

Stanley Druckenmiller, aged 60, is a registered 'Independent' who, three decades ago founded (& until 2010 ran) Duquesne Capital, at which point he quit managing other people's money to focus on managing his own US\$2.9BN fortune. But lately he has been on a different mission, touring college campuses decrying an income redistribution never mentioned by Washington, namely the one involved in entitlement programs like Social Security & Medicare that are allowing his generation to rip off all subsequent ones. And the kids are starting to get it.

Using research by Boston University Lawrence Kotlikoff, he tells them that, while many seniors believe they are just drawing down the "savings" they were forced to deposit in these programs, the average 65 year-old will in fact receive average lifetime payments of US\$327,400 which will cost future generations US\$420,600. He says that when seniors ask him 'what's wrong with increasing taxes beyond the current 18½%', he tells them "You have paid 18.5% for forty years and now you want the next generation to pay 30%" *to sustain you in the style you've grown accustomed to but weren't prepared to pay for?* And when they say their entitlements can be paid for by raising payroll taxes that his answer is "So you & I paid 12% and after age 65 will pay nothing, when the next generation, instead of me paying 15% and getting slightly lesser benefits, are going to pay 17% later?". And he rejects the 'rat in the snake' theory that holds the current fiscal problems will end when the Boomer generation has moved through the benefit pipeline, using a chart showing America's debt-to-GDP ratio is about to explode. He proposes taxing capital gains & dividends at income tax rates since seniors are far wealthier than the rest of the population, which is being taxed at 40%, twice the rate of the older, coupon-clipping generation. And to avoid 'double taxation' he advocates cutting the corporate tax rate to zero, arguing that, if you do so, business people will have an incentive to hire more people & do more capital spending, and zero incentive to waste time & effort on no longer-needed tax dodges. Finally, he says there should be means testing in the entitlement programs since it is utter nonsense for people like him to start getting US\$3,500/ month at age 65 - *the idea of doing away with corporate income taxes pops up from time to time. And it makes sense since it 'distorts' decision-making by introducing non-economic considerations & since its cost just gets passed on to the one & only taxpayer; but such suggestions always falter on opposition from vested professional interests for whom tax optimization is their "rice bowl", with the politicians then brainwashing voters into believing that ending corporate taxes would somehow be "unfair".*

In another interview this week (to promote his latest book?) Alan Greenspan used the so-called Fed model¹ he introduced while Fed Chairman in a 1997 report to Congress, to conclude US share prices are still "relatively low", despite their 4½ year advance (*in which they more than doubled*) & that, while the stock market "has gone up a huge amount ... it is not bubbly in any sense that I can see." - *his ability to see bubbles developing has not been particularly awe-inspiring. And corporate earnings as a share of GDP are at an all-time-, & likely unsustainably-, high level & the stock market is likely to 'take a header' if & when the Fed starts 'tapering' (which now, however, may not happen until after the mid-term election, a year from now).*

In its October 30th semi-annual Report to Congress on International Economic and Exchange Rate Policies the US Treasury went relatively easy on China's exchange rate policy but came down hard on Germany's economic policy when it said that it would "encourage those countries within the euro area with large and persistent surpluses to take action to boost domestic demand growth and shrink the surpluses in order to facilitate growth and rebalancing."

The latest twists in the NSA global wiretapping scandal are :

¹ That compares the earnings yield on shares in the S&P 500 with that on 10-year USTs.

- according to the Italian magazine Panorama, it had monitored the phone traffic of then Argentinian Archbishop Jorge Mario Bergoglio (*who, as a cleric practicing as well preaching a modest lifestyle, was obviously a dangerous, potentially subversive character*) as far back as 2005, & his & that of his fellow prelates prior to their conclave that elected him Pope Francis I (with the information gathered classified into “leadership intentions”, “threats to the financial system”, “foreign policy objectives” & “human rights”) & may have continued monitoring his phone calls since;
- a claim by Cryptome, an intelligence on surveillance & national security-gathering website, the US intercepted 46MM phonecalls in Italy from December 10th to January 8th;
- a German news magazine Der Spiegel report that SIGINT (Signals Intelligence) collection sites were located in (*other countries*)’ diplomatic facilities (incl. Canada’s).

Earlier this month the world was aghast at/dismayed by, the budget cum debt ceiling escapade in Washington. Since then Canadians have been witness to a not entirely dissimilar, although globally much lower profile, circus in Ottawa the nature of which was recently rather aptly described in a headline saying “No honour among liars these days”. It started almost a year ago when four members, three of them Prime Minister Harper appointees, of Canada’s Senate, its appointed Upper Chamber of supposedly “Sober Second Thought” that has traditionally been packed with political flunkies, had played fast & loose with their expense accounts (& still feel justified in having done so since it was not against the rules, even though morally reprehensible, an attitude that, unfortunately, is increasingly common in Sodom-and-Gomorrah-on-the-Rideau). But, like Watergate four decades ago, it has since gone long beyond that & has evolved into a “you said, he/she said” catfight in which everybody, first & foremost the Prime Minister (who has always portrayed himself as a master tactician but who in this case looks like a blustering reincarnation of Richard Nixon in his evasive tactics) is losing all credibility. He has been trying to push a motion through the Senate to suspend the three Senators still involved (the fourth, a Liberal appointee, ‘got out of Dodge’ while the getting was still good & resigned from his sinecure) that has created dismay within his own party (the latest version of which is that their suspension would let them keep the medical benefits to which they as Senators are entitled since one of them has a heart condition & a second is a cancer survivor - *which raises an interesting question as to why, with all Canadians supposedly covered by a comprehensive, ‘single-tier’ Medicare system, their parliamentarians should be ‘entitled’ to a medical care “top-up” of the hoi polloi’s medical entitlements.* Meanwhile, the best thing about this affair is that it may have aroused Canadians from their political stupour, at least for the time being, & made them aware of their privileged politicians’ entitlements over & above their own.

Canada is the world’s third largest consumer of energy on a per capita basis. A recent review of its energy system by a team at the Canadian Geographic magazine came up with a number of energy factoids, the most interesting of them being that for over a century water has accounted for more than 60% of Canada’s electricity generation. At last report (2011) almost 100% of all electricity consumed in each of British Columbia, the Yukon, Manitoba, Québec & Newfoundland came from hydro (with lots left for export) while on the other hand over three-quarters of it came from thermal (mostly coal) sources in Alberta & Nova Scotia (95+%), Saskatchewan (80%), New Brunswick (<70%), while Ontario is 60% nuclear & 25% wind. Meanwhile, while the impression has been created that in the US natural gas is taking over the electricity-generating business, in reality cheap natural gas prompted such a decline in coal prices that natural gas’ market share has declined to 30%, from a high of 34% a few years ago (vs coal’s 37%, and nuclear’s & hydro’s 19% & 7%).

One problem facing pension funds today is that the mortality tables used by actuaries in days gone by vastly underestimated the lifespan of future pensioners. Thus the average life span of

a 65 year-old male in Canada has increased over the past 35 years by almost 50% to 27.1 years, & that of a similar aged female by more than a quarter to 29.2 years.

It has been reported the Israeli government was dismayed by Washington's decision to cut back on its military aid to Egypt. There are two obvious reasons for this : its dependence on Egypt's military to help keep Sinai Desert-based terrorists in check & on its government to help keep the people of Gaza bottled up in their enclave. But there may also be a third, less obvious reason, namely concern that what 'is *not* so good for the goose may also be not so good for the gander', i.e. that US aid to Israel could be next on the chopping bloc.

According to Citigroup most of the PIIGS countries are nowhere near out of the woods. It expects Italy to remain in 'near recession' with GDP growth rates of 0.1% in 2014, zero in 2015 & 0.2% in 2016 & its debt-to-GDP ratio to hit 140%. The corresponding numbers for Portugal are 0.6%, zero, 1.0% & 149%, for Greece -2.9%, -1.4% & 201%, & for Spain 0.1%, 0.3% & 0.7%, although it believes Ireland has, sort-of, turned the corner because of its improved global competitiveness. Others, incl. The Financial Times, are more bullish on Spain, even though the locals remain gloomy (since the employment outlook remains discouraging); for in the Third Quarter it emerged from a two-year recession, its banks are doing better, its exports booming on the back of its greater competitiveness & the IMF has hailed its fiscal tightening, labour laws relaxation & banking system clean-up. Still, in September its Debt-to-GDP ratio hit 92.2%.

Recently some headlines blared "Central bank gold buying slows". This seems largely based on the fact that in September Russia, that in recent years has been a hoarder of its own gold output as well as a buyer on the open market, sold 12,000 ounces of its 32MM ounce gold holdings. And while on the subject of gold, Eric Sprott of Toronto-based Sprott Securities recently fired off an open letter to the World Gold Council, generally deemed the world's most reliable source of the global gold supply & demand situation, accusing it of lowballing global gold demand.

According to the IMF the emerging countries are subsidizing fuel-, & electricity-, consumption to the tune of US\$450BN/year, all but 10% of such subsidies worldwide (while nevertheless US electricity prices are little more than half China's); and it may be no coincidence that coal today is at its highest level since 1970 as a share of global energy consumption.

GLEANINGS II - 535
Thursday October 31st, 2013

CONSUMERS SEEM UNIMPRESSED BY CHEAPER GAS, HEATING OIL
(NBCNews, Jackle DeAngelis)

- The average price of gasoline is now US\$3.31 a gallon, down 13¢ MoM & 28¢ YoY. Ditto for home heating fuels : natural gas is down 16% in the last six-, & heating oil 6% in the last two-, months. But this may not help consumer spending much since consumer confidence slipped in October &, as one analyst put it "Consumers are grumpy."

In September retail sales were down 0.1% MoM, slightly worse than expected, due to flagging auto & gasoline sales. And the October Conference Board Consumer Confidence Index plunged nine points to a six months' low 71.2 (vs. the 75 expected). No doubt the early October budget cum debt ceiling circus inside the Beltway did also negatively affect consumer confidence.

RETAILERS BRACE FOR REDUCTION IN FOOD STAMPS (WSJ, Shelly Banyo)

- Last year USDA spent US\$80BN on food stamps (to what are now 48MM recipients). On November 1st a temporary boost in food stamp benefits will expire, leaving them with US\$16BN less to spend over the next three years. This came just months after the payroll tax cut expiry knocked 2% (US\$120BN) off consumers' take home pay. And in September the House passed a bill to curtail food stamp spending by 5% (i.e. US\$40BN) over ten years, with the Senate passing one calling for a cut only one-tenth that size.

Negotiations to try & 'reconcile' the two bills were supposed to start this week.

HOUSING RECOVERY TAKES BLOW (Reuters, Jason Lange)

- Amid signs of a softening economy, in September the Pending Home Sales Index (of contracts signed to buy pre-owned homes) of the NAR (National Association of Realtors) slid 5.6 points, the most in three years, to 101.6. This was the fourth monthly decline since mortgage rates started rising in May on news the Fed might start "tapering". And the number of newly-signed contracts to buy homes was at a post-December low after the largest dip since May 2010 (when a home-buying tax credit expired).

People are just plain nervous about what the future may hold.

OBAMA'S FUMBLES ANGER ALLIES ACROSS THE GLOBE (EJ, Matthew Fisher)

- The US President has managed a diplomatic triple (*bungle*), simultaneously upsetting allies in Europe, the Middle East & Asia (which would become a 'four-bagger' if he doesn't approve the Keystone XL pipeline). In the process he has cast the most doubt on the US's global leadership & status in four decades. The current row with Europe over wiretapping follows the equally damaging effect on Asia's political & business elite of his cancelling attendance at two regional summit meetings, and official visits to Malaysia & the Philippines, in the past month. In so doing he created a void China's President Xi Jinping was only too happy to fill & undermined the credibility of his Asian 'pivot' strategy. And in the Middle East he upset Saudi Arabia by having done little to topple Syria's Bashar al-Assad & being outfoxed by Putin, Assad's backer, and exasperated the Gulf sheikdoms, Netanyahu & others by easing up on Iran, and everybody by his slow & fitful response to the Arab Spring & *its aftermath*. So the Middle East now wonders if it matters anymore to US policy makers, Asia frets over China's longer & longer shadow, & Europe questions why its Trans-Atlantic ally is spying on it.

Obama has proven himself to be better at talking the talk than walking the walk.

U.S OFFICIAL CONCERNED SCIENCE NOT A PRIORITY IN ARCTIC (G&M, Josh Wingrove)

- The October 21st - 23rd Arctic Council Summit in Whitehorse, YT marked the start of Canada's two year turn at chairing it. Leona Aglukkaq, Canada's former Health Minister, & now its Environment Minister also responsible for the Council & hence now its Chair, wants a bigger role for indigenous people (*she is Inuk herself*) & for the Council, intended as an environmental research body, to focus more on projects of tangible benefit to Northern residents. This prompted Julia Gourley, ranking US representative on the Council, to say she senses "a diminishment of the priority" of science & research under Canada's chairmanship, and to pledge that, when the US takes over the Council's Chairmanship in two years' time, it will ensure that science is its key focus. And while

Canada wants the Council to develop shipping standards in the North, where melting ice is opening up the Northwest Passage, she cautioned this can **not** include the Northwest Passage, whose legal status is in dispute between the two countries.

The Harper government's attitude to the North has many features of George Bush's mindless "Drill, baby, drill" attitude to resource development.

TRADE PACT FAVOURS EU (CP, Mike Blanchfield)

- On October 29th Prime Minister Harper rose in the House to table details of the Canada-EU trade pact he signed in a 'splashy photo op' in Brussels on October 18th (but that will take 18-24 months to be ratified by both sides), declaring "The free-trade agreement between Canada and Europe is the most important signed by our country. It will lead to jobs and opportunities for families, workers, companies throughout the country ... It is a historic moment." And while critics claim it's a better deal for European exporters, who will save \$670MM annually on duties on their exports to Canada, 3x the amount of Canadian exporters to Europe, Canada's International Trade Minister says the \$670MM in lost revenue will be more than offset by gains for the overall Canadian economy.

An old saying holds that "a bird in the hand is better than ten in the bush." And one has to wonder about the wisdom of promoting trade with 2% growth market of several hundred million people while the emerging countries are growing much faster & have billions of people.

FEDS WON'T ASSESS NEW OILSANDS PROJECTS (CP)

- On October 24th Environment Canada released a report saying Canada is on a track to fall well short of its 2020 emissions target under the Copenhagen Accord. And the very next day Ottawa released its final list of projects that will require a federal environmental assessment that did not, however, include oilsands projects, the oil industry's most common type of development in the years to come which, according to Greenpeace's Keith Stewart, is "the largest single source of (greenhouse gas) growth in the country."

It's noteworthy that this report didn't originate with some anti-oilsands environmental pressure group but with an agency in a government that forbids its scientists to talk to outsiders about their area of expertise. And, although the media 'peg' doesn't mention it, the report also attributes Canada's expected failure to meet its Copenhagen target to growth in Alberta oilsands emissions that far outweighs emission reductions in the rest of the economy & the country.

DIRTY DEEDS IN FOREIGN LANDS (Epoch Times, Matthew Little)

- Critics claim Canada's reputation abroad is being dragged through the tailings' mud of mining projects in the emerging countries while two of Canada's largest mining industry associations say the vast majority of Canadian *mining* companies act responsibly abroad & that problem cases of companies engaging local thugs to rough up, & even kill, protesters and/or laying waste to the local environment are the exception, not the rule.

Sixty percent of all mines in the world are operated by 'Canadian companies', many of whose main link with Canada consists of a TSE listing. And it can be argued that since Ottawa collects taxes from them on their global operations it also has an obligation to demand Canadian-quality management practices in them. And its failure to do so is in sharp contrast to its beating the human rights drum on every conceivable occasion in international forums & foreign capitals.

BANKING ON AN INHERITANCE (G&M, Garry Marr)

- Many, often highly indebted, Canadians in their 50's & 60's are “waiters” in the sense of waiting for an inheritance from their better-off & *entitlement-endowed* parents. For a 2006 a study by Decima Research found that over the next two decades \$1TR will be passed on to their generation & a recent HSBC report that 39% of Canada’s working people are banking on an inheritance, with the median expectation being \$77,213 while 57% of those fully retired expect to leave an inheritance with a median \$175,541 value (with 81% of them never having received a penny from **their** elders). On the other hand, a recent report by the Equifax Canada credit service found that the debt of consumers aged 65 & over had increased 6.5% YoY, the fastest such rate for any age group.

And UofT professor David Foot, the author of Boom, Bust and Echo, warns the Boomers not to get their hopes up too high; for their parents often had four kids & estates split four ways can become slim pickings. And a RBC survey of Canadian millionaires found almost half worry about their offspring’s ability to sensibly manage their inheritance (contrary to the old adage ‘one generation makes it, the next generation keeps it & the third generation spends it?)

EU MULLS SANCTIONS OVER U.S SPYING (AP, Frank Jordan)

- Following reports of massive spying by the NSA in Germany & France, incl. the tapping of Chancellor Merkel’s cell phone, Spain became the latest US ally to be upset by NSA monitoring of phone calls in its country (at last report 60MM in one month). European leaders don’t like the US’ answers to date & want to find a way to press Washington for details of its past spying, send it a strong message that wholesale spying on its citizens is unacceptable & receive assurances it will be curbed in the future. And Germany’s Justice Minister alleged on October 28th America had used the information collected for economic-, as well as terrorism-fighting-, purposes (while denied by White House spokesman Jay Carney on October 28th, he did acknowledge the tensions created by the eavesdropping & said the White House was “working to allay those concerns”).

While consideration is being given to retaliate by suspending the Belgium-based Terrorist Finance Tracking Program that handles the movement of money between banks worldwide, the EU doesn’t want to suspend its trade talks with the US since both sides stand to gain too much from its success, especially given the competition from China & other emerging countries.

EUROPE LOOMS ON THE VERGE OF INFLATION (G&M, Brian Milner)

- The Eurozone has posted modest growth since mid-year although unemployment remains high. Now a far greater risk than fiscal consolidation, a stronger Euro, excess capacity & tight credit is looming : deflation. For the Harmonized Index of Consumer Prices (HICP)² fell below 1% in September, its lowest level since the 2008 financial collapse & well below the ECB’s 2% ‘price stability’ target. So, unless the ECB starts easing aggressively (& quits listening to the Bundesbank’s anti-inflation hawks), Europe could slide into deflation, raising *real* debt servicing costs & prompting defaults among the Eurozone’s weakest members.

² that removes the effect of tax changes from consumer price changes.

The HICP, a cousin of America's 'core inflation', may be equally beloved by monetary policy reality obfuscators, but is equally irrelevant to the hoi polloi. As to the anti-austerity types' belief that "this time it is different", empirical evidence suggests this is seldom true : untrammled monetary expansion has in the past invariably leads to inflation & now, as we have told recently, to 'bubbles'. The main reason inflation has yet to rear its ugly head is that monetary expansion has been offset by a slowdown in money velocity; but when, not if, that were to change, policy makers may have a tough time clawing back the excess liquidity in the system sufficiently fast.

FREXIT FEVER HITS HEART OF FRENCH ESTABLISHMENT **(The Telegraph, Ambrose Pritchard-Evans)**

- Calls for an EMU breakup are spreading into the upper echelons of France's foreign policy establishment (& its pro-European core). In a new book, La Fin du Reve Européen (The End of the European Dream) François Heisbourg, an ardent European federalist & EMU champion, and Chairman of the blue-chip International Institute for Strategic Studies (ISS), challenges the 'Merkel Doctrine'³, arguing the "Euro cancer" must be cut before it's too late to save the EU project; but having said that he also insists it must be relaunched at some point in the future, but only after Europe's leaders have built the necessary federalist foundations, & then only for those willing to accept the implications of a federal currency in full since "Money has to be at the service of the political structure, not the other way around." He calls the present *economic* situation *in Europe* a "cancer in recession", says its nations are now drifting further apart, that a referendum now on concentrating more power in the EU would fail almost everywhere, & that EU intrusions (*into national life*) once tolerated as "disagreeable" have now become "intolerable". And he fears a sudden, out-of-control disintegration of the EU like that of the Soviet Union a quarter century ago, preferring it to be an organized breakup, planned by a few officials in total secrecy & implemented over a long weekend (a la Brazil's abolishment of the cruzeiro in 1994).

The term Frexit comes from Grexit, a moniker coined in 2012 amidst speculation of Greece exiting the monetary union. What is driving the bus on this issue in France is the growing strength of Marine LePen's extreme right Front National party (which is committed to withdrawal from the Euro & restoration of the French franc, and the complete destruction of the monetary union) that now leads both the Gaullist UMP & the Socialists in the polls (with 24% support, vs. 22% & 21% respectively). But what really put the cat among the pigeons was the recent cantonal election in Brignoles (in the Southeastern Cote d'Azur part of the country) where the Front National candidate first trounced the UMP incumbent 40% to 21% in the first round (with the Socialist candidate trailing badly because his working class voter base left him in droves to support his Front National rival), & then beat her again with 54% support in the run-off (in which 52% of eligible voters voted, half as many again as in the first round). And what makes France more vulnerable to exit pressures is the fact its economy is least integrated with those of the other 16 countries, with only half of its exports going to them (which means that a stronger Euro will have a more deleterious effect on its economy than on that of any of the sixteen others).

EUROPE'S LONGEST-SERVING LEADER SIDELINED (G&M, Paul Waldie)

- Luxembourg Prime (& Finance) Minister Jean-Claude Juncker, age 58, was the longest-serving leader of any EU country & long a fixture in EU affairs. He helped draft the

³ that holds its collapse would trigger a return to all the old demons of the 20th century.

Maastricht Treaty that created it, was a driving force behind the creation of the Euro, & for the last eight years headed the finance ministers' working group that has played a big role in dealing with the Eurozone's financial crisis. And his party, the Christian Social People's Party, had run Luxembourg for all but five years of the last 68. But a government inquiry earlier this year blamed him for not properly overseeing the Grand Duchy's security service that had engaged in unauthorized wiretaps (incl. one case in which its head secretly recorded a conversation with Juncker himself) & that may have been involved in a secret bombing campaign. This caused his socialist coalition partner to leave it, bringing on an early election in which, last week his party lost three of its 26 seats in the 60-seat Parliament, following which Grand Duke Henry on October 25th sealed his fate by asking an opposition leader to form a coalition government.

But he may land on his feet by getting a senior EU post, with Chancellor Merkel seemingly endorsing the idea when she said on October 25th "I very much value the work of Jean-Claude - he is an experienced European, that is indisputable."

GM DEBATE NOT SETTLED, SAY EUROPEAN SCIENTISTS **(Epoch Times, Justine Reichel)**

- Three researchers instrumental in developing GM crops, incl. Monsanto's Robert T. Fraley, were awarded the US\$250,000 World Food Prize, agriculture's Nobel Prize equivalent⁴. While those who deem GM foods the answer to food hunger lauded this move, others are outraged, saying the technology is over-hyped, under-tested & unsustainable. And the European Network of Scientists for Social and Environmental Responsibility (of over 90 scientists, academics & physicians) said on October 21st "We ... reject claims by GM seed developers & others ... (of a 'scientific consensus' on GM safety and ...*(that)* the debate on this topic is 'over' ... The claim encourages a climate of complacency that could lead to a lack of regulatory and scientific rigour and appropriate caution ... endangering the health of humans, animals, and the environment."
- A 2011 study by researchers at the Québec's University of Sherbrooke found that pregnant women who ate meat from livestock fed GM corn retained the toxic pesticides implanted in the corn through genetic modification in their bodies & umbilical cords. And while corn grown in Canada hitherto was used only for animal feed, processed food ingredients & biofuels, GM sweet corn may have started to make its way, unlabelled, onto store shelves; for recently the Canadian Biotechnology Action Network tested sweet corn sold in grocery stores, roadside stands & farmers' markets in B.C., Alberta, Ontario & Nova Scotia, and found that 15 of the 43 samples were GM varieties, noting this was the first case in Canada of GM foods being marketed directly to consumers.

Apart from the health aspects, it is by no means clear the GM technology is of benefit to Mankind, rather than just the companies' bottom lines.

⁴ The idea of the World Food Prize originated with Norman Borlaug, the father of India's "Green Revolution" of the 90's (which has since proven somewhat of a damp squib). It was first funded by General Foods, then by John Ruan, a Des Moines, Iowa businessman, & most recently by a constellation of food chain companies, incl. Nestle, Cargill, Archer Midland, Monsanto, Syngenta, Bayer Crop Science, Dupont Pioneer, as well as the Bill & Melinda Gates-, & the Rockefeller-, Foundations. While historically the Prize always went to scientists in traditional agriculture & food-related fields, and to politicians, incl. former Brazil President Lula da Silva, who introduced & implemented policies to alleviate hunger, this was the first time it was awarded to anyone in the GM part of the business.