

IN THE NEWS

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Economy

The leading news has to be the lowering of the AAA credit rating of the U.S. on August 5, by Standard and Poor's [1]. Meanwhile, Moody's Investors Services and Fitch both will keep the U.S.'s AAA credit rating but lowered the outlook to negative [2].

On another note, one leading economic indication is the stock market. It typically leads what is to follow by about six months. On Thursday, August 4, the markets suffered their worse one day fall since 2008 with the Dow sheading 4.2% [3].

Then on first trading day following the S&P downgrade (August 8), the Dow fell 5.55% [4]. What's more, with the continuing economic problems, small towns are starting to fail. Case in point, the 19,000 resident town of Ventral Falls in Rhode Island filed for bankruptcy [5]. Near the beginning on this

newsletter period, Gold hit a new record high breaking past \$1,700 per troy ounce [6]. Then Gold continued to rise and passed \$1,800 per troy ounce [7]. On the plus side, the threat of another recession drove the price of oil toward \$80 per barrel [8].

For the week ending July 30, the number of first time unemployment claims was 400,000 and the number for the previous week was raised upward to 401,000 [9]. It is interesting to note the original estimate of 398,000 was touted as a big improvement because it was under the magic 400,000 mark. However, after the numbers were revised upward, the news was not good. For the week ending August 6, the Labor Department stated there were 395,000 first time applicants and the number from two weeks prior was adjusted up by an additional 2,000 [10]. It's hard to get excited over the numbers released by the Labor Department that tend to plus up the positive. Case in point, the number of Americans working in July was 38,000 fewer than the number in June; yet the unemployment rate advertised, 9.1% was down from 9.2% [11]. And yet, the examples of one sided trade agreements continue to sap US jobs. For example: "Japan is self-sufficient in the grain industry because the government protects growers from foreign competition bu imposing a tariff of 341 yen (\$4.35) a kilogram on imports" [12]. How is this fair trade? Furthermore, as the US and Europe continue to struggle, China's trade surplus shot up to \$31.5 billion for July [13]. Moreover, the

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Security

At least 72 organizations have been infiltrated in the latest set of cyber-attacks originating from China [1]. The victims included the governments of the U.S., Canada, Taiwan, India, South Korea, and Vietnam [2]. Additionally, the cyber-attacks hit the steel, energy, solar power, technology, accounting,

and media industries [3]. We also know that China has near complete censorship and control of its portion of the Internet [4]. It then follows that China is the driver behind these attacks. Expectedly, China again denies any involvement in the cyber-attack now into the fifth year [5]. In answering these challeng-

es we seem to be helpless and continue to export evermore U.S. jobs.

A number of federal agencies attended the Defcon hacker conference in Las Vegas and looked to hire people with hacking skills [6]. Meanwhile, vendors continue to fix discovered security holes. Case in

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Special points of interest:

- S&P lowers US AAA credit rating
- China demand US cut military to balance deficit
- China sponsoring massive cyber-attack
- Gold hit new record high above \$1,800 per Troy ounce
- 38,000 fewer Americans worked in July than did in June

Security

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point, the Microsoft patch Tuesday included 13 security updates to fix 22 vulnerabilities [7].

1. Financial Times/Reuters, McAfee reveals huge series of cyberattacks, August 3, 2011.
2. Mogg, Trevor, Digital Trends, *UN among victims*

of biggest series of cyber attacks ever, August 2, 2011.

3. Fox News, *Massive Global Cyberattack Targeting U.S., U.N. Discovered; Experts Blame China*, August 3, 2011.
4. NPR, *A New Way Around Internet Censorship?*, July 31, 2011.
5. CBS/AP, *China: Global cyberattack claim*

“irresponsible,” August 5, 2011.

6. Zakaria, Tabassum, Reuters, *Government hankers for hackers*, August 2, 2011.
7. Keizer, Gregg, Computer World, *Microsoft slates 22 patches for Windows, IE next week*, August 4, 2011.

Economy

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U.S. Trade deficit for June grew to \$53.1 billion of which \$26.7 billion was with China [14].

During this newsletter period regulators continued closing failing banks. For example, on August 5, the following two financial institutions were shuttered: 62) Bank of Shorewood in Illinois; and 63) Bank of Whitman in Washington state [15]. Then on August 12, only one financial institution was closed: 64) First National Bank of Olathe in Kansas [16].

1. Jackson, Henry, AP, *S&P Downgrades US Credit Rating*, August 6, 2011.
2. Detroit Free Press, *U.S. keeps bond rating, but Moody’s assigns negative outlook*, August 3, 2011.
3. Puzanghera, Jim and Petruno, Tom, Los Angeles Times, *Stocks take a beating worldwide*, August 4, 2011.
4. Los Angeles Times, *Dow closes down 633 points after*

final plunge, August 8, 2011.

5. Nolan, Kelly, Dow Jones, *Central Falls, R.I., Files For Bankruptcy – State Officials*, August 1, 2011.
6. AFP, *World stocks mixed, gold hits high after G7, ECN action*, August 8, 2011.
7. Wall Street Journal, *Gold Rush Sends Prices Above \$1,800*, August 10, 2011.
8. Tse, Andrea, *The Street, Oil Prices Settle Near \$80*, August 8, 2011.
9. Bond, Sharon, Financial Times, *US jobless claims little changed at 400,000*, August 4, 2011.
10. Bartash, Jeffrey, Market Watch, *Applications for jobless benefits decline*, August 11, 2011.
11. Cox, Jeff, CNBC, *Beneath Jobs Report Surface Lie Some Ugly Truths*, August 5, 2011.
12. Hur, Jae, and Song, Yasumasa, Bloomberg, *Rice Futures Halted in Tokyo as Radiation Weighs On First*

Trades Since ‘39, August 8, 2011.

13. Rabinovitch, Simon, Financial Times, *China trade surplus jumps to \$31.5bn*, August 10, 2011.
14. Reuters, *Jobless Claims drop, but Trade Deficit Rises*, August 11, 2011.
15. Reuters, *U.S. closes two more banks, 63 so far in 2011*, August 5, 2011.
16. Collison, Kevin, Kansas City Star, *Regulators close First National Bank of Olathe*, August 12, 2011.

When it is obvious that the goals cannot be reached, don't adjust the goals, adjust the action steps—Confucius

Facial Recognition Risk

Every week we see more successful cyber-attacks against us. Essentially, bad actors are using our technology against us. Given the poor record of securing systems, this article explores the risk of facial recognition systems and the potential consequences to many of our programs that necessitate anonymity.

Law enforcement in 47 states are starting to deploy facial recognition capabilities that operate with a cell phone camera [1]. So far dozens of law enforcement agencies are preparing to use the new technology starting in September [2]. What's more, in Massachusetts, one person's license was revoked because the facial recognition software made a false match to a similar looking person [3]. Combine this with successful hacker attacks against law enforcement agencies. For example, the group, anonymous, claims to have attacked 70 law enforcement agencies [4]. In another data breach example, the AntiSec hackers released 10 GB of law enforcement data including the names of informants [5]. Commercially, Google has purchased a company that specializes in facial recognition [6]. Elsewhere, in tests researchers demonstrated successfully identifying one third of people tested using only a picture [7]. Some of the

commercial systems have been able to get a social security number using only a photograph and facial recognition software [8]. What's more, the technology is being bundled with a number of products. For instance, Apple's iOS 5 includes the technology [9]. Some companies such as FaceBook have been using the technology for some time [10]. The facial recognition capability in Face Book is designed to locate the identity of the 750 million users of the service [11].

So what does this mean for people in the witness protection program; or drug informers; or undercover police officers? There is a good chance the tools we deploy will be compromised and used to expose ongoing law enforcement activities. This is a sad reality given our demonstrated poor ability to protect our information systems.

1. Colby, Jamie, Fox News, *Crime-Fighting Facial Recognition Technology Stirs Controversy*, July 27, 2011.
2. Steel, Emily, and Angwin, Julia, Wall Street Journal, *Device Raises Fear of Facial Profiling*, July 13, 2011.
3. Boyle, Rebecca, Popular Science, *Anti-Fraud Facial Recognition System Revokes the Wrong Person's License*,

July 18, 2011.

4. Johnson, et. al, AP, *Anonymous hacking group claims to have attacked 70 US law enforcement websites and stolen data*, August 6, 2011.
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6. Hackman, Mark, PC Magazine, *Google Buys PittPatt Facial Recognition Tech*, July 25, 2011.
7. Angwin, Julia, Wall Street Journal, *Face-ID Tools Pose New Risk*, August 1, 2011.
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9. Etherington, Darrell, Reuters, *Apple's iOS facial recognition could lead to Kinect-like interaction*, July 27, 2011.
10. Miyagi, Mitsutoshi, Techie Insider, *Facebook Responds to Face-Recognition Privacy Concerns*, July 31, 2011.
11. AFP, *German official scolds Facebook on privacy*, August 3, 2011.

Unless the trade deficit shrinks, the combination of the trade deficit and the interest and dividend payments to foreigners will grow ever more rapidly—

Martin Feldstein

World News

Our good friends the Russians are critical of a global dollar based exchange. For instance, Prime Minister Vladimir Putin accused the U.S. of living beyond its means [1].

Violence in Western China that claimed over 20 lives so far is being blamed by terrorists trained in Pakistan camps [2]. Elsewhere, China appears to be ready to start deep sea drilling in the disputed South China Sea [3]. This comes as China again warned neighboring nations not to assert their claims to the disputed areas [4]. While China is growing in military power and its nationalism is on the rise the U.S. languishes in a recession. One consequence is the U.S. military is expected to take significant budget cuts [5]. The loss to defense spending could exceed \$900 billion over 10 years and is expected to have serious impacts on our military capabilities [6]. So one immediate consequence of one sided trade with China is they are expanding their military as the U.S. contracts its own. What is especially interesting, when Japan cited China's growing military as a concern China called the report irresponsible [7]. And as a final insult, China is demanding the US cut back its military spending [8].

As expected, Japan has come up with a bailout plan for the

owners of the Fukushima nuclear plant owners that call for Government and other utility company contributions [9]. Compare this to the BP oil spill where the company is obligated to cover all losses. What's more, Japan does everything it can to help its export industry. Case in point, as their currency increased in value making exports more difficult, the Bank of Japan intervened to buy and thereby weaken the Yen [10]. The Bank of Japan intervention drove the Yen down 2% [11]. So in effect, Japan is engaging in currency manipulation to help their industry at the expense of ours. Of course currency manipulating countries, including China, have the foreign reserves to implement such policies whereas the U.S. has already exported the bulk of its wealth. It is interesting there is talk for increasing U.S. taxes while the unfair trade agreements allow foreign billionaires to draw our wealth without any discomforting tax. Shouldn't we at least consider a modest tariff for those countries engaged in unfair trade practices? A modest tariff would help stabilize the flood of wealth and help U.S industry; why then is this tax off the table?

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2. Dasgupta, Saibal, Times of India, *China blames terror camps in Pakistan as 20 killed in Xingiang violence*, August 1, 2011.
3. Barta, Patrick, and Larno, Chris, Wall Street Journal, *Drilling Plans Raise Stakes in Disputed Seas*, August 3, 2011.
4. Wines, Michael, New York Times, *China: Party Newspaper Warns the Philippines*, August 2, 2011.
5. Martin, Rachel, NPR, *Pentagon Could See Deep Cuts In Debt Deal*, August 3, 2011.
6. Corrin, Amber, FCW, *Defense takes big cuts in debt deal*, August 2, 2011.
7. AP, *China says Japan comments irresponsible*, August 3, 2011.
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9. Kennedy, Val Brickates, Market Watch, *Japan approves Tepco nuclear victims fund*, August 3, 2011.
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Fraud

When times are tough, white collar crime grows. Case in point, a Michigan pharmacy was named in an \$58.6 million Medicare fraud indictment [1]. Additionally, in Florida, 27 were charged with mortgage fraud

that resulted in over \$30 million in bad loans [2].

1. Slezak, Joe, and Pepper, J. Patrick, Dearborn Press and Guide, *Dearborn pharmacy named in massive Medicare fraud indictment*, August 3, 2011.

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Never attempt to murder a man who is committing suicide—Woodrow Wilson
