

Quote of the Week : “Many Americans like big government - but not the taxes to pay for it” - Robert J. Samuelson (age 69). *With a BA from Harvard he joined the Washington Post in 1969 & ever since 1977 has been its award-winning columnist (and from 1984 to 2011 Newsweek’s as well). This observation applies to most Western democracies whose voters like government services & benefits but expect future generations to pay for them*¹

Quote of the Week No. 2 : “By changing *at the end of 2014* the limits on how much contributors can give to political campaigns, the price of politicians went up ... the new caps on spending do diminish the role of small givers, while enhancing the power of corporations ... This is one reason why Democrats will become more business-friendly” - The source is a market letter that, while I do not always share them, generates useful insights (*this trend could be the final blow to American democracy as the Founding Fathers envisaged it, unless there were a ‘regression to the mean’ in the form of a cataclysmic populist event*).

Quote of the Week No. 3 : “The (Greek) bailout agreement was not unlike the one imposed upon Germany at the end of WW I. It was simply mathematically impossible for it to work.”- *the proof appears to be in the pudding; for when Greece was first bailed out, its Debt-to-GDP ratio was in the 120% range, whereas today it is 179% [although it may have plateaued now that its GDP has chalked up three quarters in positive growth territory (in the Fourth Quarter by an estimated 1.7% YoY, which is more than just respectable by EU standards)].*

According to the 62 year-old London-based Cambridge & Harvard-trained economist Anatole Kaletsky, who is associated with the Hongkong-based GaveKal Group, *Greece’s Finance Minister Janis* “Varoufakis’s idea of a winning strategy is to hold a gun to his own head and then demand a ransom for not pulling the trigger.”

On February 5th NATO declared it will set up ‘command posts’ of between 40 & 60 officers in the three Baltic republics² and in Poland, Romania & Bulgaria (all of whom have been clamouring for a greater NATO presence on their soil) to train-, and, if it is ever deployed, to coordinate the efforts of-, the 5,000 member “Rapid Reaction Force”³ it is creating, that, when the support from air-, & sea-, forces, and two standby brigades is taken into account, could involve up to 30,000 military personnel - *the very opposite of “shock & awe”, it’s a half measure that will likely, unfortunately & most likely correctly be interpreted by Putin as such by opponents unwilling to go ‘the full monty’, & in a worst case scenario will prompt him to intensify his aggressive policies. This has been the flaw in the West’s ‘measured’ approach to his moves from the get-go as he appears to act out von Clausewitz’s dictum “It is ever better to act quickly and err than to hesitate.”*

¹ According to the Washington-based Heritage Foundation various countries’ tax revenues & government expenditures as a % of their GDP are as follows : Ireland (174%), Greece (166), US (166), Portugal (158), Japan (152), New Zealand (151), Spain (143), Australia (137), UK (137), Israel (136), Canada (135), Netherlands (132), Finland (127), France (127), Germany (121), Austria (120), Denmark (120), Switzerland (119), Sweden (115), Belgium (114) and Norway (101).

² Estonia & Russian have never agreed on their common border, prompting the former to unilaterally to establish one that Moscow to this day has refused to recognize.

³ Only in bureaucrats’ minds can the ability to have some units ready to move on 48 hours’ notice, & the remainder within a week, meet a “Rapid Reaction” criterion - *they should take a leaf out of the Israeli playbook in which rapid reaction really means exactly that, with the necessary materiel pre-positioned & maintained in constant readiness by skeleton crews.*

In late January an 'odd couple', California's liberal Democrat Sen. Barbara Boxer⁴ & libertarian/Republican Kentucky Sen. Rand Paul floated a proposal for a 6½% tax on profits repatriated from overseas, provided they weren't used for bonuses, dividends and/or share buybacks. And lo & behold, a few days later Obama's Budget proposals for the fiscal year ending September 30, 2016 included a similar proposal, albeit providing for a 14% rate initially, raised later to 19%. Their one common feature is that both would earmark the proceeds for the Highway Trust Fund (that in May is expected to run out of money for this fiscal year, as it habitually does, requiring supplemental funding from the Treasury⁵) - *The accumulation of US\$2+TR in corporate cash abroad is a self-inflicted wound; for while corporations are taxed at 35% on all their profits, they only pay it on those earned abroad when they repatriate them; so they don't. And one wonders about the possibility of unforeseen 'collateral damage' to the international financial system if these moneys were to be repatriated on short notice.*

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Thursday February 12th, 2015

TSIPRAS FAVOURS GREEK PROBLEMS OVER CREDITORS IN DEFIANT POLICY SPEECH (The Guardian, Helena Smith)

- In his first policy speech *on February 8th* he declared his to be a “government of national salvation” that does not have the right to prolong the five year bailout deal that had foisted austerity on Greece & has a duty “not to disappoint those who had voted him into power”, “we realize ... negotiations won't be easy ... but we have faith in our struggle, because justice is on our side” & have an “ethical duty” to pursue recovery of the wartime loans Greece had been forced to make to the Nazi occupiers (*that the German Finance Minister has said were settled two decades ago, at the time of German unification*).
- He said his government would set an example of frugal living by selling half of all the government limousines & one of the government's jet aircraft (because three were more than needed). Furthermore that the bailout had failed & that, while he plans to ask for a bridging loan, an extension of the bailout was out of the question since that would be an “extension of past mistakes”. But while he promised a freeze of pension cuts, a property tax overhaul, free electricity for those who had been cut off, reinstating *public sector* jobs, reopening the ERT public TV (that had been shut down in 2013 to save money) so as to “repair a crime against the Greek people and democracy”, and raising the minimum wage, he was not specific how, & when, these initiatives would be introduced.

For all it's worth, former Fed Chairman Alan Greenspan told BBC 4 that “it's just a matter of time before everyone recognizes that parting is the best strategy” and that while this could conceivably trigger a meltdown in the global financial markets “I don't think we have a choice”.

⁴ Who on January 8th announced that at age 74, she did not plan to run again in 2016.

⁵ Its problem is that it is funded by an 18.4¢ tax on gasoline & a 24.4¢ tax on diesel, rates set in 1993 when fuel was about half the price it was a year or so ago. This has been aggravated by the fact that since 2005 the number of miles driven by the average car has declined 10% while its fuel economy has increased by 5% (if the entire US\$2TR were repatriated & taxed at the relatively low rate proposed by Sens. Boxer & Paul, this would fund much of the Fund's next decade's US\$167BN funding shortfall predicted by the CBO).

And Britain's Chancellor of the Exchequer conceded on February 8th on BBC that his department had embarked on contingency planning for a Grexit, the risk of which he said "is increasing ... every day."

THE BRAVADO OF BORROWERS (Euro Pacific Capital, Peter Schiff)

- The Greek voters have elected the most radically left wing government in recent memory, whose plan, to tell its foreign creditors to butt out while expecting more aid, appears fundamentally flawed but whose dynamism & optimism inspired a frustrated electorate.
- To demonstrate they were indeed different & not like traditional politicians, Syriza adopted revolutionary postures, vocabulary & dress (incl. a refusal to wear ties, the most potent symbol of traditional power); thus at his swearing-in Prime Minister Tsipras opted for invoking the spirit of fallen Greek Marxists rather than the traditional swearing on the Bible. And at the press conference following the February 6th meeting between the Greek Finance Minister & his Dutch counterpart *in his capacity as the Chairman of the Eurozone Finance Ministers* the body language was revealing : the former strode in, open-collared with his shirt tail untucked & sat down gleefully like a poker player holding a winning hand⁶, whereas the buttoned-down Dutchman who, in the words of Colonel Kurtz⁷, looked like "an errand boy sent by grocery clerks to collect a bill". And afterwards, as the Dutchman appeared annoyed & left while avoiding eye contact, his Greek counterpart shrugged his shoulders & smiled for the cameras, as if to say "What's up with that stuffed shirt?"
- While this juxtaposes the CW that the lender is in the position of power, in the world of Keynesian economics it is the borrower holds the trump cards⁸. For in its world, if he quits borrowing, he must quit spending &, if he quits spending, the economy will collapse, dragging both borrower & lender down with it (& *the former has more to lose*). Syriza knows (*or should it be 'is working on the assumption'?*) that no one is ready to risk another Lehman Brothers-like collapse & that the Northern European leaders are fearful the EU will disintegrate & thereby *destroy* the stability it provides, and endanger the open, essentially captive, market for German manufacturers, and that default will unleash liquidations & deflation, the biggest bugaboo of the Keynesian nightmare panoply of economic fears.
- From a global economic perspective the US is like Greece, only written very, very large. The reduction in the federal budget deficit is largely a function of (*unsustainable?*) asset bubbles engineered by the Fed. And President Obama's 2015 Budget proposal includes US\$500MM of new spending, thereby putting paid to Washington's self-imposed 2011 "Sequester", and sending a message to all & sundry that the US will keep on borrowing & expects them to keep on lending for as long as Washington wants them to.
- The Swiss National Bank abandoning its Euro peg was a warning; while so far ignored, sooner or later the message it sent will come to pass (*with a vengeance?*).

⁶ While he has authored five books on game theory, he may find that practice doesn't follow theory.

⁷ The renegade, 'insane' character in Francis Coppola's 1979 film Apocalypse Now.

⁸ As Lord Keynes put it "If you owe your bank a hundred pounds, you have a problem. But if you owe your bank a million pounds, it has."

Syriza may be 'a minute late & a dime short'; for it is hard to believe, though not impossible, that Germany & others have in the past three years not been doing at least some tentative contingency planning for a Grexit. And financial cost of blinking would be far greater for the Northern Eurozone members than just that of Greece defaulting⁹; for waiting in the wings are the governments of Spain, Portugal & Ireland, all of whom face elections in the next 14 months & would be wiped off the political map if they were seen as having stood by idly as Greece got preferential treatment. And it would not be surprising to see Beijing at some point jump in the fray; for it owns some Greek bonds, has gained footholds in other peripheral European economies, more specifically Ireland & Iceland, has interests to protect (incl. the sale of the port of Piraeus to the Costco container line), and may see Syriza as a political soul mate & do so as a pre-emptive strike against Russia [Schiff is co-founder, CEO & Global Strategist of Westport, Conn.-based broker-dealer Euro Pacific Capital Inc., a disciple of the (laissez-faire) Austrian School of Economic Thought, &, as shown in the second last paragraph above a perennial bear on the US economy & dollar].

JOE BIDEN SKIPPING NETANYAHU'S SPEECH (Politico, Edward-Isaac Dove)

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According to the BBC 60% of Greece's debt is now owed to Eurozone governments, 10% to the IMF, 6% to the ECB, 1% to foreign banks, and 22% to 'All other', with two thirds of the latter falling into a category entitled "Other bonds" (presumably mostly marketable bonds, held by investors who took a gamble & should not, but will copiously, cry when Greece defaults on them).

- Two days after White House spokesman Josh Earnest had ducked the question, Biden's office on February 6th confirmed he will be visiting a (*a yet to be determined?*) foreign country on March 3rd, the day of Netanyahu's address to the US Congress, but "we're not ready to announce details of his trip yet." This will only be the second address to Congress by a foreign leader he will have missed in his six years as Vice President (*as President of the Senate he would have to sit right behind Netanyahu on the speaker's platform & hence in full view of the TV cameras for its duration - in his absence that honour will fall to Sen. Orrin Hatch (R.-Utah) in his capacity as Senate President pro tem*).
- While AIPAC, *with a 100,000+ members* the largest pro-Israel lobby in the US, whose annual conference Netanyahu will address on March 4th, has been silent on the issue, other than to encourage lawmakers to attend, Mort Klein, President of the 30,000 member (*Koch Brothers and/or Sheldon Adelson-backed?*) Zionist Organization of America had no such qualms, warning that "We will, of course, be publicly condemning any Democrat who didn't show up for the speech - unless they have a doctor's note ... It's really an anti-American, anti-patriotic point to make."

After Speaker Boehner invited Netanyahu to embarrass the President, Republicans now have the gall of blaming the Democrats for "turning the event into a partisan issue". Meanwhile, back in Israel, Deputy Foreign Minister Tzachi Hanegbi¹⁰ engaged in damage control on February 6th when he went on record as saying Netanyahu had been misled into believing the invitation was bipartisan &, more specifically, "It appears the Speaker of Congress made a move in which we trusted but which it ultimately became clear was a one-sided move and not a move by both sides."

WHY IRAN SPEECH TO CONGRESS IS NETANYAHU'S BIGGEST BLUNDER YET **(Haaretz, Peter Beinart)**

- In an exchange between Fox News anchors Chris Wallace & Shepard Smith the former declared "Whatever Netanyahu wants to think and say about that (*i.e. Iran being an "existential threat"*) is fine. But for him to come here to ignore the president, to not even let him know he was coming and to sneak in to come talk before Congress with the President's opponents to criticize the President's policy, that's another thing." And Smith was even harsher, saying "It seems like they think we wouldn't pay attention and *that* we're just a bunch of complete morons, the United States citizens, like we wouldn't pick up on what's happening here."
- To hear Netanyahu criticized so bluntly on Fox, the conservative bastion where Israel is usually beyond reproach, is remarkable. Even more intriguing is the nature of the criticism. They're not angry at Netanyahu for being hawkish (Wallace agrees with him Iran is an existential threat) but for being insolent & thereby *possibly* offending the patriotism of, & alienating, a large group of American conservatives who have long been strong supporters of Israel on religious & moral grounds & who believe Israel has an absolute right of self-defense but who, while they don't like Obama, don't want to see him treated with disrespect by a foreign leader *on his home turf*. And they are concerned the "Israel is insolent" narrative is undermining that of Israel as the West's outpost in the Middle East; to avoid fueling this Netanyahu must show Obama more respect, which be

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A MK since 1988, he followed Sharon into Kadima in 2005 but later returned to the Likud fold, and now seems fully rehabilitated, being 9th in the Likud candidate list, up from 17th in the last election.

difficult for someone who sees Obama in the role of Neville Chamberlain & himself in that of Winston Churchill.

*Netanyahu's 'insolence' has long been part & parcel of his modus operandi; thus David Miller, deputy to Dennis Ross, Clinton's coordinator of the peace process, in his book The Much Too Promised Land tells that after Clinton's first-ever meeting with Netanyahu, during which he had to sit through a lecture on the Arab-Israeli issue, he exclaimed to his retinue "Who the f*** does he think that he is? Who is the f***** super power here?"*

EGYPT, RUSSIA SIGN MILITARY, ECONOMIC AND NUCLEAR ACCORD (Amwal al Ghad)

- At the February 10th press conference at the conclusion of Putin's two-day visit to Egypt, it was announced the two countries had signed several agreements 'to reinforce their military & economic ties in the face of a growing terrorist threat & outside economic pressure'. To the surprise of many, it included a deal *for the construction of two nuclear power plants*¹¹. According to Mark Katz, a professor of Government & International Affairs at George Mason University, while Putin wants to show that Russia continues to be involved in the Middle East, it "can't offer all that much" to Egypt. Furthermore that Egypt's military (which spawned Sissi) doesn't see Russia as an alternative to the US & "would much rather continue to deal with the US", and, while the US is not happy with the way President Sissi came to power & has ruled since, "it has very little choice but to work with him".

Among the other deals was a five year contract with Gazprom for LNG (which may scotch earlier plans to import gas from Israel from its new Tamar offshore gas field), made possible by the expected delivery this spring of a floating LNG gasification platform by a Norwegian company, & possible deals with Russian firms to build massive of massive grain storage facilities. And the French ambassador said in an interview that French firms had, in 2014 alone, invested 3BN Euros in Egypt. All this despite the fact Washington deems Egypt its 'key ally' in the region & provides the Egyptian military with significant aid (al Ghad is a privately-owned daily business newspaper based in Amman, Jordan that has the rare distinction of having been able to publish, in 2006, the Danish caricatures of the Prophet Mohammed without anyone saying "Boo").

NO MUNICH AGREEMENT AS RUSSIA SAYS "NYET" (The Telegraph)

- On February 7th Russian Foreign Minister Sergey Lavrov made a hard-hitting speech in Munich *at the 51st Munich Security Conference* in which he said among others that "the friendship between Russia and the EU has failed a stress test" & then went on to make numerous further references to the conflict in Ukraine & to overall European security, none of which could be construed as constructive. According to Dmitry Danilov, Head of if the European Security Section at the Russian Academy of Sciences, the speech marked a watershed for the West; for Russia, he said, has no intention of revising its position in Ukraine and "the West should accept that reality". And according to Andrei Suzdaltsev, Deputy Head of the Department of the World Economy and Politics, Europe is still far from starting to act without agreement & approval from the US (that won't change its anti-Russia rhetoric, while "Russia's position in Ukraine is not a priority for Europe right now."

¹¹ Egypt ended its nuclear program three decades ago after the nuclear 'meltdown' at Chernobyl.

This is a reprint of an article in in Rossiyskaya Gazeta, a Russian government daily the supposed purpose of which is to publish official documents but which in reality is a cog in Russia's huge 'disinformation machine. The very last sentence may well be the key to Putin's strategy, namely a perception hat Europe's heart is not really into backing Ukraine to the hilt.

CHINA EMERGES AS LATIN AMERICA'S LENDER OF LAST RESORT (ABC, Jack Chang)

- As soon as Argentinian President Christina Fernandez de Kirchner landed in Beijing last week, she started announcing new deals with what she called "the No. 1 economy in the world", ranging from two nuclear powerplants to joint space exploration. And Beijing, that since 2007 has already lent Argentina US\$14BN, on February 5th agreed to provide another US\$6.8BN for the construction of two hydro dams & a railway.
- Beijing has become a favorite destination for Latin American presidents, especially populist ones who, while they were able to spend freely in the past decade, now are being squeezed by lower commodity prices & shunned by American & European lenders (& investors?). Moreover, the US\$100BN China has lent them to date comes with no demands for economic-, or political-, reform, & no human rights' or good governance strings attached.
- YTD, other than President Kirchner, Ecuador's President Rafael Correa has gotten US\$7½BN, on top of the US\$ 10BN it already owes China while Venezuelan President Arturo Maduro, while in Beijing boasted of pledges to lend his country another US\$20BN (although with few firm commitments) on top of the US\$50BN already outstanding.

When a country runs prolonged trade deficits the chickens eventually come home to roost in a change of ownership of real assets of-, or in-, the debtor country to the creditor country. While this has been happening in the US¹², a far more insidious-, & long-term deleterious-, consequence of America's past profligacy is that China is now using its massive hoard of US dollars to undermine America's once unchallenged pre-eminent global status.

RETIRED GENERAL CALLS ON VENEZUELAN TO FORM LOCAL RESISTANCE UNITS : GET READY TO USE YOUR FIREARMS (Venezuelaanalysis, Rachael Boothroyd)

- *Brig-Gen. (Ret.) Angel Vivas* made the headlines a year ago when, during anti-government demonstrations (as a result of which dozens of people were killed), he made inflammatory statements, which earned him four months' house arrest. Since being released from that he has been making a series of ever more explicit anti-government videos, in the latest of which, entitled You Are The Leader, he tells viewers, while sitting in front of a huge portrait of Simon Bolivar, "Today we are going to show you how to defend yourself, your family, your house and your community" & provided links to step-by-step handbooks as to how to create successful resistance groups & to a website on "How to Start a Revolution". And before that, on January 30th, he threatened violent action, said "the pacific stage" of resistance had ended & concluded "We have no other recourse but to go out and defend ourselves ... Venezuelans, for those of you who have access to a firearm ... prepare yourself to use it."

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The latest high profile thereof being the sale of New York's iconic Walorf Astoria to China's Anbang Insurance Group.

In the early mornings hours of February 10th there was a Molotov cocktail fire bombing attack on the Western headquarters of the state-owned TV network in the city of Maracaibo. And since most consumer goods must be imported, the lack of FX earnings¹³ has made them so scarce that people must queue up for hours if any are available, with the latest good in short supply being condoms (that in the black market now go for US\$750 for a packet of 36), making public health authorities nervous that this may lead to an increase in the country's, still relatively low, incidence of HIV Aids (Vivas was a career soldier with a DBA from the Texan American University who resigned in 2007 five months after having been appointed National Director of Engineering in the Department of Defense in protest against changes in the Army he called "grave violations of the Venezuelan Constitution" (for which he was eventually, in 2012, sentenced to four months & fifteen days in jail).

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They have been hit by a double whammy, from not just the lower oil prices but also from the fact that the proceeds of any oil it 'sells' to China is applied to repaying the funding Beijing provided to the Chavez regime before he died.