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The Perfect Alternative to Wall Street Banks

Web of Debt blog by Ellen Brown September 23, 2013

A national postal and infrastructure bank could protect our money, rebuild the nation, and won't cost taxpayers a dime.

The US Postal Service (USPS) is the nation's second largest civilian employer after Wal-Mart. Although successfully self-funded throughout its long history, it is currently struggling to stay afloat. This is not, as sometimes asserted, because it has been made obsolete by the Internet. In fact the post office has gotten more business from Internet orders than it has lost to electronic email. What has pushed the USPS into insolvency is an oppressive 2006 congressional mandate that it prefund healthcare for its workers 75 years into the future. No other entity, public or private, has the burden of funding multiple generations of employees who have not yet even been born.

The *Carper-Coburn* bill (S. 1486) is the subject of congressional hearings this week. It threatens to make the situation worse, by eliminating Saturday mail service and door-to-door delivery and laying off more than 100,000 workers over several years.

The *Postal Service Modernization Bills* brought by Peter DeFazio and Bernie Sanders, on the other hand, would allow the post office to recapitalize itself by diversifying its range of services to meet unmet public needs.

Needs that the post office might diversify into include (1) funding the rebuilding of our crumbling national infrastructure; (2) servicing the massive market of the "unbanked" and "underbanked" who lack access to basic banking services; and (3) providing a safe place to save our money, in the face of Wall Street's new "bail in" policies for confiscating depositor funds. All these needs could be met at a stroke by some simple legislation authorizing the post office to revive the banking services it efficiently performed in the past.

Funding Infrastructure Tax-free

In a July 2013 article titled "Delivering A National Infrastructure Bank…through the Post Office," Frederic V. Rolando, president of the National Association of Letter Carriers, addressed the woeful state of US infrastructure. He noted that the idea of forming a national infrastructure bank (NIB) has had bipartisan congressional support over the past six years, with senators from both parties introducing bills for such a bank.

An NIB would provide a means to channel public funds into regional and national projects identified by political and community leaders across the country to keep the economy healthy. It could issue bonds, back public-private partnerships and guarantee long-term, low-interest loans to states and investment groups willing to rebuild our schools, hospitals, airports and energy grids. An NIB with $10 billion in capital could le-

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Alternative *from page 1*

verage hundreds of billions in investments.

What has blocked these bills is opposition to using tax money for the purpose. But Rolando asks: [W]hat if we set up the NIB without using taxpayer funds? What if we allowed Americans to open savings accounts in the nation's post offices and directed those funds into national infrastructure bonds that would earn interest for depositors and fund job-creating projects to replace and modernize our crumbling infrastructure?

A post office bank…would not offer commercial loans or mortgages. But it could serve the unbanked and fund infrastructure projects selected by a non-partisan NIB.

The Unbanked and Underbanked: A Massive Untapped Market

The "unbanked" are not a small segment of the population. In a 2011 survey, the unbanked and underbanked included about one in four households. Without access to conventional financial services, people turn to an expensive alternative banking market of bill-pay, prepaid debit cards, check cashing services, and payday loans. *They pay excessive fees and are susceptible to high-cost predatory lenders.*

Globally, postal banks are major contributors to financial inclusion. Catering to this underserved population is a revenue-generator for the post office while saving the underbanked large sums in fees. Worldwide, according to the Universal Postal Union, 1 billion people now use the postal sector for savings and deposit accounts, and more than 1.5 billion take advantage of basic transactional services through the post, according to a Discussion Paper of the United Nations Department of Economic and Social Affairs.

The essential characteristic distinguishing postal financial services from the private banking sector is the obligation and capacity of the postal system to serve the entire spectrum of the national population, unlike conventional private banks which allocate their institutional resources to service the sectors of the population they deem most profitable.

Expanding to include postal financial services has been crucial in many countries to maintaining the profitability of their postal network. Maintaining post offices in some rural or low-income areas can be a losing proposition, so the postal service often cross-subsidizes with other activities to maintain its universal network. Public postal banks are profitable because their market is large and their costs are low. The infrastructure is already built and available, advertising costs are minimal, and government-owned banks do not reward their management with extravagant bonuses or commissions that drain profits away. Profits return to the government and the people.

Wall Street is No Longer a Safe Place to Keep Our Money

A postal bank could have appeal not just to the unbanked but to savers generally who are concerned about the safety of their deposits. Traditionally, people have deposited their money in banks for three reasons: safety from theft, the convenience of check-writing and bill paying, and to earn some interest. Today, not only do our bank deposits earn virtually no interest, but they are not safe from theft – and the prospective thief is Wall Street itself.

The Financial Stability Board (FSB) in Switzerland has mandated that "systemically important" banks come up with "living wills" stating what they would do in the event of insolvency. The template set out by the FSB is for these too-big-to-fail banks to confiscate their creditors' funds and convert them to bank equity or stock. Legally, "creditors" include the depositors. In fact depositors compose the largest class of creditors of any bank.

In 2009, President Obama agreed along with other G20 leaders to be bound by the regulations imposed by the FSB, giving them the force of law. This agreement should properly have been a treaty, subject to the approval of two-thirds of the Senate; but the deal was sealed on a handshake, ostensibly to prevent another Lehman-style banking collapse.

Thus the next time JPMorganChase or Bank of America finds itself on the wrong side of a massive derivatives bet, it can avoid insolvency by recapitalizing itself with our deposits. Both JPM and BOA hold over $1 trillion in deposits and over $70 trillion in derivatives; and with the repeal of Glass-Steagall, the banks have been able to merge these operations. The FDIC deposit insurance fund has only $32 billion in it to cover losses for the entire country.

For guaranteed safety, we need a network of publicly-owned banks devoted solely to taking deposits and providing check-cashing services – no gambling with deposits allowed. The US Post Office can safely and efficiently provide the infrastructure for such a banking network, as it did from 1911 until

1967. The post office is ubiquitous, with branches in every town and community.

A Proven Model

Postal banking systems are also ubiquitous in other countries, where their long record of safe and profitable public banking has proved the viability of the model. The mother of all postal banks was in Great Britain in the 19th century. The leader today is Japan Post Bank (JPB), now the largest depository bank in the world. Not only is it a convenient place for Japanese citizens to save their money, but the government has succeeded in drawing on JPB's massive deposit base to fund a major portion of the federal budget. Rather than using its deposits to back commercial loans as most banks do, Japan Post invests them in government securities. That means the government is borrowing from its own bank and its own people rather than from foreign bondholders.

That is the basic idea behind the national postal savings and infrastructure bank. The deposits of the nation's savers can be invested in government securities that are in turn used for rebuilding the nation. It is a win-win-win, providing a way to save the post office while at the same time protecting our deposits and rebuilding our decaying roads and bridges without dipping into taxes. It is also a way to vote with our feet, moving our money out of an increasingly risky and rapacious Wall Street into a network of publicly-owned banks that serves rather than exploits us.

Another Option: Rescind the Prefunding Requirement

Another alternative for putting the USPS in the black, of course, is simply to rescind the healthcare pre-funding requirement that put it in the red. The mandate to fund healthcare 75 years into the future appears so unreasonable as to raise suspicions that the nation's largest publicly-owned industry has been intentionally targeted for take-down. Why? Is it because competitors want the business, or because private developers want the valuable postal properties that are being systematically sold off to meet its now-crippled budget?

In a revealing exposé in the September 18 *East Bay Express*, Peter Byrne provides evidence that C.B. Richard Ellis (CBRE), the company holding the exclusive contract to negotiate sales for the $85 billion postal real estate portfolio, has sold off 52 postal properties for at least $79 million less than their fair market value. Worse, the buyers included its own business partners and shareholders, including Goldman Sachs. CBRE is chaired by Richard C. Blum, the husband of US Senator Dianne Feinstein, a family Byrne says has a history of accessing public pension funds to make private investments.

The post office has been made to look inefficient and obsolete, as if public enterprises are incapable of generating public revenues; yet the postal service has been both self-funding and profitable for over two centuries. If we refuse to allow our government to make money through public enterprises, we will be destined to bear the burden of supporting government with our taxes, while we watch countries such as China, Korea and Japan, which do allow public industries, enjoy the fruits of that profitable and efficient arrangement.■

A Dearth of Investment in Young Workers

By Tyler Cowen, The New York Times, September 8, 2013

More worry about costs, and less about grooming new talent.

One of the most troubling features of the slow economic recovery is that it has largely bypassed young people. This doesn't bode well for the future of the American economy.

For Americans aged 16 to 24 who aren't enrolled in school, the employment picture is grim. Only 36 percent are working full time, down 10 percentage points from 2007. Longer term, the overall labor-force participation rate for that age group has dropped 20 percentage points for men and 14 points for women since 1989.

This lack of jobs will damage the long-term careers of a big chunk of the next working generation. Not working after you finish school very often means missing out on developing the skills and habits that will serve you well later on. The current employment numbers are therefore like a telescope into the future labor market: a 23-year-old who is working part time as a dog walker, yoga instructor or retail clerk may be having fun, but perhaps will receive fewer promotions as a 47-year-old.

One culprit in this situation may be the higher minimum wage enacted in 2009, but the root causes run much deeper.

Employers appear to be more risk-averse, more concerned about overhead costs and less willing to invest in developing young workers' skills. And that seems true across a wide variety of sectors.

In the legal profession, for instance, there is less interest in hiring junior associates and grooming them for partner status. Colleges and universities are often more interested in hiring adjuncts than tenure-track young faculty members. And publishing houses, instead of providing a big advance upfront and investing in young authors over a series of books, now expect many writers to earn their share of a book's revenue through royalties.

If we consider how many jobs are being advertised, without asking whether they are being filled, the labor market seems to be booming. If we measure labor market progress in terms of actual hiring, however, it's clear that the economy is recovering slowly. Employers appear to be looking around for workers but then holding out for the very best candidates, and, if need be, making do with few new hires or none at all.

These are signs of a world where next year's business income is less certain, and many employers take greater care to keep weaker workers off the corporate team. Some employers would rather spend on information technology than hire the wrong workers.

Some prefer to invest in the developing world with its longer work hours and lower wages. I outline these processes in my forthcoming book, *Average is Over: Powering America Beyond the Age of the Great Stagnation* (Dutton Adult).

Young people who are hired often fail to find desirable, high-paying jobs. If we consider four-year college graduates only, average starting salaries, inflation-adjusted, were higher in 2000 than they are today, a decline that started well before the financial crisis. On balance, though, college remains "a good deal," in part because wages for non-graduates have fallen even more than those of graduates. That is hardly a reassuring sign for the broader economy.

These developments put economic pressure on higher education. If it's harder to get a good and lucrative job after college, why should students pay ever-rising tuition rates? College doesn't always prepare students very well for the work force, and most graduates don't enjoy the relatively rosy job prospects of computer science and engineering majors.

As tuition increase slow because of a sluggish labor market, colleges will have to change, making their offerings more relevant. But significant improvements may be hard to come by. Slow-growing or ever shrinking revenue will strip colleges of financial resources, and they may suddenly have to focus on managing a decline rather than building for a more innovative future.

Policy changes to bolster economic growth and employment, whether by simplifying the tax code, repealing some occupational licensing, bringing more rigor to K-12 schooling or accrediting cheaper online education, may help reverse or curb these trends. But to focus on policy alone is to miss the gravity of the situation.

Falling wages for new entrants to the job market suggest that a sizable chunk of the American labor force may never achieve middle-class wages in a relatively secure full-time job. And many young people don't want to take physically demanding jobs, which are often filled by immigrants. Some young people are braking out of these traps by starting new Internet or service-based businesses, in lieu of looking for traditional employment. But others end up in part-time, temporary or low-quality jobs, biding their time and hoping that something changes.

We may not like what the market is indicating here, but it would be a mistake to shoot the messenger – namely, the market itself. Businesses are measuring value more accurately and choosing more cautiously, and though that raises overall productivity, it isn't good for all workers. Many face the burden of meeting the standards of a more demanding world, and not all are succeeding at that task. It's a problem that won't be solved by any kind of quick fix.

Tyler Cowen is a professor of economics at George Mason University.

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Our Comment. Before we lose ourselves in the bosomy language of "quick fixes" we should be clearing up our grasp of what we are supposed to be fixing. It would help immensely if we invited information on key investments financed by private and business investors that have still not had their key capital investments recognized as such. It is long past wake-up time for our governments that can and should be fretting over the accounting in such matters. *William Krehm*

In Surprise Move, Fed Is to Maintain Pace of Stimulus

By Binyamin Appelbaum, The New York Times, September 19, 2013

Investors cheer step – Bernanke says. Officials were overly optimistic.

Washington – It turns out that the Federal Reserve is not quite ready to let go of its extra efforts to help the economy grow.

All summer, Federal Reserve officials said flattering things about the economy's performance: how strong it looked, how well it was recovering, how eager they were to step back and watch it walk on its own.

But, in a reversal that stunned economists and investors on Wall Street, the Fed said on Wednesday that it would postpone any retreat from its monetary stimulus campaign for at least another month and quite possibly until next year. The Fed's chairman, Ben S. Bernanke, emphasized that economic conditions were improving. But he said that the Fed still feared a turn for the worse.

He noted that Congressional Republicans and the White House were hurtling toward an impasse over government spending. That was reinforced on Wednesday, when House leaders said they would seek to pass a federal budget stripping all financing for President Obama's signature health care law, increasing the chances of a government shutdown.

And the Fed undermined its own efforts when it declared in June that it intended to begin a retreat by the end of the year, causing investors to immediately begin to demand higher interest rates on mortgage loans and other financial products, a trend that the Fed said Wednesday was threatening to slow the economy.

"We have been overoptimistic," Mr. Bernanke said at a news conference Wednesday. The Fed, he said, is "avoiding a tightening until we can be comfortable that the economy is in fact growing the way that we want it to be growing."

Investors cheered the Fed's hesitation. The Standard & Poor's 500 stock-index rose 1.22 percent, to close at a record high, in nominal terms. Interest rates also fell; the yield on the benchmark 10-year Treasury reversed some of its recent rise.

Some analysts, however, warned that the unexpected announcement was likely to worsen confusion about the Fed's plans, increasing the volatility of the markets in the coming months as investors sort through the Fed's mixed messages about how much longer it plans to continue its bond-buying campaign. The delay also means that the decision to retreat may ultimately be made by the next Fed chairman, after Mr. Bernanke steps down at the end of January. President Obama has said that he plans to nominate a replacement as soon as next week. Janet L. Yellen, the Fed's vice chairman, is the leading candidate.

"The cost of not setting out on a default gradual glide path for completing QE3 today is that this issue is now likely to be front and center in the nomination and confirmation process for the new Fed chair," wrote Krishna Guha, head of central bank strategy at the financial services firm International Strategy & Investment, referring to the Fed's asset purchases of quantitative easing.

The Fed unrolled an aggressive combination of new policies last year in an effort to encourage a housing recovery and increase the pace of job creation. It started adding $85 billion a month to its holdings of Treasury securities and mortgage-backed securities, to help keep long-term borrowing costs down and said it planned to keep buying until the outlook for the labor market improved substantially. The Fed also said it would keep short-term rates near zero for even longer – at least as long as the unemployment rate remained above 6.5 percent.

Half a year later, in June, Mr. Bernanke surprised many investors by announcing that the Fed intended to start cutting back on those asset purchases by the end of 2013. Fed officials reiterated that intention in July, and several officials had since suggested that the Fed might begin to pull back at the September meeting. It is also scheduled to meet next month and in mid-December.

Some critics question the Fed's assessment of the economy, in particular its claim that a declining unemployment rate is a sign of progress. They note that unemployment is falling in part because fewer people are looking for work, and therefore are no longer officially counted as unemployed.

The Fed now appears to be giving that argument greater credence, and on Wednesday Mr. Bernanke played down the Fed's earlier use of unemployment rate thresholds to describe the goals for its policies. He refused to repeat a comment he had made in June that the Fed planned to keep buying bonds until the unemployment rate reached roughly 7 percent. He also emphasized that the Fed was likely to keep short-term rates near zero well after unemployment fell below 6.5 percent, the threshold the Fed had established last year.

The Fed's concern, he suggested, is that things could get worse, either because of new cuts in federal spending, a political impasse in Washington over fiscal matters that threatened to undermine the economy, or because the Fed pulled back prematurely.

Fiscal policy "is restraining economic growth," the Fed said in a statement after a regular two-day meeting of the Federal Open Market Committee. It added, "The tightening of financial conditions observed in recent months, if sustained, could slow the pace of improvement in the economy and the labor market."

Mr. Bernanke sought to explain the Fed's hesitation in more detail. He said the Fed wanted to see three things: Evidence that the drag from fiscal policy is diminishing, that inflation is returning to a healthy level, and that job growth is sustainable.

"If it does," he said, "we'll take the first step at some point, possibly later this year."

The decision was supported by nine of the 10 voting members of the Federal Open Market Committee. Esther George, president of the Federal Reserve Bank of Kansas City, dissented as she has at each previous meeting this year, citing concerns about inflation and financial stability. The committee was short two members, because of the retirement of former governor Elizabeth A. Duke and the recusal of governor Sarah Bloom Raskin, nominated to be deputy Treasury secretary.

In their economic forecasts, also published Wednesday, Fed officials retreated from overly optimistic predictions about the pace of growth over the next several years, as they have done repeatedly since the end of the recession. The aggregation of forecasts showed that Fed officials now expect growth to remain sluggish for years to come, with persistent unemployment and little inflation.

The middle of the forecast range for economic growth this year was 2 to 2.3 percent, down from June predictions of growth of 2.3 to 2.6 percent. For 2013, Fed officials forecast growth of 2.9 to 3.1 percent, down from a range of 3 to 3.5 percent.

While the Fed postponed its retreat, interest rates remained higher than before it started talking about tapering, in the United States, Europe and emerging markets. The Fed statements then "effectively brought monetary tightening forward in time," the Bank for International Settlements in Basel, Switzerland, a clearinghouse for central banks worldwide, said in its quarterly report this week.

Investors who put their money into countries like China or Brazil in search of higher returns have been withdrawing it as investment opportunities improve in the United States. That outflow of wealth is also bad for export-driven economies like Germany. Foreign orders for German machinery fell 9 percent in July from a year earlier, according to the German Engineering Federation, an industry group.

In an attempt to soften the market reaction, the European Central Bank has promised to keep its benchmark interest rate at a record low indefinitely. But analysts say it is unlikely that words alone will be enough to keep rates low.

"The world has become more interdependent," Norbert Reithofer, chief executive of the German automaker BMW, told reporters at the Frankfurt motor show last week. "When Ben Bernanke makes a statement, it has an effect on the Indian rupee, it has an effect on the Turkish lira, it has an effect on the South African rand."

"We are going to be confronted with this situation more and more often," Mr. Reithofer said.

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Our Comment. The consequence of trying to keep the market climbing in line with the hidden price appreciating is that former increases out of hand of price and wreaks havoc with what had been the cunning or "conning" hand out of scheduled prices. *W.K.*

The Planet Can't Keep Doing Us a Favour

By David Cromwell, Sustainable Economics (21/4), August 2013

Sometimes we get so sick of the phrase "history in the making" that the brain tends to switch off. What is it this time?, we sigh. A new high-tech piece of military technology that will boost US killing power? A big jump in a newspaper's online advertising revenue? The world's best footballer, Lionel Messi, joining "an exclusive list of Adidas athletes to have their own signature product"? Sometimes the "history" in question only stretches back a few years, maybe a century or two. Only very occasionally, if the claim is truly deserved, does it stretch back to the earliest era of written records.

But now, with humility's huge impact on the planet's climate becoming ever clearer, we need to go back several million years. Because climate-related news of history being made are about the level of atmospheric carbon dioxide (CO_2) reaching 400 parts per million (ppm). The last time CO_2 was this high was probably 4.5 million years ago, before modern humans even existed.

Throughout recorded history, up till the Industrial Revolution, CO_2 was much lower at around 280 ppm. But large-scale industrial and agricultural activity since then has seen humanity profoundly alter the make-up of the atmosphere and even the stability of Earth's climate.

"We are creating a prehistoric climate in which human societies will face huge and potentially catastrophic risks," said Bob Ward, policy director at the Grantham Research Institute on Climate Change at the London School of Economics.

According to Bob Watson, former chair of the Intergovernmental Panel on Climate Change and former UK government chief scientific adviser: "The world is now most likely committed to an increase in surface temperature of 3C-5C compared to pre-industrial times."

As Damian Carrington noted in *The Guardian*, even just 2C is regarded as "the level beyond which catastrophic warming is thought to become unstoppable." But social scientist Chris Shaw has warned that even the notion of a single "safe" global temperature rise is dangerous. He observes that: "Falsely ascribing a scientifically derived dangerous limit to climate change diverts attention away from questions about the political and social order that have given rise to the crisis."

But for the corporate media, such questions are essentially taboo, and the global corporate and financial juggernaut, driven by the demands of capital, shows no sign of slowing down. Scientists calculate that humans pumped around 10.4 billion tonnes of carbon into the atmosphere in 2011, the most recent year analysed. A *Nature* news article reports: "About half of that is taken up each year by carbon 'sinks' such as the ocean and vegetation on land; the rest remains in the atmosphere and raises the global concentration of CO_2."

"The real question now," says environmental scientist Gregg Marland from Appalachian State University in Boone, North Carolina, "is how will the sinks behave in the future?" And biogeochemist Jim White at the University of Colorado in Boulder warns: "At some point the planet can't keep doing us a favour."

In other words, the ability of the planet's natural carbon "sinks" to soak up humanity's CO_2 emissions will diminish, and the atmospheric concentration of CO_2 will rise at an increasing rate. What is so dangerous about climate change is not just the high level of CO_2 today, but the speed at which it is increasing. In other words, climate change is accelerating.

Brian Hoskins, a leading climate scientist based at Imperial College, London, says: "To me the striking fact is that human activity has already driven the greenhouse gas carbon dioxide to a level more than 40 per cent above the maximum levels it had during the previous million years, and it is going to stay at least this high for thousands of years into the future."

The very real risk of climate calamity will not be going away for some considerable time.

It Is Irresponsible Not to Mention Climate Change

On May 20, a devastating tornado hit Moore, a suburb of Oklahoma City, and killed at least 24 people, including nine children, injured around 240 people, and destroyed hundreds of homes and shops, two schools and a hospital. It is not yet clear what the impact of global warming might be on tornadoes. A warmer climate may mean there is more moisture in the atmosphere and therefore more thunderstorms and tornadoes, says Richard Betts, head of climate impacts at the UK's Met Office: "But on the other hand, you might get changes in high-level winds which could decrease tornadoes. So it literally could be either way. We don't know" (Pilita Clark, Environment Correspondent, "Scientists inconclusive about climate change impact on tornadoes," *Financial Times*, May 21, 2013; article behind paywall).

Michael Mann, a climatologist at Pennsylvania State University, agrees it's "too early to tell" the impact of global warming on tornadoes, although he added: "You'd probably go with a prediction of greater frequency and intensity of tornadoes as a result of human-caused climate change."

For now, at least, it is not possible to directly attribute a particular tornado, even a large one like the Oklahoma event, to global warming. As Kevin Trenberth, head of the Climate Analysis Section of the National Center for Atmospheric Research, told *The New York Times* in 2010: "It's not the right question to ask if this storm or that storm is due to global warming, or is it natural variability. Nowadays, there's always an element of both."

Moreover, as science writer Joe Romm notes: "When discussing extreme weather and climate, tornadoes should not be conflated with the other extreme weather events for which the connection is considerably more straightforward and better documented, including deluges, droughts, and heat waves."

However, he also adds: "Just because the tornado-warming link is more tenuous doesn't mean that the subject of global warming should be avoided entirely when talking about tornadoes."

In 2011, after a record series of tornadoes in the US, Trenberth had told Romm: "It is irresponsible not to mention climate change.... The environment in which all of these storms and the tornadoes are occurring has changed from human influences (global warming)."

In the wake of the deaths and devastation wreaked by the Oklahoma tornado, Romm has revisited the scientific evidence on global warming and tornadoes, and again highlights Trenberth's remark above. But on the main BBC News television programmes, science correspondent David Shukman brushed the topic away: "Tornadoes are nothing new. And so far there's no evidence that over the past century that climate change is causing more of them."

There was only the briefest mention of climate change, then, by the BBC, and nothing was heard on the main television news programmes from any of the climate scientists who, as noted above, believe there could be a link with global warming. This is standard treatment. The reluctance or inability of BBC News to discuss fully and responsibly the seriousness of global warming, even when reporting related issues such as energy and industry, is something we noted in an alert earlier this year.

Deniers Want the Public to Be Confused

But sometimes luck simply runs out for high-profile, highly-paid journalists performing their clunking impressions of 'balanced' journalism. This was the fate that befell Sarah Montague of the much-vaunted BBC Radio 4 Today programme when she interviewed James Hansen on May 17. Hansen, the former senior NASA climate scientist who first warned the world about catastrophic climate change in 1988, corrected the BBC interviewer when she said in her introduction that the global average temperature had not changed in two decades.

"Well, I should correct what you just said. It's not true that the temperature has not changed in two decades."

The BBC interviewer blundered on: "But there was a suggestion that we should have been expecting 0.2 of a degree and it has...."

Hansen interjected: "No. If you look over a 30- or 40-year period then the expected warming is about two-tenths of a degree per decade. But that doesn't mean that each decade is going to warm two-tenths of a degree. There's too much natural variability."

Hansen continued: "In addition, China and India have been pumping out aerosols by burning more and more coal. So you get from that, not only CO_2, but also these particles that reflect sunlight and reduce the heating of the Earth. So, ...it's a complicated system, but there's no change at all in our understanding of climate sensitivity [to rising levels of CO_2] and where the climate is headed."

He was clear that the suggestion that global warming has stalled is "a diversionary tactic" by deniers of the science. Why are they doing this?

"It's because the deniers want the public to be confused. They raise these minor issues and then we forget about what the main story is. The main story is carbon dioxide is going up and it is going to produce a climate which is going to have dramatic changes if we don't begin to reduce our emissions."

The interview was an all-too-rare instance of a BBC journalist being confronted by someone who really knew what they were talking about on a vital issue for humanity, and able to put it across in a calm and articulate way that listeners could easily understand. It's not the first time the BBC *Today* programme has been caught out of its depth on climate science.

The false "balance" in climate journalism is heavily skewed by the supposed need to share time between climate science and climate science denial. This is irrational "journalism" by media professionals who have been seduced by a stubborn minority of people who "refuse to accept that climate change is happening despite the overwhelming scientific evidence," notes Ryan Koronowski. This minority, particularly in the United States, are fanatic about fanning the flames of doubt and are often in powerful positions in the political establishment. These climate science deniers are often also free-market ideologues. Koronowski, deputy editor of *Climate Progress*, cites a recent study by researchers in Australia which found that: "People who expressed faith in free-market ideology were also likely to reject [the] scientific consensus that climate change is happening and that burning fossil fuels helps to cause it."

Perhaps unsurprisingly, the study also showed that irrational scepticism towards scientific evidence extended beyond climate change: "Endorsement of free markets also predicted the rejection of other established scientific findings, such as the facts that HIV causes AIDS and that smoking causes lung cancer."

Indeed, there is a long and shameful history of corporate disinformation and rearguard campaigns of deception to deny science. (See, for example, Andrew Rowell, *Green Backlash*, Routledge, London, 1996; and Sharon Beder, *Global Spin*, Green Books, Totnes, 1997.)

For many years now, there has been an overwhelming scientific consensus on climate change. A new survey of more than 4,000 peer-reviewed papers showed that 97.1% agreed that humans are causing climate change. Suzanne Goldenberg reported on *The Guardian* website that: "[The] finding of near unanimity provided a powerful rebuttal to climate contrarians who insist the science of climate change remains unsettled."

Moreover: "The study blamed strenuous lobbying efforts by industry to undermine the science behind climate change for the gap in perception. The resulting confusion has blocked efforts to act on climate change."

This corporate-led blocking strategy is particularly cruel, indeed criminal on a global scale, given the catastrophic consequences of continued carbon emissions.

The Pan-Tentacled, Wall-Eyed and Parrot-beaked Global Kraken

Political, military, industry and financial elites who take science seriously are well aware of the pressing reality of climate change, and worry about what it means for their global grip on power. Nafeez Ahmed observes that the US military is becoming "increasingly concerned about the international and domestic security implications of climate change." A US Department of Defense (DoD) document, published in February this year, warns that climate change will have "significant geopolitical impacts around the world, contributing to greater competition for more limited and critical life-sustaining resources like food and wa-

Men's Health Forum About "Communication" and "Education"

By Paul Irish, Toronto Star, September 24, 2013

Men are slowly taking charge of their health, but still lag behind women when it comes to acting on illness, according to men's health advocate Winston Isaac, who is overseeing a men's health conference at Ryerson University on September 28.

We've come along way the past decade but there are still some (males) who believe that "real men don't get sick…real men don't go to hospital," said Isaac an associate professor in the university's school of health sciences.

"It takes communication, information and education to turn that around and that's what this conference is all about."

The symposium – which runs from 9 am to 4:15 pm – is open to the public and health care professionals, It will touch on topics such as smoking and heart attack recuperation but will more importantly explore the more abstract and complex concept of "men, masculinity and health" and what needs to be done to get more males to be responsible for their health.

Other topics include prostate cancer basics, inspirational prostate cancer survivor stories to spousal support of men with health issues.

John Oliffe, a professor at the School of Nursing, University of British Columbia, whose research is focused on gender specific health promotion and intervention is the keynote speaker.

His work explores depression and suicide as well as immigrant men's health and how society responds to male-oriented illnesses.

Isaac is president and CEO of the Walnut Foundation, a men's health group, which is putting on the forum.

He believes women are intrinsically more attuned to their bodies and illness due to the bond they create with their mothers during discussions on entering puberty, talks many men may have not had with their fathers.

"I had one man at a (forum) who said he recalled hearing his sisters and mother talk about health all through their growing up years," said Isaac. "But he couldn't recall asking one question of either his mother or father the entire time."

He said the "reality" of men "not reaching out" becomes quite critical with those suffering from depression or other mental health issues.

Sessions will be led by academics, survivors and health care and counselling professionals.

The Walnut Foundation is a registered charitable organization with a focus on men's health and currently has a men's health interest group and a prostate cancer support group.

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Our Comment. To function as a recognized men's representative in the Walnut Foundation you will have to be recognized both by the Walnut Foundation as a men's health group and as a prostate cancer support group. That requires a minimal qualification as currently satisfied by complying with the minimal requirement of a men's health interest group and a prostate support group. Of these, men's health interest group is the most readily gotten a the Walnut Foundation is a good foundation to work from towards that end. *W.K.*

ter." Climate change impacts will likely also act "as accelerants of instability or conflict in parts of the world" and "DoD will need to adjust to the impacts of climate change on its facilities, infrastructure, training and testing activities, and military capabilities."

The US military's stance on climate change is, of course, not motivated out of a heartfelt wish to be a benefactor for humanity. As Ahmed points out: "The primary goal of adaptation is to ensure that the US armed forces are 'better prepared to effectively respond to climate change' as it happens, and 'to ensure continued mission success' in military operations – rather than to prevent or mitigate climate change."

The elite response to impending climate chaos extends to capitalism's endless drive to burn ever more dangerous quantities of fossil fuel, even to the extent of moving into the Arctic as the ice melts. Ahmed notes that the region likely holds a massive 25 per cent of the world's remaining undiscovered oil and gas reserves. Fossil fuel companies from the US, Russia, Canada, Norway and Denmark already have their eyes on this northern prize, "sparking concerted efforts by these countries to expand their Arctic military presence."

Methane hydrates lying beneath the Arctic permafrost and the seafloor are tantalisingly now within reach. An attempt by the Tokyo-based state oil company Japan Oil, Gas and Metals National Corporation to extract methane from far below the ocean "shows promise": an odd way to describe a reckless operation that will further tip the balance in favour of climate instability. A *Nature* news story, "Japanese test coaxes fire from ice," blithely told readers: "Reservoirs of methane hydrates – icy deposits in which methane molecules are trapped in a lattice of water – are thought to hold more energy than all other fossil fuels combined. The problem is extracting the methane economically from the deposits, which lie beneath Arctic permafrost and seafloor sediments. But some scientists and policy makers in energy-poor, coast-rich Japan hope that the reservoirs will become a crucial part of the country's energy profile."

Methane is an even more potent global-warming gas than carbon dioxide. That a country's "energy profile" may be pumped up by exploiting methane, even as the planet burns, is surely a form of societal madness. It's sad that the madness extends even to the most prestigious of scientific journals. A corporate-friendly *Nature* editorial this month exhorted, "Together we stand." Those are nice-sounding words. But they are an unfortunate echo of the well-known farcical refrain from the UK's discredited "coalition" government: "We're all in this together." The propaganda phrase conveys a convenient myth of a shared society with shared aims: a real democracy, in other words.

The *Nature* editorial springs from a similarly deluded mindset: "Protecting the environment is an added cost that many politicians and business leaders would prefer to avoid. Not to bother makes things cheaper. And despite the rhetoric of environmental campaigners, that remains an uncomfortable truth, at least in terms of the climate problem. Carbon emissions are a hallmark of energy use – and it is cheap and available energy that has made the modern world."

And perhaps destroyed it too. The blinkered editorial continues: "The economic currency of gross domestic product, for so long used as a benchmark of a country's performance, could be tweaked to include social indicators and how well a country respects environmental criteria, such as the concept of planetary boundaries that should not be exceeded."

The feeble call to "tweak" social indicators, albeit to include "the concept of planetary boundaries that should not be exceeded," is paltry indeed when *Nature's* editors cannot even acknowledge that powerful and destructive state-corporate forces are defending their "right" to exploit the planet's resources and keep billions in poverty and servitude. The editors of *Nature* give little sign that they comprehend the inherent unsustainability of global capitalism, and they seem oblivious to the scale of corporate obstructionism and decades-long disinformation campaigns to thwart substantive action on climate. (Again, for example, see the books by Rowell and Beder, as well as our own books.)

If the world's leading scientific publication has failed us, perhaps we could turn instead to writers such as Edward Abbey. In his classic novel *The Monkey Wrench Gang*, Abbey powerfully and poetically rails against the corporate ravaging of the environment. In one vivid scene, the four titular protagonists overlook the devastation wreaked by a huge strip mine in Arizona: "Their view from the knoll would be difficult to describe in any known terrestrial language. Bonnie thought of something like a Martian invasion, the *War of the Worlds*. Captain Smith was reminded of Kennecott's open-pit mine ("world's largest") near Magna, Utah. Dr. Sarvis thought of the plain of fire and of the oligarchs and oligopoly beyond: Peabody Coal only one arm of Anaconda Copper; Anaconda only a limb of United States Steel; US Steel intertwined in incestuous embrace with the Pentagon, TVA, Standard Oil, General Dynamics, Dutch Shell, IG Farbenindustrie; the whole conglomerated cartel spread out upon half the planet Earth like a global kraken, pan-tentacled, wall-eyed and parrot-beaked, its brain a bank of computer data centers, its blood the flow of money, its heart a radioactive dynamo, its language the technotronic monologue of number imprinted on magnetic tape." (Edward Abbey, *The Monkey Wrench Gang*, Avon Books, 1975/76, New York, p. 159.)

Abbey memorably sums up the whole corporate-industrial-military system as "a megalomaniacal megamachine." The strong, image-laden language gives a hint of what humanity is up against. It is not a matter of "tweaking" the system, or asking the megamachine to be nicer. It needs to be dismantled and replaced with a cooperative human society that is ecologically sustainable. A good start would be to challenge the corporate media that limits the possibility of even discussing alternatives to the madness of global capitalism. ■

A Great, Noble Spirit Passes

James Gibb Stuart, one of Britain's pioneering Money Reformers, west of Scotland businessman, father and grandfather, died peacefully at his home in Bridge of Weir on Wednesday, September 25, 2013.

Aged 93, James was one of the few in the post-war era to recognise and publicise the absurdity of our privately-created, debt-based money system, and to foresee its catastrophic consequences.

He received a "Community Champion" award from the UK Islamic Mission on July 17, 2005, the "Lifetime Achievement Award" from the American Monetary Institute on September 23, 2006, and the "Thomas Attwood Award for Services to Monetary Reform" on October 15, 2011, at the Bromsgrove Conference.

Condolences may be sent to Mrs. Dorothy Stuart, c/o The James Gibb Stuart Trust, 268 Bath Street, Glasgow, G2 4JR.

A full obituary will appear in the next issue of *Prosperity*, October 2013. www.ProsperityUK.com ■

The Armageddon Looting Machine: The Looming Mass Destruction from Derivatives

By Ellen Brown, WebofDebt.wordpress.com, September 17, 2013

Increased regulation and low interest rates are driving lending from the regulated commercial banking system into the unregulated shadow banking system. The shadow banks, although free of government regulation, are propped up by a hidden government guarantee in the form of safe harbor status under the 2005 Bankruptcy Reform Act *pushed through by Wall Street. The result is to create perverse incentives for the financial system to self-destruct.*

Five years after the financial collapse precipitated by the Lehman Brothers bankruptcy on September 15, 2008, the risk of another full-blown financial panic is still looming large, despite the Dodd Frank legislation designed to contain it. As noted in a recent Reuters article, the risk has just moved into the shadows: Banks are pulling back their balance sheets from the fringes of the credit markets, with more and more risk being driven to unregulated lenders that comprise the $60 trillion "shadow-banking" sector.

Increased regulation and low interest rates have made lending to homeowners and small businesses less attractive than before 2008. The easy subprime scams of yesteryear are no more. The void is being filled by the shadow banking system. Shadow banking comes in many forms, but the big money today is in repos and derivatives. The notional (or hypothetical) value of the derivatives market has been estimated to be as high as $1.2 quadrillion, or twenty times the GDP of all the countries of the world combined.

According to Hervé Hannoun, Deputy General Manager of the Bank for International Settlements, investment banks as well as commercial banks may conduct much of their business in the shadow banking system (SBS), although most are not generally classed as SBS institutions themselves. At least one financial regulatory expert has said that regulated banking organizations are the largest shadow banks.

The Hidden Government Guarantee that Props Up the Shadow Banking System

According to Dutch economist Enrico Perotti, banks are able to fund their loans much more cheaply than any other industry because they offer "liquidity on demand." The promise that the depositor can get his money out at any time is made credible by government-backed deposit insurance and access to central bank funding. But what guarantee underwrites the shadow banks? Why would financial institutions feel confident lending cheaply in the shadow market, when it is not protected by deposit insurance or government bailouts?

Perotti says that liquidity-on-demand is guaranteed in the SBS through another, lesser-known form of government guarantee: "safe harbor" status in bankruptcy. Repos and derivatives, the stock in trade of shadow banks, have "superpriority" over all other claims. Perotti writes: "Security pledging grants access to cheap funding thanks to the steady expansion in the EU and US of 'safe harbor status.' Also called bankruptcy privileges, this ensures lenders secured on financial collateral immediate access to their pledged securities….

"Safe harbor status grants the privilege of being excluded from mandatory stay, and basically all other restrictions. Safe harbor lenders, which at present include repos and derivative margins, can immediately repossess and resell pledged collateral.

"This gives repos and derivatives extraordinary super-priority over all other claims, including tax and wage claims, deposits, real secured credit and insurance claims. Critically, it ensures immediacy (liquidity) for their holders. Unfortunately, it does so by undermining orderly liquidation."

When orderly liquidation is undermined, there is a rush to get the collateral, which can actually propel the debtor into bankruptcy.

The amendment to the *Bankruptcy Reform Act* of 2005 that created this favored status for repos and derivatives was pushed through by the banking lobby with few questions asked. In a December 2011 article titled "Plan B – How to Loot Nations and Their Banks Legally," documentary filmmaker David Malone wrote: "This amendment which was touted as necessary to reduce systemic risk in financial bankruptcies…allowed a whole range of far riskier assets to be used…. The size of the repo market hugely increased and riskier assets were gladly accepted as collateral because traders saw that if the person they had lent to went down they could get [their] money back before anyone else and no one could stop them."

Burning Down the Barn to Get the Insurance

Safe harbor status creates the sort of perverse incentives that make derivatives "financial weapons of mass destruction," as Warren Buffett famously branded them. It is the equivalent of burning down the barn to collect the insurance. Says Malone: "All other creditors – bond holders – risk losing some of their money in a bankruptcy. So they have a reason to want to avoid bankruptcy of a trading partner. Not so the repo and derivatives partners. They would now be best served by looting the company – perfectly legally – as soon as trouble seemed likely. In fact the repo and derivatives traders could push a bank that owed them money over into bankruptcy when it most suited them as creditors. When, for example, they might be in need of a bit of cash themselves to meet a few pressing creditors of their own.

"The collapse of…Bear Stearns, Lehman Brothers and AIG were all directly because repo and derivatives partners of those institutions suddenly stopped trading and 'looted' them instead."

The global credit collapse was triggered, it seems, not by wild subprime lending but by the rush to grab collateral by players with congressionally-approved safe harbor status for their repos and derivatives.

Bear Stearns and Lehman Brothers were strictly investment banks, but now we have giant depository banks gambling in derivatives as well; and with the repeal of the *Glass-Steagall Act* that separated depository and investment banking, they are allowed to commingle their deposits and investments. The risk to the depositors was made glaringly obvious when MF Global went bankrupt in October 2011. Malone wrote:

"When MF Global went down it did so because its repo, derivative and hypothecation partners essentially foreclosed on it. And when they did so they then 'looted' the company. And because of the co-mingling of clients money in the hypothecation deals the 'looters' also seized clients money as well…JPMorgan allegedly has MF Global money while other people's lawyers can only argue about it."

MF Global was followed by the Cyprus "bail-in" – the confiscation of depositor funds to recapitalize the country's failed banks. This was followed by the coordinated appearance of bail-in templates worldwide, mandated by the Financial Stability Board, the global banking regulator in Switzerland.

The Auto-Destruct Trip Wire on the Banking System

Bail-in policies are being necessitated by the fact that governments are balking at further bank bailouts. In the US, the Dodd-Frank act (section 716) now bans taxpayer bailouts of most speculative derivative activities. That means the next time we have a Lehman-style event, the banking system could simply collapse into a black hole of derivative looting. Malone writes: "…*The bankruptcy laws allow a mechanism for banks to disembowel each other.* The strongest lend to the weaker and loot them when the moment of crisis approaches. The plan allows the biggest banks, those who happen to be burdened with massive holdings of dodgy euro area bonds, to leap out of the bond crisis and instead profit from a bankruptcy which might otherwise have killed them. All that is required is to know the import of the bankruptcy law and do as much repo, hypothecation and derivative trading with the weaker banks as you can….

"I think this means that some of the biggest banks, themselves, have already constructed and greatly enlarged a now truly massive trip wired auto-destruct on the banking system."

The weaker banks may be the victims, but it is we the people who will wind up holding the bag. Malone observes: "For the last four years who has been putting money in to the banks? And who has become a massive bond holder in all the banks? We have. First via our national banks and now via the Fed, ECB and various tax payer funded bail out funds. We are the bond holders who would be shafted by the Plan B looting. We would be the people waiting in line for the money the banks would have already made off with….

"The banks have created a financial Armageddon looting machine. Their Plan B is a mechanism to loot not just the more vulnerable banks in weaker nations, but those nations themselves. And the looting will not take months, not even days. It could happen in hours if not minutes."

Crisis and Opportunity: Building a Better Mousetrap

There is no way to regulate away this sort of risk. If both the conventional banking system and the shadow banking system are being maintained by government guarantees, then we the people are bearing the risk. We should be directing where the credit goes and collecting the interest. Banking and the creation of money-as-credit need to be made public utilities, owned by the public and having a mandate to serve the public. Public banks do not engage in derivatives.

Today, virtually the entire circulating money supply (M1, M2 and M3) consists

Fight the Enemies of Truth: Support the Spread of Knowledge

By Global Research, www.globalresearch.ca/?p=5329786, September 28, 2013

"The great enemy of the truth is very often not the lie – deliberate, contrived and dishonest – but the myth – persistent, persuasive, and unrealistic." – JFK

"The greatest enemy of knowledge is not ignorance, it is the illusion of knowledge." – Stephen Hawking

For those whose understanding of the world is derived from what their governments and political leaders tell them to believe, and from the mainstream media which regurgitates the government's views and ideology, the world is left black and white, us vs. them, a simple myth to hold on to. For these people: the economic crisis is over and we are now in a "recovery"; the "War on Terror" is an age-old battle between the forces of good and evil, retribution for the attacks of 9/11, and is designed to battle 'terrorism' in every corner of the world; the era of imperialism ended with World War II, and America is not an 'empire,' but rather a bastion for freedom which spreads democracy around the world; the war against Libya was intended to save innocent lives out of 'humanitarian' concerns; we must accept the loss and restriction of our fundamental rights and liberties in order to protect us from terrorists; Barack Obama has brought 'change' and is a beacon of 'hope'; and the death of Osama bin Laden shows that the 'War on Terror' is working, and is worthy of going out in the streets to celebrate and cheer!

For these people…the world is based upon a pervasive, unyielding myth, building illusions for all to see and believe.

Here at Global Research, we strive to tear down these myths, expose the illusions, and reveal the magicians in the background. It is the focus and objective of Global Research to ask real questions, seek honest answers, and help the people take this knowledge to empower themselves to change the world for the better. In the words of Paul Craig Roberts:

"I turn to Global Research every morning. Unlike the print and TV media, Global Research tells me what is going on in the world. A superb website." – Paul Craig Roberts, Assistant Secretary of the US Treasury, Reagan administration.

Global Research is a small organization with few resources, and we would not exist were it not for our dedicated readers and supporters. We continue to need your support, so that we can continue to support the spread of knowledge in the battle against the enemies of truth. We are able to maintain our independence because our readers maintain their support for us.

As long as we have you, you will have us.

So help us spread the word, and allow us to increase our ability to be effective in these unprecedented times. Never has the need for independent voices ever been so necessary, and never has it been so challenging to remain independent.

We know that you turn to Global Research for independent coverage of world events which is not coloured, created or manipulated by corporate, government or institutional stakeholders. Please consider making a donation to Global Research or creating a Membership. Every amount makes a difference, and will be greatly appreciated!

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Our Comment. Having known the record, I could make no more sincere approval. *W.K.*

of privately-created “bank credit” – money created on the books of banks in the form of loans. If this private credit system implodes, we will be without a money supply. One option would be to return to the system of government-issued money that was devised by the American colonists, revived by Abraham Lincoln during the Civil War, and used by other countries at various times and places around the world. Another option would be a system of publicly-owned state banks on the model of the Bank of North Dakota, leveraging the capital of the state backed by the revenues of the into public bank credit for the use of the local economy.

Change happens historically in times of crisis, and we may be there again today.

Ellen Brown is an attorney, president of the Public Banking Institute, and author of twelve books including the best-selling Web of Debt. *In* The Public Bank Solution, *her latest book, she explores successful public banking models historically and globally. Her websites are http://WebofDebt.com, http://PublicBank-Solution.com and http://PublicBankingInstitute.org.*

Imperialism, the Cold War, and the Contradictions of Decolonization

By Anthony Mustacich, Global Research, May 12, 2013

The Second World War had devastated the colonial empires of Western Europe, leaving the United States as the capitalist world’s undisputed superpower. At the same time, the war demolished the colonial system that had defined the imperialist era up until that point, giving rise to a new stage of imperialism called neo-colonialism.

In conjunction with this shift from colonialism to neo-colonialism, another shift occurred from intra-imperialist rivalry to intra-imperialist unity, as the former colonial empires joined together under the leadership of the United States into one imperialist world system, which I have labeled Trilateral Imperialism (in reference to the Triad: the US, Western Europe and Japan).

To be sure, there were still contradictions among imperialist nations, but these were non-antagonistic and could be resolved without war. No longer would Western Europe devour itself in barbaric conflicts over colonial possessions; now, they would merge together and plunder the third world as one.

As the last standing capitalist superpower, the United States was charged with redesigning the imperial landscape after WWII. The former colonial empires of Western Europe were in shambles and no longer had the ability to manage their colonies. The United States adopted a comprehensive aid program to help rebuild Europe and Japan, investing some of its capital surplus into the devastated economies of the capitalist world. The Marshall Plan, as it was called, was no altruistic gesture stemming from America’s noble spirit, but rather a way for American capital and products to penetrate European markets. In the end, the Marshall Plan pumped $13 billion into the reconstruction of Europe, reviving capitalism on a world scale.

The recovery of capitalism in fact began at the onset of WWII in the United States, with the war effort stimulating production on a massive scale. The New Deal government of Franklin D. Roosevelt also began implementing Keynesian economic policies, which would come to characterize the post-war capitalist economy. Keynesianism argued that capitalism, due to its inherent tendency towards under-consumption, required government intervention in the economy to stimulate aggregate consumption through government spending and progressive taxation. Similar measures were adopted in capitalist Europe after the war, resuscitating the economy and creating welfare states that limited the worse social consequences of capitalism, such as poverty, unemployment, and economic insecurity.

Along with the Marshall Plan, the US pressured Britain and France to dismantle their colonial empires so that the whole third world could be opened up to American capital. Although the decolonized countries were seemingly independent, US policy makers believed that these countries’ only purpose was to “provide raw materials, investment opportunities, markets and cheap labor” to “complement the industrial countries of the West” (Chomsky, 1992). Thus, the primary threat to the US-led order were “‘nationalist regimes” that dared to use their national resources to attain the “immediate improvement of the low living standard of the masses’”(Chomsky, “On Foreign Policy”). The so-called “Cold War,” then, was conceived to be a war for US control over the third world.

Formal colonies were no longer necessary to ensure the continuous transfer of wealth from the periphery to the metropolis and that is why the United States pushed for the abolition of colonialism. As one scholar of imperialism noted, “colonialism, considered as the direct application of military and political force, was essential to reshape the social and economic institutions of many of the dependent countries to the needs of the metropolitan centers. Once this reshaping had been accomplished economic forces – the international price, marketing, and financial systems – were by themselves sufficient to perpetuate and indeed intensify the relationship of dominance and exploitation between mother country and colony” (Magdoff, 139). Thus neo-colonialism was just as effective as colonialism.

The Cold War is often misinterpreted as a global conflict between the United States and the Soviet Union, the two contending world powers, with the US working to contain Soviet ambitions of world domination. However, as declassified US policy documents make clear, the primary threat posed by the Soviet Union was its willingness to supply military and economic support to third world regimes that were targets of US aggression and subversion (NSC 68). The Soviet Union thus served to deter and restrain US actions in the third world, which was unacceptable to US imperial ambitions. Further, the Soviet system with its “autarkic command economy interfered with US plans to construct a global system based on (relatively) free trade and investment, which, under the conditions of mid-century, was expected to be dominated by US corporations and highly beneficial to their interests, as indeed it was” (Chomsky, 1992). To be sure, the Soviet Union betrayed the cause of socialism after the death of Stalin, becoming a social imperialist power in its own right. However, its imperial aims were limited to the region allotted to it under the Malta agreements and the threat it posed to the US was its willingness to support nationalist third world regimes resistant to US imperial demands.

Throughout the Cold War, the military-industrial-complex became a major part of the US economy, and thus a catalyst for sustained growth, albeit sluggish starting in the

1970's. For the Soviet Union, however, the "arms race" had the opposite effect of bleeding the Soviet economy and intensifying its internal contradictions until it imploded in 1989. With the collapse of the Soviet Union the Cold War came to an end, and with it, according to some, so did history. The triumph of the United States and Western Europe over the Soviet system proved to most people the superiority of free markets and capitalism. Free market euphoria swept the globe, giving birth to the new world order of neo-liberal capitalism.

Neo-liberalism, in stark contrast to Keynesianism, argued that economic growth required an end to government intervention in the economy (except in the military and prison sectors). Now the "invisible hand" of the market should rein unhindered, naturally allocating economic resources fairly and efficiently, creating a healthy equilibrium between supply and demand. Thus the era of Keynesianism and welfare capitalism came to an abrupt end, once again transforming the imperialist landscape.

The shift to neo-liberalism in the metropolis did not end neo-colonialism in the third world however. In fact, the neo-liberal onslaught began in the third world much earlier than it began in the developed world, starting with the US-instigated coup in Chile in 1973. The third world was always encouraged to adopt trade liberalization and free market policies in order to facilitate the transfer of wealth from the third world to the US and Europe. The shift to neo-liberalism in the metropolis only changed how neo-colonialism was enforced on the third world. Now international institutions, representing the collective economic will of the imperialist powers, emerged to impose neo-colonial policies on third world countries. The World Bank and International Monetary Fund gave third world countries "development loans" on the condition that they adopted "structural adjustment programs" designed to open their economies to western markets. Of course these policies did not lead to development, but only more intense underdevelopment for third world nations.

The neo-liberal empire of today is not the empire of one imperialist nation, but the empire of transnational corporations, based in the Triad, and enforced through US and NATO military force. Neo-liberalism will not lead to the liberation or development of third world nations, but only their further underdevelopment and exploitation, as recent events in Iraq, Afghanistan and, most

Continued on page 15

The Flaw in Fractional Reserve Banking

Happy 100th Bill Krehm

Your April COMER *ER* had a great review of Milton Friedman's awful life work. What a contrast to David Suzuki's wonderful work. Reprinting "Modern Money Mechanics" is good. I still have one well-thumbed copy of the last edition before it was abandoned by the Chicago Fed.

I include here, FYI, my recent critique of Fractional Reserve Banking and the inherent instability of a national money supply so created. I have reduced my presentation to a bare minimum of two pages.

Best wishes,

Robert W. Zimmerer, Beaverton, OR

The Flaw in Fractional Reserve Banking

A Ponzi scheme promoter pretends to have money. Do Fractional Reserve Bankers counterfeit money with government help?

Today's chaotic world financial structure reveals a great flaw. The continuing success of the Market Economy practiced in China suggests it has a more robust financial structure. The European Union is in disarray over the euro, its common market money, which all member nations agreed to use although retaining sovereignty over other governance functions. All 50 United States are required to use $US, legal tender created/manufactured by the US Treasury. All Provinces in Canada must use $CN, legal tender created/manufactured by the federal (central) government.

If only national governments can create a nation's money, how does legal tender enter circulation? In these three market economies sufficient quantities of euros, $CN and $US must be produced and circulate to support buying and selling, the purpose for which money was invented. Banks are the principle intermediary between the market place of daily buying and selling and the government which alone provides legal tender. To manage this interaction governments create Central Banks: the Bank of Canada, the US Federal Reserve and the European Central Bank.

Public perception of money is the legal tender handed to a merchant for a purchase. Most people get legal tender in payment for weekly labor, either paid on the job or by cashing a paycheck at a bank. Person to person cash transactions play a minor role in today's market economies. Purchases are predominantly paid with a bank check or swiping a credit/debit card. Banks process this action by moving money from a buyer's checking account to a seller's account as instructed by the check. The merchant accepts a customer's check and deposits it into his own account. The customer takes possession of merchandise. Money and merchandise flow in opposite directions through a market economy. Money recycles endlessly while merchandise flows one way from manufacturer to customer to trash dump.

Checkable deposit accounts "contain" most of a nations recycling money supply. Deposits are claims for legal tender a bank must produce if demanded. Bank vaults do not physically hold that enormous amount of promised legal tender. Banks keep barely enough legal tender to cash occasional checks. Neither do governments of Canada, the USA, and EU manufacture and store more than a fraction of their money supply in actual legal tender. Central Banks can deliver any amount to fulfill government monetary commitments. How is this money supply created?

Private banks are empowered by governments to produce a money supply by "extending credit," a process whereby a bank creates something from nothing with a bookkeeping entry. A bank promises money today to a borrower who promises money to the bank tomorrow. With a bookkeeping entry the loan amount is placed in a checkable bank account and a "balancing" debt is recorded by the bank as a new asset in a zero sum arrangement. The borrower spends new money into circulation for all to use by writing checks not by cashing checks. Bank assets are predominantly these debt contracts promising money tomorrow.

The Central Bank moves legal tender among its member banks, a check-clearing service, by debiting one member's Central Bank account and crediting another's according to the check's written instructions. After a loan is spent a lending bank has less legal tender by the amount of the loan and other banks have more legal tender. This process is repeated over and over as checks move legal tender back and forth among banks recycling money. The net effect is that an individual bank's daily legal tender increases and decreases averaging nearly zero change. The total legal tender held by all banks and literally held in the hands of the public is controlled by the Central Bank.

Each loan is also a debt. As long as no loan has been repaid or cashed the money supply increases. To cash a loan puts legal tender into direct circulation defeating the purpose of "extending" credit. The Central Bank underwrites this wonderful process. It writes the rules, and regulations and tries to enforce them. A nation's money supply is substantially loan-debt, promises of money to be repaid in a tomorrow which must never come. Ever compounding interest on the money supply is paid from the increasing money supply!

Central Banks try to control the size of the money supply by adjusting the amount of legal tender made available to banks and how much they must sequester (reserve) for collateral. Both overt and covert monetary maneuvers are used. Governments which allow private businesses to create a nation's money supply delegate sovereign power to private banks. There is an alternative! Ben Franklin praised the Pennsylvania Colony for printing legal tender, paper money, to purchase government supplies and accepting it in payment of taxes. Pennsylvania had a growing debt free money supply and prosperous market economy until the practice was outlawed by the British Crown! The US Constitution forbids Pennsylvania to print money today.

Many questions come to mind. Interest is paid to sustain a money supply created by loan-debt. Money is essentially rented to the public by banks which sequester (reserve) a small fraction of legal tender for collateral on the money they rent, much like the practice medieval goldsmiths invented. The money supply must increase if the public is to keep paying the rent. Should loans be repaid extinguishing debt, the money supply will decrease. If checks are cashed the money supply will also decrease. In austere times banks call loans, demanding repayment today, further depressing a market economy.

Not all private banks are authorized to create money as here described (Fractional Reserve Banking). Some banks actually loan legal tender. They accept money from depositors and investors who give up its use so the bank can loan it to others to use. (the common meaning of a loan) Such an old fashioned S&L bank is featured in the movie *It's a Wonderful Life*. These banks promote market economy growth by increasing money circulation not by increasing the money supply.

Another question should be asked. How can a private bank which promises legal tender only a government Central Bank can deliver, loan money to that government? Why should a government borrow from a private bank it underwrites instead of borrowing debt free from its Central Bank? Why should a government which creates legal tender borrow at all? The US Fed can loan legal tender to a bank at 1% interest and borrow it back at 3% interest! Central Banks can save a failing very big bank by "giving" it legal tender rather than closing it. What might Ben Franklin write about that? ■

PART 4 IN A SERIES

Fantopian Update

This is fourth part of an excerpt from Fantopian Update *by James Gibb Stuart, Ossian Publishers Ltd., www.ossianbooks.co.uk. Part 1 appeared in the June 2013 issue of* ER. *Part 2 appeared in July; Part 3 in September.*

The Blues and PFI

The Politician on the Panel was a busy man during those dramatic days. Besides his normal parliamentary duties, which he still tried to fulfil to the letter, he had become the eyes and ears of the advisory group in the Commons House, reporting on the progress of their own particular project.

It was the custom in Fantopia – as no doubt elsewhere within the galaxy where situations of special public concern had been identified – to display prominently in the House a Motion against which elected members could show their interest and support by adding their signatures.

When the issue of restoring *seigniorage* was first brought to public notice, there had been an immediate flurry of publicity, and the Panel was initially expected to conduct its business against a background of news flashes and photocalls. But when the reporters and the press cameras disappeared, and there was often an eerie silence in the entrance halls and on the staircase to the committee rooms which the group had been allocated, it was not difficult for them to draw their own conclusions. It was being made very obvious that the Fantopian Establishment had its own inbuilt conception of priorities and relativities, and it would appear from the diminishing interest in the Panel and its findings that the progressive erosion of the People's Money was not one of its immediate concerns.

The Blues in particular, the main opposition party striving to regain power after some years out of office, were still wary and suspicious of any policy with a *people* connotation, lest they could not mention; and at that moment not one of its parliamentarians had signed the Motion on restoring *seigniorage*.

In his privileged position as an elected member of the Commons House, the Politician was asked to attend the critical meetings on this subject, and report back in due course to the Panel. An afternoon session had been set aside for discussion, and the Member was there to open the debate.

"Well I did my best," he began, consulting his notes, "but I doubt whether you're going to hear anything that's original. A great deal of new money to flow to the area of highest profitability!" He looked hard at the Economist as he spoke. "Briefly – and to save the time of this panel – I reckon, with all the glossy illustration and impressive financial expertise, it's the Private Finance Initiative all over again. The Blues are planning to hang their coats on PFI."

"So they're going to privatize again, are they?" conjectured the Journalist. "I suppose, with their track record, that's only to be expected. And how do they see that in relation to the public sector?"

"Oh they reckon they've got a comprehensive plan," replied the Politician. "I read it up again last night, and apparently the attraction of the funds being private is that *they need never be shown on public account*, and repayments can be deferred indefinitely. The Blues I questioned were all cock-a-hoop. They reckon this alone is good enough to get them back into office, so it's no surprise that to this day none of them has signed the Motion."

"And I'll bet *Him the Incomparable* knows all about it," remarked the newspaper man, "will be using it where possible to his own advantage. They say his chancellery has already committed about 36 billion of government money, with an undertaking to repay about *110 billion* in total over the next 25 years."

"110 billion!" The Politician measured the syllables under his tongue. "I suppose it's easy enough to say. It's the comprehension and the evaluating of it that makes the mind boggle. No wonder the ordinary citizen fails to take it on board!"

"Meaning that you can do what you like after the first billion? The rest merely adds to the mystique and the wonder of it. On that reckoning we might be better going for PFI – and re-payments on the never-never."

"Have your fun, gentlemen, and tell us when we can get back to business," thundered the Antiquarian, who had been listening to the dialogue between his two colleagues with an expression which grew blacker by the minute. "So we still have none of the Blues with us? Not one has signed the Motion?"

"Not a one, last time I looked at the board," the Politician assured him. "And from what I've heard, they wouldn't be signing now. All the talk is about their party's traditional access to capital and investment, and how they've always had more constructive policies on money than their more radical opponents. Meaning us, I suppose."

The Antiquarian was shaking his head, as though in disbelief. "I've got many good friends amongst the Blues," he muttered, "but I must admit I get sorely tried by their subservience to an orthodoxy which sees all money and monetized resources as a leveraged debt to the banking system. Here in this Panel we're expected to be non-party and non-partisan, and so we shall be. When we argue for preservation of the People's money, that means all the people, not designation by wealth or class or background, yet what we're hearing now is that a major parliamentary group is not supporting our Motion for a revival of the only form of public money that comes to us without borrowing."

"OK. I'm proposing a medal for the first Blue to break ranks and sign up," announced the Journalist recklessly. "I'll lobby my editor to have it publicized alongside one of my columns."

"Thank you. We'll take that as minuted," acknowledged the Antiquarian. "On PFI – what we have to remember is that it's a policy of delayed liabilities. Long-term borrowings might not appear as such on public account, but land on the shoulders of the next generation, as an increase in the National Debt."

"You seem to have an obsession with debt," snapped the New Banker, who had previously been sitting back listening. "What would you have us do? Close down all our facilities? Leave private industry without a source of capital, and the elderly without a means of earning from their investments? Just shut down the banks entirely, and leave you marooned in a commercial dessert? Let me remind you and all that our open economy only exists because money simply appears on demand. Our lending is a measured and fitting response to the requests of our clients in their pursuit of growth and opportunity."

"Granted!" replied the Antiquarian. "I appreciate that you are indulging us, dear sir, in setting forth the essential needs for commercial banking in a developed society. But this debate is not about the private entrepreneur who borrows money on his own judgement, and hopefully pays it all back when he's profited from his investment. Our concern is that many loans in the public sector never get paid off, whatever the colour of the gift paper on their wrappings. Remember the Tumbledum road bridge! Because it was financed on borrowed money, it's now got both debt and toll duties, and even with an increase in charges, there's no sign of its capital cost ever being liquidated. So we're entitled to ask just what Government and Treasury are doing with our finances when they blandly acquiesce in the extinction of *seigniorage*, and leave us without a recognized source of public funding for infrastructural improvements. Unlike commercial enterprises, these essential projects don't earn profits, so they can't be expected to pay off debt. Had we not the Talented Engraver, with his design notes, Tumbledee would have been just another casualty of the debt-money system."

"Ah yes, about this so-called Talented Engraver," ventured the Economist, still trying to redeem himself, "I really don't reckon he's worthy of consideration until he's found his way into the text books. But I'm sure there must be a rationale somewhere."

"You can have it now," snapped the Antiquarian with unaccustomed asperity. "Remember that it was the Engraver who set this whole thing in motion several years ago. Having discovered a talent upon which the market place was willing to set an immediate value, treating his engravings like art treasures or ancient masterpieces, he was able to do what charity has tried to accomplish down through the ages – which is effectively to hand down to the least fortunate among us a proportion of what has been denied them through, for instance, the demands of interest-bearing debt.

"Yes, think of it along these lines occasionally," he continued, surveying his audience critically. "Some centuries back, a Fantopian cleric declared that *money is only useful in so far as it stirreth people to industry, and to participate in each other's industry.* Against that background the role of the Engraver becomes symbolic. With his grants to the depressed areas he's doing what might equally have been done by a restoration of seigniorage. He's showing us the way."

"I get it." The Journalist had been wrinkling his brow. "The hand-outs from the art sales made up for the loss of *seigniorage*. The charity bit was what society should have been doing for itself by a fairer system of distribution."

"Our institutions give millions to charity every year," declared New Banker defensively. "No doubt in fitting proportion to what they have taken away," suggested the Politician snidely. The Economist said nothing. He couldn't. There was absolutely nothing about it in the text books.

What Place for Democracy?

But there was scope for him in the next session, where the Journalist had roguishly penciled in *A Question of Interest* as the subject for discussion.

"I've been wondering when this one might come up," he announced smugly. "It's all to do with the base lending rate, of course, and I know some members of this Panel wonder whether we should have a base rate at all. Yet in the financial centres of the Great Republic it's freely acknowledged

The Trouble with Economists

By the late Professor John Hotson

Most economists don't understand money, interest and debt. Maybe they're afraid to understand – because if they did, they'd have to do something about it, and get into trouble with people who do understand – such as the leading bankers.

Thus the situation in monetary theory is where sex education would be if the "storks and babies" fairy tale had become the official paradigm. The facts about money – and baby creation – are well understood, but economists feel bound by the fairy tale.

They likewise feel bound to treat money, like sex, as a risqué subject, better not aired in front of children. The trouble then is that the children grow up, may themselves become economists, and decide that the less known about such matters, the better.

This reconciliation, as between fact and fantasy, enables them to dwell in the best of all possible worlds, where the perennial economic disasters of debt, depression and degradation are someone else's problem.

Professor John Hotson was a lecturer in economics at Waterloo University, Canada.

as the most fundamental financial device for controlling the economy. You'll notice that Him the Incomparable and his Chancellor put our own base rate under control of the Bank of Fantopia as soon as they were elected, and we've had low inflation ever since."

"But does it necessarily follow?" enquired the Journalist. "There was a great deal of talk about zero inflation under the last government, but I don't think it was ever delivered."

"No, and neither could it be within any money system that's subject to leverage," the Antiquarian told him across the table. "That was just the Blues showing off their financial acumen. But once they realized what a booboo they'd served up, they quietly forgot about it.

"Zero inflation," he added, "is a mirage in any economy sustained by interest-bearing debt. The interest payments could not all be found without a constant increase of the total amount of money in circulation, and the difference between them is the inflation factor. Thus prices can double – and double again – in a lifetime. Under a debt system, inflation is like glazing putty. If you squeeze hard enough, you can flatten it, but you can't make it disappear. Just one of the natural laws being ignored by economists!"

"Can I have a quote on that?" asked the Journalist. "You're absolutely ignoring the growth factor," shouted the Economist. "I think I'll stick to politics," said the Politician.

"Gen'lemen! Gen'lemen!" exclaimed the New Banker as voices were raised, and he scented an argument. "When I hear you getting so worked up about interest rates. I feel you should be taking the occasional trip across the Pond. Over there they've go the Fed. – and the boss of the Fed. Is the nearest thing to God that you'll ever meet on this planet. Right now he's got Federal funds down to 1%. Can you beat it? 1% base! He's sucking hot money from the four corners of the universe, and there's nothing anyone can do to stop it."

"He's also piling up the most colossal debt in all financial history," remarked the Antiquarian. "Something like eight trillions of global dollars, mostly in securities. The economy's existing on a knife-edge, as they wonder just when their creditors will stop trading goods for Government paper. The fact is that they've been living far beyond their means, and if they were ever forced into paying even part of that debt, their exchequer would bankrupt immediately."

"It seems to me," said New Banker with the merest suggestion of a smirk, "that over here the franchise and the potential overreach of the Great Republican Fed. Are largely unappreciated. Yes, the Debt is always there as an ever-present problem, but liquidate that Debt, and there wouldn't be much left for anyone." More soberly he added, "That's the way things work in today's investment world. Least of all would there be much of a career for me if it were otherwise."

"Good to get if from the horse's mouth," declared the Politician. "So the loan finance that streams through our letter boxes, the mountains of credit that we see piling up all around us, all begin with debt – bank debt created by a computer. Otherwise it's not in existence. I used to wonder, in my campaigning days, whether there wasn't somewhere a fallacy so brilliantly conceived and concealed, that whole social systems were ensnared by it. I see now, since joining this Panel, that it was there all the time, and it's all to do with money – its creation, and who owns it after it has been created. In my own contacts with the high priests of the Treasury I'd noted a marked reluctance to concede that the common weal had any entitlement to money at all. So if the nation or the Government needed money, then they must borrow it, and at the going rate of interest. All that makes me think, gentlemen."

He looked querulously around the table. "If the banks own all the money – i.e. the State has no money of its own – what are the implications for society as a whole? I mean, they've always told me that money is power, and big money is big power. So total control of money is total power, with all its implications."

"Which must make us see the significance of those last few percentage points of *seigniorage* on People's Money," commented the Antiquarian. "If we can't have it reinstated as a traditional and non-inflationary method of state financing; if we can't agree a procedure for sustaining it at an appreciable level; if the Treasury moguls continue to get away with bank-speak in their official answers to enquiring politicians, they will truly have a monopoly over all forms of money creation; then if the control of money is a form of power, and a monopoly over the creation of money is total power, what place is there for democracy under such a system?"

"Of course there's a place," snapped the New Banker. "Don't we have parliamentary elections every five years, with all sorts of votes and referendums in between? How much more democracy do you want – or need?"

"Perhaps a bit less in quantity, and a whole lot more in quality and integrity," observed the Antiquarian. "The trouble is that under a financial oligarchy, such as we have today in Fantopia, democracy – or what we tend to see as democracy – is put up for grabs by the highest bidder, and candidates for the top jobs – anywhere they'll be in a position to change things – seem invariably to have a dark side to their natures or their lifestyles which entraps them in the pursuit of hidden agendas, regardless of popular mood or national interest."

"In that case," suggested the Politician, "we're probably getting the best democracy money can buy."

To be continued.

Imperialism *from page 12*

shamefully, Libya have proven.

The empire of today is the most destructive and dangerous empire that has ever confronted the human race. In the name of freedom, democracy, and economic prosperity, it is pillaging the third world at an unprecedented rate, leading to devastating wars of terror and occupation. The failures of capitalism should be clear to everyone not on its payroll, and the choice facing humanity today should be even more clear: Socialism or barbarism.

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The Dog that (Almost) Roared

By Frank Bruni, The New York Times, September 1, 2013

Beijing – If it quacks like a duck, it's probably a duck.

And if it barks like a dog? It's probably not an "African lion."

That's how an exhibit in a zoo in the Chinese city of Luohe was labeled, but that's not what the exhibit held, a discrepancy apparent when a mother who had been teaching her young son about sounds that different animals make heard the one that they were looking at emit something tamer and more familiar than a roar. A fluffy-maned mastiff was standing in for the king of the jungle, and none too persuasively.

At the Luohe zoo, such understudies were reportedly everywhere: in the wolf's cage, another dog; in the leopard's lair, a fox. It was Noah's ersatz ark, not to mention fresh proof that no country does knockoffs with a versatility and an ambition quite like China's.

The zoo story broke shortly before I got here last week. After, the news was dominated by the "trial of the century" of the disgraced Communist Party big-wig Bo Xilai, accused of a degree of avarice and corruption that mocked his onetime reputation as a champion of the little people. With transcripts released nearly in real time, the legal proceedings were made to seem, at least initially like a bold new experiment in government transparency.

Except that they weren't. The transparency was partly counterfeit. Many reporters couldn't get into the courtroom, portions of testimony were clearly redacted, and a few of the official photos looked staged, a possibility noted on social media when Bo, a tall man, was shown wedged between two court officers who were both, against all odds, even taller. Suddenly, miraculously, the strapping hero was a humbled pipsqueak, which was pretty much how the government wanted him seen. And his Chinese audience feasted on a layer cake of fakery: the fraudulently open trial of an allegedly fraudulent populist made to look fraudulently small.

This was my first time in mainland China, and I was struck by paradoxical realities. One, which I fully expected, was just how much is being built and accomplished here, at a velocity that takes your breath away.

The other was how much exaggeration, gilding, deception and misdirection nonetheless occur.

In Beijing I turned to a local resident I'd met and remarked, "This city is greener than people tell you it is."

"Not really," she responded, explaining that the trees we happened to be passing by where neither representative nor entirely honest. They'd been planted, along with tens of millions of others, for the 2008 Olympics, as Beijing constructed a Potemkin eco-friendliness for the world. These were the same Olympics, I was later reminded, at which the adorable little girl singing *Ode to the Motherland* at the opening ceremony was lip-syncing to the voice of another little girl who had been deemed insufficiently adorable for the television cameras.

Of course most cities pretty themselves up for guests, the trees are here to stay and even Beyoncé pulled a fast one, using prerecorded vocals for President Obama's second inauguration. And all great, self-respecting nations have their areas of expert artifice, their specialized spuriousness: Venezuela, its plastic beauty-pageant contestants; Italy, its lowballed tax returns; Britain, its hollow courtesies; America, its Ponzi schemes. To forge is human.

But the Chinese are divine at it. Or at least unabashed. The reported food scams are most infamous: rat masquerading as lamb; bargain-basement liquor in premium-brand bottles; soy sauce made from human hair swept off barbershop floors and processed for optimal deliciousness. There was even a widely disseminated dispatch in 2007 about dumplings filled with cardboard, but in a transcendently poetic twist, the story itself was called into question as a possible fake.

There have been very serious problems with phony pharmaceuticals and less serious ones with make-believe monks, their reverent garb and holy mannerisms a ruse for collecting donations and peddling spiritual trinkets. Earlier this year two temples on one of China's sacred Buddhist mountains were closed because of such impostors.

In July an entire museum was shuttered after claims that many of its 40,000 artifacts weren't quite as ancient as they pretended to be. One of the giveaways? The kind of writing on relics that supposedly dated back four millennia hadn't come into widespread use until the last 100 or so years.

I've read about a bogus Apple store so much like the genuine article that its employees as well as its customers were duped.

Beijingers I met filled me in on other improvisations.

"Fake commenters," one of them said, explaining that you can't know whether the assent and the raves that accompany a Web post or video are real or paid for, a practice believed to be especially prevalent here.

"Fake divorces," another Beijinger said, noting a phenomenon by which couples who were trying to avoid extra taxes on the sale of second homes would dissolve their unions and thus become two individuals with one home each. They would then remarry once their real-estate transaction was complete.

David Barboza of *The Times* wrote about that in March. Last month he was back with an exposé of the sprawling Chinese industry in fake receipts and invoices, with which employees defraud companies and companies defraud the government. During one government crackdown on that industry in 2009, 1,045 production sites for fictive invoices were closed.

I've been asking people who know China a whole lot better than I do what to make of all of this. They say that it's an example of entrepreneurship on steroids, of an economy moving so fast and furiously that regulations are pointless and real vigilance is almost impossible. They say that it reflects a culture in which the face of things often attracts more fussing than the soul of them and that it's an offshoot of a political system dependent on impressions, atmospherics, half-truths.

In any case it's corrosive, eating away at the trust that people on the outside and the inside can have in this mighty country and its manifold wares. And it's worrisome, at times jeopardizing people's health, perhaps mental as well as physical. I felt relentlessly on guard, I was always suspicious.

Riding down the mountainside from a stretch of the Great Wall, I noticed a sign in the cable car that said that President Bill Clinton had used the very same vessel for his own Wall excursion on June 28, 1998. As soon as my car stopped, I sprinted around the landing platform to try to look inside others and see if they made the same claim. Workers foiled me, so I'll never be sure: was my perch Bill's perch? Or had I been a sitting duck for yet more Chinese quackery?

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Our Comment. Possibly the solution is to back-up the buggy, only to find that the horse is dead. Translated into money terms in this hapless world, that reads, more or less. Our grandchildren will be picking up the tabs for these costly expenses. *W.K.*

Facial Scanning is Making Gains in Surveillance

By Charlie Savage, The New York Times, August 21, 2013

US security tool, still in testing, is raising privacy concerns.

Washington – The federal government is making progress on developing a surveillance system that would pair computers with video cameras to scan crowds and automatically identify people by their faces, accordingly to newly disclosed documents and interviews with researchers working on the project.

The Department of Homeland Security recently tested a crowd-scanning project called the Biometric Optical Surveillance System – or BOSS – after two years of government-financed development. Although the system is not ready for use, researchers say they are making significant advances. That alarms privacy advocates, who say that now is the time for the government to establish oversight rules and limits on how it will someday be used.

There have been stabs for over a decade at building a system that would help match faces in a crowd with names on a watch list – whether in searching for terrorism suspects at high-profile events like a presidential Inaugural parade, looking for criminal fugitives in places like Times Square or identifying card cheats in crowded casinos.

The automated matching of close-up photographs has improved greatly in recent years, and companies like Facebook have experimented with it using still pictures.

But even with advances in computer power, the technical hurdles involving crowd scans from a distance have proved to be far more challenging. Despite occasional much-hyped tests, including one as far back as the 2001 Super Bowl, technical specialists say crowd scanning is still too slow and unreliable.

The release of the documents about the government's efforts to overcome those challenges comes amid a surge of interest in surveillance matters inspired by the leaks by Edward J. Snowden, the former National Security Agency contractor. Interest in video surveillance was also fueled by the attack on the Boston Marathon, where suspects were identified by officials looking through camera footage.

In a sign of how the use of such technologies can be developed for one use but then expanded to another, the BOSS research began as an effort to help the military detect potential suicide bombers and other terrorists overseas at "outdoor polling places in Afghanistan and Iraq," among other sites, the documents show. But in 2010, the effort was transferred to the Department of Homeland Security to be developed for use instead by the police in the United States.

Technology Improvements Are Inevitable

After a recent test of the system, the department recommended against deploying it until more improvements could be made. A department official said the contractor was "continuing to develop BOSS," although there is no sign of when it may be done. But researchers on the project say they made progress, and independent specialists say it is virtually inevitable that someone will make the broader concept work as camera and computer power continue to improve.

"I would say we're at least five years off, but it all depends on what kind of goals they have in mind" for such a system, said Anil Jain, a specialist in computer vision and biometrics engineering at Michigan State University who was not involved in the BOSS project.

The effort to build the BOSS system involved a two-year, $5.2 million federal contract given to Electronic Warfare Associates, a Washington-area defense contractor with a branch office in Kentucky. The company has been working with the laboratory of Aly Farag, a University of Louisville computer vision specialist, and the contract was steered to the firm by an earmark request in a 2010 appropriations bill by Senator Mitch McConnell of Kentucky, the Republican leader.

Significant progress is already being made in automated face recognition using photographs taken under ideal conditions, like passport pictures and mug shots. The Federal Bureau of Investigation is spending $1 billion to roll out a Next Generation Identification system that will provide a national mug shot database to help local police departments verify identities.

But surveillance of crowds from a distance – in which lighting and shadows vary, and faces tend to be partially obscured or pointed in random directions – is still not reliable or fast enough. The BOSS research is intended to overcome those challenges by generating far more information to computers to analyze.

The system consists of two towers bearing "robotic camera structures" with infrared and distance sensors. They take pictures of the same subject from slightly different angles. A computer then processes the images into a "3-D signature" built from data like the ratios between various points on someone's face to be compared against data about faces stored in a watch-list database, the documents show.

The Homeland Security Department hired the Pacific Northwest National Laboratory to test the BOSS system at an arena in Kennewick, Wash. The plan, according to a "privacy impact assessment," was to use 30 volunteers whose facial data would be mingled in a database among 1,000 mug shots to see whether the system could reliably recognize when any of the volunteers were present.

The agency set up six tests to determine the technology's overall accuracy, determining afterward that "it was not ready for a DHS customer" – meaning that police departments should not buy it.

In interviews, Ed Tivol of Electronic Warfare associates and Dr. Farag both suggested that as computer processing becomes faster the remaining obstacles will fall away.

Mr. Tivol said the goal was to provide a match with an 80 to 90 percent certainty from a range of up to 100 meters, something "that has never been done." While the system continued to have problems with light and shading in some tests, he said, in others the goal had been achieved at closer distances. Farther away, he said the accuracy has fallen to 60 to 70 percent.

"The results were increasingly positive," he said. There was a speed, too, he said. At first, it took the system six to eight minutes to process images, but it now takes under 30 seconds.

Still, he and Dr. Farag said, the officials overseeing the testing wanted a quicker turnaround. That might be easier with the more powerful computers available to the military, they said, but the government wanted them to use processors available off the shelf for civilian applications.

Several independent biometric specialists, given a description of the project's test results, agreed that the system was not yet ready. They said 30 seconds was far too long to process an image for security purposes, and that its accuracy numbers would result in the police going out to question too many innocent people.

Several of the specialists also suggested that similar technology may be progressing more quickly in other laboratories that have not received taxpayer financing. A spokesman for Mr. McConnell stressed that while he requested that the contract go to Electronic Warfare Associates, it was "competitively bid." Federal records show the firm was the only one to submit a bid.

Ginger McCall, a privacy advocate who obtained the documents under the *Freedom of Information Act* and provided them to *The New York Times*, said the time was now – while such technology is still maturing and not yet deployed – to build in rules for how it may be used.

"This technology is always billed as anti-terrorism, but then it drifts into other applications," Ms. McCall said. "We need a real conversation about whether and how we want this technology to be used, and now is the time for that debate."

In particular, she said there should be limits on whose faces are loaded into them when they are ready for deployment. Ms. McCall said it would be acceptable to use it for terrorism watch lists, but she feared any effort to systematically track everyone's public movements by using a comprehensive database of driver's license photographs.

Still, Dr. Farag said, that kind of system is still very far off because it would take far too much computer processing power to load millions of images into a system and try to identify everyone at once, as opposed to sorting images in search of only a comparatively small number of faces on a watch list.

"Disappointments come when you are overambitious," he said.

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Our Comment. What does the concept "overambitious" mean in such context – forgo the concept of already approved data? Unless you specify this with some clarity instead of leaving it vague you are refusing both your conductors and those whom you pretend to serve. *W. Krehm*

Bail-out Is Out, Bail-in Is In: Time for Some Publicly-owned Banks

By Ellen Brown, OpEdNews.com, Op Eds, April 30, 2013

"[W]ith Cyprus…the game itself changed. By raiding the depositors' accounts, a major central bank has gone where they would not previously have dared. The Rubicon has been crossed." – Eric Sprott, Shree Kargutkar, "Caveat Depositor"

The crossing of the Rubicon into the confiscation of depositor funds was not a one-off emergency measure limited to Cyprus. Similar "bail-in" policies are now appearing in multiple countries. (See my earlier articles here.) What triggered the new rules may have been a series of game-changing events including the refusal of Iceland to bail out its banks and their depositors; Bank of America's commingling of its ominously risky derivatives arm with its depository arm over the objections of the FDIC; and the fact that most EU banks are now insolvent. A crisis in a major nation such as Spain or Italy could lead to a chain of defaults beyond anyone's control, and beyond the ability of federal deposit insurance schemes to reimburse depositors.

The new rules for keeping the too-big-to-fail banks alive: use creditor funds, including uninsured deposits, to recapitalize failing banks.

But isn't that theft?

Perhaps, but it's legal theft. By law, when you put your money into a deposit account, your money becomes the property of the bank. You become an unsecured creditor with a claim against the bank. Before the Federal Deposit Insurance Corporation (FDIC) was instituted in 1934, US depositors routinely lost their money when banks went bankrupt. Your deposits are protected only up to the $250,000 insurance limit, and only to the extent that the FDIC has the money to cover deposit claims or can come up with it. The question then is, how secure is the FDIC?

Can the FDIC Go Bankrupt?

In 2009, when the FDIC fund went $8.2 billion in the hole, Chairwoman Sheila Bair assured depositors that their money was protected by a hefty credit line with the Treasury. But the FDIC is funded with premiums from its member banks, which had to replenish the fund. The special assessment required to do it was crippling for the smaller banks, and that was just to recover $8.2 billion. What happens when Bank of America or JPMorganChase, which have commingled their massive derivatives casinos with their depositary arms, is propelled into bankruptcy by a major derivatives fiasco? These two banks both have deposits exceeding $1 trillion, and they both have derivatives books with notional values exceeding the GDP of the world.

Bank of America Corporation moved its trillions in derivatives (mostly credit default swaps) from its Merrill Lynch unit to its banking subsidiary in 22011. It did not get regulatory approval but just acted at the request of frightened counterparties, following a downgrade by Moody's. The FDIC opposed the move, reportedly protesting that the FDIC would be subjected to the risk of becoming insolvent if BofA were to file for bankruptcy. But the Federal Reserve favored the move, in order to give relief to the bank holding company. (Proof positive, says former regulator Bill Black, that the Fed is working for the banks and not for us. "Any competent regulator would have said: "No, Hell NO!"")

The reason this risky move would subject the FDIC to insolvency is that under the *Bankruptcy Reform Act* of 2005, derivatives counterparties are given preference over all other creditors and customers of the bankrupt financial institution, including FDIC insured depositors. my (See earlier article here.) Normally, the FDIC would have the powers as trustee in receivership to protect he failed bank's collateral for payments made to depositors. But the FDIC's powers are overridden by the special status of derivatives. (Remember MF Global? The reason its customers lost their segregated customer funds to the derivatives claimants was that derivatives have super-priority in bankruptcy.)

The FDIC has only about $25 billion in its deposit insurance fund, which is mandated by law to keep a balance equivalent to only 1.15 percent of insured deposits. And the Dodd-Frank act (Section 716) now bans taxpayer bailouts of most speculative derivatives activities. Drawing on the FDIC;s credit line with the Treasury to cover a BofA or JPMorgan derivatives bust would be the equivalent of a taxpayer bailout, at least if the money were not paid back; and imposing that burden on the FDIC's member banks is something they can ill afford.

BofA is not the only bank threatening to wipe out the federal deposit insurance funds that most countries have. According to Willem Buiter, chief economist at Citigroup, most EU banks are zombies. And that explains the impetus for the new "bail in" policies, which put the burden instead on the unsecured creditors, including the depositors. Below is some additional corroborating research on these new, game-changing bail-in schemes.

Depositors Beware

An interesting series of commentaries starts with one on the website of Sprott Asset Management Inc. titled "Caveat Depositor," in which Eric Sprott and Shree Kargutkar note that the US, UK, EU, and Canada have all built the new "bail in" template to avoid imposing risk on their governments and taxpayers. They write:

"[M]ost depositors naively assume that their deposits are 100% saved in their banks and trust them to safeguard their savings. Under the new 'template' all lenders (including depositors) to the bank can be forced to 'bail in' their respective banks."

Dave of Denver then followed up on the Sprott commentary in an April 3 entry on his blog *The Golden Truth*, in which he pointed out that the new template has long been agreed to by the G20 countries:

"Because the use of taxpayer-funded bailouts would likely no longer be tolerated by the public, a new bank rescue plan was needed. As it turns out, this new 'bail-in' model is based on an agreement that was the result of a bank bail-out model that was drafted by a sub-committee of the BIS (Bank for International Settlement) and endorsed at a G20 summit in 2011. For those of you who don't know, the BIS is the Global 'Central Bank' of Central Banks. As such it is the World's most powerful financial institution."

The links are in Dave's April 1 article, which states:

"The new approach has been agreed at the highest levels…. It has been a topic under consideration since the publication by the Financial Stability Board (a BIS committee) of a paper, *Key Attributes of Effective Resolution Regimes for Financial Institutions* in October 2011, which was endorsed at the Cannes G20 summit the following month. This was followed by a consultative document in November 2012, *Recovery and Resolution Planning: Making the Key Attributes Requirements Operational.*"

Dave goes on:

"[W]hat is commonly referred to as a "bail-in" in Cyprus is actually a global bank rescue model that was derived and ratified nearly two years ago…. [B]ank deposits in excess of Government insured amount in any bank in any country will be treated like unsecured debt if the bank goes belly-up and is restructured in some form."

Jesse at Jesse's Café Americain then picked up the thread and pointed out that it is not just direct deposits that are at risk. The too-big-to fail banks have commingled accounts in a web of debt that spreads globally. Stock brokerages keep their money market funds in overnight sweeps in TBTF banks, and many credit unions do their banking at large TBTF correspondent banks:

"You say you have money in a pension fund and an IRA at XYZ bank? Oops, it is really on deposit in you-know-who's bank. You say you have money in a brokerage account? Oops, it is really being held overnight in their TBTF bank. Remember MF Global? Who can say how far the entanglements go? The current financial system and market structure is crazy with hidden risk, insider dealings, control frauds, and subtle danger."

Also at Risk: Pension Funds and Public Reserves

William Buiter, writing in the UK *Financial Times* in March 2009, defended the bail-in approach as better than the alternative. But he acknowledged that the "unsecured creditors" who would take the hit were chiefly "pensioners drawing their pensions from pension funds heavily invested in unsecured bank debt and owners of insurance policies with insurance companies holding unsecured bank debt," and that these unsecured creditors "would suffer a large decline in financial wealth and disposable income that would cause them to cut back sharply on consumption."

The deposits of US pension funds are well over the insured limit of $250,000. They will get raided just as the pension funds did in Cyprus, and so will the insurance companies. Who else?

Most state and local governments also keep far more on deposit than $250,000, and they keep these revenues largely in TBTF banks. Community banks are not large enough to service the complicated banking needs of governments, and they are unwilling or unable to come up with the collateral that is required to secure public funds over the $250,000 FCIC limit.

The question is, how secure are the public funds in the TBTF banks? Like the depositors who think FDIC insurance protects them, public officials assume their funds are protected by the collateral posted by their depository banks. But the collateral is liable to be long gone in a major derivatives bust, since derivatives claimants have super-priority in bankruptcy over every other claim, secured or unsecured, including those of state and local governments.

The Cyprus Wakeup Call

Robert Teitelbaum wrote in a May 2011 article titled "The Case Against Favored Treatment of Derivatives":

"…Dodd-Frank did not touch favored status [of derivatives] and despite all the sound and fury,…there are very few signs from either party that anyone with any clout is suddenly about to revisit that decision and simplify bankruptcy treatment. Why? Because for all its relative straightforwardness compared to more difficult fixes, derivatives remains a mysterious black box to most Americans…. [A]s the sense of urgency to reform passes…we return to a situation of technical interest to only a few, most of whom have their own particular self-interest in mind."

But that was in 2011, before the Cyprus alarm bells went off. It is time to pry open the black box, get educated, and get organized. Here are three things that need to be done for starters:

"Protect depositor funds from derivative raids by repealing the super-priority status of derivatives.

"Separate depository banking from investment banking by repealing the *Commodity Futures Modernization Act* of 2000 and reinstating the *Glass-Steagall Act.*

"Protect both public and private revenues by establishing a network of publicly-owned banks, on the model of the Bank of North Dakota."

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Linking Hands, Catalans Press Case for Secession

By Raphael Minder, The New York Times, September 12, 2013

Barcelona, Spain – Hundreds of thousands of people waved flags and joined hands across Catalonia on Wednesday, in a show of popular force that Catalan leaders hope will revive their push for Spain's economically most powerful region to secede from the rest of the country.

The human chain was formed on what Catalonia's 7.5 million inhabitants celebrate as their national day. Last year, hundreds of thousands gathered on the same day in Barcelona, in northeastern Spain, in what was the largest separatist event to date.

Organizers of this year's event insisted that even more people joined the demonstration, but official government figures were not immediately available. The chain on Wednesday ran for 250 miles through villages in the Pyrenees, close to the border with France, all the way to resorts on the Mediterranean Sea.

The turnout served as a stinging reminder for the central government of Prime Minister Mariano Rajoy that the separatist push in Catalonia remains one of Madrid's main domestic challenges, even though Mr. Rajoy has repeatedly warned Catalonia that any independence referendum would violate Spanish law.

Having regrouped after a setback in regional elections in November, Artur Mas, the president of the Catalan government, now appears as determined as ever to push his secession agenda. On Wednesday he told a briefing of foreign correspondents that "there is a Catalan road map that is perfectly established and that we're following step by step," all the way toward forming a new state. That road map "goes through the ballot box," he added.

Mr. Mas shot to the forefront of Spanish politics with last year's demonstration, organized as a show of popular discontent and separatist aspiration after Mr. Rajoy refused to grant Catalonia the favorable fiscal treatment it demanded. Catalonia's leader, who in conversation talk about Spain as if it is a separate country, remain determined to succeed in their separatist push.

Mr. Mas's setback in November, when voters punished him for shifting attention away from his government's unpopular austerity measures and other pressing economic issues, gave him unexpected breathing space. It also forced Mr. Mas to focus on Catalonia's messy internal politics and form a coalition with lawmakers who share his separatist ambitions but not his economics agenda.

He and his parliamentary coalition partners say they are committed to holding a referendum next year, but their ability to stick to that pledge is far from certain, as is the shape that vote will take.

Many participants in Wednesday's human chain, some wearing the red and yellow flag of Catalonia, said they trusted that their politicians would eventually force a referendum on the region's independence.

"I want my first-ever vote to be one for independence," said Judit Buxeda, who recently turned 18, the minimum voting age in Spain. "We want to be in charge and decide how to promote our own history, language and culture without being told by Spain how to do it."

Mr. Mas has recently left the door open for further negotiations with Madrid, despite Mr. Rajoy's refusal to cede any ground. This month, after holding what was meant to be a secret meeting with Mr. Rajoy in Madrid, Mr. Mas suggested that a Catalan vote might end up taking place as late as 2016, in the form of a regional election, rather than meeting the 2014 referendum deadline to which he agreed with his pro-independence coalition partners.

While couched in high-minded ideals, much of the recent feuding between Madrid and Catalonia has centered on the more mundane issue of whether relatively affluent Catalonia's somewhat oversize share of the national budget should be reduced.

At the same time, Catalonia's own financial mismanagement has come under the spotlight. Catalan politicians are entangled in corruption scandals linked to the construction bubble that burst in 2008. Last year, the government of Mr. Mas failed to meet the budget deficit target set by Madrid. It has also been struggling to reduce about $66 billion in public debt.

In Catalonia's largest city, Barcelona, there were two separate human chains, one circling the Sagrada Familia, the unfinished basilica built by Antoni Gaudi. Large crowds also gathered in some of Barcelona's main squares.

"Some people in Spain and around the world were saying that the separatist impulse of last year was dying down or changing, but this is a very visual way to show that this is far from being the case," said Alfred Bosch, leader in the Spanish Parliament of the left-leaning Esquerra Republicana de Catalunya party, which has long pushed for independence.

While the mass gathering came to a peaceful end in Catalonia, a group of extremists, using tear gas, attacked a Catalan cultural center in Madrid in the early evening, leaving five people lightly injured, according to Spanish news reports.

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Our Comment. Good and bad examples seen being offered from confusing directions. Since Catalan history can be traced back thousands of years before that of Castillian, the scope for muddle and even puddle-headedness is practically and historically seemingly unlimited. *W.K.*

Wall Street wonderboys Read the extract from a letter written by Larry Page and Sergey Brin, the founders of Google, the internet search company. Google is not a conventional company. We do not intend to become one.Â The new men on the block fight the Wall Street cartel 1 LARRY Page and Sergey Brin, the founders of Google, are doing something that has never been risked before. Not by Microsoft's Bill Gates. Not even by Apple's Steve Jobs. The Google guys are telling Wall Street to drop dead. Socially responsible investment (SRI) â€œmay involve financial sacrificeâ€. Thatâ€™s according to Olivia S Mitchell, a professor of business economics and public policy at the Wharton School of the University of Pennsylvania, who was interviewed by the Wall Street Journal last week. In an article entitled The Financial Sacrifice of Socially Responsible Investing, Mitchell said investors would â€œlimit [their] investment menuâ€ by looking at SRI, and could â€œend up ruling out many of the most profitable and highly stable firms around the worldâ€. But her analysis is certainly not accepted across the boar Formed by Occupy's Alternative Banking Group, it will provide low-cost financial services that return profits to communities rather than Wall Street, thereby shifting the balance of power from bankers to depositors. Will Occupy return to stake out a new protest campground this year? I don't know.Â Take this quiz of politicians' values to find your perfect MP. Published: 5 Mar 2014. Former drug addict or working class hero: who is your ideal politician?