposition cannot be turned around, and remain valid.

Instead our universities have been cleansed of any teaching staff the will diverge from the belief in a self-balancing market. And what is prepaid human capital is treated on our governments’ books as debt instead of what it is – prepaid capital investments. Do that and you are headed for disaster. You end up with nothing that could be mistaken for accountancy with the lights out.

Of course, it would help immensely if those parties who contributed to the nationalization of the Bank of Canada in 1938 – the NDP, the Social Credit people, the Greens and even the Liberals were to raise the question in Parliament, but if an oil company concerned about its public image would step in and address its public relations problem press by borrowing some of the missing social accountancy that our government has suppressed, COMER will

applaud it seeking no credit for our pioneer work in this area.

Of course it would help immensely if our universities including their faculties of accountancy, history, logic, were brought into the act. The illiteracy of mistaking any price rise for inflation rather than the inevitable “social lien” effect of a society requiring ever increasing investment in social capital. Above all our universities – their very name should remind them that they were the seat where every variety of knowledge met and mingled, and exchanged criticism and judgments. That must be restored for them to merit that name.

In our latest two issues of our monthly publication COMER and its website reproduced the 41-page essay that appeared in the leading economic journal of France, *Revue économique*, May, 1970. It was hailed by the economic journal of Cambridge University in Britain and at least eight other internationally notable economic publications as an epoch-making contribution to economic theory. However, the world today is being run on the assumption that a higher price level is simply “inflation” signifying too great a demand to be satisfied by available supply.

Already Paid For

The suppressed fact is that more of our production is not being filled on the market but by government investments in human capital, which would, of course, include looking after the environment, and health and welfare of the population. This I called the “social lien,” and it is a prepaid investment.

Recently I have retrieved a copy of the original English version of my essay, and for the first time it has been carried in the instalments of *Economic Reform* and our website. If the oil industry or any part of it, wishes to change its bad press, we would suggest that they acquaint themselves with this essay that led to the founding of COMER. I would show them how their very unpopular industry could shift its concerns and public relations to contributing to clean up the environment, and the general prospects of the human race and its prospects for survival.

Of course, it would help immensely if the various opposition parties, not excluding the Liberals, became vocal for the use of the Bank of Canada for the goals for which it was nationalized in 1938. Without that, we are flying blindfolded to the ultimate disaster of human kind – atomic war.

William Krehm

How Germany was Prepared to Succumb to Hitler

The New York Times (10/16, "Hitler Exhibit Explores a Wider Circle of Guilt" by Michael Slackman) should warn us of where our current world may be headed, given the current disregard of the most devastating lessons of history. We quote: "The exhibits that opened Friday at the German Historical Museum are intentionally pro-saic: they emphasize the every-day way that ordinary Germans once accepted and often celebrated Hitler.

"The household items had Nazi logos and colors. The tapestry, a tribute to the union of church, state and party, was woven by a church congregation at the behest of their priest.

"This is what we call self-mobilization of society,' said Hans-Ulrich Thamer, one of three curators to assemble the exhibit at the German Historical Museum. 'As a person, Hitler was a very ordinary man. He was nothing without the people.'

"This show, 'Hitler and the German Nation and Crime,' opened Friday. It was billed as the first in Germany since the end of World War II to focus exclusively on Adolf Hitler. Germany outlaws public displays of some Nazi symbols, and the curators took care to avoid showing items that appeared to glorify Hitler. His uniforms, for example, remained in storage.

"Instead, the show focuses on the society that nurtured and empowered him. It is not the first time that historians have argued that Hitler did not corral the Germans so much as the Germans elevated Hitler. But one curator said the message was arguably more vital to Germany now than at any time in the past six decades, as rising nationalism, more open hostility to immigrants and a generational disconnect from the events of the Nazi era have older Germans concerned about repeating the past.

"The only hope for stopping extremists is to isolate them from society...so they do not have a relationship with the bourgeoisie and the other classes,' Mr. Thamer said. 'The Nazis were members of high society. This was the dangerous moment. This we have to avoid from happening.'

"Increasingly, Germans have put the guilt of the past behind them, reasserting their pride in national identity in many positive ways. But there also have been troubling signs seeping from the margins into the mainstream.

"A best-selling book by a former Banker promoted 'genetic theories of intelligence and said that Muslims were 'dumbing down' society. A new right-wing party recently attracted hundreds to a speech by the far-right Dutch politician Geert Wilders.

"Even government officials say that immigrant children are picking on native Germans.

"The planners began discussing this kind of show 10 years ago, Mr. Thamer said. An expert committee viewed it as part of a continuum of penance and awareness that historians say began with the Auschwitz trials.

"The process did not always go smoothly. A 1995 exhibition in Hamburg was widely condemned for showing that the Wehrmacht, the regular army, committed atrocities on the eastern front, just like the SS, the Nazi special police. The public was not ready to widen the sense of responsibility for Nazi-era wrongs.

"But for this show, museum officials thought the time would be right. And in the end, they said, the timing has added value.

"It would be presumptuous to say that an exhibition could counter the radiance of populism,' said Rudolf Trabold, spokesman for the museum. 'We try to achieve what we can afford, and to achieve our mission. But if that outshines the popular power of a Geert Wilders, I myself would not presume to say.'"

Troubling Parallels between Then and Now

"As he walked through the exhibit on Friday, Eric Pignolet, a Belgian who has lived in Berlin for 22 years, said he was pleased that Germans were no longer saying, 'I didn't know.' But he was troubled by parallels between then and now.

"I think if you had someone like him today, it could be very dangerous,' he said halfway through his walk through the displays about Hitler. 'There are a lot of people out there who want jobs who are not happy with the political leadership, who would vote for someone like him if he came along.'

"The line had already formed when the museum doors opened at 10 am. An estimated 3,000 paid the \$8.40 admission fee to see nearly 1,000 items, including photographs, videos, uniforms and a narrative that explained the early appeal of a man and a party that offered jobs, pride and a sense

of purpose, while employing wholesale violence and brutality to those who did not go along.

"This exhibition is about Hitler and the Germans – meaning the social and political and individual processes by which much of the German people became enablers, colluders, co-criminals, in the Holocaust,' said Constanze Stelzenmueller, a senior trans-Atlantic fellow with the German Marshall Fund of the United States in Berlin. 'That this was so is now a mainstream view, rejected only by a small minority of very elderly and deluded people, or the German extreme right-wing fringe. But it took us a while to get there.'

"The museum placed the display downstairs, below street level, so it was dark and silent. Three images of Hitler projected on a mesh screen opened the show; behind them were pictures of cheering crowds, marching soldiers, and other demonstrations of popular support. Around the corner were details of how Hitler was embraced early on, by the elite in Munich. 'The wives of entrepreneurs, such as Elsa Bruckmann, vied to be the first to drag Hitler' to a social event, one display said.

"Our teachers in the past, were integrated into that system, and I can remember they wanted to tell us that the German people became the first victim of Hitler, that they were practically mugged,' said Klaus Peter Triebet from Seefeld, near Munich.

"The exhibit explains the early appeal of the Nazis, who demonstrated a keen appreciation for the politics of populism's creating a sense of unity and purpose. 'Attending popular sports events, film premiers, dedicated autobahns and new industrial builds,' read a display.

"There were also the familiar striped uniforms forced on prisoners in the concentration camps, and the cold calculation in maps that showed the division of Poland between Germany and Russia.

"But over and over, the point was spelled out clearly in the exhibit's plaques. Like one, near letters written by children who were off to concentration camps, that said 'Hitler was able to implement his military and extermination objectives because the military and economic elites were willing to carry out his war.'

"The exhibit, with all its photographs of young and old adoring Hitler, also sought

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to dispel the notion that the Nazi spirit was simply impossible to resist. It held up Johann Georg Elser as proof that 'it was possible to develop into a resistance fighter.'

"Mr. Elser was a carpenter who tried to kill Hitler at the outset of the war and was hanged for his actions.

"His story, however, left some viewers to wonder why their parents and grandparents had not rejected Hitler. Why everyone went mad.

"My father was a Hitler Youth,' said Gutfriend Keller, as she walked through the exhibit with her husband and two daughters. 'It's hard to understand.'"

It will be far harder to understand this time, when the speculative bankers who in the 1930s had been taken off their guard and retreated into bankrupt inaction, had learned their lesson. And they established their international rallying centers to which they could retreat and oversee the systematic comeback of the regime of speculative banking from strategic world centers like the International Monetary Fund in Switzerland. It was from there, step by step that the strategy for frustrating all that had been learned in the decades following WWII was developed and applied at meetings that excluded any government officials except those connected with central bankers.

And that, along with the techniques of algorithmic market split-second trading were developed and applied. Traders today can even – for a fee – purchase advance information of what deals in sandwich packages with insurance that did not insure of questionable debt. This has stripped governments of not only everything that had been learned to lift the world out of the Depression of the 1930s, but had reduced the Rooseveltian reforms of the 1930s to an obscene mockery. Financial insurance by speculative banks no longer insured, nor were the banks, "collateralized debt," of any serious protection since the alleged insurance in mortgage foreclosures have turned out to have been uninspected swindle.

This backlog of uninspected obligations and assurances, has resulted in a wild harvest of insurance that insures nothing but a speculative rampage that has reduced financial insurance to enthroned corruption. And whom has President Obama chosen as guide and counselor to lead him through this mess, but high financial officials of governments dominated by central banks that led the world into its critical condition.

This threatens to leave the world no further room for gambling to get out of the

speculative mess piled to heights that brook no control – only the ultimate gamble of atomic war.

How to find a way out of this mess? Simply to apply the greatest lesson that came out of World War II. As soon as the Japanese and German surrenders were in, Washington sent many hundreds of economists to Japan and Germany to study the extent of the damage on site and from it predict how long it would take for these great trading regimes would be able to resume such roles.

Some sixteen years later, one of these, Theodore Schultz of the University of Chicago, published a book on how wide of the mark he and his colleagues had been. They had concentrated on the physical destruction, and paid little heed to the detail that the human resources had come out of the conflict essentially intact. From that, in a stroke of genius, he went on to recognize that human capital, which would include of course, proper regard for the environment, educational and urban infrastructures, are the greatest investment that a country can make.

For a few years Schultz was feted decorated, and then utterly forgotten, I beg to be contradicted if possible, but COMER alone mentions him and his epoch-making conclusion.

Moreover, that crucial investment has been fully paid for, in advance. That explains why countries like Brazil, and almost any African government, no matter how great its resources may be, will have its well-being and prosperity determined by the state of its investment in human capital.

The Mistake of Seeing Investment as Debt

But in our world, set up for the convenience of speculative bankers, further investment in human capital is treated as debt rather than as assets. That prepares the jig for the further advantage of speculative bankers. What should be treated as investment is regarded as debt requiring insurance that can only can turn out swindle.

And yet the children of healthy parents tend to be healthier, of educated parents, more readily educated.

Governments are running the world economy with nothing that could be mistaken for accountancy. It is high time to turn the lights on. Otherwise, humanity is headed for what could be its final desperate gamble – atomic war. For that, there seems to be no lack of funding.

William Krehm

The Blind Man and the Elephant — A Model for Merrill Bank

“Wall Street has come along way since the dark days of 2008, when the near-collapse of American finance heralded the end of flush times for many people. But even now, two years on, regulators are still trying to piece together how so much went so wrong on Wall Street.

“The Securities and Exchange Commission is investigating whether banks adequately disclosed their financial risks during the boom and subsequent bust. The question has taken on new urgency now that Citigroup has agreed to pay \$75 million to settle SEC claims that it misled investors about its exposure to collateralized debt obligations, or CDOs.

“As Merrill did with vehicles like Pyxis, Citigroup shifted much of the risks associated with the CDOs off its books, only to have these risks boomerang. Jessica Oppenheim, a spokeswoman for Bank of America declined to comment.

“Such financial tactics, and the SEC’s inquiry into banks’ disclosures, raise thorny questions for policy matters. The investigations have thrown an uncomfortable spotlight on the vast network of hedge and ‘special purpose vehicles’ that companies still use to finance their operations and the investments they create.

“The recent overhaul of financial regulation did little to address this shadow banking system. Nor does it address whether banking executives should be required to disclose more about the risks their banks take.

“Most Wall Street firms disclosed little about their mortgage holdings before the crisis, in part because many executives thought the investments were safe. But in some cases, executives failed to grasp the potential dangers partly because the risks were obscured, even to them, via off-sheet programs.

“‘Executives’ decisions about what to disclose may have been clouded by hopes that the market would recover,’ analysts said.

“The Pyxis episode begins in 2006, when the overheated and overleveraged housing market was beginning its painful decline.

“During the bubble years, many Wall Street banks built a lucrative business packaging home mortgages into bonds and other investments. But few players were bigger

than Merrill Lynch, which became a leader in creating CDOs.

“Initially, Merrill often relied on credit insurance from the American International Group to make certain parts of the CDOs attractive to investors. But when AIG stopped writing those policies in early 2006 because of concerns over the housing market. Merrill ended up holding on to more of those pieces itself.

“So that summer, Merrill Lynch created a group of three traders to reduce its exposure to the fast-shrinking mortgage market. According to three former employees with direct knowledge of this group, the traders first tried to sell the vestigial CDO investments. If that did not work, they tried to find a foreign bank to finance their own purchase of the CDOs. If that failed, they turned to Pyxis or similar programs, called Steers and Parcs, as well as to custom trades.”

Devising a Scam that would Fly

“These programs generally issued short-term IOUs to investors and then used that money to buy various assets, including the left-over CDO pieces.

“But there was a catch. In forming Pyxis and the other programs, Merrill guaranteed the notes they issued by agreeing to take back any securities put in the programs that turned out to be of poor quality. In other words, these vehicles were essentially buying pieces of CDOs from Merrill using the proceeds of notes guaranteed by Merrill and leaving Merrill on the hook for any losses.

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“To further complicate the matter, Merrill traders sometimes used the cash inside CDOs to buy new Pyxis notes, meaning the CDOs were investing in Pyxis, even as Pyxis was investing in CDOs.

“It was circular, yes, but it was all ultimately tied to Merrill,’ said a former Merrill employee, who asked to remain anonymous so as not to jeopardize ongoing business with Merrill.

“To provide the guarantee that made all of this work, Merrill entered into a derivatives contract known as a total return swap, obliging it to cover any losses at Pyxis. Citigroup used similar arrangements that the SEC, now says should have been disclosed to shareholders in the summer of 2007.

“One difficulty for the SEC and other investigators is determining exactly when the banks should have disclosed more about their mortgage holdings. Banks are required to disclose only what they expect their exposure to be. If they believe they are fully hedged, they can even report that they have no exposure at all. Being wrong is no crime.

“Moreover, banks can lump together all sort of trades in their financial statements and are not required to disclose the full face value of many derivatives, including the type of guarantees that Merrill used.

“‘Should they have told us all of their subprime mortgage exposure?’ said Jeffery Harte, an analyst with Sanfler O’Neill. ‘Nobody knew that was going to be such a huge problem. The next step is that they would be giving us their entire trading book.’

“Still, Mr. Harte and other analysts said they were surprised in 2007 by Merrill’s escalating exposure and its initial decision not to disclose the full extent of its mortgage holdings. Greater disclosure about Merrill’s mortgage holdings and programs like Pyxis might have raised red flags to senior executives and shareholders, who could have demanded that Merrill stop producing the risky securities that later brought the firm down.

“Former Merrill employees said it would have been virtually impossible for Merrill to continue to carry out so many CDO deals in 2006 without the likes of Pyxis. Those lucrative deals helped fatten profits in the short term – and hence the annual bonuses

paid to its employees. In 2000, even as the seeds of its undoing were being planted, Merrill Lynch paid out more than \$5 billion in bonuses.

“It was not until the autumn of 2007 that Pyxis and its brethren set off alarm bells outside Merrill Lynch. CDO specialists at Moody’s pieced together the role of Pyxis and warned Moody’s analysts who rated Merrill’s debt. Merrill soon pre-announced a quarterly loss, and Moody’s downgraded the firm’s credit rating. By late 2007, Merrill had added pages of detailed disclosures to its earnings releases.

“It was too late. The risk inside Merrill, virtually invisible a year earlier, had already mortally wounded one of Wall Street’s greatest names.”

But when you come to think of it, isn’t this deranged pattern that mistakes liabilities for assets and vice versa, precisely what our governments are doing on a still greater scale than Merrill managed.

When World War II was over Washington sent hundreds of economists to Japan and Germany to study the damage and predict how long it would be until these former mighty trading powers could resume that role. One of those American economists sent on that mission, Theodore Schultz, wrote a book some 16 years later, remarking how wide of the mark he and his colleagues had strayed.

This he attributed to their having concentrated on the physical destruction and paid little heed to the detail that the highly educated, talented and motivated personnel had come through the conflict virtually intact. From this he concluded that human capital – education, and hence health, care of the environment – is the best investment that a government can make.

For a few years Schultz was feted decorated, and then completely forgotten. Naturally enough since our governments, particularly that of the US are doing their own massive subprime packaging that confuses debt and assets. and ends up with a confusion that even a conscientious accountant finds it next to impossible to grasp.

Were the high advisers of the old regime not taken over so wholly by the alleged economic reformer, the mess of the American and world economies could never have prevailed as brainlessly as has been the case. Let us then learn the great lesson of the once mighty US banks before it is too late. Step number one is to bring back the reality of serious accountancy.

W.K.

A Plan for Taming the Banking Crisis

Once more our thanks to *The New York Times*’s brave initiative in showing how history and its key lessons can be erased from official memory. Having been taught that such things are not only doable, but actually done, we are applying that lesson to areas fraught with far greater consequences.

Undoubtedly the most important lesson to come out of World War Two, and certainly not the cheapest, resulted from some canny sleuthing by Washington on how long it would take for the defeated Axis leaders – Germany and Japan – to assume leadership as trading nations again. For that purpose many hundreds of young economists were dispatched to the two leading Axis powers, even before the ink on the armistices had dried. Their goal was to study the war damage and predict how long it would take for them to resume their roles as formidable traders.

Some sixteen years later, one of these young economists, Theodore Schultz, published a book that explained the main reason why he and his colleagues had missed the mark. They had, he explained, concentrated on the physical destruction and overlooked the crucial importance that their disciplined, highly educated, and gifted work force had come out of the conflict virtually intact. And then, in a stroke of genius, he went on to conclude that human capital is the best investment a government can make. Schultz was celebrated and even decorated. But after a few years, he and his great conclusion were completely expunged from public memory.

Even today, with governments increasingly unable to pay for schools and universities, I am afraid that we in COMER are the only ones who dare mention his name. With print publications in deepening crisis, and the great *Times* itself reduced to doing some of its financing at 14% per annum, there are matters that the bank-dependent *Times* doesn’t dare touch in its conclusions. Its loan, if you please, is from a Mexican banker who came to dominate that country’s banking system, when Washington imposed the North American Trading Organization on Mexico and Canada. Our press is tireless in reporting the cases of countries like Brazil, Indonesia, much of Europe, and the United States itself, much of Latin America, Africa, and Asia. Their economies are increasingly

unable to find the skilled or even literate human work force that would allow them to utter what the banks would frown on.

The catastrophic effect of this is our governments are running this world with nothing that could be mistaken for accountancy even with the lights out. Our technology – with billions of dollars already spent on assessing the iron resources on a moon of Saturn where even the chemistry of immense iron deposits is different with no iron oxides – the source of most of our industrial pollution – involved. Yet the school and university budgets are being slashed, trained engineers out of work for a couple of years cannot keep up with our rush into ever more advanced technologies.

Yet nowhere that we are aware of is human capital – that comes prepaid – is treated other than as a debt.

That means that public infrastructures – carried on the books not as capital assets are being sold off or leased out at a fraction of their real worth. With mega-urbanization an ever increasing trend throughout the world this means that public assets are being sold off for a song.

Canada’s Pivotal Wrong Way Turn Under Brian Mulroney

Starting with Brian Mulroney, who made a career of servility to Washington, even laws still on our government’s books ended up unused when the Mulroney government attempt to have the national institutions privatized had been turned down. If we do not hasten to do something decisive about it, the Parliamentary buildings in Ottawa may be torn down to make space for a Museum for Still Valid but Unused Canadian Institutions. These, could of course, include the Bank of Canada, the Parliament Buildings. And the ground on which the Museum of Valid but Unused Institutions could be sold off to a Wall Street, Spanish or Mexican banker.

To pay down our debt, which happens to be “the most productive investment a government can make,” we could lease out the new Museum itself to the highest international bidder.

“A flight of our overwrought imagination? Would that it were.”

An example how matters of deep social

interest can get twisted like pretzels once speculative markets take over is offered by *The Wall Street Journal* in (10/6) "Deals Gain Steam in Europe Market" by William Boston.

Our readers may recall that the key importance of human capital as the most profitable investment a government can make resulted from the initiative of Washington to understand how long it would take Germany and Japan to emerge from the wreckage of the war to become once again the leading traders they had been, as we described above.

The Japanese in particular distinguished themselves not only in recognizing that their wealth of human capital had come out of the struggle virtually intact, but lost no time in putting it to work in transforming their economy from a textile exporting economy, for which they had to import the textile fibres, into engineering, where human skills and insights would play a key role to ensure that more of their profits would remain in their country.

All went brilliantly well, but then the Japanese grappled with the question of investing enough of the proceeds of their new economy abroad so that their currency would not get too high and undercut their exports – a problem that has our economies throughout the world in ever deeper trouble.

So they decided to invest a good bit of their profits in the United States which ruled the world in that period. So they put it in mortgages on Rockefeller Center, that in the fullness of time became worthless as depression took over.

That is why we were struck by the above-mentioned article in the *WSJ* that reminds us that Japan's tremendous foresight, still came to naught when Rockefeller Center bit the dust, and the Japanese were left with little more than the name "Rockefeller." But let us quote from the *WSJ*: "In a sign of accelerating consolidation among property management companies Rockefeller Group International is considering further acquisitions in Europe after financing a deal this week to take a controlling stake in Europe Capital LLP... Rockefeller Group, which is owned by Mitsubishi Estate of Japan, lost control of Rockefeller Center in 1996. What remained for the wily Japanese from the that disaster was the name 'Rockefeller.' But we do note that the Japanese Rockefeller agency is putting its marbles not in US real estate to keep the yen at competitively low levels but in Europe. They have learned their lesson

about the alleged might of US real estate: Rockefeller Group's acquisition of a controlling stake in Europa marks the start of its major push into European real estate.

"Europa is a European private-equity

fund manager that has invested more than €6 billion in 17 European lands through six property funds. It has another new fund targeting real estate in Eastern Europe."

William Krehm

Is a Globalization Setting in Around the Hay Stacks?

While the President Obama are fixing the world with bigger and better cannon and plane fire in Afghanistan, other Americans heeding some ancestral wisdom and learning once more how to farm. *The Wall Street Journal* (3/12, "Green Acres Is the Place to Be" by Gwendolyn Bounds) tells a tale that has some more basic resonances.

"In June, 40-year-old Shane Dawley and his 36-year-old wife Rhonda, uprooted themselves and their four boys from their suburban Atlanta rental home and bought an old five-acre farmhouse in Ogdensburg, Wisc. Their goal: flee the rat race and adopt a more self-reliant lifestyle amid the troubled economy.

"While Mr. Dawley, who had worked at a parking garage, hasn't found a full-time job yet, he's been working on nearby farms learning new skills (one person paid him with an old John Deere tractor), and his family is raising chickens while learning to garden and hunt.

"Our generation has never seen anything like this,' says Mr. Dawley. 'Fear sometimes is a good thing and will push you to do things you ordinarily wouldn't.'

"While urban and suburban real estate is still generally under pressure, the rural market is holding up better in many areas, thanks in part to buyers such as the Dawleys. Sometimes dubbed 'ruralpolitans,' these city and town dwellers are looking at land as their new safe investment, one they hope could prove more stable than their jobs and 401(k)s – and provide a better lifestyle."

"Typically there are three groups: young people buying land as an asset or investment, with vague hope to live on it someday; exurban commuters who have jobs in big towns or cities but want to escape the sprawl, and back-to-land types who want to dabble in hobby farming. While the 76 million strong baby boomers eyeing retirement represent the largest ruralpolitans segment, they're being joined by a growing contingent of 20-to-early-40-somethings freshly imprinted by this recession's pain.

"Kathryn O'Shea-Evans, a 25-year-old freelance writer, moved from Portland, Ore., to New York on December 31, 2006. When the economy began floundering, she was frugal – living in a \$650-a-month boarding-house room, buying clothing in resale shops and socking away part of each paycheck.

"Then, this past August, she flew to Montana to look at a place to invest those savings: a \$12,000, 12-acre parcel of land.

"From the minute I landed in New York City, every job I've had I've been worried will end any moment,' says Ms. O'Shea-Evans, who is now working on a 'permalance' basis as an editorial assistant at *Travel + Leisure* magazine."

Grotesque neologisms are appearing like obscenities on back-yard fences of yore.

"She is now looking for something with a house on it."

"At United Country Real Estate Inc., one of the country's largest real estate groups dedicated to rural properties, the average residential sale price climbed 7% from 2000 levels, before the recession began. This year, says the firm, based in Kansas City, MO, prices are expected to be up 2% from 2006. That's compared to an expected 22% median price decline nationally in existing single-family homes in 2009 from 2006 levels, as tracked by the National Association of Realtors – a drop exacerbated by the number of distressed homes sold at a discount."

Back to the Farm for Security

"United broker Inez Freeman Fuhlmann in West Plains, MO, cites 'a big, big trend toward the younger generation moving back to the rural' areas to be more self-sufficient, even if they earn a lower salary. Likewise, Ms. O'Shea-Evans's United Country agent, Tom VanHoose in Great Falls, Mont., says young clients in their late 20s and 30s have jumped from just a handful a few years ago to 15% of his business. 'Most of these kids say they've seen General Motors go down and AIG go down and are asking, "Gee, can my company go down?" There's a lot of angst and anxiety.'

“At Mossy Oak Properties Inc., as West Point Miss-based real estate franchise specializing in rural properties, royalties from sales rose almost 10% in the first three-quarters of 2009 from a year earlier. Higher commodity prices in recent years have helped boost rural land values in some farming regions, says Lennie Wallace, Mossy Oak’s executive vice-president, who believes younger clients view farm and timberland as a long-term investment.

“Certainly the country life isn’t for everyone, and the grass can stop seeming quite so green when you actually get there. Surprises such as backed-up septic tanks, murky well-water, voracious weeds and assorted vermin add their own pressures.

“Mr. Dawley’s family wanted to raise chickens for eggs, but when they bought the generic ‘assortment’ mix, they ended up with more roosters than hens. He and his nine-year-old, James, tried killing one – ‘my wife didn’t want anything to do with that’ – and cooking it.

“It turns out that roosters can be tough. ‘It was like. “We can’t eat this thing,”’ says Mr. Dawley. Their garden ambitions fizzled after the soil turned out to be acidic (they didn’t test it at first and half the crops died).

‘That will be different next year.’

“When the Wiles family first moved from Portland, Ore., to rural Clatskanie, they were eager to buy horses but didn’t do enough homework. The first season the horse destroyed the fields by overgrazing and punching holes in the pasture, until Mr. Wiles learned he needed to fence off sections and rotate the animals. And then there was the manure.

“He heaped the waste into smelly piles that attracted flies before deciding to build bins. ‘I was out there in the winter in the dark with the headlights of the truck going, freezing my hands off building those bins.’

“History shows economic downturns or disasters such as the September 11 terrorist attacks frequently trigger a short-lived appetite for escape, and that those approaching retirement often crave more-remote properties. If baby-boomers follow typical migration patterns, the rural population age 55-85 will increase by 30% between 2010 and 2030, according to the US Department of Agriculture’s Economics Research Service.

“But other factors, such as widespread internet access, are giving current rural-polititan trend new longevity, particularly among younger generations. Enhanced renewable-

energy options and associated tax credits mean homes can be more affordably powered by the sun or wind where utility companies won’t service cheaply.

“Younger buyers, such as Jesse Ptacek, 27, have time to reap payback from such investments. For the past few years, Mr. Ptacek has watched the US economy flounder from Kuwait, where he’s a firefighter for a Department of Defense contractor. Knowing he will likely face bleak job prospects upon his return home in January, he recently bought 62 acres of land in Montana.

“His new spread, for which he paid \$225,000, includes a 2,100-square-foot, three-bedroom log home situated well off the grid. Its main heat source is a wood stove, there’s bear, moose and pheasant hunting nearby, and Mr. Ptacek is erecting solar panels for electricity. He expects to commute up to 60 miles for work, likely to Grand Falls or Helena.

“‘I’ve done the stock market thing, and I lost money like everyone else,’ says the unmarried Mr. Ptacek, who grew up in Rochester, Minn., population 100,845. ‘And I started to think about what’s real, what’s not real.’

“Interest in small-scale hobby farming has also bloomed, particularly among the young. When environmental news web site Mother Nature Network ran a piece called ‘Forty Farmers Under 40’ this year, it garnered nearly 100,000 hits, one of the most popular features since the site’s launch. Visitors to the Web Site of Living the Country Life magazine increasingly seek info on wood stoves, solar panels and windmills.

“‘It’s a little like the pioneer spirit,’ says Betsy Freese, the magazine’s editor. ‘They still want high-speed Internet but want to feel like they are doing something else for their families.’

“Before his family moved to rural Clatskanie, Ore., Mr. Wiles says he was a classic ‘urban liberal’ dweller, frequenting micro-breweries, coffee shops and bookstores. Now his family lives on five acres where, in addition to horses, they also own goats and turkeys, among other animals.

“He and his wife ran an employment services company for people with disabilities. One travels 60 miles to Portland several times a week for business; otherwise, they work from home. Mr. Wiles has learned to operate a compact tractor and built a horse shed, and he has acquired several guns. ‘Look, we’re not survivalists and storing powdered milk or anything like that. but if the s--- hits the fan, I can grow all the food

Correspondance

Hello, William:

I just wanted to send a note to say that I really like the new look and additions to the COMER website, it is much better organized with a grater depth of information. I have been spreading the word and hammering our MPs on the BoC and accrual accounting issues.

I also have been trying to get the attention of Council of Canadians regarding their position on these and other issues, I hope to have an answer after their AGM. Anyway please accept my most sincere appreciation to you and your wonderful staff and volunteers for maintaining such a great organization, also for providing such detailed information that will bring awareness to and provide logical solutions for such important issues.

Sincerely, kind regards,

Randy Smith, Guelph, Ontario

Dear Sir:

Enclosed please find a copy of Hansard, House of Commons Debates, Oct. 1, 2010, regarding the shutdown of United States

Steel Canada’s Hamilton blast furnace.

In it Ms. Chris Charlton, MP, and Mr. Wayne Marston, MP, ask questions as to whether or not the government is going to do anything about this shutdown.

In Mr. Mike Lake’s (Parliamentary secretary to the Minister of Industry) answers, he indirectly states that “Investment is *Canada’s Dominant Revenue*.” Job losses don’t matter.

Canada (as an investor state) is the envy of the developed world.

Yours in solidarity,

Robert C. Griffin, Dundas Ontario

P.S. Bob Griffin is dead on in having identified Canada’s Parliamentary secretary to the Minister of Industry as a perfect confirmation of the notion of the great late French economist, François Perroux, of the “dominant revenue” – the revenue of the class in power whose income is taken as an index of the welfare of society as a whole. Thank you for fingering the thought of the great French economist intimately associated with COMER.

Bill Krehm

I want and take care of my family,' he says. 'It's liberating.'

"The pioneer spirit is also felt by manufacturers of compact tractors and small work utility vehicles, such as the John Deere Gator. 'What we are seeing in this (rural/pollitan) customer segment is growth,' says Dan Paschke, product marketing manager for utility tractors at Deere & Co.'s agriculture and turf division. The biggest demographic growth segment for James River Equipment, an Ashboro, NC, John Deere dealer, is someone who commutes to a metro market 30 or 45 minutes away. 'They are buying small, easy-to-use equipment and don't have to have a lot of experience,' says Clyde Phillips, a partner.

"Manufacturers also are tweaking seats and designs to suit this new generation of first-time users, including females. 'We took a lot of women out on tests to make sure the vehicles are still badass for guys, but comfortable enough for a woman to drive every day,' says Aaron Hanlon, product manager for Cub Cadet Utility wireless Vehicles, a brand of MTD Products Inc. Polaris Industries Inc., known for its first low maintenance ecomodel, an all battery-powered ride called the Ranger EV.

"For some people, the break to rural living is a hedge against an unpredictable future. Brandon Peak is a 36-year-old technician at Intel Corp., who works nights on the factory floor in Phoenix and rarely sees

his wife and tree children during the week. Mr. Peak's company laid off workers and he's received no raise. So when his parents recently called to say they'd purchased 80 acres in Missouri, and asked whether he and his family would join them to start a dairy farm, the son jumped at the chance.

"I can't tell you how many people at work say. 'Man, I'd like to do that,'" Mr. Peak says. 'Everybody is looking for the next opportunity for hope.'

It is a heap of broken crockery for the world globalization program that was supposed to put our gamboling financial sector in control of the firmament with subprime collateral financing.

W.K.

Letting The New York Times Do Some of the Initial Heavy Lifting for US

Mathematicians refer to the use of generalized alphabetical symbols rather than concrete numbers as algorithms, related of course, to algebra that they began teaching us in the first year of high school. But it is a process that once begun *must* go on and on and never stop.

So climb aboard. Its 09/09 issue informs us ("After Foreclosure, a Focus on Title Insurance" by Ron Lieber): "When home buyers and people refinancing their mortgages first see the itemized estimate for all the closing costs and fees, the largest number is often for title insurance.

"This moment is often very irritating, mysterious and rushed – just like so much of the home-buying process. Lenders require buyers to have title insurance, but buyers are often not sure who picked the insurance company. And the buyers are so exhausted by the gauntlet they've already run that they're not interested in spending any time learning more about the policies and shopping around for a better one.

"Besides, does anyone actually know people who have had to collect on title insurance? It ultimately feels like a tax – an extortionate one at that – and not a protective measure.

"But all of a sudden, the importance of title insurance is becoming crystal-clear. In recent weeks, big lenders like GMAC Mortgage, JPMorgan Chase and Bank of America have halted many or all of their foreclosure proceedings in the wake of allegations of sloppiness, shortcuts or worse. And a potential nightmare situation has emerged

that has spooked not only home-owners but lawyers, title insurance companies and their investors.

"What would happen if scores of people who had lost their homes to foreclosure somehow persuaded a judge to overturn the proceedings? Could they somehow win back the rights to their homes, free and clear of any mortgage? But they may not be able to simply move back into their homes at that point. Banks, after all, have turned around and sold some of those foreclosed homes to nice, young families reaching out for a bit of the American dream. Would they simply be put out on the street? And then what?

"The answer to that last question may depend on whether these new homeowners have title insurance, because people who buy a home without a mortgage can choose to go without a policy.

"Title insurance covers you in case people turn up months or years after you buy your home saying that they, in fact, are the rightful owners of the house or the land, or at least had a stake in the transaction. (The insurance may cover you in other instances as well, relating to easements and other matters, but we'll leave those aside for now.)

"The insurance companies or their agents begin any transaction by running a title search sifting through government filings related to the property. They do this before you buy a home or refinance your mortgage to help sort out any problems ahead of time and to reduce the risk of your filing a claim later.

"But sometimes they miss things and new issues can arise later.

"For instance, the person doing the title search may not notice that a home equity loan is still outstanding or that a contracting firm filed a lien against the owner years ago. That could create problems for you later, when you try to sell the home."

Title Insurance that Insures the Wrong Guy

"Then there are the psychodramas that can ensue. The previous owners' long-lost heirs or a previously unknown love child could show up, saying that they never agreed to the sale of the property. Or perhaps there was fraud against a seller who was elderly or had a mental disability, or forgery of an estranged spouse's signature. It's rare. But it happens, and when it does, your title insurance company is supposed to provide legal counsel or settle with whomever is making a claim.

"Title insurance companies would like you to believe that they are the good guys standing behind you. After all, you are the customer who owns the policy.

"In fact, many of these title insurance companies are more concerned about the real estate agents, lawyers and lenders who can steer business their way. The title insurance companies are well aware that most people do not shop around for title insurance, even though it's possible to do so – say through a website like entitle.direct.com.

"While the title insurers are not supposed to kick back money directly to companies or

brokers that send business their way, various government investigations over the years have turned up all sorts of cozy dealings that make you shake your head in disgust.

“But since you have to buy the insurance if you need a mortgage, there is not much you can do except hold your nose.

“That’s what John Kovalick did in Janu-

ary when he bought a foreclosed house in Deltona, Fla., for \$102,000 from Deutsche Bank. But in recent weeks, he’s seen the headlines about other banks halting foreclosures and wondered whether something might have gone wrong with the foreclosure on his new house. A spokesman for Deutsche Bank declined comment.

“Mr. Kovalick is not the only one pondering what could go wrong. While the banks were pressing the pause button on many foreclosures, some life insurers were growing concerned as well.

“On October 1, Old Republic National Title Insurance Company released a notice forbidding any agents or employees to is-

A Lesson on the Key Role Investment in Human Capital from the Arab World

The New York Times (10/14, “What Oman can Teach us” by Nicholas D. Kristof informs us: “Muscat, Oman – As the United States relies on firepower to try to crush extremism in Afghanistan, Pakistan and Yemen, it might instead consider the lesson of the remarkable Arab country of Oman.

“Just 40 years ago, Oman was one of the most hidebound societies in the world. Here was no television, and radios were banned as the work of the devil. There were no Omani diplomats abroad, and the sultan kept his country in almost complete isolation.

“Oman, a country about the size of Kansas, had just six miles of paved road, and the majority of the population was illiterate and fiercely tribal. The country had a measly three schools serving 909 pupils – all boys in primary grades. Not one girl in Oman was in school.

“Oman’s capital city, Muscat, nestled among rocky hills in the desert of the Arabian peninsula, was surrounded by a traditional wall. At dusk, the authorities would fire a canon and then close the city gates for the night. Anyone seen walking outside without a torch at night was subject to being shot.

“Oman was historically similar to its neighbor, Yemen, which now has become an incubator for Al Qaeda-affiliated terrorists. But in 1970, Oman left that fundamentalist track: the sultan’s son deposed his father and started a stunning modernization built around education for boys and girls alike.

“Visit Oman today, and it is a contemporary country with highways, sleek new airports, satellite TV dishes and a range of public and private universities. Children start studying English and computers in the first grade. Boys and girls alike are expected to finish high school at least.

“It’s peaceful and pro-Western, without the widespread fundamentalism and terror that afflict Yemen. Granted, Yemen may be the most beautiful country in the Arab

world, but my hunch is that many of the young Westerners studying Arabic there will end up in Oman because of the tranquility here.

“It’s particularly striking how the role of women has been transformed. One 18-year-old university student I spoke to, Rihab Ahmed al-Rhabi, told me (in fluent English) of her interest in entrepreneurship. She also told me affectionately about her grandmother who is illiterate, was married at the age of 9 and bore 10 children.

“As for Ms. Rhabi, she mentioned that she doesn’t want to bog down with a husband anytime soon. Otherwise, what if her husband didn’t want her to study abroad? And when she does eventually marry, she mused, one child would be about right.

“Ms. Rhabi was a member of the Omani all-girls team that won the gold medal in an entrepreneurship competition across the Arab world last year. The contest was organized by Injaz, a superb organization that goes into schools around the Arab world to train young people in starting and running small businesses.”

The Blessings of Peaceful Public Education for All

“The stand-out young entrepreneurs in Oman today are mostly female – 9 out of 11 finalists in this year’s Oman entrepreneurship contest were all-girl teams. The winning team bowled me over. The members started as high school juniors by forming a company to publish children’s picture books in Arabic. They raised capital, conducted market research, designed and wrote the books and oversaw the marketing and distribution.

“‘We’re now looking at publishing e-books,’ explained Ameera Tariq, a high-school senior and a member of the board of directors of the team’s book company.

“Maybe one of the customers for a future electronic picture book will be her grand-

mother, who was married at the age of 12 and has never learned to read.

“In short, one of the lessons of Oman is that one of the best and most cost-effective ways to tame extremism is to promote education for all.

“Many researchers have found links between rising education and reduced conflict. One study published in 2006, for example, suggested that a doubling of primary school enrollment in a poor country was associated with halving the risk of civil war. Another found that raising the average educational attainment in a country by as single grade could significantly reduce the risk of conflict.

“Sorry of this emphasis on education sounds like a cliché. It’s widely acknowledged in theory, and President Obama pledged as candidate that he would start a \$2 billion global education fund. But nothing has come of it. Instead, he’s spending 50 times as much this year alone on American troops in Afghanistan – even though military solutions don’t have as good a record in trouble spots as education does.

“The pattern seems widespread: Everybody gives lip-service to education, but nobody funds it.”

For me the lesson Oman has to do with my next stops on this trip: Afghanistan and Pakistan. If we want to see them recast as peaceful societies, then let’s try investing less in bombs and more in schools. Venice in her day earned her commercial successes in adapting her trading practices to allow her – alone of European powers – to develop a formula that allowed trading according to Muslim standards. Interest could be charged only if the Muslim merchant shared the risk involved with the borrowers in financing such deals. The resulting commercial successes of the Venetians made for a greater tolerance at home for all religions – neither Jew nor Protestant was burned in Venice.

W.K.

sue new policies on homes that had been recently foreclosed by GMAC Mortgage or Chase.

“Clearly, the title insurer was also worried about a situation in which untold numbers of former home-owners have their foreclosures overturned. At that point, those individuals might claim the right to take back their old homes, but they’d also be responsible for, say, a \$400,000 loan on a home that is worth half that.

“So what would happen next? The banks that foreclosed might start the process over again. At that point, lawyers for the people who had been foreclosed upon might take the next logical step and try to show that the banks never had the documents to prove ownership of the mortgage in the first place. The banks may settle at that point, writing checks to everyone who had gone through a disputed foreclosure in exchange for each of them giving up the title.

“But if banks did not settle, or the evicted homeowners refused to settle and fought on and won, they might end up owning their homes once again and not owing the bank either.

“At that point – and again, this is what Old Republic and investors in other title insurers fear – the homeowners might actually want to move back in. But some foreclosed homes were sold by the banks to others who now live there. And these new residents would have big, fat title insurance claims if their predecessors ever turned up at their door-steps, proclaimed them trespassers and told them to leave.

“All of these Joe Schmos who did everything legally would then be in the middle of it, too,” said Mr. Kovalick, who manages an auto repair shop and is now hoping not to be one of those Schmos.

“Now you’d have two total disasters,” he said. “How would you be able to be the judge to get that first case?”

“With homeowners like Mr. Kovalick may have title insurance, it generally covers them only for the purchase price of the home. When you buy a home out of foreclosure, however, it often needs a lot of work. ‘If I bought it at \$200,000 and it’s a steal but I had to gut it and sink \$100,000 more in, my recovery is limited if there is a problem,’ said Matthew Weidner, a lawyer in St. Petersburg, Fla.

“Indeed, this possibility has occurred to Mr. Kovalick, who has plans to put an addition on his home and is asking how he can extract that investment if some ever turned up on his doorstep and asked him to leave.

‘What do I do, take the paint off the walls and the custom blinds off the windows?’

“Chances are, it will not come to that. After all, title insurers could settle with the previous residents, allowing them to walk away with a big check to restart their lives elsewhere.

“Still for anyone considering buying a bargain home out of foreclosure anytime soon, consider asking your title insurer if

any special riders are available that can cover appreciation on your home in the event of a total loss.

“Some people will undoubtedly make a fortune investing in these properties in the next few months. But if your down payment represents most of what you have in the world, it’s hard to justify betting it all on a situation like this one.”

W.K.

Translating the Political Statistic into the Very Opposite Sorts of Carpentry

Since that has appeared on the agenda not only once but several times before, let us review our past experience for the light it may shed when applied to the erstwhile Russian Empire as it has related and relates to carpentry. We quote from *The Globe and Mail* (10/26): “Warsaw – The Warsaw carpenter received the mysterious instructions from the highest ranks of the Communist regime to build a piece of furniture of unique design and purpose: a plain wood table, perfectly round, nine meters in diameter, capable of seating 58 people, with nothing that could be considered a head, a foot or a centre.

“In previous uprisings here, carpenters had been ordered to build gallows. This time, as the economy grounded to a halt and strikes froze the nation, the solution would be less bloody, more symmetrical, and without precedent in history: the Communists at one end, Lech Walesa and his dissidents at the other, a dictatorship negotiating on live television with people whose names had been illegal to utter on TV for eight years.

“By the time the Berlin Wall collapsed on November 9, 1989, an event whose 20th anniversary will be the fervent celebrations in Germany next week, the Polish-style Round Table had become not only a metaphor for peaceful change and an emblem of tolerance, but an actual instrument of transformation, first in Poland, then in Hungary, then in Germany and Czechoslovakia.

“The Berlin events this month are providing a quiet reminder to Europeans that the non-violent nature of their transition to democracy owed much to the neglected innovations of Poland.

“We did not expect much from these talks – it was entirely unexpected by anybody in Poland that as a result of the Round

Table discussions, a Solidarity-led government would be holding power in Poland by September of 1989, and Communism would be gone,” Aya Wladyslaw Findeisen, the quiet, methodical computer-science professor who was the chairman of the Solidarity side of the table.

“Mr. Findeisen was typical of the figures who populated the table: an acclaimed scholar and veteran of Poland’s anti-Nazi resistance, he had been expelled from his position as university chairman in the 1980s and driven into the underground. Then, in January of 1989, he suddenly found himself on television as a figure of national prominence.

“‘The most we really hoped for was that our union would be made legal again, and that we might have some chance of winning some role in government by the mid-1990,’ said Mr. Findeisen, now 84.

“Yet, seven months after the talks began, and two months before the Berlin Wall fell, the Warsaw talks had restored democracy, had caused the Communist regime to hand over power and had given Solidarity a national government with a majority mandate, with Mr. Findeisen, to his surprise elected to the Senate.”

A Dangerous Experiment

“For many of those who sat around the table 20 years ago, the experiment was even riskier than an armed revolution, its potential outcome even more dangerous.

“For the Communists, who had banned the Solidarity union under Moscow’s orders in 1981 by imposing martial law, it meant publicly treating an explicitly anti-communist group, whose 10 million members had been forbidden for eight years from meeting, as complete equals. For Solidarity,

it means compromising with a regime that had imprisoned, banished and sometimes killed its members. Yet for both sides, there was no doubt that sitting down and talking was the only option left.

“We had to negotiate with the authorities, because through the whole of the ‘80s, our slogan was “don’t talk, just fight,”” says Woyciech Maziariski, who ran Solidarity’s underground information-office through the 1980s.

“And, besides, the society was very tired. Everybody was so tired, the people needed hope, and the possibility of negotiations meant some kind of hope,” he said from his office at the Polish edition of *Newsweek* which he edits. “The leaders of Solidarity couldn’t reject it.”

“Maintaining the guaranteed employment and housing was at the core of its legitimacy, Poland’s military-run government had borrowed tens of billions of dollars and

imposed rigid rationing of food, fuel and other necessities.

“These workers were members of the illegal Solidarity movement. In 1988, they had led a general strike, which Communist leader General Woyciech Jaruzelski repressed with tanks, soldiers, and beatings.

“That summer they held another, larger strike, and Gen. Jaruzelski invited Mr. Walesa for secret meetings.

“It was an ordeal, thinking about how

Covering Yet More Bases

As companion piece to the Victor Sebestien gem, *The New York Times* (29/10) carries “More Schools, Not Troops” by Nicholas D. Kristoff: “November 1, 2009, dispatching more troops to Afghanistan would be a monumental bet and probably a bad one, most likely a waste of lives and resources that might simply empower the Taliban. In particular, one of the most compelling arguments against more troops rests on this stunning trade off: for the cost of a single additional soldier stationed in Afghanistan for one year, we could build roughly 20 schools there.

“It’s hard to do the calculation precisely, but for the cost of the 40,000 troops over a few years – well, we could just about turn every Afghan man into a PhD.

“The hawks respond: it’s naive that you can sprinkle a bit of education on a war-torn society. It’s impossible to build schools now because the Taliban will blow them up. In fact, it is still possible to operate schools in Afghanistan – particularly when there’s a strong ‘buy-in’ from the local community.

“Greg Mortenson, author of *Three Cups of Tea* has now built 39 schools in Afghanistan and 92 in Pakistan – and not one has been burned down or closed. The aid organization CARE has 295 schools educating 50,000 girls in Afghanistan, and not a single one has been closed or burned by the Taliban. The Afghan Institute of Learning, another aid group, has 32 schools in Afghanistan and Pakistan, with none closed by the Taliban (although local communities have temporarily suspended three for security reasons).

“In short, there is still vast scope for greater investment in education, health, and agriculture in Afghanistan. These are extraordinarily cheap and have a better record at stabilizing societies than military solutions.

“In Afghanistan, for example, we have already increased our troop presence by 40,000 troops since the beginning of last year, yet the result has not been the promised stability but only more casualties and a strengthened insurgency. If the large surge of 40,000 troops didn’t help, why will the next one be so different?

“Matthew P. Hoh, an American military veteran who was the top civilian officer in Zabul Province, resigned over Afghan policy, as the *Washington Post* reported this week. Mr. Holt argues that our military presence is feeding the insurgency, not quelling it.

“Already our troops have created a backlash with Kabul University students burning President Obama in effigy until the police dispersed them with gunshots. The heavier our military footprint, the more resentment – and perhaps the more legitimacy for the Taliban.

“Schools are not a quick fix or silver bullet any more than troops. But we have abundant evidence that they can over time, transform countries, and in the area near Afghanistan there’s a nice natural experiment in the comparative power of educational versus military tools.

“Since 9/11, the US has spent billions in Pakistan, mostly on military support, and today Pakistan is more unstable than ever. In contrast, Bangladesh, which until 1971 was part of Pakistan, has focused on education in a way that Pakistan never did. Bangladesh now has more girls in high school than boys. (In contrast only 3% of Pakistani women in the tribal areas are literate.)

“Those educated Bangladeshi women joined the labor force, laying the foundation for a garment industry and working in civil society groups like BRAC and Grameen Bank. That led to a virtuous spiral of development, jobs, lower birth rates, education

and stability. That’s one reason Al Qaeda is holed up in Pakistan, not in Bangladesh, and it’s a reminder that education can transform societies.

“When I travel in Pakistan, I see evidence that one group – Islamic extremism – believes in the transformative power of education. They pay for madrassas that provide free schooling and often free meals for students. They then offer scholarship for the best pupils to study abroad in Wahhabi madrassas before returning home to become leaders of their communities. What I don’t see on my trips is similar number of American-backed schools. It breaks my heart that we don’t invest in schools as much as medieval, misogynist extremists.

“For roughly the same cost as stationing 40,000 troops in Afghanistan for one year, we could educate the great majority of the 75 million children worldwide who, according to UNICEF, do not get even a primary education. We won’t turn them into graduate students, but we can help them achieve literacy. Such a vast global education campaign would reduce poverty, cut birth rates, improve America’s image in the world, promote stability, and chip away at extremism.

“Education isn’t a panacea, and no policy in Afghanistan is a sure bet. But all in all, the evidence suggests that education can help foster a virtuous cycle that promotes stability and moderation. So instead of sending 40,000 troops more to Afghanistan, how about opening 40,000 schools?”

It all harks back to the greatest lesson to have come out of WWII – “investment in human capital is the greatest investment a government can make.” But why has it become the most unmentionable? Unless we straighten that question out, society is hell-bound.

W.K.

to resolve the situation,' said Gen. Jaruzelski said in an interview this year. 'I knew that no matter how it ends – and I believed it would end with the joint consultation – that a large part of society will be hostile towards me.'

"The talks would have been unthinkable even two years before. But Mikhail Gorbachev had become leader of the Soviet Union, and in an address to the Soviet congress that summer, he declared that Moscow's tanks would not be sent to crush reform movements in Eastern Europe – as had happened in Hungary in 1956 and Czechoslovakia in 1968.

"Talks suddenly became a solution that became reasonable. For the region to get the imprimatur of Poland's opposition to economic reforms that would prove painful and contentious.

"When the raging gang of Gdansk shipyard workers and long-banned professors took their seats across from the men in big suits, they did not expect much. It seemed that economic reform would be the limit of the discussions.

"The Communists realized that they would have to introduce unemployment, for the first time in Poland, and they could not do this without some kind of endorsement on the part of Solidarity,' said Mr. Maziariski.

"But the increasingly open and liberal behavior of Moscow emboldened both sides. As the weeks went on, Solidarity began demanding full and free elections. And the Communist officials, especially Gen. Jaruzelski, became open to reform, even democracy.

"In 1981, I would say that Moscow was kind of a wall behind Gen. Jaruzelski's back,' Mr. Maziariski said.

"At the end of the '80s, he suddenly realized that there was no wall behind him. He's only pressed from in front by the Polish opposition and the people.

"When elections came, on June 4, 1989, Solidarity would win 99 of the 100 newly created Senate seats. Gen. Jaruzelski realized within weeks, after a national debate, that he would have to hand over power to a Solidarity-led government, with the caveat that that he would be president but that only two of the 20 cabinet positions would be held by his deputies.

"Within two years, Mr. Walesa himself would be president. By then, the astonishing success of the Round Table had inspired similar handovers, with a minimum of violence, in Hungary, Czechoslovakia,

Bulgaria, and East Germany.

"It was, in the end, a triumph of the roundtable over the wall."

An inevitable question presents itself since the entire system of trying to get functioning a system that defies our history, the laws of arithmetic and logic, will not work. And only what was proven non-functioning is embodied in our current laws, the rest is eliminated – even when key elements of it remain on our law books.

The first requirement, that everything that has been proven workable in our his-

tory or on our law books, should get a fair hearing. With that we would need no more wars in Iraq or Afghanistan, we would have enough experience and history carefully culled by historians, economists, to proceed. And always with ears and heart purged of wax, and serious double-entry accountancy to keep our government's books clean and clear to distinguish between the jungles where the wild beasts roam and what governments must do to make peaceful and prosperous progress.

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Reworking the Laws of Arithmetic Has Consequences that will Catch Up with Those Who Tamper with Them

The New York Times (20/10, "In GOP Calls to Cut Spending, Hows Are Few" by David M. Herszenhorn) merely brushes the matter as the stock markets collapse day after day like never before: "Washington – In Indiana, Representative Mike Pence, the No. 3 Republican, complains about 'run-away federal spending on steroids.'

"In Alaska, the Republican candidate for the Senate, Jose Miller, talks about 'out of control spending.' And in Arizona, Jesse Kelly, a Republican hoping to oust Republican representative, says, 'We're spending our way into bankruptcy.'

"If there is a single message unifying Republican candidates this year, it is a call to grab hold of the federal checkbook, slam it closed and begin to slash spending. To bolster their case that action is needed, Republicans are citing major legislation over the four years that Democrats have controlled Congress, notably the financial system bailout, the economic system bailout, the economic stimulus and the new health care law.

"But while the polls show that the Republicans' message is succeeding politically, Republican candidates and party leaders are offering few specifics about how they would tackle the nation's \$13.7 trillion debt, and budget analysts say the party was glossing over the difficulty of carrying out its ideas, especially when sharp spending cuts could impede an already weak economic recovery.

"On the actual campaign trail, you are hearing virtually none of the kind of blatant honesty that we need about what

changes would fix this situation,' said Maya MacGuinness, the president of the Committee for a Responsible Federal Budget, an advocacy group in Washington that promotes fiscal restraint.

"The parties share blame for the current fiscal situation, but federal budget statistics show that Republican policies over the last decade, and the cost of the two wars, added far more to the deficit than initiatives approved by the Democratic Congress since 2006, giving voters reason to be skeptical of campaign promises.

"Calculations by the nonpartisan Congressional Budget Office and other independent fiscal experts show that the \$1.1 trillion cost over the next years of medical prescription drug program, which the Republican-controlled Congress adopted in 2003, by itself would add more to the deficit than the combined costs of the bailout, the stimulus and the health care law.

"The House Republican leader, John A. Boehner of Ohio, has called for immediate cuts in 'non-security discretionary' spending to pre-recession 2008 levels. Independent analysts say that would require eliminating about \$105 billion – or more than 20% of spending by departments like Education, Transportation, Interior, Commerce and Energy – a level of reduction that history suggests would be extremely hard to secure. (Since 1982, nonmilitary discretionary spending has never dropped to more than 5.5 percentage points in any given year.)

"At the same time, most Republicans are calling for the permanent extension of all

Bush-era tax cuts, which would add \$700 billion more to the deficit over the next 10 years than President Obama and Democratic leaders have proposed by continuing only some of the lower rates.”

Links to Bush Era Survive and Strengthen

“Republicans say extending the cuts will spur economic activity, but that is hardly guaranteed. And the cost of either plan is astronomical: Mr. Obama’s plan will add more than \$3 trillion to the deficit; the Republicans’ plan will add more than \$4 trillion.

“Mr. Boehner, who is the likely speaker in a Republican-controlled House, has also said he would move to overhaul the Congressional appropriations process to give more power to rank-and-file lawmakers, and cast sunlight on proposed expenditures.

“But he is likely to encounter fierce resistance among veteran appropriators who zealously protect Congressional power of the purse enshrined in the Constitution, and who will be eager to flex the legislative muscle of their committee and subcommittee chairmanships, a main requisite for winning a majority.”

But above all what has cut the North American stock markets to its knees is the suspension of mortgage foreclosures because the searchers clearing the title of the forecloser, made life easier for themselves by running through the formalities of title rights of the mortgage-lender at a speed at which Ford used to build his cars.

We quote *The New York Times* (19/10, “Top US Bank Set to Resume Its Foreclosures” by Nelson D. Schwartz and Andrew Martin): “Bank of America, the nation’s largest bank and the servicer of roughly one in five American mortgages, insisted that it had not found a single example where a foreclosure proceeding was brought in error.

“The move is also likely to encourage other giant lenders like JPMorgan Chase to resume the foreclosure process that threatens two million homeowners.

“Meanwhile, GMAC Mortgage, whose procedures helped prompt the controversy when one of its executives testified that he had signed 10,000 documents in a month, is also moving forward with foreclosures.

“‘We announced a temporary suspension of evictions and foreclosure sales in the 23 judicial states several weeks ago so we could commence the appropriate review,’ said

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Gina Proia, a spokeswoman for GMAC. ‘As cases are being reviewed and, when needed, remediated, the foreclosure process moves forward as appropriate.’

“Guy Cecala of Inside Mortgage Finance, an industry publication, said: ‘This draws a line in the sand that the banks expect this problem will be over in relatively short order and it will be back to business as usual. If Bank of America can do it, certainly the smaller ones will follow suit.’

“Bank of America plans to begin filing new paperwork for 102,000 foreclosures by Monday.

“Consumer advocates and lawyers for homeowners expressed skepticism that Bank of America could complete a review of the paperwork so quickly. But the banking industry has come under increasing pressure from investors to resolve the problem.

“Investors have fled bank stocks in recent days, worrying that the foreclosure halt would cost banks billions of dollars and inflict further harm on the nation’s struggling house market. Bank of America is scheduled to report its latest quarterly results on Tuesday. Its shares have suffered more than other big banks, so any sign the crisis is easing is likely to be greeted favorably by shareholders.

“Reports of improper procedures at mortgage servicers, like having officials sign thousands of documents a month – so-called ‘robo-signers’ – also have set off a political furor. On Wednesday, all 50 state attorneys general announced an investigation of mortgage servicing.

“Bank of America said it would resume foreclosures in the 23 states where judicial approval was required after an internal review turned up no evidence that cases were filed in error.

“However, Bank of America’s suspension will remain in effect in the 27 other states that do not require a judge’s approval to foreclose, as the bank’s paper-work review proceeds state by state. It was the only bank to initiate a nationwide freeze.

“‘We did a thorough review of the process, and we found the facts underlying the decision to foreclose have been accurate,’ said Barbara J. Desoer, president of Bank of

America’s Home Loans. ‘We paused while we were doing that, and now we are moving forward.’

“In the other 27 states, Ms. Desoer said, she expects foreclosures to resume within weeks.

“Bank of America was careful to note that the major holders of mortgages – Fannie Mae and Freddie Mac – as well as private investors had signed off on its decision and had been consulted during the review it services – about \$2.1 trillion worth – about half are owned by Fannie Mae and Freddie Mac, the giant mortgage companies now controlled by the Treasury.

“About 30 percent are owned by institutional investors, like hedge funds, pension funds and insurance companies, while Bank of America holds 20 percent.”

What Bank of America is conveying to the government, the courts, by citing these figures and the public is what the effect would be on the markets of the country if the inadequacy of the title searches is overlooked. It would literally reduce the economic statistics of the banks, the country, the economy from – to put it in a way easier to grasp – official statistics from a decimal system would effectively become a nine- or eight-digit system in which say the numbers, say 3 or five would be eliminated, effectively be knocked out. That explains the havoc on the American and Canadian markets after the Bank of America resumed its foreclosures.

Canadian stock markets that have acted as though they had been cut off at the knees or the hip. And given the growing government investments to make the economy stand up and when it has been cut off at the knees and possibly the hips adds to the flattening effect on the markets.

What countries need is a knowledge of their history and how they got out of the Great Depression, financed their Second World War and how Canada was able to welcome millions of mostly penniless Europeans including some highly educated professionals and rebuild its economy from a ragged agricultural land to a spanking modern economy, at the same time as it educated its population to levels undreamt off in the 1930s.

And the capital that Canada has most need of is its history, and a realization that the Bank of Canada is their state-owned perfectly capable of financing “the best investment a government can make” – human capital that comes entirely prepaid.

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