

**Chinese invading Canada?** - According to the Globe and Mail Canadian border guards last year seized \$13MM in undeclared cash from 792 Chinese people passing through Vancouver airport, Canada's second busiest, the total amount seized had doubled in each of the past three years (*thereby implying that in 2012 it had been just \$1.6MM*) & that \$323MM more had been declared by another 20,000 Chinese citizens (i.e. also about \$17,000 each) passing through. Finally, & most impressively, that "Experts say these hidden and declared sums of money, that dwarf the funds brought through the airport from other countries, were likely carried by some of the 922,000 people from China recently given 10-year temporary visas, which allow them to visit Canada for up to six months at a time" - *And since Man's ingenuity knows no bounds where money is concerned, it is likely also fair to say that this \$336MM was in all likelihood dwarfed in turn by the amount of money that came to Canada from China by other legal and/or nefarious means. Small wonder that the Vancouver real estate market has been 'on wheels' (although in August the number of detached houses, condos & townhomes sold was down 26%-, & that of the former 44%-, YoY to four year lows, for which the recently introduced 15% on foreign home buyers (that is said to have benefitted the Calgary market) is generally blamed).*

**Coking coal price on fire?** - On Tuesday September 6<sup>th</sup> it was US\$158.40, up 4½% on the day, 45% from three weeks earlier & 100% YTD - *this is due to China's coal output having been affected first by Beijing last April seeking to shrink its bloated coal mining sector by shortening miners' work week & recently by heavy rains that have disrupted mining & product movement in its northern coal fields.*

**Democrats fume at Trump's outreach to blacks** - On Saturday September 6<sup>th</sup> he visited the Great Faith Ministries *black* church in the Detroit neighbourhood in which former GOP hopeful Ben Carson had grown up (where he called for a new civil rights agenda that would include *greater* school choice) & the following Tuesday he attended a roundtable discussion with businessmen, elected officials & clergy in North Philadelphia where he heard stories about crime & bad schools - *while likely too little too late, this is nevertheless enraging Democrats afraid this campaigning on 'their turf' may cause black voters who have voted in record numbers for Obama to stay home.*

**The flow of Mexicans across the US border** - Trump may be behind the times in his view on illegal Mexican immigration. For according to the Washington-based Pew Research Centre in the years 2009-2014 1+MM Mexicans, incl. some stand-alones born in the US, *who as undocumented immigrants had limited educational-, & employment-, opportunities*, went South to Mexico, 15% more than the number of Mexicans coming North (*in part because during these years Mexico's per capita GDP grew at a 1.89% compound annual rate, 50% faster than the US' 1.26%?*). And increasingly those coming North are coming from Central American countries other than Mexico; thus in 2013 there were an estimated 3.2MM non-Mexican Central Americans in the US (up 56% at the start of this century), incl. many that weren't illegals in the strict sense of the word since their status was legalized under NACARA (the 1997 Nicaraguan Adjustment and Central American Relief Act) or were eligible for protection against deportation and/or had work permits having been granted temporary protected status under the 1990 Immigration Act which had been regularly renewed for the Hondurans & Nicaraguans until last July and for El Salvadoreans until earlier this month). And according to the Wall Street Journal in the decade ended in 2014, while the total number of immigrants from the largest three sources thereof (China, India & Mexico) had changed from a smidgen above-, to a smidgen below-, 400,000, its composition had changed drastically from roughly 80% Mexican, 13% Indian & 7% Chinese to a near equal three-way split, and their places of settlement had changed : while in 2005 no breakdown had been available for four states, six others had

experienced inflows of Chinese, one (New York) of Indians & the other 39 of Mexicans, in 2014  
18 states experienced inflows of Chinese & 14 of Indians

**GLEANINGS II - 675**  
**Thursday September 8<sup>th</sup>, 2016**

**THE FEDERAL RESERVE NEEDS NEW THINKING - its models are unreliable, its policies erratic, its guidance confusing, and it is politically vulnerable. (WSJ, Kevin Warsh)**

- In recent years monetary policy has been deeply flawed, as US GDP growth lagged prior recoveries, fell short of forecasts & recently deteriorated. Policy makers haven't been able to explain why their inflation readings have *consistently* fallen short of their targets<sup>1</sup>. And while many academics now want them raised from 2% to 4%, the Fed shouldn't take the bait; for while this would please Wall Street, it would undermine its commitment to a *coherent* policy framework & upset the hoi polloi *by targeting higher prices at a time household incomes are stagnating*. And wouldn't be reform, merely an attempt to distract *the hoi polloi's attention from the elite's* monetary, regulatory & fiscal bumbling.
- Two obstacles hinder robust reform : 'groupthink' in the economist 'guild' & the central bank's reluctance to cede its new powers. The former has pushed ill-considered new dogmas into the mainstream of monetary policy & the latter's medium-term policy objectives are at odds with its compulsion to keep asset prices up while its inflation objectives have proven more precise than its ability to measure their effectiveness & its output-gap models are wildly unreliable. It seeks to control interest rates & FX rates simultaneously, an *all but impossible task in a world* of freely flowing capital, and its "forward guidance", that promises low interest rates well into the future, offers ambiguity dressed up as clarity & expresses concern about income inequality as its policies promote it. Worst of all, group think is gathering adherence even as evidence of its success is hard to find & the guild is closing its mind at a time it should open it to new data sources, analytics, economic models & communication strategies.
- The second obstacle to real reform is no less challenging. Many guild members see central bankers as non-partisan, high-minded experts well suited to more power, not realizing central bank power is compatible with democracy only when its scope is limited, its track record strong, & its accountability assured. Meanwhile the Fed has suffered a loss of public support as concern has (*rightly?*) grown about the concentration of economic power in *the hands of a few non-elected officials with job security* in an *ivory tower* central bank that long after the financial crisis still holds trillions of dollars in assets that would otherwise have been in private hands, with its monetary policy seemingly focused on managing financial asset prices, most prominently those of equities, *to the benefit of the few, rather than the many*. Under Dodd-Frank the Fed has claimed a mantle of reform & now micro-manages the big banks & caps their rates of return, turning them into quasi-public utilities whose asset growth has paralleled that of their regulator (*letting more of them gain 'too big to fail' status without doing much to control unethical behaviour among them*), thus heightening the popular perception of an unfair, inequitable economic system. So, as the economy now appears closer to recession than resurgence, the Fed is poorly positioned to respond *to another crisis*.

*The writer is a Harvard-, Harvard Law-, Harvard Business School-, Stanford- & Morgan Stanley-alum who in 2002, at the tender age of 32, became Special Assistant for Economic Policy to*

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<sup>1</sup> But only by central banks' methodology that some people believe out of touch with reality.

*Bush 43 & Executive Secretary of the White House National Economic Committee, and in 2006 a Fed Governor who is said to have 'played a significant role' in its response to Financial Crisis & was its representative to the G-20), in 2009 was named by Fortune magazine as one of its '40 under 40' (of the most influential young people in business), in 2011 resigned as Fed Governor one-third of the way through a 12-year term, & now lectures at Stanford's School of Business & is a Distinguished Visiting Fellow at its Hoover Institution. And most significantly, given the drift of the article, he is a member<sup>2</sup> of the Washington-based G-30 Consultative Group on International Economic and Monetary Affairs<sup>3 4</sup>*

### **PERCENTAGE OF UNINSURED HISTORICALLY LOW (WSJ, Louise Radnofsky)**

- A federal survey conducted during the First Quarter found that only 8.3% of those interviewed (i.e. when prorated only 27.2MM Americans) were without health insurance coverage, down from 16% in 2010, the year Obama's Affordable Care Act was passed.

*But there are two problems. The percentage of those on the government's dime has gone up from 21% to 36% & that on the private health insurance sector's down from 70% to 63%. And last spring United Healthcare, the largest private healthcare insurer, & last month Aetna, announced they would quit offering coverage through the so-called 'healthcare exchanges' since it was costing them too much; for not enough healthier young people are participating (to help offset the cost of covering older people with greater healthcare needs).*

### **ISRAELI GROUP SEEKS REFERENDUM ON PALESTINIANS (Boston Globe)**

•An Israeli group calling itself Decision at 50<sup>5</sup>, made up of former Israeli politicians, security officials, artists & social activists<sup>6</sup>, sent a letter to Prime Minister Netanyahu on September 5<sup>th</sup> urging him to hold a national referendum on the future of the Palestinian Territories. For they believe that withdrawal from the occupied lands is essential for Israel's survival as a democracy with a solid Jewish majority (& *the homeland of the world's Jewry?*) & that the only alternatives are a "binational state" in which the Jews would be in a minority or one ruling over millions of disenfranchised Palestinians under apartheid-like conditions.

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<sup>2</sup> And at age 36, one of its youngest ever?

<sup>3</sup> Founded in 1978 by a British banker & economist at the request of the Rockefeller Foundation.

<sup>4</sup> Whose members include luminaries like Paul Volcker, former ECB President Jean-Claude Trichet, former Fed Chairman Ben Bernanke, current BoE -, and prior to that Bank of Canada-, Governor Mark Carney & former BoE Governor Mervin King, Jaime Caruna, General manager of the BIS & former Governor of Spain's central bank, ECB President Mario Draghi, former US Treasury Secretary Timothy Geithner, New York Fed President William Dudley, former Governor of France's central bank & ex-BIS Chairman Christian Noyer, Raghuram Rajan (until earlier this month Governor of the Reserve Bank of India & deemed one of the best central bankers around until he displeased Prime Minister Modi & was denied a second three-year term, Kenneth Rogoff, a Harvard prof, chess Grandmaster & Rajan's predecessor as IMF Chief Economist, former BoJ Governor Masaaki Shirakawa & Zhao Xiaochuan, the Governor of the People's Bank of China

<sup>5</sup> So named because on June 5<sup>th</sup> it will be 50 years since the onset of the 1967 Mideast War that resulted in Israel capturing & occupying the West Bank, Gaza & East Jerusalem.

<sup>6</sup> Incl. Ami Ayalon, a former head of Israel's domestic security agency Shin Beth, Gen. (Ret.) Amram Mitzna & Gilead Sher, former Prime Minister Ehud Barak's peace negotiator

*This would be a sort of 'pre-emptive strike'. For support among Palestinians for a 'two-state solution' has long been dwindling & now is largely limited to the older generation (in a population of which 55% is in the 0-24 year age bracket). And between the Jordan River & Mediterranean the Jews have been losing the 'battle of the cradle'; for between 1990 & 2008 their numbers there grew by 50% to 5.6MM while that of Arabs doubled to 6.3MM, and during the same period the Jewish share of Israel's population declined from 82% to 78% (& has since gone to 75%).*

### **HANJIN BANKRUPTCY FILING CAUSES GLOBAL SHIPPING CRISIS, RETAIL FEARS (AP)**

- Its August 31<sup>st</sup> bankruptcy protection filing has thrown many ports & retailers into a tizzy. The former since, with Hanjin's assets frozen, its 200 or so ships, *one-third of them container carriers* (it is the world's seventh-largest container ship operator & accounts for 8% of the cross-Pacific trade volume to the US), are unable to unload or take on new cargo and those at sea aren't allowed to enter ports or, if already in port, to leave. And the latter since the timely arrival of fall fashion clothing or Christmas merchandise is now uncertain; so the US National Retail Federation, the world's largest trade association, has written Commerce Secretary Penny Pritzker to urge her to work with South Korea's government, ports & anyone else to prevent any disruption *of the goods flow*.

*Hanjin's container fleet accounts for the movement of 100MM tons of freight annually, with 14MM tons currently in limbo. This will cause ripples across the goods movement-, & financial-, world. The former because this affects one-seventh of all global trade & the latter because of the impact on the owners of the two-thirds of its vessels it leases rather than owns. While the company has been losing money for years, its situation was worsened by the past two years' two-thirds drop in the price paid to move containers from Asia to the US West Coast, brought by a massive industry-wide shipbuilding/capacity increase binge at the very time global trade growth was moderating (the same reason Denmark's Maersk Line that operates over 600 vessels, incl. the world's largest fleet of container ships, & accounts for 18% of all world trade moved by container reported a 90% YoY decline in its Second Quarter net profit). And while Hanjin's parent company has now hawked some assets to raise US\$90MM to help Hanjin Shipping in its hour of need, its net effect may be little more than that of peeing on a hot plate.*

### **HONGKONG ELECTIONS : ANTI-BEIJING GAIN FOOTHOLD IN POWER** (The Guardian, Tom Phillips in Beijing & Eric Cheung in Hongkong)

- Two years after tens of thousands of young people filled Hong Kong's streets to demand political change, in the September 4<sup>th</sup> elections for its 70-member Legislative Council (Legco) four radical young activists, who call for more political autonomy or outright independence from China, gained seats after a record 2.2MM people went to the polls<sup>7</sup>. According to 23 year-old Nathan Law, *a former Secretary-General of the HKFS (Hong Kong Federation of Students)*, who got over 50,000 votes & a seat running on the centre-left, pro-democracy Demosisto Party ticket<sup>8</sup>, "This was absolutely unexpected - nobody imagined this could happen. Every day and night, our team used hard work and sweat to turn defeat into victory" and 30 year-old Sixtus "Baggio", an ex-president of the

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<sup>7</sup> With a 60% turnout, vs. 53% in the 2012 Legco elections, causing the polls to stay open until 0230 hrs on Monday September 5<sup>th</sup>.

<sup>8</sup> Founded last April 10<sup>th</sup>.

City University of Hong Kong Student Union (who got a seat running for the year-old Youngspiration party) said that growing numbers of young people want Hong Kong to break away from China after 2047 when the 50-year “one country, two systems” governance model expires (under which it has operated since the British left). And Prof. Sunny Shiu-Hing Lo of the Hong Kong Institute of Education noted “This election represents a generational change in the leadership in the pro-democracy movement” ... we expect Beijing to have some headaches. Beijing cannot assume it can adopt its old strategies like co-optation to deal with this new, *younger & more activist* generation of democrats inside the legislature and also outside”.

*While the four are expected “to be quite hardline and tough” when they take their seats on October 1<sup>st</sup>, that may not matter much. For the odds against them are even worse than the numbers suggest since only 40 of the Legco’s 70 seats were at stake in the election (the other 30 are stacked with mostly pro-Beijing types by special interest groups from business-, & social-, sectors). Beijing so far has largely acted with an “iron fist in a velvet glove” & is unlikely to take serious opposition lying down. And longer term a quote generally, but not necessarily correctly, attributed to Benjamin Disraeli, the two-time Conservative British Prime Minister in the latter 1800’s, postulates “If you are not a Liberal at 25, you have no heart; if you are not a Conservative at 35, you have no brain”.*

#### **EUROZONE ECONOMY LOSES STEAM AS SPENDING STALLS (WSJ, Paul Hannon)**

- The EU’s statistics agency reported on September 6<sup>th</sup> that its economy had grown more slowly in the First Half than previously estimated (& had lost still more momentum in the Third Quarter from a slowing Second Quarter when GDP had grown by 0.3% vs. 0.5% in the First, with the corresponding numbers being 0% & 0.4% for business investment and 0.2% & 0.6% for consumer-. & 0.1% vs. 0.6% for government-, spending.

*And the EU faces many challenges during the remaining four months of 2016 incl. the continued search for a government in Spain, the constitutional referendum in Italy & the potentially divisive rerun of Austria’s presidential election (that was originally held last May, but court ordered to be re-run on October 2<sup>nd</sup> after the far-right Freedom Party, that had narrowly lost it, successfully challenged the outcome, and now may have to be delayed further after it was found that the glue on the envelopes for mail-in postal votes wasn’t working as well as it should.*

#### **WARSAW BUYS PATRIOT MISSILE SYSTEM (WSJ, Martin M. Sobczyk)**

- On September 6<sup>th</sup> *Antoni Macierewicz*, Poland’s Defense Minister, signed an agreement with Raytheon Inc., for 8 Patriot missile defense systems (for delivery in late 2019). Poland’s northern border is with Russia’s heavily militarized Kaliningrad region (pre-1945 known as *Germany’s East Prussia*) & it is increasingly nervous about its security position, and more so since Russia seized Crimea & supported rebel forces in Eastern Ukraine, while Russia has been irritated by the US/NATO buildup in Central Europe.

*This won’t sit well with Putin who will use it to further promote the idea at home of a Western plot to demean Russia. Poland joined NATO in March 1999 & in July 2007 Russia’s then First Deputy Prime Minister *Sergei Ivanov*, who served in the KGB with Putin (but was recently fired as Chief of Staff in Putin’s Executive Office) warned that if US-controlled missile defense systems were deployed in Poland, nuclear weapons might be installed in Kaliningrad. And while*

since then plans have come & gone for installing missile defense systems there, in 2011 a radar system was installed there to monitor missile launches as far away as 6,000 kms.<sup>9</sup>

### **ANTI-IMMIGRANT AfD PARTY TROUNCES MERKEL'S CHRISTIAN DEMOCRATS IN HER HOME STATE (WSJ, Anton Troianovski)**

- On Sunday September 4<sup>th</sup>, as she was in China for the 2016 G-20 Summit *where President Xi (supposedly) agreed to cooperate more closely with his country's trading partners on its steel exports, after telling them "the global recovery lacks momentum ... we need to do more to unlock the potential for medium and long-term growth"*, state elections were held in her 1.6MM inhabitant home state of Mecklenburg-West Pomerania<sup>10</sup>. Her party's 19% voter support was down 2% & it lost 3 of its 23 seats while the *state's ruling Social Democratic party* got 30.3% & went from 30 to 36 seats *in the 90 seat state Parliament*. But what really made the news was that the three year-old AfD (Alternative for Germany) party<sup>11</sup>, riding a wave of public discontent with her refugee policy, got 21.4% & went from 0 to 21 seats, making this the 9<sup>th</sup> of Germany's 16 states where it has seats. This spells trouble for her in next year's national elections; for the exit polls showed the AfD is attracting many previous non-voters. And while she has unveiled initiatives to try & stop the flow of migrants & to convince Germans she is keeping them safe, and the number of newcomers is well down YoY, July's two terrorist attacks by asylum seekers have rekindled public security concerns & caused her approval rating to slide to a 45% five-year low, *from 68% a year ago*.

*Part of AfD's growing popularity is also due to the growing unpopularity of the traditional parties.*

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### **UNDECIDEDS ARE DIFFERENT NOW (WSJ, Aaron Zitner & Michell Hackman)**

- A bloc of Republican-leaning voters, most of whom have strongly negative views of both, is declining to back either major party candidate, raising the possibility of them voting for a third party candidate or not voting at all. While in other years the undecideds often had little attachment to either party or interest in the election process, and below average incomes & education, this year the undecided pool includes far more upper income-, & GOP-leaning-, voters from the urban & metropolitan areas that often determine the outcome in a state. According to WSJ/NBC polls 48% of them say that, while they back neither major party's candidate, they want Congress to *continue to* be controlled by the Republicans, a far larger share than in 2012 & more than half again as much as the share that want it to be controlled by the Democrats. And Republican pollster Bill McInturff, who directs the WSJ/NBC polling with Democrat Fred Yang, says "They are not ... less-engaged, weak partisan people ... They're better educated people who lean

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<sup>9</sup> Barcelona is 2003 kms distant, and New York, Anchorage & Beijing just outside that range.

<sup>10</sup> On the Baltic Sea 100+ kms North of Berlin in the former East Germany & the very Northeastern corner of today's German Republic.

<sup>11</sup> Whose leader, 40 year-old Frauke Petry, in July 2015 replaced the co-founders in a shift in policy focus from economics to refugees, last February made the headlines when she said refugees should be shot at the border (which she denied saying until proven wrong by a recording).

Republican but don't like Trump and have zero use for Hillary Clinton ... they're sort of paralyzed and frozen right now." And although the latest CNN/ORC poll found some Republican holdouts are beginning to move to support Trump, with 83% of registered GOP voters now backing him, vs. 78% in late July, there seems to be little movement in the share of voters who pick neither Trump or Clinton. And more generally speaking, of the 13% undecided voters (up from 8% in 2012), 79% have a negative view of **both** Trump & Clinton, 48% want a GOP-, & 29% a Democrat-, controlled Congress, 33% are white & have a college degree (vs. 23% in 2012), 52% live in the suburbs, 34% are urban & 12% rural while in 2012 25% wanted a GOP-, & 30% a Democratic-, controlled Congress, 44% were white & had no college degree, and the suburban/urban/rural split was 43%, 27% & 30%.

*A lot may, can, & likely will, change in the next 47 days, and in recent years voters have frequently defied the pollsters' prognostications.*

### **IN PENNSYLVANIA BOOMERS SEE THE AMERICAN DREAM SLIPPING AWAY** **(Boston Globe, Matt Viser)**

- Back in 1976 students at their Butler, Pa. high school graduation were told they had "almost unlimited opportunities". But recent interviews with a dozen of them revealed that now, at age 58, they approach their 'golden years' with bitterness, deprived of what their parents could count on, a comfortable debt-free retirement, possibly in a warmer place. And while they partially blame themselves for not putting more money aside sooner, they feel abandoned by leaders seemingly unable to understand their plight or caring enough to try & help. Thus Rick Barnett who then had been on a track team that won all but one of its meets, thinks the government spends-, & the debt has grown-, and health care costs-, too much & gobbles up money that could be saved for retirement. He feels Trump is the candidate who doesn't talk like the politicians he has to come to dislike & that while he may say embarrassing things & be a risky choice, he's better than the alternative "I'd be more inclined to give somebody I don't know a chance than somebody who has proven to be part of a machine ... I don't like and don't agree with." Bob Emigh, his jewelry store now, after years downtown, in a strip mall between a Dunkin' Donuts & a Caesar's Pizza, says he will likely never retire since he can't imagine having enough to do so *on his own* & doesn't trust the government to live up to its Social Security promises, and sees "the country deteriorating from what it was then." And Mike Linnon, who has bounced from job to job & now does 14-hour shifts driving a tractor-trailer along the East Coast says "Our society is breaking up. Just like Rome did ... These idiots are throwing it all away. Something has to be fixed ... He (*i.e. Trump*) may say something stupid, but who cares ... We need someone who will ... kick butt ... We just need hope." And he talks about the grit & determination of his father's generation that experienced both war & economic hardships<sup>12</sup>, and came out the stronger for it in a way he doesn't see today.
- According to a recent survey by the Center for a Secure Retirement<sup>13</sup>, nearly 70% of middle income Baby Boomers don't believe, or know, whether they have enough money

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<sup>12</sup> In this he may be deluding himself; for it was his grandfather who endured both war & economic hardship while his father's generation that sowed the seeds for the mess the country is now in.

<sup>13</sup> Not necessarily the most unbiased source, since it is part of the Bankers Life *insurance company* (which in turn is a subsidiary of the Carmel, Indiana-based CNO Financial Group), although it was recently named one of Forbes' Best Mid-Sized Employers.

to live comfortably to age 85, 80% still has debt & nearly 25% a mortgage with as much as 20 years left on it. And Alicia Munnell, the Director of Boston College's Center for Retirement Research, who oversees its National Retirement Risk Index (that measures the economic prospects of retirees), says that while in 1989 30% of Americans were at risk of falling short of sustaining their standard of living in retirement, by 2013 this had risen to 52% (in part due to their greater longevity, rising healthcare costs, the legacy of the housing crisis & a lesser incidence of employer pension arrangements<sup>14</sup>, and in recent years lower income growth & returns on whatever savings they may have?).

*This is part, but only part, of the deep & broad vein of voter discontent reaching surprisingly far up the social-, educational-, & income ladder that both Trump & Sanders tapped into & that is the unpredictable & all but unique, in British slang, potential 'bugger factor' in this election - Pennsylvania accounts for 20 of the 538 Electoral College 'delegates', has 'gone Democrat' in every presidential election since 1992 [in 2012 Obama beat Romney 52.0 - 46.6 while the latest poll gave Clinton a 5 point (48-43) edge, down from 6.2 in the latest five poll running average (which, since it is one of the 48 'winner take all' states, still leaves Trump with a gargantuan task to catch up].*

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Thus while in 1983 62% of workers had an employer-sponsored pension & 12% a 401(k) plan, today those numbers have all but reversed to 17% & 71%)