



## FRIENDS OF THE MIDDLE NEWSLETTER #156 — JUNE 8, 2012

*Welcome to always lively political discussion and whatever else comes up.*  
<http://www.FriendsOfTheMiddle.org> [FriendsOfTheMiddle@hotmail.com](mailto:FriendsOfTheMiddle@hotmail.com)

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### **Divining Derivative Risk**

(posted by Pam McRae, June 8, 2012)

"The US government should simply cancel the \$230 trillion in derivative bets, declaring them null and void. As no real assets are involved, merely gambling on notional values, the only major effect of closing out or netting all the swaps (mostly over-the-counter contracts between counter-parties) would be to take \$230 trillion of leveraged risk out of the financial system. The financial gangsters who want to continue enjoying betting gains while the public underwrites their losses would scream and yell about the sanctity of contracts. However, a government that can murder its own citizens or throw them into dungeons without due process can abolish all the contracts it wants in the name of national security. And most certainly, unlike the war on terror, purging the financial system of the gambling derivatives would vastly improve national security." — Paul Craig Roberts, "Collapse at Hand"

I pushed my way through the essay on financial matters in today's FotM Newsletter #155 and think I understand most of it. I still can't quite wrap my mind around "short selling," but it took me a while to understand mortgage-backed securities too. What I do understand is the Alice in Wonderland world of finance we are living in and the wishful thinking that just about everyone is doing, including me in my good moments. Money is a fiction we all agree to believe in as if it were real. I understand the exchange of money for goods (anything tangible or a service rendered, say a doctor's), but all this borrowing and selling and leveraging and charging for every transaction is illusory. It's Platonic in its idealism. I love this idea of just wiping out the \$230 trillion in derivative bets. The billionaires who have been riding high will suffer a fall, but I don't much care. Somehow I think they'll still be able to scrape up some genuine assets, enough to live on. It's like declaring a financial amnesty. One of the great Roman emperors (it may have been Sulla) saved early Rome by cancelling all debts and starting over. Maybe that's what we should do. Leave people's salaries alone, leave their savings alone, let their investments in real businesses alone, reduce the interest on student loans to 0% retroactively and forgive them after 20 years, and simply let the overinflated balloon of financial "products," which are essentially gambling debts, float away. It really is like the Mafia. Some poor schmuck borrows \$5000 for his grandmother's operation at an exorbitant rate of interest that he will never be able to repay. He goes deeper and deeper into the hole, and the debt piles up, but the operation still cost \$5000, which can be paid back, if the interest didn't keep jacking up the amount owed. If the dutiful grandson were allowed to pay back the \$5000, the Mafia boss would get his money back. Add a little extra for the advance, and everyone comes out better off than they went in--except the borrower, who will have to cut back on trips to the ball park for a while. The lender isn't out anything because the original loan gets paid off, and all that money for nothing vanishes as if it never was, which it really wasn't.

What is a "financial product" anyway? Beyond making investors money what is it good for? It's not like the discovery of a drug or the invention of an iPad. I've always been told that economics is one of the more difficult disciplines, indeed "the dismal science," and I was never much interested in it before. Somehow in my old age I've

been giving more thought to politics and economics (brethren that they are), and I am desperately trying to understand what is going on. FotM is like being in graduate school again, where I have to defend everything I assert and work to comprehend difficult things. It's exhilarating and a lot more fun than doing crossword puzzles.

(afterward by Steven W. Baker/SteveB)

There seem to me to be two fields of human inquiry where, the more we learn and develop our understanding, the further we stray from "common sense". These two fields are physics and economics. (I'll ignore philosophy, for now.)

Modern physics tells us that it's impossible to ever actually see any physical object—all we can see is light. Physics tells us that the top of a table is not solid, but consists mainly of empty space. There are eight or so dimensions which we cannot perceive, and when we observe matter closely, it appears to flit into and out of existence, so that we can never be sure exactly where it is.

Modern economic theory tells us that money is an illusion (though an "agreed-upon" illusion), or at least its "value" is illusory in a very real sense. When I make a "short sale" (see more above and below) I'm selling something that I don't have. When I buy a futures contract, I am likely buying something which does not exist—yet. Today's corporations try to scientifically assess risk before embarking upon a course of action, yet modern governments seem perfectly willing sit upon mountains of risk, the size of which are completely unknown, while financial institutions and speculators battle the regulators and expose entire nations, even the world, to financial bubbles and collapse.

We can easily perceive convoluted forces at work below the surface, when looking at the world using what we know about physics or economics. Are we in control of those forces? In my estimation, not by a long shot, in either case. Yet, as wild as the theories of physics might sound, they are derived from careful, conservative thinking, not wild crack-pot plunges off the cliff of real knowledge (for the most part). But, when it comes to money, mere theories and speculation are loosed, implemented, and tested upon the world. The very real risks are thrown upon others by those who hold that "illusory" money.

I don't believe anyone knows what is going to happen economically, though many think they do or are willing to guess, but there can be little doubt that we stand near the apex of a mountain of risk that we seem to be unwilling or unable to even try to assess and discuss, let alone reduce. **For some reason, in the world of money and high finance, true conservatives seem to be in extremely short supply.**

Now, let me diverge a moment to answer Pam's question about "short selling". It sounds like she's done a great job of understanding some of the more complex derivatives. To "short sell" a stock, you must be able to "borrow" the shares temporarily from your broker. The shares are sold at the current market price and that money is yours, but, remember, you borrowed the stock, so it must be paid back eventually. Your broker might issue a "call" and force you to buy stock at that instant at the current market price to repay the borrowed shares. Or, what you hoped would happen might happen, the price of the stock might go DOWN, in which case, you could buy shares at the lower price, repay your broker, and make money—all with other people's money (unless you lose, then it's, unfortunately, your money).

Pam's discussion, above, is in reference to the following article, which appeared in FotM Newsletter #155:

"Collapse at Hand" by Paul Craig Roberts, OpEdNews, June 5, 2012,  
(<http://www.opednews.com/articles/1/Collapse-At-Hand-by-Paul-Craig-Roberts-120605-598.html>).

For anyone interested in learning more about the important subject of financial derivatives, the following paper offers a clear and fairly complete explanation and analysis:

"Demystifying Financial Derivatives" by René M. Stulz, *The Milken Institute Review*, Third Quarter, 2005,  
([http://www.cob.ohio-state.edu/fin/faculty/stulz/publishedpapers/milkeninstitute\\_pubpaper.pdf](http://www.cob.ohio-state.edu/fin/faculty/stulz/publishedpapers/milkeninstitute_pubpaper.pdf)).

## FotM NEWSLETTER #156 (June 8, 2012)—HYPERTEXT INDEX

<u>DATE-ID</u>	<u>TIME</u>	<u>FROM</u>	<u>SUBJECT/TITLE</u>
<a href="#">20120608-00</a>		Pam	<b>Divining Derivative Risk</b> by Pam McRae ("Collapse at Hand")
<a href="#">20120607-01</a>	09:39	MarthaH	Re: When the Unraveling? (reply to SteveB, FotM Newsletter #155)
<a href="#">20120607-02</a>	11:50	Pam	Re: Video: "Test of Fire: Election 2012" (reply to Paula, FotM Newsletter #155)
<a href="#">20120607-03</a>	12:18	SteveB	Fw: USAction Action: End the Bush Tax Cuts for the Wealthiest 2%!
<a href="#">20120607-04</a>	16:18	SteveB	"Silent Running: the Burgeoning Wisconsin Scandal that Major Media Ignored"
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<a href="#">20120607-07</a>	23:57	Bill	Women as Explained by Engineers, Part 3
<a href="#">20120607-08</a>	23:59	SteveB	Photo: Morel Mushroom

<a href="#">20120607-01</a>	09:39	MarthaH	Re: When the Unraveling? (reply to SteveB, FotM Newsletter #155)
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The snowball from Hades...or the domino theory???? Greed kills, a slow an agonizing death of torture... UNLESS... Good analysis, SteveB.

<a href="#">20120607-02</a>	11:50	Pam	Re: Video: "Test of Fire: Election 2012" (reply to Paula, FotM Newsletter #155)
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"Have you seen this one? Outstanding & Very powerful. I hope that you will send this to everyone that you know regardless of their faith. It cuts to the very heart of our society and how it is being torn apart by secular progressives. The time has come to act and not just moan and groan." --posted by Paula, FotM Newsletter #155

First, watch the video: [http://www.youtube.com/watch\\_popup?v=D9vQt6IXXaM&hd](http://www.youtube.com/watch_popup?v=D9vQt6IXXaM&hd).

I had to read Paula's comment several times to be sure I understood it correctly. Paula, I take it you believe our country is being ruined by "secular progressives," by which, I assume, you mean people like me. Who am I? I am a secular progressive (liberal, whatever). I believe in the absolute separation of church and state and fear theocracy. I believe in individual autonomy (freedom, liberty), which means allowing people to live as they wish, think as they see fit, and believe what they want, without outside interference from church or government. I do not believe in forcing people to do--or not do--things I might want but they do not. I put gay marriage in this category. Couples who wish to marry should have equal rights, whether they be gay or straight. I don't believe in different laws for different groups. I believe in allowing a woman and her doctor to decide what is best for her health, even if that includes abortion. I also believe that life is sacred and should be protected, which means support for mothers and families who need it. I grant other women the freedom to make choices different from mine; I have no right to impose my beliefs upon others. To do so is to deny their autonomy, ie, freedom. I agree that "the least government is the best government" is attractive in theory, but I also realize that we need government to preserve our freedom, our rights, and our security. No church should dictate policy beyond the confines of its own domain. I believe in love, friendship, compassion, family, hard work, responsibility, kindness and tolerance. If those are qualities that tear society apart, I would like to see an example.

The video is naked propaganda, as is most political advertising, including that photo of JFK walking alone on the beach. Propaganda is intended to appeal to emotion, not to reason, and this video certainly does that. Frighteningly, it harkens back to the medieval church, which, as we know, was guilty of egregious practices toward non-believers. The use of fire in this video is a not-so-subtle reminder of the treatment meted out to heretics. This is an instance of a church, which is meant to be above politics, hence its tax-free status, blatantly advising its members to vote in a particular way.

My great-great....grandfather was a minister in Virginia during the American Revolution. (I have taken his name.) He supported the Revolution, but he did not believe in preaching politics in the pulpit, which led to his being tarred and feathered as a Loyalist. He nearly died but was rescued by a servant. Rev. McRae then sued his attackers and was represented in court by his friend and fervent revolutionary, Patrick Henry. We have been standing up for the separation of church and state from our beginnings, which is one reason I find it odd that some religious folks are so keen to bend the country to their doctrinal will.

My hackles rise whenever I feel I am being manipulated, whether by the right or the left, the faithful or the secular. I prefer to listen to candidates debate on an empty stage rather than watch a slick infomercial with harps and strings in the background. My hackles rise whenever I hear liberals accused of anti-Americanism, as if patriotism were a matter of religious belief or political affiliation. My hackles rise when I see Chinese posters from the Mao years, showing grinning, sturdy, young communist workers with their eyes apparently fixed on the future. Propaganda is propaganda, whoever produces it, which is why I dislike billboards promoting atheism, atheist that I am. If you want me to change my mind, do it by using fair, transparent methods, not by trying to hoodwink me into a bogus emotional reaction.

20120607-03 12:18 SteveB Fw: USAction Action: End the Bush Tax Cuts for the Wealthiest 2%!

from USAction:



Yesterday, White House Press Secretary Jay Carney told reporters President Obama "will not - could I be more clear? - he will not support extension of the upper-income Bush tax cuts."

We're glad the President is standing strong but as Congress gears up for a showdown on taxes this summer, we need our allies in Congress to stay true to message: the Bush tax cuts for the wealthiest 2% need to expire.

Will you send a message to Congress, and tell them to let the Bush tax cuts for the ultra-rich expire once and for all?

[http://act.truemajorityaction.org/p/dia/action3/common/public/?action\\_KEY=394](http://act.truemajorityaction.org/p/dia/action3/common/public/?action_KEY=394)

We need a fair tax system that works for the 99% of us who work hard and play by the rules, not the 1% who lobby hard and rewrite the rules. The Bush tax cuts overwhelmingly benefited the 1%, who ate up 38% of the Bush tax cuts. And we never got the jobs that the right wing promised would trickle down because working people with good jobs drive the economy, not the 1%.

It's time to end these tax cuts for the ultra-rich and turn our economy back around.

Republicans claim to be deficit hawks, but they refuse to raise taxes on the nation's wealthiest by even one cent. Rather, they have proposed gutting nearly every program working class Americans rely on just to get by.

The Bush tax cuts for the ultra-rich were always a bad idea. It's time to end them once and for all. Contact Congress now and tell them to end the Bush tax cuts for those making over \$250,000 a year.

Sincerely, David Elliot, USAction / TrueMajority

20120607-04

16:18 SteveB

"Silent Running: the Burgeoning Wisconsin Scandal that Major Media Ignored"

"Silent Running: the Burgeoning Wisconsin Scandal that Major Media Ignored" by Joe Conason, NationofChange

June 7, 2012, (<http://www.nationofchange.org/silent-running-burgeoning-wisconsin-scandal-major-media-ignored-1339060488>)

If the Wisconsin recall is truly second in importance only to the presidential race, as many media outlets have trumpeted lately, then why have those same outlets so badly neglected one of that election's most salient aspects?

As millions of dollars in dark right-wing money pour into the state to preserve Gov. Scott Walker from his progressive opposition, it seems relevant that he and many top aides are under investigation in a campaign finance and corruption scandal that has been growing for two years.

Yet the national media have largely ignored the fascinating details of that probe — which has already resulted in indictments, convictions and cooperation agreements implicating more than a dozen Walker aides and donors. Only readers of the local newspapers in Madison or Milwaukee would know, for instance, law enforcement documents have emerged in court during the past few days suggesting that Walker stonewalled the investigation in its initial phase.

The typical reference to the scandal in the national media notes that Tom Barrett, Walker's Democratic opponent, is seeking to "stoke suspicions" regarding the investigation, "in which former Walker aides stand accused of allegedly misappropriating campaign funds."

But the suspicions have been stoked by actual events, not campaign propaganda, including guilty pleas, immunity deals and home raids by law enforcement officials. (Last September, a team of sheriff's deputies and FBI agents raided the Madison home of Cindy Archer, a former top county official who served as the governor's deputy administration secretary until going on extended "sick leave" in 2011.) And Walker's associates stand accused of felonies that go well beyond the mere misuse of campaign funds.

Without close attention to the Wisconsin media, you might not know that a top Walker associate is currently facing charges of embezzling funds from a veteran's charity — or that Walker's former spokeswoman just became the 13th figure in the scandal to accept an immunity deal from prosecutors.

Indeed, nearly all of Walker's highest-ranking aides and associates from his years as county executive appear to be either facing prosecution or cutting immunity deals to save themselves.

What is easy to learn about the controversial governor is his confrontational attitude toward the state's workers and perhaps his fealty to extremist billionaires like the Koch brothers.

From the perspective of Fox News — whose TV personalities resent the idea that a public school teacher who imparts facts might receive a tiny fraction of what they are paid for broadcasting lies — these are great virtues that they praise loudly. But in the mainstream media, there has been a curious reticence in exploring the sort of scandal that ought to excite reporters, editors and producers.

Of course, Walker has benefited greatly from the secrecy surrounding the investigation, which began in May 2010 under the "John Doe" rubric at the request of Milwaukee County prosecutors. According to documents that surfaced in court only during the past week, that original decision was due, ironically, to the prosecutors' belief that Walker, then running for governor, might cooperate with them if he didn't have to worry about damage to his own career.

On May 5, 2010, an assistant district attorney filed a court petition asking to initiate a secret probe into the disappearance of thousands of dollars in donations to "Operation Freedom," an annual event for local veterans partially underwritten by county officials. Walker was then the county executive and a Republican candidate for governor who would narrowly win the following November.

If the prosecutors could open the case under the cover of secrecy provided by the state's "John Doe" statute, they hoped to obtain greater cooperation from Walker's office in providing information and documents — which had not been made available.

"It may be the County Executive's Office is reluctant to provide information to investigators due to a fear of political embarrassment," wrote Assistant District Attorney Bruce Landgraf in the secrecy petition, as reported by the Milwaukee Journal-Sentinel.

The irony of this revelation was double — not only because Walker has used the investigation's secrecy to avoid answering questions or providing records to the local media, but because he has brushed aside the convictions and immunity deals by claiming that he "initiated" the investigation and cooperated all along.

Not so incidentally, the governor has established his own legal defense fund, into which he has so far transferred at least \$160,000 in campaign money. It seems increasingly likely that his biggest problems may still lie ahead.

Meanwhile, however, he has escaped the echo effect that serious national media coverage of the Wisconsin scandal would have inflicted on his immediate fortunes — and for that he should be grateful to the editors and producers who failed to tell the real story.

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[20120607-05](#)

16:38 SteveB

"Why We Have to Raise Taxes on the Rich and End the Bush Tax Cuts for the Wealthy"

["Why We Have to Raise Taxes on the Rich and End the Bush Tax Cuts for the Wealthy" by Robert Reich, NationofChange](#)

June 7, 2012, (<http://www.nationofchange.org/why-we-have-raise-taxes-rich-and-end-bush-tax-cuts-wealthy-and-bill-clinton-agrees-1339083454>)

Video ("Robert Reich: Why Taxes Have to Be Raised on the Rich": [http://www.youtube.com/watch?v=ozMpjCSUuWk&feature=player\\_embedded](http://www.youtube.com/watch?v=ozMpjCSUuWk&feature=player_embedded)).

I was on CNBC Tuesday when Bill Clinton gave an interview saying that, given the deadlock between Republicans and Democrats on Capitol Hill, it seemed likely the Bush tax cuts would be extended in 2013 along with all spending. When asked to comment, I said Clinton was probably correct.

But, of course, Republicans have twisted Clinton's words into a pretzel. They say the former president came out in favor of extending the Bush tax cuts to the wealthy — in sharp contrast to President Obama's position that they should not be.

It's typical election-year politics, except for the fact that the Republican megaphone is larger this time around due to all the Super PAC and secret "social welfare" organization bribes, er, donations that are filling Republican coffers.

Here's the truth. America has a huge budget deficit hanging over our heads. If the rich don't pay their fair share, the rest of us have to pay higher taxes — or do without vital public services like Medicare, Medicaid, Pell grants, food stamps, child nutrition, federal aid to education, and more.

Republicans say we shouldn't raise taxes on the rich when the economy is still in the dumps. This is a variation on their old discredited trickle-down economic theories. The fact is, the rich already spend as much as they're going to spend. Raising their taxes a bit won't deter them from buying, and therefore won't hurt the economy.

In reality, Romney and the GOP are pushing an agenda that has nothing whatever to do with reducing the budget deficit. If they were serious about deficit reduction they wouldn't demand tax cuts for the very wealthy.

We should have learned by now. The Bush tax cuts of 2001 and 2003 were supposed to be temporary. Even so, they blew a huge hole in the budget deficit.

Millionaires received a tax cut that's averaged \$123,000 a year, while the median-wage worker's tax cut has amounted to no more than a few hundred dollars a year.

Bush promised the tax cuts would more than pay for themselves in terms of their alleged positive impact on the economy. The record shows they didn't. Job growth after the Bush tax cuts was a fraction of the growth under Bill Clinton – even before the economy crashed in late 2008. And the median wage dropped, adjusted for inflation.

Let's be clear. Romney and the Republicans are pushing a reverse-Robin Hood plan that takes from the middle class and the poor while rewarding the rich.

According to the nonpartisan Tax Policy Center, Romney's tax plan would boost the incomes of people earning more than \$1 million a year by an average of \$295,874 annually.

Meanwhile, according to the Center on Budget and Policy Priorities, Romney's plan would throw ten million low-income people off the benefits rolls for food stamps or cut benefits by thousands of dollars a year, or both. "These cuts would primarily affect very low-income families with children, seniors and people with disabilities," the Center concludes.

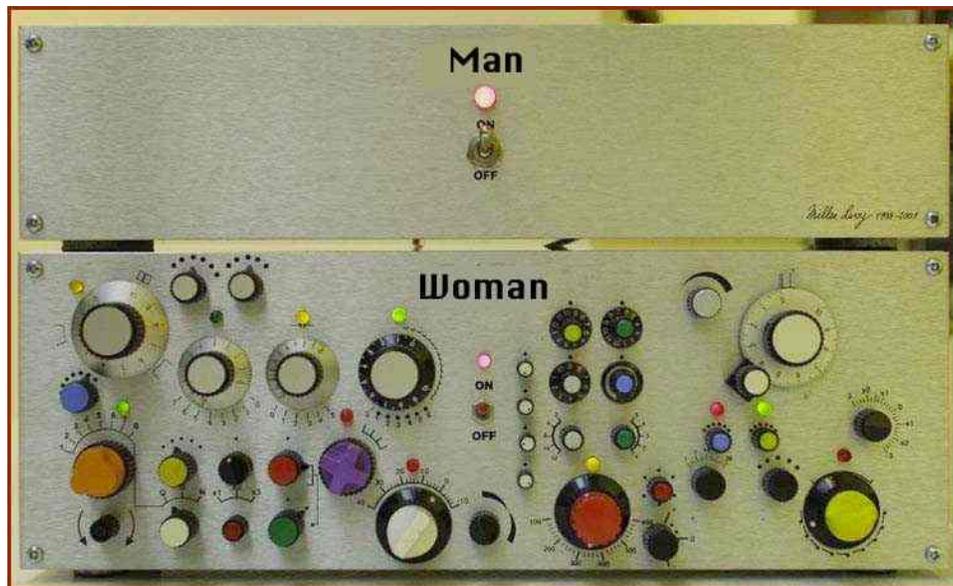
**The rich have to pay their fair share. Period.**

Take a look at this video, in which I provide the three key reasons. (And pass it on.)

<a href="#">20120607-06</a>	17:30	SteveB	"Do One"
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[http://www.youtube.com/watch?v=iU0dKKgu8\\_I](http://www.youtube.com/watch?v=iU0dKKgu8_I)

Turn it up! Everybody have a great summer seekend! And an good weekend too.



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<http://www.morelfest.com/>



—Friends of the Middle,  
Steven W. Baker (SteveB), Editor/Moderator

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