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Subject: Greg Brown's Weekend Reading and Other Things.... 06/23/2013

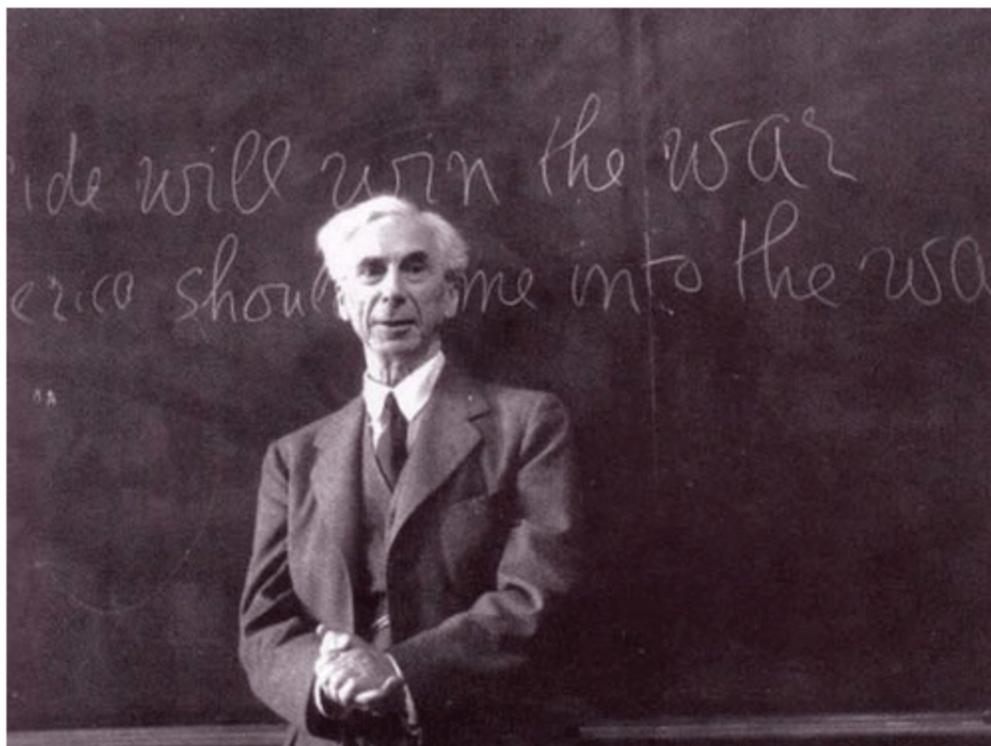
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Attachments: Fight_the_Future_Paul_Krugman_NYT_June_16,_2013.pdf;
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Income_Inequality_Greatly_Exacerbated_By_US_Tax_System,_Study_Jillian_Berman_Huff_Post_June_17,_2013.pdf;
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DEAR FRIEND.....

Bertrand Russell (1951)



The Ten Commandments that, as a teacher, I should wish to promulgate, might be set forth as follows:

1. Do not feel absolutely certain of anything.
2. Do not think it worthwhile to proceed by concealing evidence, for the evidence is sure to come to light.
3. Never try to discourage thinking for you are sure to succeed.
4. When you meet with opposition, even if it should be from your husband or your children, endeavour to overcome it by argument and not by authority, for a victory dependent upon authority is unreal and illusory.
5. Have no respect for the authority of others, for there are always contrary authorities to be found.
6. Do not use power to suppress opinions you think pernicious, for if you do the opinions will suppress you.
7. Do not fear to be eccentric in opinion, for every opinion now accepted was once eccentric.
8. Find more pleasure in intelligent dissent than in passive agreement, for, if you value intelligence as you should, the former implies a deeper agreement than the latter.
9. Be scrupulously truthful, even if the truth is inconvenient, for it is more inconvenient when you try to conceal it.
10. Do not feel envious of the happiness of those who live in a fool's paradise, for only a fool will think that it is happiness.

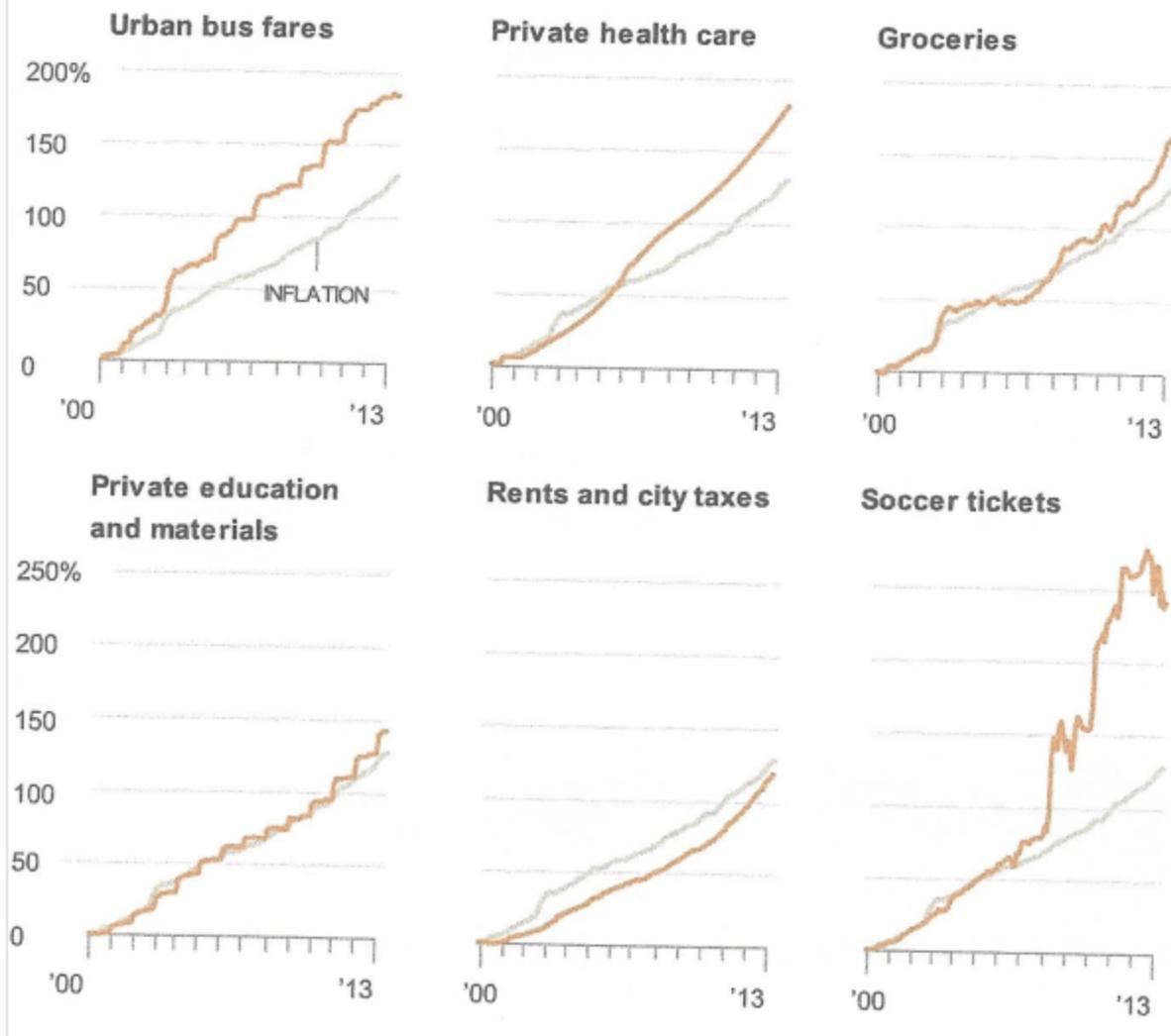
Earlier this week in Brazil hundreds of thousands to more than one million people on Thursday flooded into the streets (*spreading to more than 100 cities*) in protest fed by social media and driven by economic injustice, and although mostly peaceful, thousands of demonstrators attacked the state legislator building, throwing fire bombs, with protesters upset about rampant corruption, crime, low wages and a lack of social services. Protesters cited the lack of investments in health and education, while Brazil is spending billions to build stadiums for next year's World Cup and the 2016 Olympics. With 13 million Brazilians going to bed hungry every night, these protesters feel that it hard to justify building so many stadiums with public funds, causing tensions to grow over the past several weeks, sparked by a government increase in bus fares that quickly escalated with pictures of police cracking down on demonstrators, coming on the heels of other mass protests in Egypt, Greece and Turkey organized with the help of social media building on popular discontent.



Shaken by the biggest challenge to their authority in years, Brazil's leaders made conciliatory gestures on Tuesday to try to defuse the protests engulfing the nation's cities. But the demonstrators have remained defiant, pouring into the streets by the thousands and venting their anger over political corruption, the high cost of living, and huge public spending for the World Cup and the Olympics. Protesters denounced their leaders as dedicating excessive resources to cultivating Brazil's global image by building stadiums for international events, when basic services like education and health care remained woefully inadequate. *"I love soccer, but we need schools,"* said Evaldir Cardoso, 48, a firefighter at a protest here with his 7-month-old son.

The Rising Cost of Living in Brazil

Brazilians have seen the cost of many components of urban life rise at rates that surpass inflation generally. Expenses like private education and health care are common for many who are concerned with the quality of the public services.



The protests in Brazil are unfolding just as its long and heralded economic boom may be coming to an end. The economy has slowed to a pale shadow of its growth in recent years; inflation is high, the currency is declining sharply against the dollar — but the expectations of Brazilians have rarely been higher, feeding broad intolerance with corruption, bad schools and other government failings. *“These protests are in favor of common sense,”* said Roberto da Matta, a leading cultural commentator. *“We pay an absurd amount of taxes in Brazil, and now more people are questioning what they get in return.”*



One of the major complaints among demonstrators is government corruption, as evidenced by the trial involving senior figures in the governing Workers Party in one of Brazil's largest political scandals in recent memory. None of the officials sentenced in the trials has yet gone to prison, despite the prosecution's contention that they should have begun serving their sentences immediately after the high court announced them in November. *"We're furious about what our political leaders do, their corruption,"* said Enderson dos Santos, 35, an office worker protesting in São Paulo. *" here to show my children that Brazil has woken up."*

Web Link: <http://nyti.ms/10tP40V>

It is not so much Brazil's poorest residents who are in the street marching in protest against the cost of living. *"Students and the middle-class Brazilians are also participating in the protests, which makes this a slightly unusual social movement,"* Rifflart observed. For the new middle class, the spending related to hosting the World Cup in 2014 is a hard pill to swallow. *"They find it indecent to spend between 11 and 15 billion dollars to organize this sporting event, while public services and infrastructure need money,"* the economist explained. The government is therefore faced with middle-class citizens demanding public services that are up to the level of their new social status. *"It's the price Brazil is paying for the growth that allowed 30 million Brazilians to lift themselves out of poverty and join the middle class over the past several years,"* said Stéphane Witkowski, chairman of the board at Paris's Institute of Latin American Studies, in an interview with French daily *Le Figaro*. Brazilian authorities have said they are going to revamp public services. But concrete plans and proposals have been slow to emerge. And, judging from the massive crowds that have made their way through the country's big cities over the past 10 days, the protesters are no longer willing to wait.



Some of the stadiums being built for the World Cup soccer tournament, scheduled for next year, have also been criticized for delays and cost overruns, and have become subjects of derision as protesters question whether they will become white elephants. One in Manaus, the largest city in the Amazon, will have capacity for 43,000, but it is in a city where average attendance at professional soccer games stands at fewer than 600 fans. Government institutions seem prepared to continue plowing public funds into the projects. A Brazilian newspaper reported Tuesday that the national development bank had approved a new loan of about \$200 million for Itaquerão, a new stadium in São Paulo that is expected to host the opening match of the World Cup. *“When you see the investments in health and education and then you compare that to the massive investments to carry out the World Cup, it is clear that this provokes a certain indignation,”* said Adão Clóvis Martins dos Santos, a sociologist at Catholic University in Porto Alegre. *“People are going hungry and the government builds stadiums,”* said Eleuntina Scuilgaro, an 83-year-old pensioner at the protests here in São Paulo. *“[redacted] here for my granddaughters. If you’re tired, go home, take a shower and return. That’s what [redacted] doing.”*

As many of you know I am a big fan of journalist, historian and commentator, Bill Moyers, who served as White House Press Secretary in the Johnson administration and last week on **PBS’s Moyers & Company – Big Brother’s Prying Eyes** – Bill and American academic and political activist Lawrence Lessig, explored how we as individuals (*and the collective*) should protect our privacy when *Big Government* and *Big Business* morph into *Big Brother*, as a result of the recent released information on the systematic and widespread spying/surveillance by the National Security Agency. Technology continues to make invasion of our privacy easy, as any analyst at any time can target anyone, any sector, anywhere. The White House insists snooping is a counter-weapon against terrorism, a necessary if unfortunate intrusion. General Keith Alexander, head of the NSA, told Congress this week that the agency’s surveillance had helped prevent dozens of attacks. A large majority of the public agrees that the spying is necessary, but others see it as an unprecedented infringement on our civil liberties, a massive threat to a free society.

More than 60 years ago, George Orwell, in his novel **1984**, described a society whose inhabitants were caught perpetually in the unblinking eye of Big Brother, an all-encompassing government gaze from which there was no escape. Even earlier, Aldous Huxley’s **Brave New World** invoked the vision of citizens bred for complacency, willing to be subjugated in exchange for the mindless pleasures of drug-induced, self-gratification. Just think, Orwell and Huxley saw the handwriting on the wall decades

before Google, Facebook, Apple, Skype, Yahoo, and Microsoft; before smart phones, laptops, apps, and social media. And certainly before this age of modern global terror. Now we know our own government, through its National Security Agency, has been extensively engaged in the Internet surveillance of our emails and phone records, with the ability to single us out for scrutiny beyond what most of us could imagine. Even more dangerous, *Big Government* and *Big Business* have morphed into the *Biggest Brother* ever, not only watching and listening but also taking down names and numbers.

Web Link: [REDACTED]

But the part of the discussion that interested me, was how over the last 20 years we have seen an extraordinary explosion in technologies invading people's privacy and an increasing market that feeds on the product of these technologies.... gone unchallenged. We are told that our E-mail can be collected and searched by our company or university, and so op-eds advise us not to put private matters into E-mail. Our credit card records become the source for direct marketers, and rather than object, we simply buy with more cash. And how *Big Pharma* are using our medical records to target their latest drugs. And like the people who lived in the old Soviet Union accepted invasion of privacy as "*the price of the ticket*" during the Cold War, Americans have responded to this increasing invasion passively. We have adjusted our life to these new intrusions. Accepting, we have been told that this is the way we have to live in this newly digitized age. Now I find this quite bizarre. And even as this increasing *Sovietization* of our personal and private life occurs, we don't believe that we live in Soviet type State. Because when passivity dominates, there is no reason to do things differently. We accept these invasions and these restrictions on our freedom, even though there is no Soviet army to enforce them on us or no Cold War with a major superpower with the ability to extinguish us .

Again, today's technology makes it so much easier to invade our privacy. We are profiled all the time by advertisers in the name of commerce. What's the difference between that practice and the profiling being done by the government? Because when you buy anything on iTunes or Amazon, both companies use our previous purchases to send ads of other products that they think we might like. And Google, (the grand daddy of commercial profiling), major breakthrough was that its search engine tracked queries to match ads. Technologies of monitoring and searching erode our privacy, and yet some will argue that the Constitution restricts Congress' power to respond. Technologies make it possible from a half-a-mile away to peer into one's home and watch what goes on there, or eavesdroppers to listen to the conversations in our bedroom, but we are told that the free speech clause of the First Amendment bars Congress from doing anything in response. These conveniences are part of the trade-off and part of life, even though they intrude of our fundamental right to privacy. We accept them and their reductions in the space of our privacy, even though we are the architects of the technologies that give effect to this reduction in privacy.

The cat is out of the box and as long as society grows so will new technologies. As a result, we have to accept that both government and businesses are going to increasingly use new technologies to profile us in the name of national security and convenience. And the continual dilemma is how we balance and harness them.

Not knowing Lawrence Lessig, after watching his interview last week with Bill Moyers, I did some research and one of the interesting things that I found was his recent **TedTalks** presentation in February in Long Beach, California titled – ***We the People, and the Republic we must reclaim.*** In the presentation he describes **Lesterland**, whereby there out of 311 million Americans, 144,000 are named **Lester**. This means about .05% of Americans are named **Lester**. In his parody he says that in **Lesterland** there are two elections every election cycle in **Lesterland** – a general

election, and a “*Lester election*.” In the general election, all citizens got to vote. In the *Lester* election, only the “*Lesters*” got to vote. But the catch is that to run in the general election, you had to do extremely well in the *Lester* election. And although you don’t necessarily have to win, but you have to do extremely well. As a result in *Lesterland*, democracy is a two-step dance. And the *Lesters* controlled the first step.

To further explain the affects of *Lesterland* he started with the United States Supreme Court said in its remarkable ruling in **Citizens United v. FEC**, that “*the people have the ultimate influence over elected officials*” — for, after all, there is a general election. But the people have that influence only after the *Lesters* have had their way with the candidates who wish to run in that general election. The people’s influence is ultimate. But it is not exclusive. Instead, the field of possible candidates has been narrowed to the field of *Lester*-plausible candidates, just as the field of candidates that citizens in the Soviet Union could select among had been narrowed by the choices of the Communist Party. Second, and obviously, this primary dependence upon the *Lesters* would produce a subtle, understated, and somewhat camouflaged bending to keep the *Lesters* happy. For all candidates, both prospective and already successful, would know that they couldn’t gain or retain power without *Lester* support. Such bending couldn’t be too obvious, for fear it would trigger the votes of voters who resented the *Lesters*’ influence. (No doubt, there were some.) But neither could it be too subtle, for fear the *Lesters* would miss who their real allies were. Thus the Goldilocks principle of *Lesterland* politics: Not too little, and not too much. The best politicians were the best precisely because they practiced this balance well.

Lesterland is a democracy. But it is a democracy with two dependencies: The first is a dependence upon the *Lesters*. The second is a dependence upon the citizens. Competing dependencies, possibly conflicting dependencies, depending upon who the *Lesters* are. This is Lessig’s *Lesterland*. And this is how democracy works in America. There are three things to see now that you’ve seen the democracy called “*Lesterland*.” The United States is *Lesterland*. Like *Lesterland*, the United States also has 311 million souls. It also has about 150,000 people named “*Lester*.” And it also has two types of elections: One, the traditional “*voting election*,” where citizens cast ballots. The other, a distinctively modern “*money election*,” in which the relevant “*funders*” give money to afford candidates the chance to run effectively. Voting elections are discrete — they happen on a particular day, in a regular cycle. They include the vote in the general election; for a small portion of us, they also include the vote in the primary. In both cases, every citizen eighteen and older has the right to participate. And as the constitution has been interpreted, he or she has the right to participate equally. If the vote I cast for my representative to Congress is weighted more than yours (*because there are fewer voters in my district than in yours*), the Constitution requires the state to redraw that congressional boundary.

By contrast, the money elections are not discrete. They are continuous. Every day, throughout the election cycle, every citizen is in effect asked to contribute to one candidate or to another. That contribution is in effect a “*vote*” for that one candidate or the other. But unlike “*votes*” in the discrete elections, to vote for one candidate in the money election does not mean you can’t vote for another as well. Citizens are free to hedge their money votes in the money election by voting for both candidates in a two-person race, or as many candidates in as many races as they wish. The only regulation is that no citizen is permitted to give more than \$2,600 to any one federal candidate per election, or more than \$123,200 to all federal candidates and federal PACs combined in an election cycle. And finally, and obviously, while the Constitution has been interpreted to require equality in the voting election, there is nothing close to equality in the money election. The per capita influence of the top 1 percent of American voters is more than 10 times the per capita influence of the bottom 99 percent.

As in *Lesterland*, the money election and the voting election have a special relationship in U.S.A.-land too: To be able to run in the voting election, one must do extremely well in the money election. One doesn’t necessarily have to win — though 84 percent of the House candidates and 67 percent of the Senate candidates with more money than their opponents did in fact win in 2012 — but you must

do extremely well. The average amount raised by winning Senate candidates was \$10.4 million; losing candidates raised \$7.7 million. The average amount raised by winning House candidates was \$1.6 million; losing candidates raised \$0.774 million. Money certainly isn't the only thing that matters. But anything other than money is way, way down the list of *"things that matter."* And here is the key to the link between *Lesterland* and the United States: There are just as few relevant *"Funders"* in U.S.A.-land as there are *"Lesters"* in *Lesterland*.

Lessig cites the numbers from 2010: 26 percent of America gave 200 dollars or more to any federal candidate, .05 percent gave the maximum amount to any federal candidate, .01 percent -- the one percent of the one percent -- gave 10,000 dollars or more to federal candidates, and in this election cycle .000042 percent — gave 60 percent of the Super PAC money spent in the cycle we have just seen ending. Therefore it's fair for me to say it's .05 percent who are our relevant *funders* in America — and the *funders* are our *Lesters*. Thus candidates for Congress and members of Congress have to spend between 30 to 70 percent of their time raising money and they do this by focusing on *Lesters* (*funders*). As a result, their policies are slanted toward policies that are favored by *Lesters* whom are .05% of the population. There is no need for corruption, when in order to raise as much money as possible politicians know that promoting policies that aren't favored by their base/*funders* won't allow them to raise the money necessary to run in both the primary and general election. And when so many Democratic and Republican congressional districts gerrymandered bullet-proof, winning the primary amounts to a shoe-in for the general election.

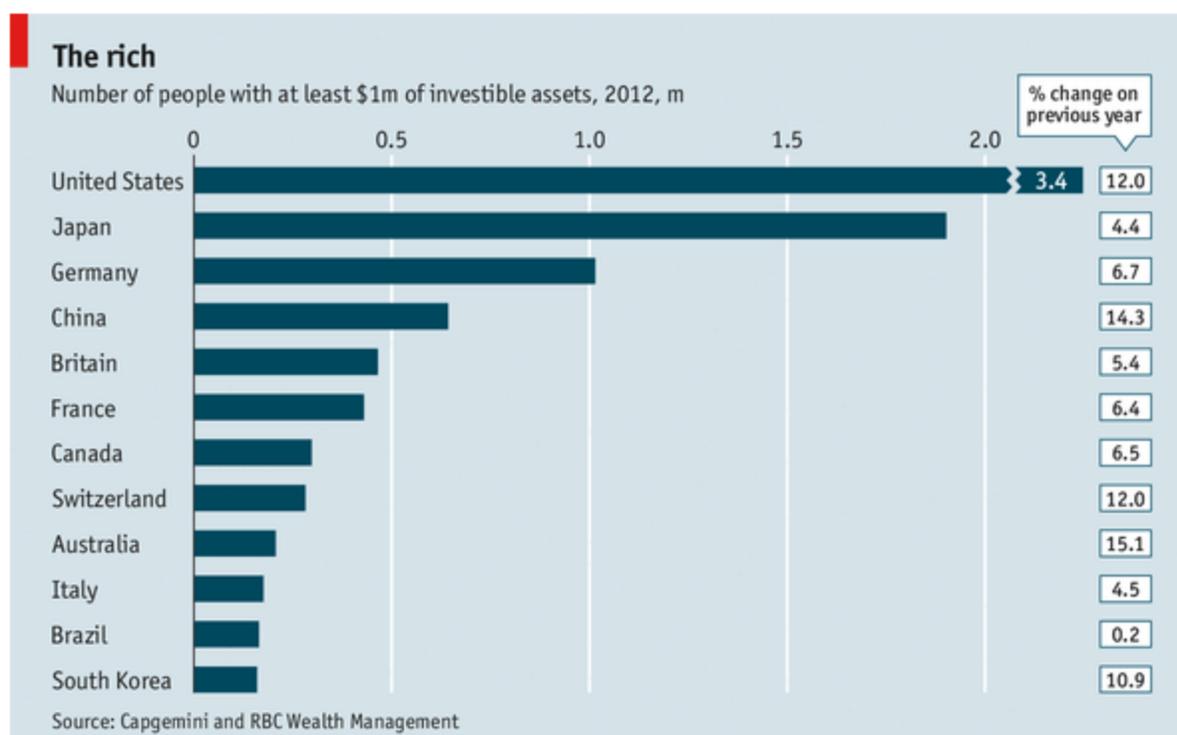
Then add to this is how deep the **Military Industrial Complex** is in bed with Congress, making it difficult for Congress to make any sensible policy so long as they're dependent upon both the military and the industry to fuel their political survival. Booz Allen, the company for whom Edward Snowden was a employee or contractor, the company Snowden worked for made \$1.3 billion last year, 23 percent of the company's total revenue from intelligence work. A former director of National Intelligence, John McConnell, is now an executive at Booz Allen. He's gone through the revolving door. The chief intelligence official now, James Clapper Jr., used to work for Booz Allen. And earlier this year Booz Allen announced it was starting to work on a new contract worth perhaps as much as \$5.6 billion over the next five years to provide intelligence to the Defense Department.

The Defense revolving door is longstanding. You know, people go work for the government, they have private, they have security clearance all the way up to the top. They go into private industry, they have the same security clearance. They're going between these two worlds. Part of the reason for that is the reality that government employees don't get paid much relative to what they get paid in the outside. The deal is that you will have several lean years, followed by a bunch of fat years. And this is the way that Defense contracting works or doesn't work, as policymakers focus on preserving this revolving door. And the same is true on Capitol Hill. Fifty percent of the Senate between 1998 and 2004 left to become lobbyists, 42 percent of the House. Those numbers have only gone up, and as United Republic calculated last April, the average increase in salary for those who they tracked was 1,452 percent.

And as former super-lobbyist Jack Abramoff (the *"King of K Street"* who went to jail for bribery) described in his book, **Capitol Punishment** — the most successful technique he used was to walk into a senator's office, meet with the chief of staff and casually ask what would he like to do in two years, *"well I want you to look me up after you're finished."* And with this suggestion Abramoff said, he owned that chief of staff although not a single dollar had traded hands. With this said, we have a dysfunctional system where politicians and their staffs are focused on how they're going to help lobbyists now and once they are out Capitol Hill, corrupting their judgment, the system and harming the future of our country. *I urge you to see the YouTube video of Lessig's TedTalk.*

Link: 

The rich



Last year 12m people in the world had \$1m or more in investible assets. That is 1m more “*high-net-worth individuals*” than in 2011. After falling in two of the previous five years, their combined wealth increased by 10% in 2012 to a record \$46.2 trillion. America, home to 3.4m very rich folk, Japan (1.9m) and Germany (over 1m) account for more than half of the world’s wealthy. Of the 12 countries with the most super-rich people, only Brazil failed to swell its numbers last year, as its economy slowed. North America reclaimed its position from Asia-Pacific as home to more extremely wealthy people than any other region, but its lead is unlikely to last, as Asia has many of the fastest-growing economies.

THIS WEEK'S READINGS

Last week Paul Krugman wrote an op-ed in the **New York Times** — ***Fight the Future***, pointing out that the **International Monetary Fund**, whose normal role is that of stern disciplinarian to spendthrift governments, gave the United States some unusual advice. “*Lighten up,*” urged the fund. “*Enjoy life! Seize the day!*” The **IMF** in an article titled, ***Ease Off Spending Cuts To Boost U.S. Recovery*** — the fund argued that the sequester and other forms of fiscal contraction will cut this year’s U.S. growth rate by almost half, undermining what might otherwise have been a fairly vigorous recovery. And these spending cuts are both unwise and unnecessary. According to the IMF, the main policy challenge is to support the recovery, while addressing the vulnerabilities that threaten growth, public finances, and financial stability in the medium term. In its assessment, the IMF emphasized a fiscal policy strategy to deal with this challenge, including the need to:

- **Repeal the sequester and adopt a more balanced and gradual pace of fiscal consolidation.** The spending cuts not only reduce growth in the short term, but the arbitrary reductions in education, science, and infrastructure spending could also reduce medium-term potential growth.

• **Raise the debt ceiling to avoid a severe shock to the United States and the global economy.**

• **Adopt a comprehensive and back-loaded set of measures to restore long-run fiscal sustainability.** Spending on major health care programs and Social Security is expected to increase by 2 percentage points of GDP over the next decade. Interest outlays are also projected to increase by 2 percentage points of GDP over the same period, as interest rates gradually return to normal levels. These factors would again widen the budget deficit and increase public debt. New revenues could be raised through a reduction in tax exemptions and deductions, as well as through the introduction of a carbon tax and a value added tax. Spending measures would need to curb the growth in public health care and pension outlays.

The IMF also stressed the crucial importance of monetary policy. *“Unusual times demand unusual policies and unusual care in managing risks,”* said Lagarde. Unfortunately, the fund apparently couldn't bring itself to break completely with the austerity talk that is regarded as a badge of seriousness in the policy world. Even while urging us to run bigger deficits for the time being, Christine Lagarde, the fund's head, called on us to *“hurry up with putting in place a medium-term road map to restore long-run fiscal sustainability.”* Krugman asks why do we need to hurry up? Is it urgent that we agree now on how we'll deal with fiscal issues of the 2020s, the 2030s and beyond?

Krugman answers no. Because in practice, focusing on *“long-run fiscal sustainability”* — which usually ends up being mainly about *“entitlement reform,”* aka cuts to Social Security and other programs — isn't a way of being responsible. — On the contrary, it's an excuse, a way to avoid dealing with the severe economic problems we face right now. What's the problem with focusing on the long run? Part of the answer — although arguably the least important part — is that the distant future is highly uncertain (surprise!) and that long-run fiscal projections should be seen mainly as an especially boring genre of science fiction. In particular, projections of huge future deficits are to a large extent based on the assumption that health care costs will continue to rise substantially faster than national income — yet the growth in health costs has slowed dramatically in the last few years, and the long-run picture is already looking much less dire than it did not long ago.

Krugman again: Now, uncertainty by itself isn't always a reason for inaction. In the case of climate change, for example, uncertainty about the impact of greenhouse gases on global temperatures actually strengthens the case for action, to head off the risk of catastrophe. But fiscal policy isn't like climate policy, even though some people have tried to make the analogy (even as right-wingers who claim to be deeply concerned about long-term debt remain strangely indifferent to long-term environmental concerns). Delaying action on climate means releasing billions of tons of greenhouse gases into the atmosphere while we debate the issue; delaying action on entitlement reform has no comparable cost.

The same day, the **IMF** released — ***Concluding Statement of the 2013 Article IV Mission to The United States of America.*** The article makes 14 assessments starting with:

1. The U.S. recovery has remained tepid over the past year, but underlying fundamentals have been gradually improving. The modest growth rate of 2.2 percent in 2012 reflected legacy effects from the financial crisis, fiscal deficit reduction, a weak external environment, and temporary effects of extreme weather-related events. These headwinds notwithstanding, the nature of the recovery appears to be changing. In particular, house prices and construction activity have rebounded, household balance sheets have strengthened, labor market conditions have improved, and corporate profitability and balance sheets remain strong, especially for large firms. With the sizeable output gap and well-anchored inflation expectations keeping inflation subdued, the Fed appropriately continued to add monetary policy accommodation over the past year by increasing its asset purchases and linking the path of short-term rates to quantitative measures of economic performance, thus helping to maintain

long-term rates at exceptionally low levels. Overall financial conditions have eased, as risk spreads narrowed, stock market valuations surpassed their pre-crisis peak, and bank credit conditions gradually eased.

United States: Summary of Macroeconomic Projections							
(Percent Change, unless otherwise noted)							
	2012	2013	2014	2015	2016	2017	2018
Real GDP	2.2	1.9	2.7	3.5	3.6	3.4	2.9
CPI, Headline Inflation	2.1	1.8	1.8	1.9	2.1	2.2	2.3
Unemployment Rate (percent)	8.1	7.5	7.2	6.8	6.2	5.7	5.4
Current Account (pct. of GDP)	-3.0	-2.9	-3.1	-3.2	-3.2	-3.2	-3.2

Source: Fund staff estimates.

2. However, growth is expected to slow to 1.9 percent this year owing to an excessively rapid pace of fiscal deficit reduction, before accelerating to 2.7 percent next year. Staff's baseline projections assume that the general government deficit will decline by over 2½ percent, subtracting between 1¼–1¾ percentage points from growth in 2013, the debt ceiling will be raised without any disruption to the U.S. and the global economy, and the Fed will continue asset purchases until the end of this year. The unemployment rate is projected to remain around 7½ percent throughout 2013. Employment growth is projected to pick up late this year and in 2014, fostered by an acceleration of output growth. With labor force participation projected to recover somewhat in 2014 as discouraged workers return to the labor force, the unemployment rate is projected to decrease (on average) to 7.2 percent next year. Given the wide output gap, inflation is expected to remain relatively subdued over this year and the next. As the legacy of the financial crisis wanes further, private domestic demand is expected to continue recovering, but weak growth in a number of trading partners is projected to weigh on export growth.

The article says main points are:

- U.S growth expected to slow to 1.9 percent in 2013, but could pick up in 2014
- Recovery hinges on more balanced, gradual pace of fiscal adjustment
- Exit from monetary policy stimulus requires careful communication, timing

The IMF says that despite the improvements over the past 12 months, there is still room for policies to support the housing market. As a stronger housing market remains an essential component of the U.S. economic recovery, it would be important to maintain the government-backed programs that facilitated refinancing and modification of loans under stress. The IMF also noted that there is room for active labor policies to complement efforts to boost domestic demand and to help reduce the risk of enduring losses of human capital. These policies can include training and support for job search, as well as efforts to strengthen the link between the education system—particularly community colleges — and employers, including through apprenticeships.

This week Jillian Berman posted an article in **The Huffington Post – *Income Inequality Greatly Exacerbated By U.S. Tax System: Study*** – based on the release of a paper from the **Economic Policy Institute** – confirms what many Americans have already suspected – policymakers' decisions to slash taxes – especially on the rich contributed to income inequality, as income for the country's top 1 percent has soared by 275 percent over the past 30 years, while growth for the rest of us has stagnated. About 30 percent of the expansion of the after-tax income gulf between the rich and not-so-rich between 1979 and 2007 was due to tax and budget policies becoming less redistributive, according to a recent paper from the Economic Policy Institute. In addition, the

boost in income for the top 1 percent and the top 0.01 percent of households is correlated with tax cuts, the study found.

Andrew Fieldhouse, the paper's author and a budget policy analyst at EPI, said that while market forces are largely to blame for the growth in income inequality, the government bears responsibility for making it worse. *"This is just another piece of evidence, at the broadest level, that Washington's model for tax reform is completely divorced from economic research,"* Fieldhouse told **The Huffington Post**. *"Federal budget policy not only failed to push back these market forces, but exacerbated income inequality."* While EPI's analysis is one of many to find that keeping taxes low -- especially for the rich -- widens the gap between the haves and have-nots, that hasn't stopped policymakers from fighting tax increases. The budget President Barack Obama proposed earlier this year boosted taxes on the wealthy -- but still by not as high of a margin as he originally promised -- and it was met with opposition by leading Republicans.

Recent research has found that slashing taxes on the rich doesn't lead to the boost in economic growth promised by many proponents. And while some have argued that raising taxes on the rich will disincentivize them to work hard, another EPI study that rich households don't respond to increases by being less productive -- rather, the study found, they simply shift their income to categories that are taxed at lower rates (*like investment income*). Indeed, the jump in income inequality over the past few decades is correlated with a simultaneous boost in investment income, which is largely concentrated in the hands of the rich and is taxed at lower rates than the income earned from good old-fashioned work, according to EPI.

The preferential tax treatment of investment income has increased over the past few decades, a factor which *"almost certainly played a role"* in widening the income gulf, the EPI paper found. *"More income inequality has consequences for Americans at all places along the income ladder. The large gap between the rich and the poor is slowing the nation's recovery from the recession,"* Nobel Prize-winning economist Joseph Stiglitz wrote in a **New York Times** op-ed earlier this year. And reducing income inequality could prolong periods of economic growth, a 2011 study from the International Monetary Fund found. But again, most Americans already believe that cutting taxes for the rich is not going to help the rest of us. It's just the top 1% and their sycophants in congress who haven't gotten the message.

Like their resistance to global warming, Republicans still believe that supply-side economics of slashing budgets and taxes that favor the rich promotes economic growth. Further evidence of this is former Bush, Romney Adviser economist Greg Mankiw recent position paper **'Defending The One Percent,'** arguing that income inequality is not as terrible a thing as liberals make it out to be. And even if it is, fixing inequality is really hard to do in a way that is not totally unfair to the wealthiest 1 percent of Americans. Mankiw's basic argument is that the 1 percent are richer than you probably because they are better than you. It's just science! Even the children of the wealthy are probably wealthier and better-educated than you at least partly because their genes are just better than yours, he suggests, and not because these people won the cosmic birth-family lottery that let them be born into wealth and privilege.

Mankiw reveals his simplistic mindset right off the bat, inviting readers to imagine a world of perfect income equality that is suddenly disrupted by the rise of an entrepreneur -- think *"Steve Jobs as he develops the iPod, J.K. Rowling as she writes her Harry Potter books, or Steven Spielberg as he directs his blockbuster movies"* -- who gets rich because everybody loves his or her products.

Suddenly there is income inequality, egads! *"In my view, this thought experiment captures, in an extreme and stylized way, what has happened to U.S. society over the past several decades,"* Mankiw writes. *"These high earners have made significant economic contributions, but they have also reaped large gains."* Well, in that case, inequality is easier to stomach. We all love our iPods and Harry

Potter books and Spielberg movies and most of us probably don't mind watching their creators get rich.

The trouble with Mankiw's imaginary world is that it looks nothing like the real world, where the Jobses and Rowlings and Spielbergs are not the only people getting fabulously wealthy. In this world, many people get fabulously wealthy who do nothing for our general welfare, and possibly even hurt it. The wealthy have used campaign contributions, lobbying and think-tank founding to skew the political process to keep the system working in their favor. He ignores high-frequency traders on Wall Street, who contribute nothing but getting fabulously richer. Most of us won't have a gripe if the next Steve Jobs strikes it rich as long as it is in a socially productive way. And braking up a company to sell off its assets to make money is not my idea of social productivity.

Mankiw shakiest argument is that the rich are mostly rich because they deserve it, because they have better skills and education and that smart parents are more likely to have smarty children, and their greater intelligence will be reflected, on average, in higher incomes. I have yet to see children of the robber barons Astor, Morgans, Rockefellers, etc. contribute any substantive accomplishments to the degree of a Job, Gates, Rowlings and Spielberg, who all came from the depths of the Middle Class. His argument elides the fact that that generations of middle-class Americans after World War II (*with the help of government sponsored programs*) were able to live relatively comfortable lives, owning homes and paying for college educations for their children, because those costs were low relative to their incomes, and that their children don't have these same opportunities.

Mankiw also argues that CEO pay is not too exorbitant, that the wealthy already pay plenty in taxes and that they wouldn't really benefit from paying any more than they already do, because most of the government's money is going to poor people and sick people anyway. In other words, it is a standard-issue, predictable call to stick with the status quo of inequality, despite evidence that inequality is hurting the economy and that it is at least partly driven by government policies favoring the wealthy. Last November American voters overwhelmingly rejected Mitt Romney, believing that supply side economics were not in their best interest. And instead of listening to the voters, Mankiw and others are still trying to defend their same failed economic policies.

In an article in **The Huffington Post**, Simon Johnson wrote – ***Goldman Sachs Concedes Existence of Too Big to Fail***. In a recent report by Goldman Sachs, "***Measuring the TBTF effect on bond pricing***," denied there is any such thing as downside protection provided by the official sector to creditors of "too big to fail" financial conglomerates. The Goldman document appears hot on the heels of similar arguments in papers by such organizations as Davis Polk (*a leading law firm for big banks*), the **Bipartisan Policy Center** (*where the writing is done by a committee comprised mostly of people who work closely with big banks*), and JP Morgan Chase (a big bank). This is not any kind of conspiracy but rather parallel messages expressed by people with convergent interests, perhaps with the thought that a steady drumbeat will help sway the consensus back towards the banks' point of view. But the Goldman Sachs team actually concedes, point blank, that too big to fail does exist -- punching a big hole in the case painstakingly built by its allies.

Of course, the report puts a different spin on matters. But if you add in a little bit of recent Goldman history - not mentioned in the report - the dangers of relying on their read of the data become readily apparent. The Goldman analysts make clear that, even under the most favorable interpretation (i.e., theirs), very large financial institutions were able to borrow more cheaply than other financial firms at the height of the crisis in 2008-09. The funding advantage they measure in the crisis looks (from their charts) to be in the range of 400-800 basis points. In fact, there was further advantage to being one of the very largest firms - remember that when hedge funds "*ran*" from Morgan Stanley, their destination was JP Morgan Chase (this point is not in the Goldman report, which conflates these two firms with other very large financial institutions). The Goldman team shows there was an even larger advantage

for huge non-bank financial companies than there was for banks, but they neglect to mention that their company was one of our large non-banks as the crisis intensified. Goldman was allowed to convert to become a bank holding company in September 2008, so that it could access the Fed's discount window (i.e., increase its ability to borrow from the central bank.) This conversion was allowed - or perhaps even urged by officials - precisely because they feared the consequences of Goldman failing.

The issue of TBTF is not about the rules or the cost of credit relative to small banks in a period of calm. It is about the availability of government support, broadly defined, when bad things happens - enabling the megabanks to borrow more cheaply than would otherwise be the case. Goldman Sachs has downside protection available to it which a small or even medium-sized regional bank cannot hope to access. This helps increase liquidity in their bonds and generally makes it easier to borrow in good times as well as bad. The Goldman team argues that big banks show lower losses than smaller banks both in the recent credit cycle and during the S&L crisis. But this uses [REDACTED] data and it necessarily masks all the other support provided by Fed support and various kinds of debt guarantees. And Goldman does not cover the emerging market debt crisis of the early 1980s, which was all about big bank losses (with Citi at the center, as it was in 2007-08). Goldman also argues that the funding advantage for megabanks today is smaller than it was in the crisis, indicating that there is no longer a TBTF issue in the minds of creditors.

The real issue for too big to fail is: by how much does the prospect of government support lower spreads compared to what they would otherwise be. The Goldman report acknowledges that too big to fail exists and distorts the market, but conveniently ignores the question of how big this distortion is really -- and how it threatens to again bring down the economy. In 2008 Goldman executives argued that they were too big - and complex and generally important - to be allowed to fail. Hank Paulson, then Secretary of the Treasury and former head of Goldman, felt strongly that the continued existence of his firm was essential to the well-functioning of the world economy. Where I come from this appears to be corporate welfare and TBTF policies that Goldman and the other major banks enjoy, is corporate welfare on steroids.

For weeks Congressman Darrell Issa (*Republican from California and Chairman of the House Oversight Committee*) has been on a crusade against the Obama Administration. He called the President corrupt, he pushed for the Attorney General Eric Holder to be held in contempt for the first time in the nation's history, and he has tried and failed again and again to put the stink of scandal on the Obama Administration but this week he was caught red handed trying to link the White House with the disturbing charges that the IRS intentionally targeted Tea Party groups looking for tax breaks, when it was exposed that he released selected portions of interviews to make his case, even though he knew from the entire testimony that this was not true. Issa went on television saying that the Obama Administration had used the IRS to target political enemies and was lying about it so that it wouldn't be discovered until after the election. Time and again, he called the Obama Administration liars, when he knew from the complete testimony from of the IRS official who made the decision and is a Republican appointed by George W. Bush, that this was not true.



Last week calling his Issa's bluff, Rep. Elijah Cummings, the ranking Oversight Committee Dem from Maryland, said that the full transcript of testimony would show the charges to be false, and would reveal Issa's selective leaking for what it is. In particular, Cummings wanted the full transcript released of testimony by the IRS Screening Group Manager in Cincinnati, John Shafer, a conservative Republican. Cummings, saying that his testimony will show that there is no evidence of White House involvement in the development of the screening of Tea Party cases — and that the process by which these cases got referred to Washington officials falls far short of the conspiracy alleged by conservatives. Issa has since replied that releasing the full transcripts — as opposed to selected snippets of it — would be “reckless” and “irresponsible,” because it would “serve as a roadmap of the Committee's investigation” in a way that could discourage future witnesses.

The Democrats on the Oversight Committee called Issa's bluff this week going public explaining that the full transcripts show that there was no malfeasance and that the White House definitely had no part of the decision, who to target and the criteria that would be used. In a letter that was sent to Issa last week, Cummings asked Issa to specify precisely how releasing full transcripts would harm the investigation, and even agreed to conceal any parts of them that would, according to Issa, do that. In a rebuke to House Oversight Committee Chairman Darrell Issa, Rep. Elijah Cummings released the full transcript of a key interview with an IRS employee at the heart of the agency's scandal. The 200-page transcript sheds additional light on the decision by the IRS to screen out tea party groups applying for tax-exempt status during the months and years leading up to the 2012 elections.

Again, The Big Ugly is that the full transcript of the interview with the screening group manager reveals that Darrell Issa, and his fellow House Republicans blatantly and knowingly lied about President Obama and the White House being behind the “*targeting of conservative groups.*” The targeting of conservative groups is another lie, because only 1/3 of the groups targeted were conservative. Obviously Rep. Issa had been refusing to release complete transcripts because he knew that he would be exposed as the liar that he is. It would be nice if the media would learn their lesson from this episode, and stopped giving Issa and other blowhards airtime. Since the mainstream media doesn't care about truth and facts, it is doubtful that Issa's lies will have any impact on them at all. Rep. Cummings did a great service for his country by releasing these transcripts. Darrell Issa is a man with no credibility, and Democrats aren't going to stand around and let him lie any longer. But more importantly there should be a consequence for any public official to knowingly distort the truth for political purpose. *Therefore, what do you suggest Issa's punishment should be.....*

In an article this week in the **New York Times**, economist Paul Krugman wrote — **Profits Without Production** — explaining one of the fundamental economic changes in the 21st Century

— which he describes as the growing importance of monopoly rents: profits that don't represent returns on investment, but instead reflect the value of market dominance. Sometimes this dominance seems deserved, sometimes not; but, either way, the growing importance of rents is producing a new disconnect between profits and production and may be a factor prolonging the slump.

He cites the differences between the iconic companies of two different eras: General Motors in the 1950s and 1960s, and Apple today. G.M. in its heyday had a lot of market power. And the company's value came largely from its productive capacity: it owned hundreds of factories and employed around 1 percent of the total nonfarm work force. Whereas, Apple seems barely tethered to the material world. Depending on the vagaries of its stock price, it's either the highest-valued or the second-highest-valued company in America, but it employs less than 0.05 percent of our workers. To some extent, that's because it has outsourced almost all its production overseas. But the truth is that the Chinese aren't making that much money from Apple sales either, as they are being squeezed by Apple who keeps the difference. Whatever is disconnected from the cost of producing the gadget. Apple simply charges what the traffic will bear, and given the strength of its market position, the traffic will bear a lot as a result of the popularity of its products.

Not making a moral judgment, Krugman argues that Apple earned its special position — whereas Microsoft, made huge profits for many years due to its domination of the PC market — monopoly rents, and these days it accounts for roughly 30 percent of total corporate profits. Whether corporations deserve their privileged status or not, the economy is affected, and not in a good way, when profits increasingly reflect market power rather than production. During the industrial revolution economist believed in the axiom — more resources times more labor results in increase profits. But over the past 30 years this paradigm has totally flipped with encouragement from economists and Wall Street — least resources times least labor to generate increased profitability. Concurrently increasing market domination is the easiest way to grow for many companies.

Here's an example. As many economists have lately been pointing out, these days the old story about rising inequality, in which it was driven by a growing premium on skill, has lost whatever relevance it may have had. Since around 2000, the big story has, instead, been one of a sharp shift in the distribution of income away from wages in general, and toward profits. But here's the puzzle: Since profits are high while borrowing costs are low, why aren't we seeing a boom in business investment? And, no, investment isn't depressed because President Obama has hurt the feelings of business leaders or because they're terrified by the prospect of universal health insurance.

Accordingly, there's no puzzle when rising profits reflect rents, not returns on investment. A monopolist can, after all, be highly profitable yet see no good reason to expand its productive capacity. And Apple again provides a case in point: It is hugely profitable, yet it's sitting on a giant pile of cash, which it evidently sees no need to reinvest in its business. Or to put it differently, rising monopoly rents can and arguably have had the effect of simultaneously depressing both wages and the perceived return on investment.

You might suspect that this can't be good for the broader economy, and you'd be right. If household income and hence household spending is held down because labor gets an ever-smaller share of national income, while corporations, despite soaring profits, have little incentive to invest, you have a recipe for persistently depressed demand. Krugman doesn't say that this is the only reason our recovery has been so weak — weak recoveries are normal after financial crises — but it's probably a contributory factor. Therefore, using history as an example is irrelevant. In particular, the widening disconnect between profits and production does nothing to weaken the case for expansionary monetary and fiscal policy as long as the economy stays depressed. Hence, we need new policies to address the economic distortion caused by this and succeeding paradigm shifts.

The trade gap between America and China is much exaggerated



This week in **The Economist** – *The trade gap between America and China is much exaggerated* – the article says that although America's trade deficit with China hit another record last year – estimated at almost \$300 billion, it made up over 40% of America's total deficit – the official data grossly overstate US imports from China. It uses Apple's iPad as an example, which America imports from China even though it is entirely designed and owned by Apple, an American company here in the United States. iPads are assembled in Chinese factories owned by Foxconn, a Taiwanese firm, largely from parts produced outside China. According to a study by the Personal Computing Industry Centre, each iPad sold in America adds \$275, the total production cost, to America's trade deficit with China, yet the value of the actual work performed in China accounts for only \$10. Using these numbers, The Economist estimates that iPads accounted for around \$4 billion of America's reported trade deficit with China in 2011; but if China's exports were measured on a value-added basis, the deficit was only \$150m.

Touchy subject

Distribution of value for an Apple iPad
2010, % of total

Profits:

Apple
30

Other US
2

South
Korean
7

Taiwanese
2

Other
6

Costs:

Chinese labour
2

Non-
Chinese
labour
5

Cost of
materials
31

Distribution
& retail
15

Source: Personal Computing Industry Centre

The chart shows a geographical breakdown of the retail price of an iPad. The main rewards go to American shareholders and workers. Apple's profit amounts to about 30% of the sales price. Product design, software development and marketing are based in America. Add in the profits and wages of American suppliers, and distribution and retail costs, and America retains about half the total value of an iPad sold there. The next biggest gainers are South Korean firms like Samsung and LG, which provide the display and memory chips, whose profits account for 7% of an iPad's value. The main financial benefit to China is wages paid to workers for assembling the product and for manufacturing some inputs—equivalent to only 2% of the retail price. China's small contribution to total costs suggests that a yuan appreciation would have little impact on its exports. A 20% rise in the yuan would add less than 1% to the import price of an iPad. For imports such as clothing and toys the Chinese value added is much higher. But electrical machinery and equipment, with more complex cross-border supply chains, make up one-quarter of China's exports to America. Pascal Lamy, the head of the World Trade Organization, has suggested that if trade statistics reflected true domestic content, America's deficit with China might be more than halved.

OLD PHOTOGRAPHS

Welcome to America: Poignant black and white pictures show the brutal hardships endured by immigrant families in 19th century New York. Immigrants have it hard, and as you will see when you download the photos on the weblink below, you will see the immense hardships that they endured.

- City of sweat shops, shanty towns and slums is an unrecognizable New York, captured, in black and white.

- Shots provide a window into the squalor, deprivation and poverty of a bygone age.

Weblink: <http://www.dailymail.co.uk/news/article-2343204/Welcome-America-Poignant-black-white-pictures-brutal-hardships-endured-immigrant-families-19th-century-New-York.html>

They may have headed to the 'Land of the Free' for a better life, but a set of poignant black and white pictures illustrate the brutal hardships endured by immigrant families in 19th century New York. The images captured by Jacob A. Riis provide a window into the squalor, deprivation and poverty of a bygone age. The stark photos of sweat shops, shanty towns and slums provide an image of an unrecognizable city. For many immigrants the new life was a tough one- some of the streets where they had made their home were notorious for violent crime. Riis took advantage of the newly-invented flash photography to document the city's dark side in these incredible pictures of slum life among the immigrant underclass.

In one heart-wrenching picture three small barefoot children huddle together for warmth over a grating. Others show street children huddling close together for warmth, or working the streets as shoeshines and beggars. During the rime reporter and reformer's late-night visits to the slums, the new medium of flash startled people but managed to capture the chaos of poverty as it had never before been seen in photographs. Newly arrived immigrants slept 12 to a room, while street children roamed the alleys and tenement blocks of a Third World downtown Manhattan.

QUOTE OF THE WEEK

Maimonides, the 12th century Jewish philosopher defined hope as, said, "**Belief in the plausibility of the possible as opposed to the necessity of the probable.**"

THIS WEEK'S MUSIC

This week I am feel **James Brown** who truly was *the Hardest Man Working in Show Business*, *Mr. Dynamite*, *Soul Brother #1* and **THE Godfather of Soul**. **James Joseph Brown, Jr.** (May 3, 1933 – December 25, 2006) was an American recording artist and musician. One of the founding fathers of funk music and a major figure of 20th century popular music and dance, he is often referred to as "**The Godfather of Soul**". In a career that spanned six decades, Brown profoundly influenced the development of many different musical genres.

Born in Barnwell, South Carolina, Brown moved to Augusta, Georgia, to live with relatives at the age of four. After a stint in prison for robbery, Brown began his career as a gospel singer in Toccoa, Georgia. Joining an R&B vocal group called the Avons that later evolved to become The Famous Flames, Brown served as the group's lead singer. Coming to national public attention with the late 1950s ballads "*Please, Please, Please*" and "*Try Me*", Brown built a reputation as a tireless live performer with singing group The Famous Flames and his backing band, sometimes known as the James Brown Band or the James Brown Orchestra. Brown's success peaked in the 1960s with the live album, *Live at the Apollo*, and hit singles such as "*Papa's Got a Brand New Bag*", "*I Got You (I Feel Good)*" and "*It's a Man's Man's Man's World*". During the late 1960s, Brown moved from a continuum of blues and gospel-based forms and styles to a profoundly "*Africanized*" approach to music making that influenced the development of funk music. By the early 1970s, Brown had fully established the funk sound after the formation of The JB's with records such as "*(Get Up I Feel Like Being A) Sex Machine*" and "*The Payback*". Brown also became notable for songs of social commentary including the 1968 hit, "*Say It Loud - I'm Black and I'm Proud*". Brown continued to perform and record for the duration of his life and died in 2006 from congestive heart failure and pneumonia.

Brown holds the record as the artist to have charted the most singles on the **Billboard Hot 100** without ever hitting number-one on that chart. In spite of this, however, Brown recorded seventeen number-one singles on the **R&B** charts. Brown was honored by many institutions including inductions into the Rock and **Roll Hall of Fame** and **Songwriters Hall of Fame**. Brown is ranked **seventh** on the music magazine **Rolling** [REDACTED] list of its 100 greatest artists of all time. Without a doubt, James Brown is in the Pantheon of All Music, so I invite you to enjoy a selection of music of one of the greatest of all times.... **Mr. James Brown**....

James Brown – ***I Feel Good*** -- [REDACTED]

James Brown & Luciano Pavarotti – ***It's a Man's World*** -- [REDACTED]
[v=Febr_t_qa9U](#)

James Brown – ***PLEASE PLEASE PLEASE*** -- [REDACTED]

James Brown – ***PRISONER OF LOVE*** -- [REDACTED]

James Brown – ***Mother Popcorn*** -- [REDACTED]

James Brown – ***I Feel Good*** -- [REDACTED] and [REDACTED]

James Brown – ***Sexmachine*** -- [REDACTED]

James Brown – ***Wee Wee Hours Of The Night*** -- [REDACTED]
[v=MGcK3Q9sekQ](#)

James Brown – ***Say It Loud, I'm Black And I'm Proud / If I Ruled The World*** -- [REDACTED] and [REDACTED]

James Brown – ***(Greatest dance moves ever) – THERE WAS A TIME*** -- [REDACTED]

JAMES BROWN – ***Living in America*** -- [REDACTED]

James Brown – ***Soul Power*** -- live in Kinshasa Zaire -- [REDACTED]
[NrucQcB8](#)

James Brown – ***The Big Payback*** -- [REDACTED]

JAMES BROWN – ***Papa's Got A Brand New Bag and I Got You*** -- [REDACTED]

ONE OF THE LAST GREAT JAMES BROWN TV PERFORMANCE: "*Late Night w/ David Letterman*" -- [REDACTED]

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

Sincerely,

Greg Brown

--
Gregory Brown
Chairman & CEO
GlobalCast Partners, LLC

