

**GLEANINGS II - 848**  
**Thursday August 20<sup>th</sup>, 2020**

**China's long-awaited new Budget Law (governing the Provinces' budget making) made public** - On Thursday August 20<sup>th</sup> the State Council finally, after five years of dithering, released it in its final form. The big difference from that original proposed in 2015 is that it imposes far fewer limits on the Provincial Governors' fiscal decision making - *A sign that, despite Xi's much ballyhooed centralizing endeavors, they still have much leverage in-, & over-, Beijing, his star status may be tarnishing & his President for Life ambition fraying at the edges?*

**China's Yangtze flooding** <sup>1</sup> - There have this spring & summer been unusually heavy rains, over twice the usual amount, in both the mountainous upper-, and relatively flat middle-, & lower Yangtze River reaches. This has caused some- & is threatening possibly serious further flooding in 12 provinces <sup>2</sup> that home to half of China's population and account for half its GDP & crop land.

**"Deep state of Satanist pedophiles in the US government"** - This claim by QAnon is gaining popularity among Trump's base. And when he this week was asked about it during a White House press briefing, his response was "I don't know much about the movement other than I understand that they like me very much, which I appreciate ... they are just some patriotic Americans concerned about the breakdown of law and order in cities around the country ." And then, when a reporter outlined the group's beliefs to him , he just shrugged – *Despite the FBI labeling Qanon as a "potential domestic terrorist threat", for Trump being liked' is the be all & end all.*

**Jackson Hole Conference** - Since 1982 the Kansas City Federal Reserve has, each year in late August, hosted a two-day conference at the Jackson Lake Lodge in the Grand Teton National Park in Northwestern Wyoming. Since then it has morphed into **the** place to be in late August for all the world's central bankers, Fed officials, academics & a few private sector economists. But this year, on August 27<sup>th</sup> & 28<sup>th</sup> & entitled "Navigating the Decade Ahead : Implications for Monetary Policy" <sup>3</sup>, it will be virtual & online - *It got its start in 1978 as a Kansas Fed-sponsored conference focused on agriculture, as befitted a state in whose economy it played a bigger role than most. But in 1982 Roger Guffey, the then Kansas Fed Governor, dreamed bigger of it & to that end needed a 'star attendee'. At that time there was no greater star on the economic/financial firmament than the 6'6" tall Paul Volcker who, named Fed Chair in 1979 by President Carter <sup>4</sup>, with a mandate to 'wrestle inflation to the ground, had succeeded in doing so, halving it from 13.50% in 1980 to 6.16% in 1982 & to 3.21% in 1983, albeit at the cost of the Prime Rate hitting 12.5% & the Fed Fund Rate 20.0% &, in Canada, the 5-year home mortgage rate 22%. And Volcker was a fly-fishing fanatic & there were few places in the world where that was better than*

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<sup>1</sup> It is Asia's longest river & China's most important waterway with some 175 cities near its banks., and the world's sixth largest with an average water discharge volume of 30,166 cms (cubic meters per second). While a mere pigmy in that respect compared to the Amazon's 209,000 cms, its volume is a multiple of that of other well-known rivers like North America's St. Lawrence & Mississippi (18,000 each), Russia's Volga (8,060), Eastern Europe's Danube (7,130 ) & Western Europe's Rhine (2,900)

<sup>2</sup> Anhui, Chonquing, Fujian, Guangdong, Guanxi, Guizhou, Hubei, Hunan, Jiangxi, Sichuan, Yunnan & Zhejiang

<sup>3</sup> One advantage thereof being that it supposedly will be livestreamed.

<sup>4</sup> And served as such until 1987, i.e. during most of the Reagan years and in 2009, at age 81, was called back in harness to chair Obama's Economic Recovery Advisory Board..

*in the Grand Teton National Park; so Guffey invited Volcker to his 1982 conference after moving its venue to the Jackson Lake Lodge, and he accepted. And 'the rest is history'.*

**Jared Kushner on Fared Zakaria's August 23<sup>rd</sup> GPS show on CNN** - Not giving Zakaria much opportunity to get a word in edgewise, he in a rapid fire manner among others :

- said the DNC virtual convention had a "Dark Vision for America" while next week's RNC counterpart would have a "Hopeful Vision for America";
- pontificated "we are substantially better positioned than we were four years ago ... *and* "polls were moving big in our favor in the last month ... & the economy is rushing back";
- called all studies that had found no evidence of mail vote fraud "garbage";
- insisted that, *despite the Senate Intelligence Committee's Volume 5 report*, there had not been "any evidence" of Russian interference in the 2016 election;
- opined "the President wants a fair election"; and
- referred to the UAE as a "tremendous military partner" (*a country of 10MM people, 64,000 total armed forces personnel & a navy of nine corvettes, whose withdrawal from the Yemen War has weakened the Saudi war effort there as well as the internationally recognized government of President Abed Abbo Mansour Hadi (who a couple of weeks ago was kicked by the bad guys out of his presidential place in Aden).*

*Having sat through hundreds of presentations, I learnt long ago that any presenter who speaks that fast is doing so deliberately to give his audience no chance to think about what he/she just said. And when Zakaria asked him about his recent UAE-Israel diplomatic deal, he raised in my mind a question that has been there for a week, namely how the commissions on the concomitant sale of Lockheed Martin F-35 US\$100MM a copy, "multi-role combat aircraft" will find their way into the pockets of Messrs. Trump & Kushner (and possibly Netanyahu himself, & even Putin?).*

**OECD members' tax revenues as a % of GDP** - Not surprisingly, France heads the list with 46.1%, followed by a dozen or so other EU member countries with rates in excess of the OECD 34.5% average, after which come, among others, the UK with 33.5%, Canada 33.0%, Japan 31.4%, Australia 28.5%, South Korea 28.4% & the US 24.3% - *To keep things in perspective it's worth remembering that a) Japan has for years been funding as much as 40% of its government expenditures by borrowing rather than taxing, as a result of which it has now by far the world's highest government debt-to-GDP ratio (237%, vs Greece 177%, Italy 135%, US 107%, Belgium 99%, Canada 90%, France 89%, UK 81%, Germany 60% & the Netherlands' 49%), b) that in the US total healthcare costs are about 18% of GDP, only a portion of which is paid for by government while in Canada the rate is about half that & most of it on the government's tab (which accounts for a major part of the above differential in the US & Canada's tax revenue-to-GDP ratios) & c) that most of these percentages are likely to rise sharply in the years to come as, due to the coronavirus & aging populations, healthcare costs will rise at a far faster clip than GDP.*

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### **KASICH CAN'T HELP BIDEN WIN OVER *DISENCHANTED* REPUBLICANS BUT TRUMP CAN** (Brookings, John Hudak)

- At Monday night's August 17<sup>th</sup> Democrats' virtual convention's kickoff several Republican speakers held the stage (in an attempt to lure *disillusioned* Republican voters to cross the aisle in November). And while Trump insists his support within the GOP is 96%, this is contradicted in the June-August monthly polls by The Economist/YouGov that found his approval rating among Republicans to *consistently* hover in the 85% range & his disapproval rating between 14% & 15%.

- And it was easy for Trump to dismiss Kasich et. Al as not being ‘real Republicans’; for in 2016 he had beaten Kasich in the GOP Presidential primary & Meg Whitman had endorsed Hillary. But while many former Republicans now self-identify as Democrats or independents & there are anti-Trump entities such as the Lincoln Project <sup>6</sup> among long-time Republican stalwarts, the % of the public that in Gallup polls self-identifies as Republicans was 28% in both December 2016 & July 2020.
- For disheartened Republicans the choice is not between Joe Biden & Trump but between Biden & not voting. They know who Trump is & don’t care for what they see, and they want better policies, ideas & vision, and in Biden *some* see a promise of the type of leadership the nation needs but now lacks. They know they won’t always agree with Biden; so he must convince them he is the safer bet and lawmakers like Sens. Joe Manchin (D-WV) & Doug Jones (D-AL) <sup>7</sup>, and Reps. Joe Cunningham (D-SC) & Collin Peterson (D-MN) that they are moderates unlikely to give Biden a blank check for ultra-liberal policies.
- Appealing to moderate voters is key to Biden’s success. But that requires a balancing act between his party’s progressives (who weren’t impressed by the anti-abortion, union-busting Kasich) & *the restless* Republicans who abhor self-proclaimed socialists who support Medicare-for-All & the ‘Green New Deal’. So, while he must give both reasons to see him as the better path forward, there are limits to what he can do, & the Democrats have precious little time to fix the divisions within their party, energize their base, and communicate to independents they are the party with ideas they can support, & not just a “Not Trump” one ... And with Trump skeptics facing a choice between a tax-&-spend liberal, a print-&-spend conservative(???) or staying home and Kasich having failed to motivate *Republican-leaning* voters on Monday night, Trump is the sole individual who can push Biden-curious Republicans into voting Democratic (*as he may well be doing*).

*But it must be more than a bit worrisome to have an election outcome depend on one’s opponent shooting himself in the foot (although Trump may be doing a pretty good job of doing just that - The writer is the Deputy Director of Brookings’ Center for Effective Public Management and a Senior Fellow in Good Governance.*

### **THE IMPACT OF A BIDEN VICTORY (National Bank of Canada, Angelo Katsoras)**

- Back in February when the economy was still booming <sup>8</sup>, Trump’s re-election prospects looked solid. But since then the pandemic (& *the now nearly 180,000 lives lost?*), the

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<sup>6</sup> It was co-founded last December by George Conway, the husband of Kellyanne Conway, Counselor to President Trump. Their daughter, 15 year-old Claudia, recently ‘took a swipe’ at her mother when she retweeted a video of her mother with President Trump with the comment that “You know that life is not fair when you wake up to your mother speaking aside a homophobe and a rapist” and then on Monday August 17<sup>th</sup> added insult to injury by tweeting she would like to intern for Rep. Alexandria Ocasio Cortez.

<sup>7</sup> Who is trailing the former long time Auburn University football coach Tommy Tuberville, a strong Trump supporter, in the fight for Jeff Sessions’ one-time Senate seat in traditionally ‘red’ Alabama.

<sup>8</sup> I cannot help but question this choice of words; for while there was reasonable GDP until mid-February, growth in the First Quarter as a whole was a negative 5%, down from a ‘nothing -to-write home about’ 2.4% in 4Q/19.

*resultant* massive economic downturn and the nationwide (*Black Lives Matter?*<sup>9</sup>) protests have tilted the presidential race in Biden's favour. Thus, on *August 17<sup>th</sup>*, RealClearPolitics' Poll Average had him outpacing Trump 50.2-42.5 (which all but ensures the Democrats will keep control of the House but also may give them control of the Senate).

- Biden supports :
  - **raising corporate taxes** - from the current 21% to 28%, i.e halfway back to the 35% where they had been prior to Trump's 2017 "tax overhaul";
  - **imposing a 15% tax on corporate profits** - to reduce the scope for corporations to minimize their tax bills through 'accounting maneuvers';
  - **doubling the tax on profits earned by corporations' foreign subsidiaries** - from 10.5% to 21%;
  - **increasing the top individual income tax rate from 37 to 39.6%** - albeit for those making US\$400,000 or more;
  - **hiking the tax rate on capital gains & dividends** - to tax payers' personal income tax rates (albeit only for those with incomes in excess of US\$1MM);
  - **expanding Obamacare** - at a 10-year cost of US\$750BN;
  - **hitting drug companies with price controls** - to lower the price of prescription drugs (as Trump has already sought to achieve through Executive Orders); and
  - **introducing a US\$2TR, four-year 'green energy' plan** to :
    - move the economy to net-zero emissions by 2050;
    - require car makers to plan making only electric vehicles-, & eliminate the use of fossil fuels in electricity generation-, by 2035; and
    - require all building built after 2030 to be carbon-neutral;

While both parties have long supported higher infrastructure spending, they have never been able to agree on a bill; since the Republicans have a private sector bias & the Democrats want some degree of government involvement. But a Democrat sweep of the Presidency & both Houses of Congress would help to solve that problem.

- Biden wants to make college tuition-free for those from families with household incomes < US\$125,000, triple funding for schools in poor neighbourhoods (*with less scope for income from local taxes*) & forgive some student debt (*which will be wasted unless the education system becomes less top heavy administratively?*).
- Like Trump & Obama, Biden will use EOs to advance his agenda, continue the protectionist trend & the hard line vis a vis China, and during his Presidency there will be debt 'as far as the eye can see'. And while the Democrats may regain control of the Senate, they're unlikely to get the 60 seats needed to avoid filibusters' but as Obama did in 2015 to get Obamacare through & Trump in 2017 with his tax overhaul, he will use the "fast track loophole" known as "reconciliation" to pass fiscal measures with a simple majority.
- If Trump is to beat Biden in November: many, most or all of the following must happen :
  - the Democrats come across in the next 70-odd days as too far to the left;
  - the US successfully reopens schools & economic growth miraculously sky rockets;
  - a successful vaccine emerges just before the election;

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<sup>9</sup> Which must be about as racist a claim as imaginable; but an "All Lives Matter, including Black Ones & Those of Any Other Colour", would have been nowhere near as 'catchy'.

- Biden does badly in the debates against Trump, & Kamala against Pence (while he could trip on his latent stuttering problem, latter seems almost unimaginable); and
- polls will prove to have underestimated support for Trump because their interviewees didn't tell pollsters what they really thought.

*Of the five above-noted risks, the first may well be the most troublesome, since that will almost totally depend on Biden's ability to convince the likes of Sen. Elizabeth Warren & Rep. Alexandria Ocasio-Cortez to 'sit on their lips' for the 'common good' in the next 72 days.*

### **THE US AND CHINA DELAYED A REVIEW OF THE PHASE ONE TRADE DEAL SO BEIJING HAS TIME TO BUY MORE ... FROM AMERICA (Business Insider, Shalini Nagarjan)**

- China's Vice Premier Liu He (a confidant of President Xi & a friend since Beijing's No. 101 Middle School days) was to have had a video call with US Trade Representative Lighthizer & Treasury Secretary Mnuchin on Saturday August 15<sup>th</sup>, the six months' anniversary of the Phase One Trade deal. But it didn't materialize because of "conflicting schedules".

*The reason given is bogus. Under the deal China committed itself to buy far more agricultural products, energy & services from the US than it had in 2017. Pro-rated that translated into it having imported by now about US\$86.3BN from the US while, partly due to COVID-19, it had done only US\$40.2BN. To make matters worse, the yuan has weakened in the last couple of months almost back to its January 16<sup>th</sup> level and the US bilateral trade deficit with China, that by March had declined to US\$11.8BN from January's US\$26.1BN, by July was back up to US\$28.1BN, only down slightly from June's US\$28.4BN, even though China's July imports were up 12.2% YoY, from 11.2% in June & much better than the 10.0% expected. Fortunately, no matter what Trump may think, US officials seem not to attribute the recent weakening of the yuan to market intervention by the PBC & willing to cut Beijing 'some slack' to step up its purchases from the US; thus, according to White House Economic Adviser Larry Kudlow "the trade deal is going well". But, while on Thursday August 20<sup>th</sup> China's Ministry of Commerce spokesman Gao Feng in response to a journalist's question said "Both sides have agreed to hold a call in the near future", according to two US sources familiar with the situation no new date had been scheduled - i.e. Beijing seems interested in keeping the deal alive while the Americans seem content to let the growth of US exports to China, especially of agricultural products, accelerate on its own during the run-up to the election (which may be inevitable given the Yangtze flood situation?)*

### **WHAT THE POTENTIAL CRISIS ON THE YANGTZE MEANS FOR CHINA AND THE WORLD (Heritage Foundation, Dean Cheng)**

- As if 2020 had not been crisis-laden enough for the PRC (& President Xi personally), it now faces a potential catastrophe from heavy rainfalls. For this is raising concerns the resultant massive runoffs into the Yangtze River upstream from the Three Gorges Dam could overstress it. And Xinhua has already reported "displacement, seepage and deformation" in the dam structure (although 'still within its design parameters').
- The dam has a height of 185 meters & a width (at the base?) of 2,309 meters. Its 34 generators have a capacity of 22,500 MW (10x as much power as the Hoover Dam & 1.6% of China's total capacity). It also was to have a major flood control function. But, while the runoff into the 600 km-long reservoir behind the dam recently was a record 60,000 cubic meters per second (cmps) it was releasing just 38,000 cmps downstream (as a result of which the water level in the reservoir behind the dam had by August 5<sup>th</sup> risen to 164.18 meters, exceeding the 2012 record of 163.11 meters.

- In the seemingly impossible event of the dam failing, there would be huge loss of life in the *many big* cities downstream (*Wuhan alone has population of 11MM*) and massive physical damage to infrastructure & cropland in a country whose food production has already been 'stressed' by the African Swine Fever outbreak.

The challenges facing Beijing (that would reverberate globally) include the following :

- **Economic** - Business losing inventory & production, and the disruption of transportation links & supply chains;
- **Disease** - Since China's national healthcare-, & social services-, delivery systems in China are tied to the local government structure, many 'domestically displaced' persons would be deprived of access thereto; and
- **Political** - A potential challenge to President Xi's status.

*On Thursday August 20<sup>th</sup> the runoff into the Three Gorges Dam reservoir was 75,000 cubic meters per second, 23% in excess of the all-time record 61,000 cmps set just last month, causing the water level behind the dam to rise 2 meters overnight to 165.60 meters, i.e. 20 meters above the 'official warning level', forcing the authorities to increase the water discharge rate to 48,800 cmps, up 28% in two weeks – This could be a lose-lose predicament : releasing more water raises the risk of serious flooding downstream while by not doing so risks an even direr prospect, that of the dam giving way & creating a downstream flood of Biblical proportion as the pressure of the water in its 650 km/400 mile-long) reservoir creates a momentous economic & human crisis.*

### **ALEXEI NAVALNY ALLOWED TO FLY TO GERMANY (al-Jazeera)**

- Alexei Navalny (age 44) is a prominent Putin critic. He was in a coma (*on a ventilator after having suffered a stroke?*) in a hospital in Omsk (*a 1.5+MM inhabitant city in Siberia on the Kazakhstan border 2,200+ kms/nearly 1,400 miles East of Moscow*) after having fallen ill to the point of screaming in pain about one hour into a five hour flight from Tomsk to Moscow, causing the flight to be diverted to the nearest city with a decent hospital. This has been attributed to him drinking, on August 20<sup>th</sup> in the Tomsk airport, a cup of *allegedly poisoned* tea while waiting for his plane's departure <sup>10</sup>.
- His family quickly arranged with a German charity to have him moved to a top German medical facility & the next day a German plane with the needed medical staff & equipment arrived in Omsk for a planned transfer to Berlin on Saturday August 22<sup>nd</sup>. But the authorities dragged their feet & made it difficult for the family to access the German doctors, with the local doctors declaring him the victim of a 'metabolic disease caused by low blood sugar' & not fit to travel until, after the German doctors had been smuggled into the hospital via a back door & declared him fit to travel.
- His wife Yulia told reporters that hospital staff & men she said were 'law enforcement agents' had refused to let her speak to the German specialists and "I was forcibly kicked out in a rude manner... This is an appalling situation. They are not letting us take Alexei. We believe that clearly something is hidden from us". Late Friday (*local time, i.e. Thursday in North America*) the European Council of Human Rights said it was considering an appeal to the Russian government to allow him to be transferred (*to Germany*)

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<sup>10</sup> This came two years after the Novichok nerve agent attack in Salisbury, England on former Russian spy Sergei Skripal (age 67) & his 35 year-old daughter Yulia, by two Putin-backed GRU agents from which he & his daughter, however, did recover.

*According to Dr. Anastasia Vasilyeva, his personal physician, a very dangerous substance had been found in him, & to Kira Yarmish, his press secretary, that “the Kremlin has blocked his transfer.” And the plot thickened when the waiter in the Tomsk restaurant who had served him the tea miraculously disappeared without a trace. In the end, after initially telling journalists “We don’t believe the patient is suffering poisoning”, the Russian doctors gave permission to have him moved with the words “They take the risk upon themselves, we do not mind”. So on Saturday morning he was flown to Berlin where he is now (safely?) ensconced in Berlin’s Charité Hospital, one of the country’s supposedly ‘most research-intensive medical institutions’. At last report he was in “stable ... but in worrying condition” in the Charité hospital & speculation was growing that the dragging of feet in Omsk had been due to the Russians needing time to let all traces of a very short-lived poison to disappear from Navalny’s system.*