Quote No. 1 of the week : "The key to good decision making is not knowledge. It is understanding. We are swimming in the former. We are desperately lacking in the latter." Malcolm Gladwell, a staff writer for The New Yorker & author of five books, one of which has been on the NYT best-seller list for 428 weeks & another for 125) - *this seems nowhere more true than in US-, & now Canadian-, foreign policy making*.

Quote No. 2 of the week : "Investors have paid a staggering amount for the excessive expenses and excessive marketing focus of the mutual fund industry." - John Bogle, founder of the Vanguard Group, *which at last report had AUM of US$2.5TR. This is not as much of a contradiction as it may seem at first glance; for he was the father of the index fund concept, Vanguard has most of its assets in such funds & it trumpets on its website "83% lower fees" (than the industry average). He also authored the 1999 best seller <u>Common Sense in Mutual Funds</u> which laid down eight basic rules for investors, incl. Consider the cost of advice, Ignore past performance, Beware of asset size, and Buy your own portfolio & hold it.*[1]

For Netanyahu & the like, no deal with Iran would ever be good enough unless it involved an abject surrender by Iran (*which, Henry Kissinger*[2] *told Larry King on his TV talk show two decades ago, never makes for a viable deal - as witnessed by the demeaning 1919 Versailles Peace Treaty being the root cause of the outbreak, twenty years later, of WW II (which spawned the Holocaust, the memory of which haunted two generations of Jews but now is used to try & generate sympathy, despite the growing evidence that for much of the rest of world, incl. many younger Jews in the diaspora, it is now well past its "Best Before "date & about as relevant as last week's newspaper*. But there is also much skepticism about, & deep-rooted distrust of, Iran among others than just the naysaying zealots (some of who go as far as denigrating the recent "temporary" nuclear deal as 'another Munich').

Those who accuse Obama of wanting a deal with Iran at any cost to boost his flagging popularity (*or to have a fall-back 'signature legacy achievement' of his Presidency now that Obamacare looks a bit dodgy?*) overlook the fact that, if he needs one, Iran's Supreme Leader needs one even worse since his regime's very survival is at stake. For the sanctions & Ahmadinejad's eight years of economic mismanagement have left Iran's economy in tatters. In the past year its GDPs declined 5%. Inflation is 40+%. The rial has lost 10% of its value since mid-year. Youth unemployment is 30%. Oil exports have plummeted. And the victory of Rouhani, the most "moderate" of the six candidates in last June's presidential election, with its 73% voter turnout, & his 50.9% voter support, that obviated the need for the expected second-round run-off & was 3x that of the runner-up, sent a powerful message : Iran's relatively young & well-educated population, & more specifically its growing middle class, had just about had enough. Meanwhile, Western business is slavering at the thought of Iran's consumer products

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1 Like all generalizations, all criticism of the fund management industry doesn't necessarily apply equally, if at all, to every individual in it. For many in the industry work diligently to create "value-added" for their clients. But they would be among the first to admit that their industry has long been rife with conflicts of interest and became only even more so as the big banks came to dominate it.

2 Who knew whereof he spoke, having engineered Nixon's dialogue with China at a time American's distrust of China was visceral (for which he received the 1973 Nobel Peace Prize, an achievement that none of Netanyahu's deeds will likely ever qualify him for), one of the most significant turning points in US foreign policy during the Cold War,.

market, & its 'run-down-at-the-heels' oil & gas sector, opening up to it[3]; thus in October a Boston Consulting Group study of the potential car markets in 15 emerging economies placed Iran third in market growth potential, behind Indonesia & Mexico (*both with much larger populations, by 50% in the case of the latter & 250% of the former*). So there may be scope for a deal of mutual benefit - *yesterday's enemies can-, & have-, become tomorrow's allies, & yesterday's terrorist leaders tomorrow's statesmen (of which today the world lost the living proof).*

Over the weekend there was an uproar in the Arab world over a tweet purportedly originating with an account of President Rohani. For it had reported his arrival at the "Persian Gulf" port of Asaluyeh. The Arabs took offense at the use of this nomenclature. For they insist it should be referred to as the "Arabian Gulf", despite a finding by a UN panel of experts in 2006 that the name "Persian Gulf" was the correct one, given it long historical use in maps & written records – *picayune as this may seem to the rest of us, it's a matter of 'honour' for both sides & an illustration of the potential obstacles to peacemaking in the region.*

The November 25th Guardian newspaper carried an article by Chris Arnade, Here is why Wall Street has a hard time being ethical which should be required reading for anyone with a single penny in the market or on deposit in a bank. It reports on the insights of a Wall Street insider *who after 20 years of Wall Street scamming now presumably can afford to be remorseful* . While its focus is on how the market's ethical malaise hurt *supposedly smart & well-informed* large investors, it equally applies to the more vulnerable retail ones. Included among its insights are :

- In his first year on Wall Street, 1993, he had been paid 14 times what he had earned the year before, & three times what his father had earned in his best year[4];
- Fifty-three percent of financial services executives say that adhering to ethical standards inhibits career progression at their firm; and
- The ongoing investigations in *more & more* possible cases of market manipulation, the latest one focused on the global *US$5+TR/day* FX market, are not dealing with anomalies in the dark corners, but with the core operating philosophy, of the system.

The article references a report entitled A crisis in culture : Valuing ethics and knowledge in financial services by the Economist Intelligence Unit for the CFA Institute. It can be accessed on line at www.economistinsights.com/analysis/crisis-culture. While longer (19 pages), it should be read by anyone interested in how the industry discharges its fiduciary responsibility with respect to the stewardship of other people's money. It is based on interviews with 382 executives in every aspect of the global banking-, cum wealth management-, business, 42% in Europe, 34% in the Asia-Pacific region & 20% in North America, and with 50 more in financial services industry support industries. Its most interesting parts, other than the 53% number noted above, include :

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3 With Canadian business likely to bring up the rear, despite the Prime Minister's recent dictum that henceforth corporate interests will drive Canada's foreign policy, given that worthy's decision a year ago to expel all Iranian diplomats from Canada & close the Canadian Embassy in Tehran, and his negative reaction to the recent nuclear deal.

4 In his first ever book Liar's Poker Michael Lewis in 1989 already wondered why, four years earlier as a 25 year-old new graduate on Wall Street, his starting salary should have been far in excess of his sister's, a Milwaukee kindergarten teacher with ten years' experience.

- the (*unintended?*) contrasting of firms' claims they have attempted to improve, & made progress in improving, adherence to ethical standards with the above-noted notion that a majority of their employees believe that doing so hurts their career[5];
- the suggestion that, while banks in the emerging markets weren't much affected by the financial crisis because of their tighter regulation[6] , this may not be the case in the next go-around because they have since become more aggressively competitive & less risk-averse (*due to the tsunami of liquidity emanating from the major central banks?*);
- part of the problem is that in industry's decades-long merger & takeover mania the surviving entities did not adequately mesh the often vastly different cultures of their acquisitions into a single, coherent, entity-wide culture (*resulting in "silo" mentalities in which the only measure of success was the bottom line?*)[7] [8]; and
- on a more upbeat front the example of Sweden's Handelsbanken's profit-sharing scheme, benchmarked to the extent its RoE in any year exceeds its competitors' (which it has done for 41 years running) that promotes long-, rather than short-, termism by only making it payable at age 60 & may be unique by making **every** employee an **equal** beneficiary in it.

All of this seems to bear out the observation by Thomas Tusser (1524-1580), a sometime musician, poet, farmer & student at Cambridge University's King-, & Trinity Hall-, Colleges, in his instructional A Hundreth Good Pointes of Husbandrie that "A foole and his monie be soone at debate, which after sorrow repents him too late" (since morphed into "A fool and his money are soon parted.")

John Mauldin, in his latest weekly Thoughts from the Front Line letter entitled Arsonists Running The Fire Brigade (which can be googled & is well worth reading in its entirety) at one point reflects on Keynes having argued in his 1933 seminal work The General Theory of Employment, Interest and Money that interest rates should be lowered to the point where full employment is achieved (through increased investment), despite the risk of "Euthanasia of the Rentier" (i.e. destroying the livelihood of those living off investment income).This is one consequence of today's central bank policies : in the short run savers & retirees have less money to spend & longer term the destruction of pension funds' future returns will impose a need to massively restructure them on both beneficiaries & tax payers [*worse still, the increase in employment Keynes envisaged seems to have been slow to materialize & his expected increased in*

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5 Both the article & the report are unfair to those people & institutions in the industry who still operate in an ethical manner. But as the saying goes, "one rotten apple spoils the whole barrel" & in this case there seems to be a surfeit of rotten apples.

6 As were those in Australia & Canada.

7 In contrast, in the 80's the Royal Bank closed down its quite successful London-based Orion Bank investment bank affiliate within weeks after it had reported its most profitable year ever, basically because the commercial bankers in the bank's Toronto head office couldn't relate to, & were unnerved by, the more entrepreneurial use of its balance sheet by the investment bankers in its far-away Orion Bank operation.

8 This is not unlike what an article in the New England Journal of Medicine in the late 1980's reported had become a problem in North America's medical profession. For the rigid application of academic achievement in medical schools' selection of their intake had produced a bias towards A-type personalities, who measure success in material means, over B-types by nature more suited to what is, in essence, a "helping profession".

investment not at all. Corporations are sitting on unprecedented mountains of cash, seemingly unable to find a more creative way of using them than to buy back their own shares. This creates an illusion of undue growth in their Earnings-per-Share (EPS) that helps to underpin unrealistic stock market valuations]. He says that implementing easy money policies is as easy as 'squeezing tooth paste out of a tube', but that unwinding them is more challenging, like 'trying to put it back into the tube.' He also noted the Glass Steagall Act of 1933, that separated commercial-, from investment-, banks & served the nation well by avoiding serious banking crises but was repealed by President Clinton after massive lobbying (*by the too-big-to-fail banks*) was just 37 pages long, whereas the Dodd-Frank legislation that sought to clean up the mess left by the resultant financial crisis a decade later was 2,300 pages long, with much of its implementation *still* stymied by furious lobbying by the selfsame banks.

In the US the number of people in stores during the four-day "Black Friday" weekend was up 1.4% YoY to 141MM. But in total they spent 2.9% less YoY with their average purchases down 4% to US$407.20, much of it due to discounting that this year was unusually deep **and** started unusually early (*suggesting retailers are getting bad vibes about sales during the Holiday Season*). Meanwhile, the 59MM people who shopped online spent US$177.67, up 3% YoY.

The economic news this week raised some misplaced concerns about earlier-than-hitherto-expected tapering. For the Third Quarter annualized GDP growth rate was revised from 2.8% to 3.6 (*but the fine print revealed all of the increase, & more, was due to a greater-than-earlier-detected buildup in inventories which will be a drag on growth in the current quarter*). The ADP Employment Report that frontruns the official BLS job growth report by a couple days was much better than expected, 215,000 vs. 173,000 new jobs, & the best since November 2012's 276,000; but it has historically not been a reliable indicator of the official BLS number to come. While October new home sales were better than expected (444,000 annualized vs. 428,000), the bloom was taken off that rose by the revisions to earlier months' numbers : August from 421,000 to 379,000, July from 390,000 to 373,000, & June from 454,000 to 450,000. And finally, the ISM's Non-Manufacturing Index (of activity in over half the economy), dropped 1.5 points to 53.9, wiping out all of October's gain, & then some, and fell well short of the 55.0 expected.

Bakken oil has proven more-than-average explosive due to its higher-than-usual content of methane & propane (with the explosive risk heightened by "stratification" in rail transportation (the tendency of the heavier components to sink to the bottom of the tank car while the lighter, more volatile components float to the top). The lack of pipeline capacity, & the "instant capacity" offered by the railways, has led to the number of crude oil-carrying tank cars in North Americas railway systems multiplying faster than rabbits, from just 8,000 in 2009 to over 400,000 today, & to over two-thirds of the Bakken's 700,000+ bbld output moving to market by rail. Another little-known feature of Bakken oil is its sometimes very high hydrogen sulfide (H_2S) content which at best is just highly corrosive & at worst deadly; while the US "safe" work place exposure is 50 ppm, prolonged exposure to levels of 300 ppm can cause pulmonary edema, 500 ppm death within the hour & 1,000 ppm near instant death, last May Enbridge at a North Dakota rail-loading facility reported readings of 1,200 ppm.

Last week equity mutual funds attracted more new money than in any week in the last 13 years. Investors on average now have 57% of their portfolios in stocks, a percentage exceeded only twice in recent history : in the late 90's, before the March 2000 dot.com crash, & prior to the

2007/08 Financial Crisis[9] - *add to this the fact that corporate profits as a percentage of GDP are at an all-time high & corporate share buy-back programs at a post-2005 high & widespread (70+% of the S&P 500 companies have one) & amount to well over US$400BN, i.e. close to to 2% of the total capitalization of all NYSE & NASDAQ stocks, and it is hard to escape the notion that, whether in a bubble or not, share prices are at 'nosebleed' heights (as seemingly borne out by the fact that, while last January 1st the expectation was that the S&P this year would rise 7.4% to 1531, as of last Monday it was up well over 3x that, 26%, to 1801).*

Many investors need, or want, to invest in fixed income securities. Historically their first choice was government bonds because they were the most liquid & deemed of the highest quality. So it is interesting, if not significant, that this year in the US there have been big flows of funds into investment grade corporate bonds, YTD US$53.5BN-worth & US$1.454BN in the week ended November 27th alone (to which Johnson & Johnson added US$3.25BN on December 2nd & Microsoft US$3.5BN the next day)[10] - *three decades ago I used to argue with my then fixed income portfolio manager colleague (your dad, Mark & Paul), that in his place I would sooner own high grade corporate-, than government-, bonds, not just because of the obvious pick-up in yield but, more importantly, because, unlike governments, there are limits to the amount of bonds corporations can issue, whereas, with their supposedly endless taxing powers, governments, in theory at least, can issue bonds ad infinitum (while he & I had been taught in First Year Economics that the price of a good in endless supply will go to zero).*

Irony of ironies! The November 29th Globe and Mail carried an article reporting that two Algerian inmates at Guantanamo are fighting extradition to their homeland. At present the facility still holds 164 inmates. 84 of them have been cleared for release, 71 others who may be eligible for release & nine are serving sentences or awaiting trial before a military commission – *these two have no objections to being released; they just don't want to have to go back to Algeria. But thyere has been a dearth of countries, incl. countries of origin, willing to accept former Guantanamo inmates.*

Interesting cross currents in global oil markets. China's crude oil imports have grown from 70MM tonnes (1.4MM bbld) in 2004 to 270MM tonnes (5.4MM bbld) this year (& in September were 6.3MM bbld). During the same period US imports declined from 12.1MM bbld to 7.5MM bbld (in October US domestic crude oil production averaged 7.7MM bbld, the first month in over 20 years it exceeded imports). Back in 2004 the US was OPEC's largest single customer, importing 5.0MM bbld from its member countries & China only 1.1MM bbld. Today these roles are reversed. China now is OPEC's largest customer, with its 3.7MM bbld imports from its members now outstripping the US' 3.5MM bbld. The lion's share of China's oil imports from OPEC comes from the Persian Gulf area, from Saudi Arabia, Iraq (its oil imports from that country have more than doubled in the past four years) & Iran (the loosening of sanctions will likely boost its imports from that country – which, although it may slow down their growth, need not affect the physical volume of imports from the other two much, given China's rapidly growing thirst for oil). So the security of China's oil supplies depends on the Pax Americana maintained by the US Navy in the Gulf Region. And while there is now a growing school of thought in the

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9 While the "What Bubble?" Boosters say this is nothing to worry about since the "long-term average ... lies between 60 and 65 percent", this ignores the fact that the US economy's long-term average trend growth rate also is far higher than it appears to be today.

10 A significant aspect of which is that in a number, if not many cases, the money borrowed is to be used not for productive investment purposes but to fund share buy-backs.

US that ‘Middle East oil is now China’s problem’, Washington, all “pivot” foreign policy talk aside, has strategic reasons for maintaining a big naval presence in the Gulf. For, while China has ambitions to build a world class “blue water navy”, it is still a long way from being able to secure its oil supply sea lanes on its own, and maintaining such a presence in the Gulf could, in principle at least, give the it some much-needed leverage in its relationship with China.

The PBC (People’s Bank of China) has publicly stated ‘it is no longer in China’s favour to accumulate foreign exchange reserves’. This officially recognizes a trend already long in evidence, namely that Beijing had decided that, rather than maintaining a US dollar ‘hoard’ invested in dodgy UST securities, it would make more sense to invest it in *strategic* “hard assets” abroad (*someone recently noted the growing Chinese presence in the French economy; this is ominous given Beijing’s apparent strategy in Europe, starting with Iceland & Ireland, of taking advantage of the governments of the economically distressed European countries having few qualms about accepting just about any foreign investment, with few questions asked*. Add to this that the PBC now has currency swap arrangements in place with the central banks of countries that account for over 60% of global GDP (which will facilitate its two-way trade with them in their own currencies), that the Chairman of the Shanghai Futures Exchange, Yang Maijun, at a recent industry conference announced plans to introduce yuan-denominated oil futures contracts, that there is already a 5MM bbld volume of yuan-denominated oil trade, and that, notionally due to unhappiness with how the London Metals Exchange (LME) has operated, Premier Li is said to be pondering the establishment of electronic trading platforms for all commodities in the Shanghai FTZ (Free Trade Zone), & the future of the post WW II US$-based international monetary system is starting to look uncertain.

Still, one must wonder about the viability of Beijing’s dreams of regaining its ‘rightful place’ as the “Middle Kingdom”. Its GDP trend growth rate is slowing, a trend validated by its growing “dependency ratio”. Its labour force has begun to shrink. Its population is aging & population growth stagnating (while Beijing is easing the application of the one child policy, the effect thereof is being negated by young women’s disinclination to have more than one child & by a growing scarcity of women of child-bearing age as a result of sex-selective abortions & girl baby elimination during the one child policy era). Its air is poisoned. Its water resources, already low on a per capita basis, are shrinking, & much of what is available is fouled. And the contamination by heavy metals & other noxious substances of its (shrinking) farm land is a growing, albeit still latent, public health concern.

In October passenger vehicle sales in China were up 18.7% YoY to 1.61MM (a 20MM annualized rate[11]) & total passenger-, & commercial-, sales up 20% to 1.93MM (a 23+MM annualized rate). This is due to three factors : a steady stream of first-time car buyers, continued economic growth prompting more demand for commercial vehicles, & existing vehicle owners “trading up” to bigger, newer models (SUV sales were up 73% YoY) - *with such growth in this & other emerging economies, is it reasonable to expect global demand for oil to ‘taper’ in the coming years?* In China also, in the last decade home ownership is said to have risen four-fold to almost 80%, with one-third of all home owners owning more than one home (up from one-tenths a decade ago[12]). As is the case with cars, increasing numbers of existing owners are starting to “trade up”. But, while residential real estate in the Big Four Tier 1 cities (Beijing,

11 Vs. 15.5MM in the US.

12 A trend which may be about to reverse itself since the country’s ‘smart money’ expects slower growth & higher interest rates in the future.

Shanghai, Guangzhou & Shenzhen, with a combined population in their urban areas of 63MM), where most of the country's wealthy live, is said to be a sellers' market, the reverse is said to be the case in the smaller urban areas.

Total debt in China is 200% of GDP. In & by itself, that's no big deal; for it is 500+% in Japan, in the 350% range in France, Spain & Portugal, and around 300% in Italy, the US & Canada. What is a big deal, however, is that in the First Half of this year, while GDP grew at an 8.8% rate, total debt grew by 30.6%. If this were to continue, it would soon power China's ratio into a more worrisome range (especially if GDP growth were to decelerate). And decelerate it will; for 2011 was the high water mark for the size of China's labour force. Last year it shrank, for the first time in modern times, by 3MM. And it is expected to continue to shrink by another 21MM in the next decade at the same time that the growth in the number of over 65 year-olds, that amounted to 34MM in the past decade, is expected to 'ramp up' by 55MM. The resultant drag on GDP growth from the higher "dependency ratio" underlies the forecasts the Chinese economy's 'trend growth rate' falling off a cliff in the next decade, to 4.2% from 9+% not long ago).

In October of last year Beijng froze IPOs by Chinese companies (incl. SOEs). It has now ended the freeze, with 760 IPO candidates waiting in the wings, over 80 of them already approved.

Last week Boris Johnson, London's often controversial mayor, lived up to his reputation when in a speech about equality & meritocracy he said that inequality is inevitable because intelligent people are more likely to succeed than less intelligent ones. More specifically, he said "Whatever you may think of the value of IQ tests, it is surely relevant to a conversation about equality that as many as 16 percent of our species have an IQ below 85, while about 2 percent have an IQ above 130."[13] Needless to say, this was like waving a red flag at a bull for proponents of political correctness - *He is right, but only up to a point. Mensa Club members are certified smart but often not stellarly successful since many seem to lack "emotional intelligence", the innate ability to make optimum use of their talents. While President of Harvard, Larry Summers once observed its "A" students become its professors & "C" students its donors (presumably because they have been monetarily sufficiently successful to be able to afford to become donors). And I will never forget the story my father told me about the naval cadet who ranked dead-last in his class of 17 & who, after having been told that there was no future for him in the navy after his initial five years, went into business. Years later, after he had become quite successful, he told my father at a reunion that much of his success was due to the fact that people had always thought him stupid &, as a result, had underestimated him. According to my father, what he had lacked in raw intelligence, he had made up for in "peasant smarts"*

GLEANINGS II - 540
Thursday December 5th, 2013

CANADA CALLED AN ENVIRONMENTAL 'ROGUE STATE' (CP, Alexander Panetta)

- On December 2nd there was an event at Washington-based Georgetown University Can Keystone Pass the President's Climate Test? In his opening address "green millionaire" Tom Steyer said the Keystone XL pipeline might be vital for the oil industry but would

13 He got trapped a couple of nights ago on a phone-in radio show into answering three IQ test-type questions, two of which he got wrong & the third of which he refused to answer, saying "No one said that IQ is the only measure of ability*".*

lead to exponential growth in the Canadian oil patch & hence should be stopped[14]. Speaker after speaker said it would lead to a significant increase in carbon pollution. And while the keynote speaker, Mark Jaccard, a professor at Vancouver-based Simon Fraser University *in Environmental Economics*, said he doesn't want the oil sands shut down but only doesn't want them to grow any more, his address was a lengthy rebuke of Ottawa's climate change record, calling Canada an environmental "rogue state".

Jaccard had an axe to grind. Prime Minister Harper appointed him in 2006 to the National Round Table on the Environment and the Economy [established almost two decades earlier by the (last Conservative) Mulroney government to bring together some of the best & brightest in the country on the issue]. But last year the Prime Minister ordered it shut down & its funding pulled for having had the gall to keep harping on the need for a carbon tax. As to Steyer, he became a billionaire in the financial asset management business, has been a lifelong Democrat Party activist (who made a speech at the 2012 Democratic National Convention) & was one of Obama's most prolific fund raisers, his financial support credited with several other successful campaigns in the 2012 national-, & state-, elections) & recently he has spent much of his own money to attack the Keystone XL idea. Two months ago he despatched a public letter to Prime Minister Harper for having had the audacity (or the bad judgment/colossal stupidity?) to tell the Canadian American Business Council in New York he would "not take 'no' for an answer" from President Obama on the Keystone XL pipeline issue - in the end, when Obama turns it down, it may well be based more on economic-, than environmental-, considerations, i.e. on a belief it would not be to the United States' benefit, with its domestic oil production burgeoning, to let Canada have a major share of the economic benefits accruing from production of crude oil that would compete with US-produced oil (it is interesting in this context that murmurings have started making the rounds in the US that it wouldn't be all that hard to reconfigure the Gulf Coast refineries, that have pushed for the pipeline to replace the heavy oil they used to get from Venezuela & Mexico, to process the much lighter Bakken or Texas shale oil.

IRAN MAKES DRAMATIC OVERTURE TO RIVALS IN GULF MONARCHIES
(London Daily Telegraph, Richard Spencer)

- Iranian Foreign Minister Mohammad Javad Zarif the weekend before last concluded the *six months', temporary* nuclear agreement with the P5+1 group. Last week he met his opposite number from the UAR in Tehran. Then over the past weekend, on December 1st, the start of the Muslim, & Jewish, workweek, & December 2nd, he visited three more of the six Gulf Region, Sunni-led monarchies, Kuwait, Oman & Qatar. He wants to visit Ryadh to 'develop better relations with Saudi Arabia', the de facto leader of the Sunni Muslims & its main rival in the region since "We believe ... Iran and Saudi Arabia should work together ... to promote peace and stability in the region ... I believe that our relations with Saudi Arabia should expand as we consider Saudi Arabia as an extremely important country in the region & in the Islamic world." But the Saudi rulers are suspicious of Iran' motivations & won't be in any hurry to extend the invitation that would enable him to do so.

Like Israel, Saudi Arabia doesn't trust the Iranians (if only because they are Shiites, apostates by Sunni standards, & non-Arabs). And as is the case of several of the other Gulf monarchies, it has a Shiite minority that they fear could be turned into a 'Fifth Column'. Like the Israelis also, they are still smarting from being excluded from the P5+1 talks & from its implicit resultant

[14] Which makes one wonder whether for environmental or competitive reasons.

international diplomatic legitimization of the Iranian regime. On top of all that, they fear that the nuclear deal will enable Iran tom export more oil to China, thereby skimming off the growth potential there for Saudi oil. And to have Iran thus challenge, in what it would interpret as a condescending manner, what it has traditionally deemed its rightful entitlement to leadership in the region ain't going to make the Saudi leaders more amenable to responding to its overtures, peace in the region be damned.

<u>THE LARGE LESSONS OF THE IRAN DEAL</u> (Toronto Star, Haroon Siddiqui)

- Obama wanted a negotiated deal rather than war & got it despite Israeli & Saudi temper tantrums, Netanyahu's furious efforts lobbying of world leaders, courting the media & US lawmakers, and rallying Jewish Americans, and the objections of others *that hadn't been part of the negotiations, incl. Canada.* And while France's Foreign Minister, Laurent Fabius, after the first round of negotiations declared "I won't accept a sucker's deal", *briefly* making him the anti-Iran hawks' darling, he too signed, little more than two weeks later, on to a deal that was little different from the one he had denounced earlier. Netanyahu, as usual, overplayed his hand (*Israeli President Shimon Peres didn't support his hard line but, then again he has long been a 'dove'*). And King Abdullah is still angry at Obama's abandonment of Hosni Mubarrak almost three years ago and at his own failure, *as far back as three years ago,* to convince the Americans "cut off the head of the snake" (*i.e. bomb Iran*).
- The main lesson is that Obama will let nothing stand in the way of his two priorities for region : a negotiated deal with Iran & peace between the Israelis & Palestinians. And while the deal he got may, or may not, lead to something more permanent, the very fact of representatives from the world's six most important countries sat at the same table with those from Iran, with the EU foreign policy chief coordinating the discussions, undermined the hawks' demonization of Iran. Four other lessons can be drawn from the *'temporary'* Iran deal. Saudi Arabia had better get used to Iran's emergence as a regional power (*although not necessarily as* ***the*** *regional power*) & its re-emergence as a major oil exporter (*and to the diminution in its status as a key ally in US foreign policy?*) Israel has to quit drawing phony red lines &, for its own sake, become less intransigent on the Palestinian issue. Multilateral diplomacy of the kind Canada used to be known for (but Harper has ditched), still has its uses. And his belligerence on the Iranian issue has made Prime Minister Harper a member of a small, select, *& isolated* clique on the Iranian issue that includes Prime Minister Netayahu, King Abdullah, 'Mad Dog', Tea Party darling US Senator Ted Cruz (R - Texas), *& John Bolton a the rest of the US Far Right.*

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<u>DON'T BLAME GERMANY FOR EUROPE'S WOES</u> (G&M, Eric Reguly)

- Bashing Germany is all the rage. Everyone, incl. the US government, claims it exports too much & encourages domestic demand growth too little, thereby aggravating its Eurozone partners' problems. But they *conveniently* forget that in the 1990's Germany, saddled with the cost of unification, was the sick man of Europe. But it introduced *more* flexible work practices, eliminated country-wide wage negotiations & ensured productivity climbed faster than pay. The resultant wage compression made its exporters more globally competitive while the others did little to make their economies more so.
- According to a study by Paolo Manasses, professor of international economic policy at the University of Bologna, between 2001 & 2011Germany's unit wage costs **fell** 9.7% as Italy's **increased** 23%, & its productivity rose 16.7%, 6x Italy's 2.7% (the same is true for

France, albeit to a lesser extent). He thinks blaming Chancellor Merkel & her calls for austerity (*which can be expected to be muted by her heading a Grand Coalition with the Socialists*) is a cop-out. For Italy's sad state, he says, is "the legacy of more than a decade of a lack of reforms in credit, product and labour markets ... resulting in wage dynamics ... completely decoupled from ... productivity and demand conditions.

- There are two solutions. Either the slugs to get the lead out or all until the weak economies get weaker while Germany's (*& maybe those of possibly a few other Northern* countries) gets stronger & the euro-skeptic parties like Greece's Golden Dawn grow bigger and more numerous & vociferous. But the former isn't happening; for the weaker sisters are content to do little other than pray for a miracle, while Germany is investing more in its export industries, thereby further widening the productivity gap. The Eurozone crisis isn't over yet.

The optimum solution in cases like this is for the weak to somehow grow stronger; but in the real world the preference of the weak is to try & erode the basis for the strength of the strong.