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Dear Friends....

This week, Attorney General Eric Holder announced that the government was suing Standard & Poor's (the largest credit-rating agency in the world) for "*knowingly issuing inflated credit ratings,*" which led to the loss of billions of dollars. "*S&P falsely claimed that its ratings were independent, objective, and not influenced by the company's relationship with the issuers who hired S&P to rate the securities in question,*" said Holder. "*In reality, the ratings were affected by significant conflicts of interest, and S&P was driven by its desire to increase its profits and market share to favor the interests of issuers over investors.*" The charges mark the first enforcement action the government has taken against any of the three major rating agencies involving the worst financial crisis since the Great Depression.

Standard & Poor's (S&P) is an American financial services company. It is a division of The McGraw-Hill Companies that publishes financial research and analysis on stocks and bonds. S&P is known for its stock market indices such as the U.S.-based S&P 500, the Australian S&P/ASX 200, the Canadian S&P/TSX, the Italian S&P/MIB and India's S&P CNX Nifty. The company is one of the Big Three credit-rating agencies, which also include Moody's Investor Service and Fitch Ratings.

S&P's head office is located on 55 Water Street in Lower Manhattan, New York City. The company traces its history back to 1860, with the publication by Henry Varnum Poor of *History of Railroads and Canals in the United States*. This book was an attempt to compile comprehensive information about the financial and operational state of U.S. railroad

companies. Henry Varnum went on to establish H.V. and H.W. Poor Co. with his son, Henry William, and published annually updated versions of this book.

In 1906, Luther Lee Blake founded the **Standard Statistics Bureau**, with the view to providing financial information on non-railroad companies. Instead of an annually published book, Standard Statistics would use 5" x 7" cards, allowing for more frequent updates. In 1941, Poor and Standard Statistics merged to become Standard & Poor's Corp. In 1966, the company was acquired by The McGraw-Hill Companies, and now encompasses the Financial Services division.

According to the lawsuit, S&P rated more than \$2.8 trillion of residential mortgage-backed securities and about \$1.2 trillion of collateralized-debt obligations between September 2004 and October 2007. "To date, we have identified more than \$5 billion in ... losses, resulting from CDOs that were rated by S&P between March and October 2007," the attorney general said. *"During this period, nearly every single mortgage-backed CDO that was rated by S&P not only underperformed -- but failed."*

S&P has won several previous lawsuits about these ratings by private investors. The firm won those cases by essentially saying its analysts were incompetent, not negligent. The company argued -- and the courts agreed -- that ratings are opinions and therefore protected by the right to free speech. In an apparent effort to get around this defense the Justice Department is suing S&P under the Financial Institutions Reform Recovery and Enforcement Act, a 1989 law passed following the savings-and-loan crisis that imposes a relatively low burden of proof. Several attorneys general were at the press conference with Holder. Sixteen states and the District of Columbia are also suing S&P.

Many economists, investors and analysts did in fact warn of the impending meltdown, although at the time they did not get much attention from Wall Street, banking regulators or the media. In today's announcement Holder argued that S&P knowingly ignored its own ratings standards for several years prior to the meltdown.

"As early as 2003, analysts within S&P raised concerns about the accuracy of the company's rating system, as well as the underlying methodology," Holder said. *"S&P executives allegedly ignored these warnings, and -- between 2004 and 2007 -- concealed facts, made false representations to investors and financial institutions, and took other steps to manipulate ratings criteria and credit models to increase revenue and market share."*

Even prior to this case government investigators have unearthed a wealth of evidence that could be used against S&P. In 2011 The Senate Permanent Subcommittee on Investigations published a report on the ratings agencies which included the following email exchange between S&P staffers about bonds which collapsed a little more than a year after being rated AAA:

Analyst Lois Cheng: *"Um ... looks like the remaining portion is actually all sub-prime."*

Analyst Lauren Sprinkle: *"Do you want to address this with them, or let it go?"*

Analyst Shannon Mooney: *"Hey, let the higher ups handle this."*

Shares of McGraw-Hill Cos., which owns S&P, were down 5.83 percent to \$47.24 in midday trading on Tuesday. On Monday shares dropped nearly 14 percent the day before on the expectation that a lawsuit would be filed. Questions at Tuesday's press conference centered on why only S&P is being sued. Moody's and Fitch also issued flawed ratings that were just as subject to conflicts of interest. Holder and his lieutenants would only discuss S&P.

The suit is likely to re-open debate over the role of credit rating agencies in the financial system, a role that is at least partly by design. The SEC in 1975 began certifying ratings by select credit agencies the government called Nationally Recognized Statistical Rating Organizations. That designation meant that the financial markets could regard firms' ratings as credible. That special status, which some experts have called a "regulatory license," gave these firms enormous competitive advantage and helped cement the dominance of the larger agencies.

More important, the label gave investors, bond issuers and other market players confidence -- or the appearance of it -- that a "AAA" rating meant a security was safe. In an age when banks use securitization to pass along loans, and their underlying risks, to other parties, ratings became less a measure of asset quality than a government-endorsed stamp of approval. Although lawmakers debated abolishing the use of NRSROs following the housing crash, they have yet to take action. In principle, that would open the ratings industry to new competitors and force regulators and investors to develop new ways of evaluating credit.

Credit ratings are forward-looking opinions about credit risk. Standard & Poor's credit ratings express the agency's opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time. Credit ratings can also speak to the credit quality of an individual debt issue, such as a corporate note, a municipal bond or a mortgage-backed security, and the relative likelihood that the issue may default.

Ratings are provided by organizations such as Standard & Poor's, Moody's and Fitch are commonly called credit rating agencies, which specialize in evaluating credit risk. Each agency applies its own methodology in measuring creditworthiness and uses a specific rating scale to publish its ratings opinions. Typically, ratings are expressed as letter grades that range, for example, from 'AAA' to 'D' to communicate the agency's opinion of relative level of credit risk.

Additionally, state lawsuits could add to S&P exposure as more and more join the battle against the credit-ratings firm. A raft of lawsuits this week from attorneys general from several states, including California and Iowa, is compounding S&P's legal woes over its role during the financial crisis of 2008-2009. Thirteen states and the District of Columbia have followed in the Justice Department's footsteps, filing separate lawsuits against S&P on Tuesday. The California attorney general alone is suing S&P for about \$4 billion to recover funds for two of the country's largest public pension funds, according to its lawsuit.

While the federal government is just embarking on what looks to be a bitter battle with S&P, some of the states said the wind is at their backs. The suits by Illinois and Connecticut are moving through the courts, after state judges there rejected S&P's requests to end the cases. Mississippi's case also is pending. *"The momentum is clearly with us,"* Connecticut Attorney General George Jepsen said in an interview. *"S&P, in addition to facing the Department of Justice, faces a solid front of state lawsuits all built on a legal theory that has twice passed muster."* S&P has said it stands behind its ratings. Connecticut and Mississippi also have sued S&P rival Moody's Corp.'s MCO -7.70% Moody's Investors Service on similar grounds. Moody's has said in the past that it would fight the suits. But the majority of other attorneys general have focused exclusively on S&P.

"S&P is the largest credit-rating agency in the world," Illinois Attorney General Lisa Madigan said on Tuesday. *"The evidence against S&P is very strong."* The lawsuits *"really demonstrate that there is an expanding effort to hold S&P accountable for the central role they played in the financial collapse,"* she said. The California lawsuit says that S&P's alleged focus on market share at the expense of ratings quality has continued after the financial crisis. A spokesman for the Massachusetts attorney general said prosecutors there were also looking at S&P's conduct after the financial crisis. *"Our office is engaged in our own related investigation into this matter, and we are closely monitoring this lawsuit filed by other attorneys general,"* the spokesman said. ***It is about time.... because a bunch of guys lied and S&P told the world that what they said and did was true and the transactions were good... Therefore companies like this that believe that getting caught is just the price of doing business, maybe billions of dollars in fines and times 5 to 10 times in restitution may change the way business is done on Wall Street.... And if S&P ends up going the way of Arthur Andersen so be it...***

THIS WEEKEND READINGS

This week in **The Huffington Post**, Robert Kuttner in his article – *Weak Economy, Wrong Debate* – questions what is actually happening to the economy, as the DOW hit 14,000 last week, while unemployment rose and the GDP fell in the last three months of 2012. Obviously, the economy is still weighted down by the legacy effects of the financial collapse of 2008 -- mortgages that exceed the value of homes, students staggering under the weight of college loans in a dismal job market, retired people for whom low interest rates mean low returns on savings, corporations looting pensions, and above all flat or declining wages. And although the country is in a recovery, it is a weak recovery.

What exactly happened in the last quarter of 2012 to cause the recovery not just to stall -- but to actually shrink the economy by a tenth of a point? According to the Commerce Department, there were multiple factors. Exports slumped, business purchases to replenish inventory slowed, but here is the sentence that screams out: *"Real federal government consumption expenditures and gross investment decreased 15.0 percent in the fourth quarter, in contrast to an increase of 9.5 percent in the third."* In other words, cut government spending and you undermine a fragile recovery.

Bowing to deficit hawk's "Fix the Debt Campaign" both Congress and President decided to allowed deflationary budget cuts, while the Federal Reserve has used ultra low interest rates favoring captains of industry, millionaires and billionaires to keep things afloat. We have to wonder why, despite the unreality of their claims the austerity lobby keeps winning by defining the terms of debate – arguing about the economic recovery in terms of what the debt-to-GDP ratio should be in 2023.

Kuttner believes that this is the wrong question. The right question is: how do we get a stronger recovery going now? With robust growth, especially of wages, the debt ratio will come down. Excessive budget cutting in a depressed economy slows growth and worsens the debt ratio, but with the exception of Krugman, Joseph Stiglitz, and your faithful blogger, that's not a point widely made in the debate. (Let's also credit Jamie Galbraith, Bob Reich, Larry Mishel and Dean Baker.) Deficit hawks forget that in 1945 the debt ratio was much larger than today -- 120 percent of GDP versus today's 72 percent. But anyone in 1945 urging that the main economic issue was the debt ratio in 1955 would have been laughed out of town. The main issue was how to re-employ 12 million returning G.I.s.

If we listen to deficit hawks and follow a fiscal policy of *slash-and-burn*, we are guaranteed to have another slump between now and 2022 -- quite possibly a continuing slump for the entire decade. Because if you slow down growth by excessive belt-tightening, tax revenues fall and the deficit goes up. You can't just assume that every dollar of deficit reduction equals a dollar credited to reduction of the debt ratio. Our economy is driven by the purchasing of the bottom 99% – purchasing power on the part of ordinary families. In summary: unless we stop obsessing on cutting the debt ratio as an end in itself, we are condemned to a decade of economic under-performance.

This week in the **New York Times**, Paul Krugman wrote — *Friends of Fraud* — one of the shining examples of financial reform was the creation of a Consumer Financial Protection Bureau, a stand-alone agency with its own funding, charged with protecting consumers against financial fraud and abuse. We need is consumer financial protection necessary because fraud and abuse happen. More importantly not all consumers are educated and informed. As Edward Gramlich, the Federal Reserve official who warned in vain about the dangers of sub-prime, famously asked, "*Why are the most risky loan products sold to the least sophisticated borrowers?*" He went on, "*The question answers itself — the least sophisticated borrowers are probably duped into taking these products.*" So why are Republicans trying to kill it?

Using extortion Republicans are threatening to filibuster the appointment of Richard Cordray, the bureau's acting head, and thereby leave the bureau unable to function. Mr. Cordray, whose work has drawn praise even from the bankers, is clearly not the issue. Instead, it's an open attempt to use raw obstructionism to overturn the law. They are trying to take away the protection bureau's independence. They want its actions subjected to a veto by other, bank-centered financial regulators, ensuring that consumers will once again be neglected, and they also want to take away its guaranteed funding, opening it to interest-group pressure. These changes would make the agency more or less worthless — but that, of course, is the point.

Krugman: How can the G.O.P. be so determined to make America safe for financial fraud, with the 2008 crisis still so fresh in our memory? In part it's because Republicans are deep in denial about what actually happened to our financial system and economy. On the right, it's now complete orthodoxy that do-gooder liberals, especially former Representative Barney Frank, somehow caused the financial disaster by forcing helpless bankers to lend to Those People.

In reality, this is a nonsense story that has been extensively refuted; I've always been struck in particular by the notion that a Congressional Democrat, holding office at a time when Republicans ruled the House with an iron fist, somehow had the mystical power to distort our whole banking system. But it's a story conservatives much prefer to the awkward reality that their faith in the perfection of free markets was proved false. And as always, you should follow the money. Historically, the financial sector has given a lot of money to both parties, with only a modest Republican lean. In the last election, however, it went all in for Republicans, giving them more than twice as much as it gave to Democrats (and favoring Mitt Romney over the president almost three to one). All this money wasn't enough to buy an election — but it was, arguably, enough to buy a major political party.

Krugman: Right now, all the media focus is on the obvious hot issues — immigration, guns, the sequester, and so on. But let's try not to let this one fall through the cracks: just four years after runaway bankers brought the world economy to its knees, Senate Republicans are using every means at their disposal, violating all the usual norms of politics in the process, in an attempt to give the bankers a chance to do it all over again. Like many advocates of financial reform, I was a bit disappointed in the bill that finally emerged. Dodd-Frank gave regulators the power to rein in many financial excesses; but it was and is less clear that future regulators will use that power. As history shows, the financial industry's wealth and influence can all too easily turn those who are supposed to serve as watchdogs into lap dogs instead.

With more than 11 million undocumented immigrants already living in the US and the G.O.P. realizing that they have lost seven out of ten Hispanic and Asian votes, (*the two fastest growing voting blocs*), in the 2012 Presidential Election, the Senate seems open to pass a sincere immigration bill, as an anti-immigrant vote could alienate Hispanic voters and secure Democrat advantage for generation. So how will they sell it to fellow congressmen and their constituents who view "*amnesty*" as coddling criminals.

People forget that the last major immigration law was signed by President Ronald Reagan in 1986 and it legalized three million undocumented immigrants. (Reagan, by the way, was comfortable calling this "amnesty.") But the law failed to prevent a new illegal influx, largely because business lobbied to prevent tough sanctions on employers who hired unauthorized workers. The lure of no-questions-asked jobs drew millions of new illegal immigrants, and that invasion fed a ferocious popular backlash.

Most of what you hear from Republicans about "securing our borders.". When everyone knows that this is not the real problem. Under Obama, border policing has doubled, and deportations have ballooned to 400,000 a year — with a new and prudent emphasis on deporting convicted criminals. **The Migration Policy Institute**

reported in January that the government now spends more on immigration enforcement — nearly \$18 billion a year — than on the F.B.I., the Secret Service, the Drug Enforcement Administration and all the other federal law enforcement agencies combined. Partly because of stronger enforcement — but also because of lower birthrates and healthier economies south of our border — the net flow of migrants from Mexico is actually zero, or even negative, according to analysis by the Pew Hispanic Center. It should be easy for Obama to endorse strong language on border protection, because he's already doing it. And building a higher bigger wall is like sticking a finger in a dike.

As Bill Keller wrote this week in the **New York Times** — *Selling Amnesty* — In truth, the real weakness is internal enforcement. There is an electronic system to verify that businesses hire only workers who are legally entitled to be here, but 90 percent of employers don't use it. Both Obama and the Senate "*Gang of Eight*" call for more rigorous checks on employment, including a forgery-proof, theft-proof identification system, which is overdue.

Businesses are not crazy about tougher policing of their payrolls, but they have mostly resigned themselves to the idea. And the immigration bill is certain to include some enticing compensation: for the tech sector, more visas to attract educated specialists; for the agriculture sector, an expanded program of temporary labor, which the Chamber of Commerce is negotiating with the A.F.L.-C.I.O.

As for legalization, much of the debate has raged around the question of how easy it is for the undocumented to get the sweet prize of citizenship. Republicans like to say that simply bestowing green cards on the millions is unfair to those who have played by the rules, and sends a bad signal to others tempted to cheat. The bill now being hatched is likely to create a short path to citizenship for children, who are here through no fault of their own, and a more arduous path for adults. Grown-ups who came here by sneaking across the border or overstaying a temporary visa will have to register, submit to a background check, pay taxes and penalties, and then wait their turn behind those who applied legally.

I believe that we should not drag out the naturalization process for 10 years so that the 11 million be allowed to come out of hiding. Under the status Obama calls "*provisional*" and the Senate gang calls "*probationary*," they will be allowed to work, travel and send their kids to school without fear of deportation while they wait to apply for green cards. No federal benefits, no vote, but no sword of Damocles either. Think of it as the path to the path. This compromise is the biggest breakthrough in many years of immigration debate, and it is the key to a consensus..... *So why string out the process...*

As David Brooks points out this week in the **New York Times** — *The Easy Problem* — that in addition to being a victory for human dignity there is overwhelming evidence that immigration is good as increased immigration would boost the U.S. economy. Immigrants are 30 percent more likely to start new businesses than native-born Americans, according to a research summary by Michael Greenstone and Adam

Looney of The Hamilton Project. They are more likely to earn patents. A quarter of new high-tech companies with more than \$1 million in sales were also founded by the foreign-born.

A study by Madeline Zavodny, an economics professor at **Agnes Scott College**, found that every additional 100 foreign-born workers in science and technology fields is associated with 262 additional jobs for U.S. natives. Thanks to the labor of low-skill immigrants, the cost of food, homes and child care comes down, living standards rise and more women can afford to work outside the home. The second clear finding is that many of the fears associated with immigration, including illegal immigration, are overblown.

Immigrants are doing a reasonable job of assimilating. Almost all of the children of immigrants from Africa and Asia speak English and more than 90 percent of the children of Latin-American immigrants do. New immigrants may start out disproportionately in construction and food-service jobs, but, by second and third generation, their occupation profiles are little different from the native-born. Immigrants, including illegal immigrants, are not socially disruptive. They are much less likely to wind up in prison or in mental hospitals than the native-born.

Immigrants, both legal and illegal, do not drain the federal budget. It's true that states and localities have to spend money to educate them when they are children, but, over the course of their lives, they pay more in taxes than they receive in benefits. Furthermore, according to the Congressional Budget Office, giving the current illegals a path to citizenship would increase the taxes they pay by \$48 billion and increase the cost of public services they use by \$23 billion, thereby producing a surplus of \$25 billion. It's also looking more likely that immigrants don't even lower the wages for vulnerable, low-skill Americans. In 2007, the last time we had a big immigration debate, economists were divided on this. One group, using one methodology, found immigration had a negligible effect on low-skill wages. Another group, using another methodology, found that the wages of the low-skilled were indeed hurt.

Because immigration is so attractive, most nations are competing to win the global talent race. Over the past 10 years, 60 percent of nations have moved to increase or maintain their immigrant intakes, especially for high-skilled immigrants. The United States is losing this competition. We think of ourselves as an immigrant nation, but the share of our population that is foreign-born is now roughly on par with Germany and France and far below the successful immigrant nations Canada and Australia. Furthermore, our immigrants are much less skilled than the ones Canada and Australia let in. As a result, the number of high-tech immigrant start-ups has stagnated, according to the Kauffman Foundation, which studies entrepreneurship.

The first big point from all this is that given the likely gridlock on tax reform and fiscal reform, immigration reform is our best chance to increase America's economic dynamism. We should normalize the illegals who are here, create a legal system for low-skill workers and bend the current reform proposals so they look more like the Canadian system, which tailors the immigrant intake to regional labor markets and favors high-skill workers. The second big conclusion is that if we can't pass a law this year, given the overwhelming strength of the evidence, then we really are a pathetic basket case of a nation.

This week the **New York Times** Editorial Board penned two editorials – *A Million Jobs at Stake* and *More Jobs, Higher Pay* – that the Obama Administration should be pushing a forceful labor agenda — one that calls for more jobs, but also has as its goal rising wages coupled with robust hiring, especially should the estimated more than one million jobs start to disappear because of a mindless government austerity program that no one in Washington seems able to stop. From the armed forces to the Federal Bureau of Investigation, every program except for most safety-net benefits is about to be cut by an arbitrary process known as the sequester, instigated by the 2011 Republican rampage against government. Over the next seven months alone, the cuts will reduce defense spending by \$55 billion and non-defense discretionary spending by \$27 billion.

The Bipartisan Policy Center, a respected independent group, said at least a million jobs will be lost this year and next because of the slowdown caused by withdrawing so much money from the economy. The Congressional Budget Office says up to 1.4 million jobs are at stake. The effect of the coming sequester was already evident in last week's announcement that the economy actually contracted during the final quarter of 2012. Much of the decline was directly due to the 22 percent reduction in spending by the Pentagon and military contractors in anticipation of the sequester's effects.

Congressional Republicans seem perfectly serene about allowing the sequester to take effect in a few weeks, so eager to prove they are budget cutters that they are willing to ignore the coming economic storm. *"I think sequester's going to happen,"* said Senator Tom Coburn, Republican of Oklahoma. *"I think people want it to happen."* But it was never supposed to happen. The sequester was designed to be so dire that both parties would want to find a better way to reach a budget deal. The incentive for Republicans was the huge cut to defense spending, but an ideologically rigid generation of deficit hawks has shouted down the defense hawks, leaving Democrats with no negotiating partner. Republicans have repeatedly voted to replace the defense cuts with more domestic cuts, but the overall impact on the economy would be the same. Concurrently it appears that a faction of the G.O.P. is willing to torpedo the economy for political gain....

"Any immediate economic setback or the perception of one could weaken Obama's clout. maybe a sour economy is worth it if it will distract Obama."

Rush Limbaugh

With the economy teetering on a knife edge, it is clear that this is the worst moment to initiate an indiscriminate budget cut. Government spending at this time can spell the difference between growth and shrinkage. But Republicans are willfully blind to this reality. Senator John Cornyn of Texas, the second-ranking Republican, called it a *"Keynesian pipe dream"* last week, saying that only spending cuts will help the economy. Congress should be thinking about ways to accelerate the economy, instead of remaining preoccupied with a short-term deficit. Nonetheless, the coming job losses could be sharply reduced if half or more of the spending cuts were replaced by revenue increases, as President Obama and Congressional Democrats have demanded. That would lower the amount of spending pulled out of the economy to bring down the deficit, replacing the cuts with taxes from the rich or companies with high cash reserves that are less likely to spend it.

In President Obama's first term, the fiscal stimulus and the auto-industry rescue of 2009 created and preserved millions of jobs. But the stimulus ended years ago, replaced with temporary measures that have been insufficient to propel the economy forward. Health care reform in 2010 was a major step in the effort to support the middle class, but its broad effects will be felt only in the years and decades to come. In recent years, the administration and Congress have been consumed with deficit reduction, which is antithetical to job creation because it curbs government spending when the economy is weak. Unless Mr. Obama can shift policy away from premature austerity and toward ways to bolster demand and foster investment, job growth will remain sluggish and unemployment high. What has been missing for years is a forceful labor agenda — one that calls for more jobs, but also has as its goal rising wages coupled with robust hiring.

Additionally, the White House must also commit to new rules on workplace safety, wage and overtime enforcement and proper classification of workers as employees versus independent contractors, a label that employers often misuse to deny benefits. Labor reforms are also central to immigration reform. Legalizing undocumented workers and revamping federal visas for non-college-educated workers could raise wages by limiting exploitation, while ensuring that American workers have a fair shot at lower-skilled jobs for which there is significant foreign competition. In his first term — a time of persistent high unemployment, weak job growth, stagnating wages and rising income inequality — Mr. Obama neglected a basic labor agenda and he now has a chance to take corrective action. Obviously the national deficit is a serious problem to the country but so is the need for jobs.... government jobs.... union jobs..... *Any jobs....*

After the Senate approved \$60 billion in supplementary aid for Sandy victims, this week **The Washington Post** did an editorial — ***Flood Politics Should Be Reconsidered*** — especially since scientists are saying that disasters are going to become increasingly likely in coastal areas as warmer global temperatures slowly but steadily raise sea levels. **TWP:** Facing this reality requires policy at all levels of government that discourages Americans from making overly risky choices about what to build and where to live, lest taxpayers continually bear huge burdens when floods and other disasters hit. But that's much easier said than done.

The Federal Emergency Management Agency (FEMA) last week released its updated assessment of who is at risk of flood in Sandy-affected areas. The list of properties in New York City doubled to 35,000. Homeowners who find themselves in newly designated flood zones must choose between elevating their houses out of reach of future storm surges or paying many times more in flood-insurance premiums. Grants are available from various federal programs, but residents fret that the grants might not cover the full cost. The mayor of Brick, N.J., a beach town, counseled his constituents not to start rebuilding until they could challenge FEMA's new maps.

In fact, leaders all over the coastal United States should be girding for worse than FEMA's maps suggest. The maps, a FEMA spokesman explained to us, capture only the risk that these regions currently face — not future dangers associated with climate change. Structures built or rebuilt now may have to contend with those threats, and current policies will help determine how well they hold up. New York Gov. Andrew Cuomo (D), for one, is proposing to buy homes in at-risk areas and replace them with natural barriers such as dunes. That is only one

possible way to toughen the country's shorelines, because how the region rebuilds matters to everyone who pays federal taxes. It is understandable that long-time residents living in areas devastated by Hurricane Sandy want to rebuild their neighborhoods but the society as a whole needs to face the reality that government subsidizing rebuilding of areas in flood zones is not the best use of tax-payer's dollars.

I know that White America loves to believe that we are living in a post-racial society, especially when we have a Black President and Oprah is one of the most trusted women in the world, but when you look at the election results it is easy to see that in the last 16 Presidential Elections between 1952 and 2012, only one Democratic candidate, Lyndon B. Johnson in 1964, won a majority of the white vote. There have been nine Democratic presidential nominees who received a smaller percentage of the white vote than Obama did in 2008 (43 percent) and four who received less white support than Obama did in 2012 (39 percent). *Something is wrong.....*

Ballots cast for House candidates provide another measure of white partisanship. These contests have been tracked in exit polls from 1980 onward. Between 1980 and 1992, the white vote for Democratic House candidates averaged 49.6 percent. It dropped sharply in 1994 when Newt Gingrich orchestrated the Republican take-over of the House, averaging just 42.7 percent from 1994 through 2004. White support for Democrats rose to an average of 46.7 percent in 2006 and 2008 as public disapproval of George W. Bush and of Republicans in Congress sharply increased. In the aftermath of Obama's election, white support for Congressional Democrats collapsed to its lowest level in the history of House exit polling, 38 percent in 2010 - at once driving and driven by the emerging Tea Party. In 2012, white Democratic support for House candidates remained weak at 39 percent.

Despite how controversial it has been to talk about race, researchers have gathered a substantial amount of information on the opinions of white American voters. The political scientists Michael Tesler of Brown University and David O. Sears of UCLA have published several studies on this theme and they have also written a book, *"Obama's Race: The 2008 Election and the Dream of a Post-Racial America,"* that analyzes changes in racial attitudes since Obama became the Democratic nominee in 2008. In their 2010 paper, *"President Obama and the Growing Polarization of Partisan Attachments by Racial Attitudes and Race,"* Tesler and Sears argue that the evidence strongly suggests that party attachments have become increasingly polarized by both racial attitudes and race as a result of Obama's rise to prominence within the Democratic Party.

Specifically, Tesler and Sears found that voters high on a racial-resentment scale moved one notch toward intensification of partisanship within the Republican Party on a seven-point scale from strong Democrat through independent to strong Republican. To measure racial resentment, which Tesler and Sears describe as *"subtle hostility towards African-Americans,"* the authors used data from the **American National Election Studies and the General Social Survey**, an extensive collection of polling data maintained at the University of Chicago.

In the case of A.N.E.S. data, Tesler and Sears write:

The scale was constructed from how strongly respondents agreed or disagreed with the following assertions: 1) Irish, Italian, Jewish and many other minorities overcame prejudice and worked their way up. Blacks should do the same without any special favors. 2) Generations of slavery and discrimination have created conditions that

make it difficult for blacks to work their way out of the lower class. 3) Over the past few years, blacks have gotten less than they deserve. 4) It's really a matter of some people not trying hard enough; if blacks would only try harder they could be just as well off as whites.

The General Social Survey included questions asking respondents to rate competing causes of racial discrimination and inequality:

The scale was constructed from responses to the following 4 items: 1) Irish, Italian, Jewish and many other minorities overcame prejudice and worked their way up. Blacks should do the same without any special favors. 2) A 3-category variable indicating whether respondents said lack of motivation is or is not a reason for racial inequality. 3) A 3-category variable indicating whether respondents said discrimination is or is not a reason for racial inequality. 4) A three-category variable indicating whether respondents rated whites more, less or equally hardworking than blacks on 7 point stereotype scales.

Supporting the Tesler-Sears findings, Josh Pasek, a professor in the communication studies department at the University of Michigan, Jon A. Krosnick, a political scientist at Stanford, and Trevor Tompson, the director of the **Associated Press-National Opinion Research Center at the University of Chicago**, use responses from three different surveys in their analysis of *"The Impact of Anti-Black Racism on Approval of Barack Obama's Job Performance and on Voting in the 2012 Presidential Election."* Pasek and his collaborators found a statistically significant increase from 2008 to 2012 in *"explicit anti-black attitudes"* - a measure based on questions very similar those used by Tesler and Sears for their racial-resentment scale. The percentage of voters with explicit anti-black attitudes rose from 47.6 in 2008 and 47.3 percent in 2010 to 50.9 percent in 2012.

Crucially, Pasek found that Republicans drove the change: *"People who identified themselves as Republicans in 2012 expressed anti-Black attitudes more often than did Republican identifiers in 2008."* In 2008, Pasek and his collaborators note, the proportion of people expressing anti-Black attitudes was 31 percent among Democrats, 49 percent among independents, and 71 percent among Republicans. By 2012, the numbers had gone up. *"The proportion of people expressing anti-Black attitudes,"* they write, *"was 32 percent among Democrats, 48 percent among independents, and 79 percent among Republicans."*

At the moment, the population of the United States (314 million) is heading towards a majority-minority status in 2042. The American electorate, on the other hand (126 million) is currently 72 percent white, based on the voters who cast ballots last November. Obama's ascendancy to the presidency means that, on race, the Rubicon has been crossed (2008) and re-crossed (2012).

Some Republican strategists believe the party's deepening conservatism is scaring away voters. *"We have a choice: we can become a shrinking regional party of middle-aged and older white men, or we can fight to become a national governing party,"* John Weaver, a consultant to the 2008 McCain campaign, said after Obama's re-election. Mark McKinnon, an adviser to former President George W. Bush, made a similar point: *"The party needs more tolerance, more diversity and a deeper appreciation for the concerns of the middle class."*

Not only is the right risking marginalization as its views on race have become more extreme, it is veering out of the mainstream on contraception and abortion, positions that fueled an 11 point gender gap in 2012 and a 13 point gap in 2008. Given that a majority of the electorate will remain white for a number of years, the hurdle that the Republican Party faces is building the party's white margins by 2 to 3 points. For Romney to have won, he needed 62 percent of the white vote, not the 59 percent he got.

Working directly against this goal is what **Time Magazine** recently described as the Republican "*brand identity that has emerged from the stars of the conservative media ecosystem: Rush Limbaugh, Sean Hannity, Bill O'Reilly, Ann Coulter, and others.*" It is not so much Latino and black voters that the Republican Party needs. To win the White House again, it must assuage the social conscience of mainstream, moderate white voters among whom an ethos of tolerance has become normal. These voters are concerned with fairness and diversity, even as they stand to the right of center. It is there that the upcoming political battles - on the gamut of issues from race to rights - will be fought. For more information see Thomas Edsall's article in **The Washington Post** - *The Persistence of Racial Resentment*.

As President Obama's Deputy National Security Advisor for Homeland Security and Counterterrorism, John Brennan, to serve as the next director of the Central Intelligence Agency was being grilled this week during his congressional confirmation hearings one of the ugly truths came to light - America's covert drone shadow war, unacknowledged by the CIA and the White House. Many details remain obscure, but we know that the United States has engaged in "*targeted killings*" in Pakistan, Yemen, and Somalia, and possibly in Mali and the Philippines as well. The killings -- most reportedly carried out by strikes from unmanned aerial vehicles -- have targeted suspected Taliban leaders and terrorists, some identified by name and some targeted as a result of a suspicious pattern of activities. Since the strikes are rarely acknowledged, no one knows precisely how many casualties our shadow war has caused, but media and NGO reports suggest that the number of deaths is somewhere between 3,000 and 5,000.

This week in **FP**, Rosa Brooks writes - *Death By Loophole* - that Obama's legal rationale for whacking Americans is so broad you could fly a drone through it. This week NBC news released a 2011 Justice Department 16 page white paper on the question of whether U.S. citizens overseas can be targeted as long as some "informed, high-level official" decides that citizen poses an "*imminent threat*" and capture would be "*unfeasible.*" Doing a quick analysis she asks the following question.

1. American citizens overseas can lawfully be targeted and killed by the U.S. government if they take up arms in an armed conflict against the United States.
2. Anyone overseas -- citizen or not -- who poses an "*imminent threat of violent attack*" against the United States can be lawfully targeted based on the internationally recognized right to national self-defense, provided that the defensive force used by the United States is otherwise consistent with law of war principles.
3. Killing is okay if capture is not feasible.
4. The determination of whether an American citizen overseas can be killed can be made by "*an informed, high-level official of the US government.*"
5. This logic poses no threat to international legal principles of sovereignty because it's okay to use force inside a foreign sovereign state if that state either consents or is "*unwilling or unable to suppress the threat posed by the individual being targeted.*"
6. Checks and balances are for your bank statement, not for the U.S. government.

Brooks: When you have a secret, standardless process that may result in the killing of U.S. citizens, it would be comforting to have some sort of review mechanism. Ideally, it would be good to have some disinterested, informed people looking at the evidence *before* kill decisions are made -- and this is far from unfeasible. A judicial warrant procedure like that put in place by the Foreign Intelligence Surveillance Act could be established by Congress. Failing that, an ex post review could at least highlight abuse and error, and reduce the likelihood of further error or abuse.

Brooks: I've written before about [strategic and rule of law problems](#) posed by targeted killings (some might say I'm droning on about them). I won't reiterate those concerns here in detail, but let's review the bottom line: This Justice Department memo tells us that our government believes itself legally justified in secretly killing any person (citizen or not), at anytime, anywhere, based on a concept of imminence that includes distant and speculative threats and also appears to include even relatively trivial threats, rather than only grave or existential threats. The definition of "enemy" is squishy, and kill decisions can be made by unidentified officials who need not reveal their information, its sources, or the criteria used in their decisions. Sovereignty poses no barriers to U.S. strikes, and no one outside the U.S. executive branch can review any killings before or after they take place. Oh, yes -- and the administration officially won't even acknowledge the existence of the targeted killing program.

Brooks: I'm **not** inherently **opposed** to drone strikes or other targeted killings. I'm ready to believe that *some* targeted killings can be justified, legally, morally, and strategically, and I'm inclined to think that when a practice is exceptional and genuinely rare, issues of legality and the rule of law may be less urgent. But U.S. targeted killings long ago ceased to be exceptional -- they've now **become the norm**, part of the new American way of war, and we can't afford to let them remain in the legal and moral shadows.

Brooks: So here's what I want the Obama administration to tell me: Tell me if this shadow war has any limits, and how those limits will be enforced. Tell me what safeguards there are against abuse. Tell me how I can be confident that the targeted killing process *isn't* rife with error and abuse. Tell me how many targeted killings equal a war. Tell me if we'll be expanding our shadow war into additional foreign states. Tell me if there's any limit at all on who we can target, and when, and where. Tell me our objectives in this shadowy war. Ending the operational effectiveness of al Qaeda? Ending terrorism? Reducing anti-American violence? Tell me how we'll *know* if we're achieving our objectives. Tell me if our shadow war is making us safer, or just making our world less stable. Tell me how this ends. Obama's legal rationale for whacking Americans is so broad you could fly a drone through it.

But the thing about drone warfare is that it is easy to duplicate. Therefore it is conceivable, if not enviable that like shoulder fired missiles, it could be the "*weapon of choice*" used by terrorist and our enemies. Therefore we have to be careful to not create the precedent for our enemies to follow. For more information please see **New York Times** editorial -- ***Drone Strikes Under Scrutiny.....*** We need to seriously think about this because if Mexico used drones to take out drug dealers in Texas, politicians, media, liberals and conservatives would be in an uproar.

This week in the **New York Times**, Paul Krugman wrote — ***Kick That Can*** — proposing that with the federal government currently being able to borrow more cheaply than at almost any point in history and slashing government spending destroys jobs and causes the economy to shrink, the best thing that Congress and the Obama Administration should do is to increase government spending as it will have a multiplier effect on the whole economy. We have seen the effects of fiscal austerity — severe and continuing slump in Ireland, which was for a while touted as a shining example of responsible policy, or by the way the Cameron government's turn to austerity derailed recovery in Britain. Yes it is true that we will eventually need some combination of revenue increases and spending cuts to rein in the growth of U.S. government debt, now is very much not the time to act.

Given the state we're in, it would be irresponsible and destructive not to kick that can down the road.

Krugman reminds us that during the first decade John Boehner, the Speaker of the House was in Congress, the U.S. government was doing just fine on the fiscal front. In particular, the ratio of federal debt to G.D.P. was a third lower when Bill Clinton left office than it was when he came in. It was only when George W. Bush arrived and squandered the Clinton surplus on tax cuts and unfunded wars that the budget outlook began deteriorating again. And now he claims to be exasperated. *"At some point, Washington has to deal with its spending problem,"* he said Wednesday. *"I've watched them kick this can down the road for 22 years since I've been here. I've had enough of it. It's time to act."*

The point, again, is that now is not the time — fiscal austerity should wait until the economy has recovered, and the Fed can once again cushion the impact. Republican senators are saying that the situation is desperate — but not desperate enough to justify even a penny in additional taxes. When realistically, we're not going to resolve our long-run fiscal issues any time soon, which is O.K. — not ideal, but nothing terrible will happen if we don't fix everything this year. Meanwhile, we face the imminent threat of severe economic damage from short-term spending cuts. As such Krugman says that we should avoid that damage by kicking the can down the road. It's the responsible thing to do.

THIS WEEK'S INTERESTING VIDEO

Genetically Engineered Food and the American Health Crisis

I saw this documentary about Monsanto, the FDA, and American health issues yesterday and wanted to share it with as many people as possible. If you find it informative please distribute it to loved ones around the globe.

Website: <http://www.youtube.com/watch?v=wnlTYFKBg18>

THIS WEEK'S SPECIAL POEM

The 2013 Superbowl was a great game to the last play but for me the most memorable moment was a 2 minute RAM truck commercial by **The Richards Group** (ad agency) titled *"So God Made A Farmer"* based on the poem by Paul Harvey, a radio host who died in 2009 and first delivered in 1978 at the Future Farmers of America Convention. The commercial featured a voice-over of Harvey's speech set to still photographs taken by ten photographers including William Albert Allard and Kurt Markus. The spot, ran during the fourth quarter. It was noted for its religious imagery. The ad, like another Chrysler Super Bowl XLVII ad featuring Oprah Winfrey, advertised the brand without featuring the vehicle. This was similar to ads run by Chrysler in [Super Bowl XLVI](#) and Super Bowl XLV.

It begins as a continuation of the Genesis creation narrative referring to the actions God took on the 8th day. In the speech, Harvey stated that God needed a caretaker for the land He created, so He created the **farmer**. The speech continues by listing the characteristics needed by the person God was creating, ending the phrases with *"So God made a farmer"*.

I need somebody with arms strong enough to wrestle a calf and yet gentle enough to deliver his own grandchild; somebody to call hogs, tame cantankerous machinery, come home hungry, have to await lunch until his wife's done feeding visiting ladies, then tell the ladies to be sure and come back real soon, and mean it - So God made a Farmer

—Paul Harvey,

Commercial web-link: <http://www.youtube.com/watch?v=AMpZ0TGjbWE>

So God Made A Farmer

God looked down on the earth he created and said, "I need a caretaker
for this world I have made"; and so,

God Made a Farmer...

God said, "I need someone ready to get up before dawn and milk the cows,
til the fields, milk the cows again, and then go to town and stay past midnight at the
meeting of the school board";

So God Made a Farmer...

"I need someone with strong arms, strong enough to wrestle a calf,
but gentle enough to deliver his own grandchild;
Somebody to call the hogs, tame cantankerous machinery,
come home hungry and have to wait for lunch until his wife is done
entertaining visiting ladies, and then tell the ladies "I hope you all come
back real soon", and mean it, and so

So God Made a Farmer...

God said, "I need somebody to sit up all night with a newborn colt and watch it die; then
dry his eyes and say, maybe next year". I need someone to shape and axe handle

from a Persimmon sprout, and shoe a horse with a hunk of tire; make a harness out of haywire,
feedsacks and shoe scraps; who at planting time and harvest will finish his 40
hour week by Tuesday noon, then paining from tractor
back, put in another 72".

So God Made a Farmer...

God had to have someone to ride the ruts at double speed, to get the hay in ahead of the rain
clouds, and yet stop in mid field to race to help when he sees the first smoke from a neighbor's
place;

So God Made a Farmer...

God said "I need somebody strong enough to clear trees and heave bales, and yet gentle enough
to tame lambs, wean pigs and tend the pink combed pullets; who will stop his mower for an hour
to splint the broken leg of a Meadow Lark;"

So God Made a Farmer....

It had to be someone who would plow deep and straight and not cut corners; Somebody to seed
and weed, feed and breed, rake and disk and plow and plant; plow the snow and strain the milk
and replenish the self feeder and finish a hard day's work with a five mile drive to church.
Somebody who would bale a family together with the soft, strong bonds of sharing, who would
laugh and then sigh, and then reply with smiling eyes when his son says he wants to spend his
life doing what dad does!

So God Made a Farmer...

....SO COOL....

The imagination knows no limits!! ...

You may want to watch this more than once; there is simply way too much activity happening to absorb it all in one viewing.

Also, you can click on behind the scenes videos to see how it was done.

JUST IMAGINE WHAT IT TOOK TO SET THIS UP!

Click here to watch what Bored Engineers: <http://www.youtube.com/watch_popup?v=qybUFnY7Y8w>

THIS WEEK'S MUSIC

This week I would like to share one of my favorite bands of all time – *Earth, Wind & Fire*..... Please enjoy.....

Earth, Wind & Fire is an American band that has spanned the musical genres of soul, disco, R&B, funk, jazz and rock. They are one of the most successful and critically acclaimed bands of the twentieth century. Rolling Stone has described them as "innovative, precise yet sensual, calculated yet galvanizing" and has also declared that the band "*changed the sound of black pop*". Also known as EWF, the band was founded in Chicago by Maurice White in 1969. Other members have included Philip Bailey, Verdine White, Ralph Johnson, Larry Dunn, and Al McKay. The band has received 20 Grammy nominations; they won six as a group and two of its members, Maurice White and Bailey, won separate individual awards. Earth, Wind & Fire have 12 American Music Awards nominations and four awards. They have been inducted into the Rock and Roll Hall of Fame and the Vocal Group Hall of Fame, received a star on the Hollywood Walk of Fame, and sold over 90 million albums worldwide. Five members of Earth, Wind & Fire were also inducted into the Songwriters Hall of Fame: Maurice White, Philip Bailey, Verdine White, Larry Dunn and Al McKay. The music industry and fans have bestowed Lifetime Achievement honors from the American Society of Composers, Authors and Publishers (Rhythm & Soul Heritage Award – 2002), NAACP (Hall of Fame – 1994) and the BET Awards (Lifetime Achievement Award – 2002).

Earth, Wind & Fire is known for the dynamic sound of their horn section, their energetic and elaborate stage shows, and the interplay between the contrasting vocals of Philip Bailey's falsetto and Maurice White's tenor. The kalimba (African thumb piano) is played on all of the band's albums. In the 1970s and early 1980s, the band had many hits, including "*Shining Star*", "*That's the Way of the World*", "*Devotion*", "*Reasons*", "*Sing a Song*", "*Can't Hide Love*", "*Getaway*", "*Fantasy*", "*Love's Holiday*", "*September*", "*Boogie Wonderland*", "*After the Love Has Gone*", and "*Let's Groove*". Two Earth, Wind & Fire classic songs have been inducted into the Grammy Hall of Fame: "*That's the Way of the World*" (2004) and "*Shining Star*" (2007). The band is also known as having been the first African-American act to sell out Madison Square Garden and to receive the MSG Gold Ticket Award. President Barack

Obama invited Earth, Wind & Fire to perform at the White House for the first social event of the new administration.

Earth, Wind & Fire – *That's the way of the world* -- <http://www.youtube.com/watch?v=R2RsP43rmg>

Earth, Wind And Fire – *Keep your Head to the Sky* -- <http://www.youtube.com/watch?v=10JTNNvodu4>

Earth, Wind & Fire – *Serpentine Fire* -- <http://www.youtube.com/watch?v=Jvc926KO-J4>

Earth, Wind & Fire – *Reason* -- http://www.youtube.com/watch?v=X_XNUMfQyMY

Earth, Wind & Fire – *Cant hide love* -- <http://www.youtube.com/watch?v=DldMTH2nv-Q>

Earth, Wind & Fire – *Let's Groove* -- <http://www.youtube.com/watch?v=Rquy6ff65WU>

EARTH WIND and FIRE – *funky performance live* -- <http://www.youtube.com/watch?v=1klBuwKDM4E>

Earth, Wind & Fire – *Shining star* -- <http://www.youtube.com/watch?v=7XIMuUBVuWM>

Earth, Wind & Fire – *Devotion* -- <http://www.youtube.com/watch?v=grMdDoeoyIo>

Earth, Wind & Fire – *September* -- <http://www.youtube.com/watch?v=5d6d4KwmNkk>

Earth Wind & Fire – *Fantasy* -- <http://www.youtube.com/watch?v=wAMtg8HlohU>

Earth, Wind & Fire – *In The Stone* -- <http://www.youtube.com/watch?v=JtxVo2tyR5A>

Earth, Wind & Fire – *Let Your Feelings Show* -- <http://www.youtube.com/watch?v=PLkd8kUxDYo>

Earth, Wind & Fire – *After The Love Has Gone* -- http://www.youtube.com/watch?v=12dw_BgFAeM

Earth Wind and Fire – *Boogie Wonderland* -- http://www.youtube.com/watch?v=_jLGa4X5H2c

I hope that you enjoyed this week's offerings and wish you a great week....

Sincerely,
Greg Brown

--
Gregory Brown
Chairman & CEO
GlobalCast Partners, LLC

