

GLEANINGS II - 889
Thursday July 15, 2021

Quote of the week – “We will have several more months of rapid inflation ... So I’m not saying that this is not a one month phenomenon. But I think over the medium term we’ll see inflation decline towards normal levels. But, of course, we have to keep a careful eye on it.” Janet Yellen on Thursday July 15 – *She is showing her background. For this is typical ‘central banker speak’ that is pure ‘gobbledygook’ intended to mislead. Thus while she is correct in saying the current inflationary surge is not “a one month phenomenon”(the YOY rate has gone from 0.6% in June of last year to 5.4% last month) (it has done so much faster & further than in the last inflation run-up when it went from 2.0% in August 2007 to 5.4% one year later. And the “medium term” is generally understood to be a period of between two & five years.*

Biden’s ‘minimum tax’ – On Saturday July 10 in Venice, the G-20 Ministers of Finance, issued a communique that “After many years of discussions and building on the progress made last year (???), we have achieved a historic agreement on a more stable and fairer international tax structure” (by agreeing on a global minimum corporate tax rate of 15%, to make the Amazons, Facebooks & Googles of this world pay at least pay some tax where they sell their services instead of where they have, *for tax ‘optimization reasons’* located their headquarters.

But ‘there is many a slip twixt the cup and the lip’¹ For it will require legislative action at the national level. Estonia, Hungary & Ireland, object to the idea & EU decisions require unanimity. It will require the US Senate to alter existing tax treaties with a two-thirds vote). Many Republicans oppose any ‘increase in taxes’ in principle & US lawmakers generally oppose ‘ceding taxing authority to other governments’. Business groups contend that ‘higher taxes threaten the economic recovery from the pandemic. And this measure will mostly benefit the US and disadvantage many small countries other than just Estonia, Ireland & Hungary, that have benefited from, the decades-long global corporate tax ‘race to the bottom’.

Economic ‘big picture’ – On Tuesday July 13 it was reported the June CPI was 5.4% YoY (the most in 13 years & up from 5% expected) & ‘core’ CPI (i.e. ex food & energy) 4.5% (up from 3.0% expected), and both up 0.9% MoM (vs. 0.5% expected). The following day the June PPI (Producer Price Index) came in at up 7.3% YoY (vs the 6.8% expected) & up 1% MoM, while ‘core’ PPI was up 0.5% to 5.5% YoY. While the number of new unemployment claims declined WoW by 26,000 to 360,000, the latter number had been revised upward by 13,000 from that first reported. And there are still 3.2+MM ‘continuing’ unemployment benefit claimants (so, since there are still 9.5+MM unemployed, for every one unemployed person getting unemployment benefits, there are three two that get zip!). Meanwhile Fed Chair Jerome Powell continued to tell Congress, albeit slightly less vehemently so, that the inflation surge is “transitory” while the minutes of the June 15-16 FOMC (Federal Open Market Committee) monetary policy-setting body meeting showed that a “substantial majority of its members believed the risk of inflation was ‘tilted to the upside’ “ – *In practical terms this means that Joe & Jill Consumer’s 3% annual wage gains now have them falling two plus points behind in real terms, while they’re losing 4+% in real terms on their money in bank saving accounts!*

Expanded Child Tax Credit – Officially 35MM families are said to have received this week the first payment thereunder as “part of the Biden administration’s historic bid to alleviate child

1 I.e. “don’t count your chickens before they’re hatched” or, as I like better “with a hatchet!”

poverty in the US". And this was to benefit "nearly 60MM children, 90% of the children in the US & cost US\$15BN, with an average payment of US\$423"².

This is a one year 'relief program' at a payout rate of US\$250 per month for a child aged 6 to 17 & US\$300 for those under six. Those eligible must have filed income tax forms in 2020 & be individuals making < US\$75,000, heads of households earning US\$112,500 or less, & married couples jointly making < US\$150,000. This is expected to boost sales across retail, in restaurants & for travel industries, with recipients expected to spend the money buying food for home, dining out & shopping on line. And according to Treasury Secretary Janet Yellen on Thursday July 15 "It certainly will add to spending, but most importantly, it provides for poor families to be able to take care of the needs of children."

This does not seem to pass the 'smell test' of being an effective way of meeting a social need. Some really needy families in the US may not have filed income tax returns & so will 'fall between the cracks'. Worldwide the child poverty rate is in the 50% range. And among OECD countries Israel had the highest share (22.1%) of children living in poverty & the US 21.2%.

According to the US Census Bureau there are 73MM children in the US (51.3MM in two parent households & 18.5MM in one parent ones, & 3+ MM cared for by other relatives or non-relatives). So those "nearly 60MM children" account for 82%, not "90%", of them. And it would be hard to make a serious case that a 'married couple jointly making US\$149,999' should have trouble feeding & looking after, their one or two kids. In summary, this program is an ineffective, & needlessly costly, 'photo op'-like, illusory way of creating the impression that the child poverty problem in the US" is being addressed – Small wonder the hoi polloi have lost faith in the political class!

New COVID-19 cases & deaths – Last January 6 the new case-, & fatality-, numbers peaked at 255,966 & 3,964. Compared to that the July 14 numbers of 38,236 & 393 seem like chicken feed, until put them in a time perspective. For the number of new cases had declined to 11,872 on June 15 & to 3,491 on July 4. So the July 14 number of 38,226 was unsettling. And since virtually all new cases are now among the non-vaccinated, a disproportionate number of the new cases are now in 'red' states (where there are, as noted last week, fewer fully-vaccinated people than in blue states).

The "Big Lie" - This concept originated with Hitler in Mein Kampf when he pontificated "the masses of a nation are always more easily corrupted in the deeper strata of their emotional nature than consciously or voluntarily ... In the simplicity of their minds ... they more readily fall victim to the big lie than the small lie since they themselves often tell small lies in little matters but would be made the West of today ashamed to resort to large-scale falsehoods". And Joseph Goebbels, an early Hitler supporter & his long-time Propaganda Chief (& holder of a PhD in philology³) who once bragged "Repeat a big lie often enough ... it becomes truth".

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SEVERE DROUGHT THREATENS THE HOOVER DAM RESERVOIR – AND WATER FOR THE UNITED STATES' WEST (The Guardian, Oliver Milman)

² This obviously is the average amount per family, not per child.

³ The study of a language's grammar, history & literary tradition.

- *The Hoover Dam on the Colorado River, 30 miles Southeast of Las Vegas, that created Lake Mead, is the biggest of the 15 dams on that river, was a major achievement of the 1930's New Deal & critical to the development since then of seven western states (California, Utah, Arizona, Colorado, Wyoming, New Mexico & Nevada).*
- But now the climate crisis is threatening that. Sixty stories high & 45 feet wide at the top and & 660 at the bottom, building the dam was a matter of national pride during the 1930s. But Lake Mead's water level has plummeted to a historically low level, *140 feet below its nearly 100 years' historic peak, and the volume of water in it reduced to 36% of its capacity*⁴, causing Arizona & Nevada to be faced with hefty cuts in their water supplies after a drought fiercer than anything seen in a 1,000 years. Or, as Brad Udall, a climate & water expert at Colorado State University, puts it, "We bent Nature to our needs ... And now nature is going to bend us."⁵
- Since 2000 the runoff into the Colorado River *above the Dam* has dwindled by 20% from the previous century's average (& this year it is down 25% from of that 'new norm'). So the water level in Lake Mead is now just *1,075 feet above sea level*⁶, triggering federally-mandated cuts in water allocations for 2022. And the Bureau of Reclamation, the agency tasked with reclaiming this arid region for farming & for people to live in, expects the water level to drop another 27 feet by December 31, 2022 to a new post-1930s low that will trigger still harsher water allotment cuts.
- Bound by an agreement apportioning the Colorado River water, those deemed the "junior partners" will be hit first. Thus Arizona will lose nearly 20% of its Colorado River water 'entitlements' &, according to Colby Pellegrino, Deputy General Manager of the Southern Nevada Water Authority while "Drought suggests to a lot of people something temporary ... this could permanently be the kind of flows we'll see"
- Overuse of the Colorado River water has also caused hydro power generated by the Dam to decline 25%, prompting a warning by the US Energy Association that a "mega drought-induced electricity shortage could be catastrophic, affecting everything from food production to industrial manufacturing, *and* creating a risk of forcing people to move east in a "Reversed Dust Bowl exodus" (in fact, in 2020 California, for the first time in over a century, experienced negative net population growth!)

*The causes for this include the region's **rapid population growth, the profligate use of water** [like fountains in Vegas & the use of pivot irrigation systems in agriculture that have one-third of the water evaporate before it can do the crops any good (& hurt the land by 'salinization')], a **decline in the snowpack** in the Rocky Mountains that feeds the Colorado River (the size of which has declined 19% since the 1950s) & **higher daytime temperature highs** that prompt more water evaporation. And, to make matters worse, the other major water source for the region is the giant **Ogallala aquifer** that underlies 174,000 square miles in 8 states*

⁴ The total capacity of the lake is 289MM acre-feet (one acre-foot is 325,853 (US) gallons).

⁵ For decades already I have been telling people that "For centuries we believed we could **control** Nature, but if we wish to survive as a species, we'd better learn to **live with** Nature". I learnt ago that Nature is quite forgiving and, given the chance, has remarkable recuperative ability and tMankind's relationship with Nature now is not unlike that of a long abused wife who, one day when her husband is asleep, goes to the closet & gets a gun out of it, and then puts it against his ear, pulls the trigger & blow his brain out the other ear.

⁶ While it took over 20 years for the level in lake Mead to drop 130 feet, right now it is dropping about a foot a week as farmers hit their peak irrigation period

from South Dakota to Texas & holds nearly 3BN acre-feet⁷ of water but whose level, according to the Lubbock TX-based High Plains Underground Water Conservation District, has been dropping one foot per year-, & has shrunk 25% in volume-, since 1969.

This is another bit of anecdotal evidence that the 'business model' the world has developed since WW II is irreparably broken & in dire need of replacement.

BIDEN FIRES TOP OFFICIAL AT SOCIAL SECURITY ADMINISTRATION AFTER HE REFUSES TO RESIGN (CNN Politics, Jeff Zeleny and Rachel Janfaza)

- On Friday July 9 Andrew Saul, the SSA Commissioner & his Deputy, David Black, received emails from the White House Office of Personnel asking them to resign from their posts because "Since taking office, Commissioner Saul had undermined and politicized Social Security distributory benefits ... and taken other actions that run contrary to the mission of the agency and the President's policy agenda."
- Black complied but Saul didn't since "I consider myself the term-protected Commissioner of Social Security". So Biden fired him. This prompted Senate Majority Leader Mitch McConnell (R-KY) to claim "This removal would be an unprecedented politicization of the Social Security Administration". On the other hand, Rep. Bill Pascrell (D-NJ), Chairman of the House Ways & Means Committee, welcomed the 'long-overdue' removal of Saul & Black since "The leadership of the SSA under these men has been marked by a stunning streak of disregard, callousness, and the destruction of the agency ... Saul and Black acted as foxes in the hen house. Their agenda was not to protect Social Security but to impose cruelty on America's seniors and disabled. Once again the President has moved with decisiveness to build a better nation. Social Security is in deep trouble. I look forward to a new Commissioner who will ... partner with the Biden Administration ... *in* protecting this program".

The more the Biden's Presidency unfolds, the more he seems to cater to the party's 'progressives' & the more he may, sixteen months hence, give the GOP, regardless of who controls it, a 'socialist' hammer to beat the Democrats with. He has named Kilolo Kilikazii, the Deputy Commissioner for Retirement and Disability Policy, the agency's Acting Head. Remarkably little is known about her but she 'checks all the right boxes, she is female, young (40) & Afro-American and has a PhD in Public Policy from George Washington University & a track record of service at prominent 'do-good' semi-public institutions. And in the job only since January, she must have been one of Biden's very early appointments & it may prove an uphill fight to get the Senate to approve her, or anyone else, to permanently head this agency.

Saul was first named by Trump in 2018 to finish out an existing six year term & then to a six year term in his own right on January 19, 2019, with the latter approved 77-16 by the Senate. But his job has been hanging by a thread since January 20. And looking at his CV, he may well have been one of Trump's better political appointments; for he had a successful business career and in 2004 had been appointed by Bush 43 to head the board of the Thrift Savings Plan, a retirement savings account for federal employees & members of the armed forces with 3.7MM members &, at last report, AUM of US\$2.9BN.

⁷ One acre-foot is equal to 325,853 US gallons/1.23MM liters.

But the above comment that “Social security is in deep trouble” may well be spot-on. For a 2010 report by Stephen C. Goss, then the SAA’s Chief Actuary, forecast that, while the ratio of “payable benefits as a percentage of scheduled benefits” (i.e. cash inflow over outflow) would remain positive until 2035, by 2037 the ‘fund would be exhausted’. And he may well be proven right; for the SSA’s asset base grew from US\$47BN in 1986 to US\$900BN in 2000 (at CAGR of 34.3%) & in the decade ending in 2010 to US\$2.5BN (at a CAGR of 10.8%) but in the latest decade (to December 31, 2020) to just US\$2.9BN (at a CAGR of 1.5%). Its growth rate curve has now flattened & seems about to turn negative and once benefit payouts start exceeding contribution inflows, with an aging population its AUM base would melt like ‘snow before the sun’ and, possibly not long thereafter, give rise to inter-generational fiscal warfare that would seriously affect the Boomers’ future wellbeing, create political unrest, and/or massive hikes in contribution rates .

MICHAEL WOLFF’S THIRD TRUMP BOOK IS HIS BEST (The Guardian, Lloyd Green)

- Landslide, his third of his Trump trilogy, is the best of the three. While three years ago Trump derided his first, Fire & Fury as ‘fake news’ & threatened Wolff with legal action, this time he gave Wolff an on-the-record interview at Mar-a-Lago (*being desperate for a ‘soap box?’*)
- His aides & family have slipped away, leaving him *alone* to simmer, stew, rage & plot at Mar-a Lago. Giuliani & Sydney Powell now call each other “crazy”. Jared Kushner is seeking to use his “Abraham Accord” (*to settle the Israeli-Palestinian issue*) to leave his mark. Hope Hicks, once a Trump favourite, has disappeared. His two independently wealthy former Cabinet members, Education’s Betsy DeVos & Transportation’s Elaine Chao (*Mitch McConnell’s wife*) have headed for the high ground. Kayleigh McEnany, his fourth & final Press Secretary, is nowhere to be found. And Stephanie Graham, Menanie’s ultra-loyal Chief of Staff quit after the January 6 event.
- The interview is pure Trump score-settling. Chris Christie is a “very disloyal guy”. He Justice Kavanaugh ‘lacked courage’ & Chief Justice Roberts is faulted for letting the Supreme Court refuse to overturn the election. He targets GOP House Leader Kevin McCarthy (*who just came back from Mar-a-Lago full of praise for Trump*) for insufficient fealty to him. And, while he calls Gov. Cuomo, a onetime Trump lawyer, a “thug”, he has kind words for Roy Cohn, another one-time Trump lawyer (long after he had been Sen. Joe McCarthy’s aide during the latter’s 1950s Communist witch hunt. Former Attorney-General Bill Barr, who made the Mueller report ‘disappear’, also fared badly. And he lamented the four years of “absolute scum and treachery and false with hunts”, claiming “I’ve done a thousand things that nobody has done” and *always* “was the show - never forget that – and the base the audience.”

The state of affairs in the ‘lame duck’ Trump Presidency will soon be illustrated by a forthcoming book entitled “I alone can fix this” by Gen. Mark Tilley (who in another book in the making is said to have been worried about Trump ordering the firing of a nuclear missile at Iran in the expectation that would keep him in the Presidency). And elsewhere The Guardian’s Peter Stone’s article “Legal threats to Donald Trump ‘more serious than ever before” reports that Georgia’s DA is leading a wide-ranging investigation into his January 2 call to the state’s Georgia’s Attorney-General “to find 11.780 votes”, while prosecutors in New York & Washington DC are scrutinizing if his businesses benefited from his 2017 Inauguration.

KREMLIN PAPERS APPEAR TO SHOW PUTIN'S PLOT TO PUT TRUMP IN THE WHITE HOUSE (The Guardian, Luke Hradin et. al)

- Leaked documents, that Western (*spy?*) agencies are known to have been aware of for several months & to have carefully examined ... with incidental details coming across as accurate, and when appraised by experts consulted *by this paper, judged* to appear genuine, show that at a closed session of Russia's national security council on January 22, 2016, attended by Putin himself, his spy chiefs & senior ministers, it was agreed that a Trump White House would help secure Moscow's strategic objectives, incl. "social turmoil" in the US & a weakening of the US President's negotiating position. So the country's three spy agencies were ordered to find 'practical ways' to support Trump.
- Document No 32 04/vd described Trump as an "impulsive, mentally unstable and unbalanced individual who suffers from an inferiority complex" & refers to "certain events" that happened during Trump's visits to Moscow. When contacted on Thursday July 15 the Kremlin acted dismissively, with Putin's spokesman, Dmitry Peskov, calling the whole idea "pulp fiction".

Pulp fiction or not, there can be no question that Trump's election has given rise to domestic 'social turmoil' in the US on a near-unprecedented scale. And the above description of him by Putin's henchmen must have upset him).