

**Quote of the week :** “An economy is not unlike a car ... it has many moving parts ... Today’s central banks can make money cheap and plentiful, but the money ... created isn’t moving around the economy or stimulating demand. They can step on the accelerator *all they want* and flood the engine with gas, but the transmission is broken ... Without a transmission, monetary policy has no effect.” John Mauldin.

There are two categories of people who buy gold, traders & holders. The former buy gold, like any other asset, to make money of any price appreciation. They typically live in the West, prefer to buy paper gold for convenience, drove the market up during the first decade of this century, sell on weakness & have been sellers in the past 2 ½ years. The latter, the lion’s share of whom does **not** live in the West, accumulate (because they have no plans to sell it during the foreseeable future, if ever) rather than buy, gold since it gives them a sense of security; they look upon lower prices as opportunities to add to their holdings & have been increasingly buyers in the last year or so. In due course, all the ‘kids will be off the street’, and market forces will re-assert themselves in an environment in which demand has long exceeded newly-mined supply, which can have only one outcome, a trend which the condition of the international monetary system may affect at the margin but which the waxing wealth of Asia’s growing middle class will permanently reinforce.

Prior to 2008, the central bank complex had long been a perennial seller of physical gold. Since then the traditional developed country central bank sellers quit selling & a phalanx of developing countries’ central banks started seriously accumulating gold; thus between March 2008 & September 2013 the gold holdings of the central bank of Turkey increased 300+%, Russia’s & Saudi Arabia’s 125%, China’s<sup>1</sup> & Thailand’s 75%, and India’s & that of the Philippines 50%.

One market observer last week waxed eloquent over the performance before lawmakers of Janet Yellen, “The New Goddess of Easy Money”. Another, more cynical one, said the Fed’s dual mandate was akin to the National Weather Service being told to “balance the frequency of rainfall and sunshine”. And yet a third charged the Fed’s philosophy being one of “If an unprecedented amount of ineffective intervention is not sufficient, one must always do more”, *remindful of Einstein’s insanity definition as “Doing the same thing over and over again and expecting different results”, & just about as dumb as those who believe that, if a certain amount of medicine is good, a whole lot more must be better (with sometimes disastrous results).*

The controversial Keystone XL pipeline had another road block thrown in its path when Nebraska judge Stephanie Stacy threw out a 2012 law that had empowered Gov. Dave Heineman to approve its route through the state & resort to ‘eminent’ domain’ to overcome landowners’ refusal to have it cross their land - *known in Canada as expropriation, eminent domain is a legal provision that allows a government to seize private property for public use (for compensation, of course). Meanwhile, as it was reported that President Obama had given “no ground” to Prime Minister Harper on the Keystone issue during the February 19<sup>th</sup> one-day “Three Amigos”<sup>2</sup> meeting in Mexico, the latter found time for a visit to TransCanada’s Mexican Headquarters, purely a ‘photo op’ since the company’s entire focus there is to move Mexican-produced natural gas around within Mexico.*

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<sup>1</sup> This is quite an iffy number since the PBC hasn’t officially reported its gold holdings; the industry consensus is that the increase in its holding has been more like 175%-200%.

<sup>2</sup> I.e. Presidents Obama & Nieto (of Mexico), and Prime Minister Harper.

In January US real disposable income was down about 3% YoY, a post-1974 low growth rate; small wonder retail spending was down for the second month in a row<sup>3</sup>. Meanwhile, some well-known American retailers are retrenching : JC Penney is closing 33 stores & shedding 2,000 employees & Macy's 5 & 2,500, Best Buy will close 50-, & possibly as many as 100-, stores, Target is laying off 450 workers & will no longer pay healthcare premiums for part-timers, Sears, that has closed 300 stores since 2010, will close its flagship Chicago store in April & Radio Shack 500 outlets, and Aeropostale proposes closing 175 outlets over the next several years.

The CBO has weighed in on the minimum wage issue. It opined that, once fully implemented, the US\$10.10 minimum wage option will reduce employment by 500,000 (0.3%), & under certain assumptions as much as 1MM. Furthermore, that, while it will generate \$31BN higher wage incomes, only 19% thereof will accrue to families with incomes below the poverty level, & that it will result in lower incomes for those who will lose their jobs & for businesses, and in higher prices for consumers; so the **net** earnings gain may be only US\$2BN - *"Much ado about nothing"? Meanwhile, this will give Republican opponents of the idea more ammunition.*

In January the average daily volume of bond trading on Wall Street was off 16% YoY & that of new bond issuance 24%<sup>4</sup>, the latter largely due to a 55% decline in mortgage-related debt issuance as higher interest rates have prompted a sharp drop-off in mortgage refinancing. In addition housing starts were down 16% to an annualized 880,000 & building permit issuance 5.5% to 937,000<sup>5</sup>. And so far in February the Empire State Manufacturing Survey number fell to 4.48 from 12.50 in January (vs an expected drop to 9.00) & the NAHB/Wells Fargo Housing Market Confidence Index ten points to 46, the biggest monthly drop in its history - *while the CW blames the unseasonal weather (which no doubt was a factor), some people worry that more fundamental forces are at work that don't augur well for the outlook for the US economy for 2014; be that as it may, these factors will affect First Quarter GDP growth negatively which, in turn, will create a lower base from which the economy will grow for the rest of the year.*

Five years ago two ex-Yahoo employees (*one of whom at the time was eligible to-, & did-, receive food stamps*) launched WhatsUp, a messaging subscription service for smartphones with lots of 'bells & whistles' that by last December had 400MM active users (*i.e. about the same rate of growth as Facebook in its first five years*). On Wednesday Facebook announced its acquisition of WhatsUp for US\$19BN (US\$4BN in cash, US\$12BN in stock & US\$3BN in 'restricted' stock that will vest over the next four years). Facebook stock was down 2.4% on the day, presumably due to fears of an 'overhang' of shares, for in real terms the price seemed reasonable : one-ninth of Facebook's market capitalization for a user base one-third its own - *But this illustrates a very basic problem for companies like Facebook that most retail investors don't fully appreciate. Some of the laws of physics apply to the stock market as well, incl. 'what goes up must come down' (& what goes up really fast typically also tends to come down really fast) & 'all things are finite' (incl. markets for products & services). The bigger they are, the harder they (can) fall. With size comes bureaucracy, the arch enemy of innovation & responsiveness to consumer demand. Maintaining growth becomes more difficult with size.*

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<sup>3</sup> Despite a US\$242BN (roughly 2%) increase in household debt.

<sup>4</sup> Both major 'profit centres' for the Wall Street banks.

<sup>5</sup> What has gone largely unappreciated is that, while new starts, building permit issuance, new-, & existing home-, sales, after cratering in 2008, resumed a moderate growth path during the next four years, only to basically flatten out in 2013.

*Consumers are fickle & today's 'must' product can quickly become tomorrow's discarded 'has been'. Facebook is losing ground in Europe among young people as it becomes more entrenched with older people - in part because the latter want to use it to monitor their offspring's Facebook entries, the very reasons the kids are voting with their feet. The threshold to entry into their industry is low (many of these types of firms had their start in someone's bedroom or garage, & their initial funding from a credit card company; so starting up a competitor to 'eat the lunch' of a bigger fish is easy.*

In the UK the inflation rate in January was 1.9% YoY, marginally below the expected-, & December's-, 2%, and the first time since November 2009 was below the BoE's 2% target rate.

In Germany in February the ZEW index of investor & analyst expectations came in at 55.7 while 61.5 had been expected (marginally below January's 61.7 which, in turn had been marginally below December's record 62.0).

Low prices in Greece have boosted tourism in that country to the point where, for the first time since these data started being kept in 1948, Greece could report a current account surplus.

Last November the Standard Chartered Bank put out a report The Super-Cycle Lives that postulated that, while today the emerging market economies account for 38% of global GDP, by 2030 that will be 63% - *a trend most Americans either aren't aware of or seem to willfully ignore.*

While there has been a flight of 'hot money' recently out of the emerging economies' stock markets, in the 14-year period ended last month the S&P 500 was up 22%, while China's had risen 50%, Brazil's 200% & India's 280% - *while in the stock market past performance is no guarantee of future performance, in this case the discrepancy is too big to ignore.*

While on the subject of India, few people realize how fast its population has been catching up with China's. In 2001 it had 1.03BN people & ten years later 1.21BN, a 17.5% increase, vs. China's 128.1BN, 134.1BN & 4.6% respectively. While it may only be 10<sup>th</sup> in the global nominal GDP 'league table', it's third, after the US & China, on a PPP (purchasing power parity) basis. And most importantly in terms of its future GDP growth potential, India's "youth dependency ratio" (the share of its population 15 years of age or less that is a drag on current-, but a boost to future-, GDP growth) is 49.1, almost twice China's 26.3; so it's not unreasonable to expect double digit GDP trend growth in India in the foreseeable future, like Japan in the 1960's &, more recently, China (while the latter has reached a stage of development where the future 'trend growth rate' will be closer to 5% than 10%). And the likelihood of reaching that stage may be greater if, as the polls & recent local elections suggest, the Congress Party-led government were to be defeated in the April 16<sup>th</sup>-May 13<sup>th</sup> national election. For its main opponent, a BJP party that, despite being an avowedly 'Hindu Nationalist' party, has measurable support in India's 175MM-strong Muslim community is seen as more business-friendly. And, while Rahul Gandhi, the Congress Party's 'front man', is turning few heads, the BJP's candidate for Prime Minister, (*the low caste*) Narendra Modi, the long-time Prime Minister of Gujarat state, is seen to have been the driving force behind its recent strong economic growth-, & anti-corruption-, record (*although his critics say this has benefitted the rich, rather than the population as a whole*). And the BJP has some slogans that resonate with the hoi polloi, incl. "Vibrant Gujarat", & it's a "conflict between dynasty and democracy" & about "ending the existing cult of corruption".

Included below is a NYT "peg" about the US' dominant role in the global scientific community eroding, just as its dominant role in global GDP has gone the way of the dodo bird & the

curtains are closing on the US dollar's pivotal role in the global monetary system. Following are two tables ranking the five most 'patent-prolific' countries in the world in 2011 & 2008 :

|             | Patents<br>applied<br>for (1) | Patents<br>granted<br>(2) | (2):(1)<br>% |
|-------------|-------------------------------|---------------------------|--------------|
| <u>2011</u> |                               |                           |              |
| Japan       | 472,417                       | 238,323                   | 50           |
| China       | 435,608                       | 172,113                   | 40           |
| USA         | 432,298                       | 224,505                   | 52           |
| South Korea | 187,454                       | 94,720                    | 51           |
| Germany     | 172,764                       | 11,719                    | 7            |
| <u>2008</u> |                               |                           |              |
| Japan       | 502,054                       | 239,338                   | 48           |
| USA         | 400,769                       | 146,871                   | 37           |
| China       | 203,481                       | 48,814                    | 24           |
| South Korea | 172,342                       | 79,652                    | 46           |
| Germany     | 135,748                       | 53,752                    | 40           |

These numbers are country-of-origin based (i.e. if a Frenchman applies for a patent in Germany, France, not Germany, gets the credit). And, while they may not tell the entire science & technology story, they are likely a decent proxy. Also they are also not quite up to date & represent only two points in time, not enough for establishing a trend. Still, they show that :

- in the latest year the US had lost its second place standing in the number of patents applied for although it retained it with regards to the number granted;
- while its three year growth in the number of patents applied for & granted was by no means shabby (at 7.9% & 52.9% respectively), it dwindled into insignificance compared to China's 114.1% and 252.6% respectively (albeit from a much smaller base);
- China did not make a great leap forward in its number of patent applications but, more importantly, in the ratio of patents granted; and
- South Korea, with less than one-sixth the US population, had about 40% of its number of patent applications. & had a consistently high number of them granted.

In 2005 the Venezuelan central bank created a "Scarcity Index" (*which seems rather a dumb idea, although Chavez may have seen it as a way to put pressure on, and/or measure the "cooperation" of, retailers*). Be that as it may, at last report it stood at 28%, i.e. more than one out of four basic consumer goods wasn't on store shelves. In a similar vein, the Venezuelan Pharmaceutical Association, which represents 5,700 drug dispensing establishments, reported recently that 40% of the medicine used in the country were out of stock. The basic reason for this is that Venezuela imports over two-thirds of its consumer goods & foreign currency is in short supply. Traditionally it paid for them from the proceeds of its oil exports, but since the late Hugo Chavez came to power in 1999, oil production has declined by one third & recently its price has been flat, the country's population has grown by 20% & the purchasing power of its higher-propensity-to-consume lower social strata increased by the generous welfare programs that bought him widespread support &, last but not least, in the last years of his regime Chavez pre-empted his country's current ability to import consumer goods by borrowing \$40BN from China, to be serviced & repaid by future shipments of oil. Last year the country's central bank, that doles out foreign currency to importers, limited its supply thereof to US\$23.2BN, and at last report its remaining FX reserves stood at a 10-year low US\$21BN - *connect the dots & the*

*almost inescapable conclusion is that President Maduro, Chavez's hand-picked successor, will not survive much longer.*

Brazil appears in deep doodoo with its preparations for the FIFA World Cup four months hence. In early December FIFA reported that three of the stadiums built or refurbished to host events, those at Cuiabá, Curitiba & Sao Paulo (where the opening ceremonies will take place on June 12<sup>th</sup>, & the opening match will be played) will miss their December 31<sup>st</sup> completion date (even though FIFA's Communications & Public Affairs had earlier pontificated that it was important "Having the World Cup's stadiums ready in December so there is enough time to get the facilities ready for the tournament"). And now an 18-page report *recently made public* by the Mato Grosso Public Ministry has warned that the fire last October 25<sup>th</sup> in the Cuiabá Stadium had resulted in "structural damage" that could "compromise the overall stability of the construction" (although local-, & FIFA-, officials continue to exist that the damage was minor) - *the latest is that it may prove necessary to reschedule the matches slated for Cuiabá to other venues (which would give both Venezuela & FIFA a black eye). With the benefit of hindsight it now seems the FIFA requirement may be too onerous that a country must have at least eight venues to be considered for hosting the Cup (& that Brazil may have compounded that by raising that number to twelve, scattered all over the country<sup>6</sup>). And FIFA must also bear a lot of the blame for having agreed to Brazil's grandiose plans & then not having monitored their implementation more pro-actively. Be that as it may, moving the event from Brazil is not said to be an option; so Brazil & FIFA will have to somehow 'muddle through'.*

**GLEANINGS II - 550**  
**Thursday February 20<sup>th</sup>, 2014**

**U.S. DOMINANCE IN SCIENCE FACES ASIAN CHALLENGE (NYT, Annie Lowrey)**

- A report earlier this month by the National Science Board (NSB) warns the US' predominance in science & technology is fading. While it underscores that it remains a powerhouse in the knowledge-, & technology-, intensive industries that account for 40% of its GDP (more than any other developed country), it suggests underinvestment in R&D, in part due to federal cutbacks, may result in a less dominant, less productive US economy in the future in the face of increasingly competitive emerging economies. According to Dan E. Arvizu, CEO of the National Renewable Energy Laboratory & Chairman of the NSB, "Emerging economies understand the role of science and innovation play in the global market place and in economic competitiveness, and have increasingly placed a priority on building their capacity in science and technology."
- While the US remains the single biggest investor in R&D, spending US\$429BN/year, compared to China's US\$208BN & Japan's US\$147BN, its share of total global R&D spending has declined sharply from 37% a decade ago to 30% today (with the comparable numbers for Europe being 26% & 20%, that of Asian countries 25% & 34%, & China's 2% & 15%. The report also notes China now does about as much high-tech manufacturing as the US, that the US is falling behind in clean energy R&D (spending only US\$29BN, half of China's US\$60BN & one-third of the total for the emerging economies), and that many countries now spend a larger-, & faster-growing-, share of their GDP on research. And a recent survey by the American Society for Biochemistry

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<sup>6</sup> It might have been far more cost-effective, & possibly more politically advantageous, if the Brazilian government had spent some of the money it has now spent on building and/or refurbishing structures on bringing people at a smaller number of venues instead.

and Molecular Biology found 85% of responding scientists saying reduced federal spending had “allowed our global competitors to catch up to, and even surpass, the US in scientific research” & that 25% were considering leaving for the sake of their careers.

*The Chinese economy is deemed to need more consumption & less personal savings, while that of the US may need the reverse : less consumption & more savings/(productive) investment*

### **ONE NATION UNDER GUARD (NYT, Samuel Bowles).**

- In America we now employ over 1+M security guards, as many as high school teachers, twice the number as in 1980 (when the population, however, was 27½% smaller). And our total 5.2MM “guard labour force” (incl. the armed forces, the police, prison officials & the lot) far exceeds the number of our teachers of all kinds. And (*not surprisingly?*) there appears to be a strong correlation on a state-by-state, country-by-country basis between the degree of inequality in its society & the size of its guard labour force; thus using the Gini Coefficient as a measure of income (in)equality<sup>7</sup>, Sweden had a Gini of 0.24 & 50 people per 10,000 in its guard labour force, Germany 0.28 & 85, & the US 0.37 & 200 (*the latter a number likely warped somewhat by the size of its Armed Forces*).

*As Michael Hood, an economist at Barclays puts it, “There is a large population standing around in blazers rather than engaging in more productive activities.” And the same can of course be said about other categories of workers (incl. bankers, public servants & politicians) whose real value-added contribution to the common good often may seem minimal, if not actually negative.*

### **VOLKSWAGEN VOTE IS DEFEAT FOR LABOR IN SOUTH (NYT, Steven Greenhouse)**

- On Friday February 14<sup>th</sup> the 1,600 workers at the Volkswagen plant in Chattanooga, Tenn. voted 712-626 against joining the UAW. This had been an uphill fight from the get-go in this traditionally anti-union state, with politicians from the governor down actively opposing the idea but Volkswagen’s position being on the positive side of neutral. For it has unions in almost all of its 105 plants around the world & hoped that, with a union in place, it could create a German-style workers’ council, a committee of managers & workers that, as in most of its plants, develops policies on issues like work schedules & vacations, For it holds such councils to be crucial to morale, cooperation & productivity.

*While, if the UAW had been successful, it would have been a big breakthrough for it, failing may not have been all that big an issue. Volkswagen may be deluded in thinking a workers’ council could work in a unionized setting in America; for on the shop floor the ‘Us & Them’ attitude is entrenched & the union leadership would likely see it as detrimental to its authority.*

### **DISPUTE OVER THE FUTURE OF BASIC RESEARCH IN CANADA (NYT, Karen Birchard)**

- For 97 years the Canada Research Council had a heavy focus on basic research (counting things like the pacemaker & the space shuttle’s robotic arm among its successes). But last year the Harper government changed its mandate to have it provide more one-stop “concierge services”, bolster the traditionally weak technological innovation & create (*more?*) high quality jobs. The resultant dispute over the future of

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For which 0 represents total equality & 1.0 total inequality (i.e. one person has all the income and everybody else none at all), both of which are equally unrealistic.

Canada's capacity to carry out fundamental research has seen university scientists', & academic-, organizations being uncharacteristically vocal about the government's preference for commercially applicable science.

- This is but the latest in a series of seemingly anti-science policy changes. Thus the Harper government has closed research libraries, shut down research facilities, limited the extent to which government scientists can speak publicly about their work (*particularly if it didn't fit the government's 'party line'*), & shifted the \$1BN annual funding program of the Natural Sciences and Engineering Research Council of Canada from "discovery" to "innovation" grants : thus, while the latter in 2012, the latest year for which data are available, had risen to 31.4% of total disbursements from 25.3% a decade earlier, the reverse held true for the former (which declined from 50.1% to 38.4%).

*While no doubt some pointy-headed academics are upset at their punchbowl being snatched away, the perceived 'anti-science' bias the Harper government has created for itself has enabled them to turn this mole hill into a mountain. In the end it is a matter of getting the balance right & for every loser there will be a winner. But three things stand out. Given the corporate obsession with its quarterly bottom line, its discovery research will "suck the hind tit"<sup>8</sup> in its spending allocations (creating a need for government-funded "discovery" research like never before). Secondly, over time "discovery" research is critical if the "innovation" kind is to flourish. And finally, what Canada has historically lacked has not been innovation but a capability/willingness to fund the conversion of innovative ideas into commercial-, products. So there may be a better way to promote the Harper government's objective that doesn't risk "throwing the baby out with the bathwater."*

#### **CANADA'S ARCTIC ICE CAP MELTING RAPIDLY SINCE 2005** **(Canada.com, Jason Feteke)**

- According to an internal memo to the Deputy Minister of Natural Resources Canada obtained under the Freedom of Information Act, data gathered by glacier monitoring equipment at four sites on ice caps in the High Arctic show their shrinkage, that started in the 1980's, "has accelerated rapidly since 2005" : the Devon has lost 1.6% of its ice mass, the Meighen 11% & the Melville 13%, one-third or more of it since 2005. This is consistent with other recent international assessments, incl. that by the National Sun and Ice Data Centre at the University of Colorado, Boulder (that reported that the 2013 summer Arctic ice had been over 1MM square kilometres, say 10%, below the 30 year average to 2010). And the Intergovernmental Panel on Climate Change in a report last fall approved by most governments in the world, incl. Canada's, concluded human activity, largely through GHG emissions from the use of fossil fuels, deforestation & other land use changes, had "very likely contributed to the Arctic sea ice loss since 1979."
- Canada signed on to the 2009 Copenhagen Accord, thereby committing itself to reduce GHG emissions by 2020 by 17% below its 2005 levels. Nevertheless, Natural Resources Canada's Emissions trends Report released last fall noted Canada will slowly drift away from that target as the economy grows unless more is done. And while the Harper government since coming to power has repeatedly promised to introduce GHG regulations for the oil & gas industry, it has *equally* repeatedly delayed their introduction.

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A colourful expression based on the observation that where in the animal world females have litters, rather than singles or twins, and therefore have multiple, rather than twin, 'spigots', the rearmost ones produce the least milk & hence the 'runt' of the litter.

Meanwhile oilsands' GHG emissions increased by 62% between 2005 & 2011 and on present trend will be triple their 2005 level by 2020.

*Be it that the Harper-, & before it the Chrétien & Martin-, governments' GHG emission control records have been equally abysmal & gutless, the GHG emission blame game is seriously flawed. For it is like corruption; just as there would be fewer corruption payees if there were fewer corruption payors, there would be less GHG generated if there were no fossil fuel burners (something many environmental activists conveniently overlook as they fly and/or drive hither & yon to promote their cause (thus it always was hilarious, if it were not so sad that the ranch home of the 'environmental Neanderthal Bush 43 was quite environmentally-friendly while that of environmental guru Al Gore was anything but) - if the oil companies could just somehow shut down all of their downstream operations for a week, or maybe even two, to drive home the message to the environmental activists that fossil fuels are still a necessary evil & that the real challenge is not to eradicate but to minimize, & economize, the environmental impact from their production & use.*

#### **JAPAN ECONOMY GREW A LACKLUSTRE 1% IN OCT-DEC (AP, Elaine Kurtenbach)**

- In the Fourth Quarter of 2013 the Japanese economy grew by just 0.3% QoQ, less than half the rate expected as slower growth in China & other Asian markets (that cost it an estimated 0.5% growth) offset much of the effect of booming housing construction & private spending at home (the latter was up 18% YoY for the Quarter & 9% for the year as a whole). Preliminary data suggest that in 2013 the economy grew just 1.6%, only marginally faster than 2012's 1.4%. And it is expected the sales tax hike scheduled for April 1<sup>st</sup> will lead to pre-emptive buying that will boost the First Quarter's-, but depress the Second Quarter's, GDP growth rate (in a recent survey two-thirds of respondees indicated they planned to reduce their spending in the Second Quarter). On the more positive side for Prime Minister Abe, in 2013 the CPI rose, for the first time in five years, by 0.4%.

*Abenomics may not be working as well, or fast, as Prime Minister Abe & others hoped & expected.*

#### **TORONTO CHILD-PORN INVESTIGATION LEADS TO MAJOR POLITICAL SCANDALS IN GERMANY (G&M, Tu Thanh Ha)**

- In 2011 the Toronto Police shut down Toronto-based Azor Films & arrested its owner as part of Operation Spade, a massive child-porn investigation it made public only last November. According to German police, a month before that the then German Interior Minister in the pre-election-, & Agriculture Minister in the current, coalition-, government-, Minister Hans-Peter Friedrich, a senior member of Angela Merkel's *coalition* government, to ensure he wouldn't be proposed for a post, had informed the Chairman of the Social Democrat Party, as the post-election coalition talks were in full swing, that one of its rising stars, Sebastian Ebathy, had been targeted by Operations Spade (which may have led to the destruction of evidence). Mr. Friedrich resigned on February 14<sup>th</sup>.

*Regardless of who else in the SD party may have been involved in passing this information to Ebathy, it will lead to dissension in Ms. Merkel's almost brand-new, laboriously constructed "Grand Coalition". There are lots of twists in this situation. Ebathy was the SDP's home affairs critic, hence in the running for the post that Friedrich then held, & he is of (East) Indian descent.*



*Friedrich is not a member of Merkel's Christian Democratic (CD) Party but rather of the Christian Social Union Party, its Bavarian wing, & his fellow Bavarians are upset about his resignation (which, however, may have enhanced his status among many German voters). And the more conservative members of Ms. Merkel's party are baying for the blood of the SPD's Parliamentary Leader for having released this information to the media, thereby creating discord in the coalition.*

### **SNATCHING THE BATON (The Economist, Charlemagne)**

- The recent change of government in Italy was the result of a palace revolt within the left-of-centre Democratic Party (PD) that replaced *the 57 year-old* Enrico Letta with the *more leftist* Matteo Renzi, *the 39 year-old* Mayor of Florence, *a city of 375,000 in the Po Valley of Northern Italy, who promised more "radical reform"* & sees eye-to-eye with *the now all but wholly disgraced but still influential* Silvio Berlusconi on the need for a new electoral law & reform of the constitution, to make the country easier to govern. But the reality of life is that Renzi, like his predecessor, will need the support of his main coalition partner, the centre-right People of Freedom Party (NCD), an offshoot of Berlusconi's old party, that has a quite different view on a whole range of issues than the PD, and that, while Letta had a degree of rapport with its leader Angelino Alfano, the *much younger, and more direct, abrasive & ambitious* Mr. Renzi doesn't.

*And most importantly perhaps, the average Italian is not into pain or giving up his/her 'rights'.*