GLEANINGS II – 899
Thursday November 11 , 2021

Quote of the week – "The great irony is that in the 2020s and beyond, when China needs to embrace a new development model, there would normally be a strong case to be made for more decentralization and experimentation ... *President* Xi's model calls for precisely an inflexible and flawed opposite structure. He may rue his governance model sooner or later", George Magnus – *Now in his 70's, Magnus was born & bred in London and got an undergraduate degree from Westminster University-, & an MSc in Economics from the School of Oriental and African Studies-, in London (with a dissertation on the planning experience in India & China). He did a bit of teaching at Westminster & the University of Illinois (where he did post-graduate work) before becoming Bank of America's Head of Economics for Europe, the Middle East & Africa (1977-1985) and then Chief Economist at Chase Securities (1985-87) & at the venerable London-based 'merchant bank' S.G.Warburg (1987-1995)* [1] *and finally, at Zurich-based UBS (from 1995-2006 on a contract basis & from 2006-2012 as an employee), after which he served from 2012-2016 as UBS' 'externally-contracted' senior economic adviser & since then has been a "research associate" at Oxford University's China Centre & its School of Oriental and African Studies. And, while at UBS he, in 2005, authored several research papers warning of an impending "Minsky Moment"* [2] *- I was intrigued by his view on China since for some time my belief has been that Xi's promotion of a central role for the CCP in the economy will prove to be a "killing of the goose that laid the golden eggs"- like policy that has proven a flop by Mao & the Soviet Union'.*

Belarus-Poland refugee mess – Its origin goes back more than a year ago, to the contested election of President Alexander Lukashenko to a sixth term & his subsequent treatment of dissidents. This prompted EU sanctions that caused Lukashenko, earlier this year to 'declare war' on the EU by announcing his government would no longer seek to control the flow of refugees & drugs through his country into the EU. And last May 23 matters got worse still when Ryan Air flight 4978, enroute from Athens to Lithuania's capital, Vilnius, was forced to land in Minsk, the capital of Belarus, to enable him to detain two of its 126 passengers, opposition journalist & Belarus citizen, 26 year-old Roman Prosakevich & his girlfriend, Vladivostok-born Russian citizen & long-time Belarus resident Sofia Sapega, a Master's student at the European Humanities University in Vilnius (which gave rise to more sanctions).

This prompted Lukashenko to further retaliate by 'weaponizing' people wanting to migrate to Western Europe. So his regime started issuing 7 day 'tourist visas' to give them an excuse to come to Belarus, as an entry point to the EU. This became quite a well-organized affair, with travel agencies offering Belarus travel 'packages' & other air carriers joining Belarus' state-owned Belavia & Turkish Airlines to haul 'visitors' by the plane load to Belarus from airports in, Istanbul & Antalaya, Turkey, Baghdad & Dubai, and by Aeroflot from Moscow

The almost instantaneous success of this 'state terrorism' initiative can be measured by the fact that last July & August, Lithuania got 50x more asylum seeker applications than in all of 2020 (and Lithuania is not even a good way to access the EU; for while an EU member, two-thirds of its Western border is with Russia's Kaliningrad Province (the former East Germany),

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1 A name that brings back memories.
2 A sudden collapse of the market, & of asset values in general, following a long period of unsustainable speculative activity & a buildup of debt (such as the world is currently in?)

where nobody really wants to go, while the remainder is only about one quarter the length of of Belarus' border with Poland.

There is a major geopolitical aspect to all this. Prior to 'independence' in 1991 Belarus was part of the Soviet Union & Putin wants it to be so again, so as to move Russia's border with the EU border 400 miles/640 kms West & make Russia contiguous to the EU &, more specifically, to a former Soviet 'slave state', Poland. But Lukashenko prefers being a 'big frog in a small puddle' to being a nobody in a huge one (and as far as Belarus citizens are concerned, poor as they are in relative terms, their per capita GDP is twice that in Russia).

Although Putin denies it, Lukashenko's November 11 threat to interfere with the flow of gas from Russia West could not have been made without Putin's prior approval; for while Belarus has teensy-weensy gas reserves of its own, it imports 99.2% of its annual natural gas consumption from Russia.

The current situation constitutes a major direct challenge of the EU, & a more indirect one of the US. While Putin already made Western observers uneasy by his military muscle-flexing on Ukraine's border, his now doing the same on Belarus' border, purportedly because of Poland's "unprecedented buildup" of military resources' on its Eastern border (to deal with the refugee situation), and on Lithuanian border, is making them outright nervous (especially so since Biden has already more on his plate than he appears able to handle & his performance to date has hardly been awe-inspiring. [3]

So for two days last week Putin had nuclear-capable Russian strategic bombers flying in Belarus airspace & this week had 250 paratroopers flown to-, & dropped into-, Belarus' Grodno region near the Polish border 'for an exercise', only to have then flown back home later that same day (after two of them got killed accidentally). And all this Putin's muscle flexing should also be seen as seeking to put pressure on the (*stoplight?**)*** new German government for Nordstream 2 pipeline approval to make Europe more energy-dependent on Russia (& more likely to 'dance to his tune'?)

For more background on Belarus, see the article entitled <u>Belarus' role in Eastern Europe's Energy Politics</u> by Rauf Mammadon of the Washington DC-based Jamestown Foundation.

Canadian municipal business & homeowner taxes – The <u>Altus Group</u> is a Toronto-based, 2,200 employee, $500+MM annual revenue software-, data solution-, & advisory service-providing entity to the Canadian real estate industry. As such, it publishes an annual report on municipal business taxation. Its latest issue reported that in Edmonton taxes on homes had been increasing at a 2.8%-, & on businesses at an 8.7%-, annual rate & that, as a result, in 2020 the business-to-residential tax ratio had grown by 5.7% to 2.52x, slightly better than the national average of 2.73x & Calgary's 2.78x, but a whole lot better than Vancouver's 3.41x, Toronto's 3.44x and Montreal's 4.17% - *Its explanation for this phenomenon is that "businesses don't vote".*

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3 And neither was US Secretary of State Antony Blinken when, on November 11 in a joint press conference with Dmyrtov Kuleba, his Ukrainian counterpart, he waffled that the US "is concerned by reports of unusual Russian military activity" which he said it was "monitoring very closely "out of concern Russia might invade Ukraine again as it did in 2014" (*which must not even have been a flashing amber light for Putin, someone who, as was once said about Netanyahu "doesn't even stop for red lights"!**)***.

Nomura's outlook on inflation – Nomura Holdings Inc., an arm of the US$600BN Tokyo-based financial services' Nomura Group, foresees a possibility of 15% higher food prices by December 31,2022 (that would hit the poor countries hardest) – *The best thing that can be said about this is that food has a much lower weighting than energy in the US CPI component 'basket' & that with US food prices as of September 30 already up 4.5% YoY, the impact of the cost of food on the US CPI isn't going to get much worse in the next 14 months.*

Percentage of licensed drivers in the US by age group [4] :

Age group – in years	1983 %	2008 %	2018 %
16	46.2	31.1	25.6
18	80.4	65.4	60.9
20-24	91.8	82.0	80.1
35-39	94.9	91.7	90.9

Source : Federal Highway Administration

In a 2019 survey the five most common reasons given for not having a driver's licence were :

1. People aged 18-39 being "too busy" (*and/or "not having the money"*) to get one;
2. It "costs too much" to own & maintain a car (especially today's hi tech ones);
3. They "can get rides with friends", use transit, or get around by using Uber or Lyft;
4. Online shopping "reduces the need for having a car"; and
5. Younger people are less car-oriented : new car buyers now average 53 years *and, while in 2007 50+% of new car buyers were aged 35-54, in 2017, 50+% were over 55).*

*The age cohort most likely to still have a car is the 60-64 year one, 90+% of whom still have one - All this suggests that, while private car ownership per se will remain with us for many years to come, its role as **the** pivot of our personal lives has peaked. And this will be hastened when, in the years to come, higher fuel taxes will start to be used in an emission-fighting instrument, as cigaret taxation was used earlier to promote social attitudinal change.*

Unvaccinated citizens put under lockdown – On November 11 Austria became the first country in Europe to impose a lockdown on those not vaccinated against COVID-19. While so far limited to the Salzburg & Upper Austria regions (*that account for 23% of Austria's 8.9MM population*), Chancellor Alexander Schellenberg (*of the Austrian People's Party, who has been in the position for only a month*) said this was a "green light" for extending it to the entire country since "I don't see why two-thirds *of the population* should lose their freedom because one-third is dithering" – *Austria is among the EU countries where COVID-19 has roared back with a vengeance; at last report it had 11,798 new cases, up from its previous high of 7,063 a year ago. Among the other EU countries also with a serious uptick in new case counts are Germany with 45,356 (vs. 19,077 on January 8), the Netherlands with 16.204 vs. 13,032 last December 20, & Greece with 6,832 vs. 1,947 one year ago last August 22.*

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4 The apparent slowdown in the decline in license ownership may be in part at least tbe due to the shorter length of the second time period

US CPI – The October CPI was expected to come in at 5.8% YoY, up from 5.4% in each of the previous three months (although some 'outlier' economists were bold enough to warn it might go higher). In the event, on November 10 it came in at 0.9% MoM (*while the WSJ had forecast 0.6% MoM*), & 6.2% YoY (a 31 year high & more than triple the 1.8% average of the past decade), while 'core CPI (i.e. that ex food & energy) was up 4.6% YoY, up from an average 1.9% in the past decade. President Biden issued a statement saying "Inflation hurts Americans pocket book and reversing this trend is a top priority for me ... with the [infrastructure] bill we passed last year, and the steps we're taking to reduce bottlenecks at home and abroad, we're set to make significant progress ... very soon we're gonna see the supply chain start catching up with demand, so not only will we see more record-breaking job growth [5], we'll see lower prices, faster deliveries as well. This work is going to be critical as we implement the infrastructure bill as we continue to build the economy from the bottom up and the middle out by passing the Build Back Better plan".

His inability to 'make good' his promises and his underperforming/failing to realize them are a major reason for his Approval Rating having 'headed South' so badly. Meanwhile Sen. Joe Manchin (D-WV) continues warning about undue fiscal spending & the emerging serious price price pressures, that the Biden administration has yet to give in to pressures from business leaders to ease the Trump era tariffs that are (a small?) part of the inflationary pressure and that he has failed to persuade OPEC+ to increase production (so as to he drive oil prices down) [6] and tweeted "from the grocery store to the gas pump, Americans know the inflation is real and DC can no longer ignore the economic pain that Americans feel every day."

President Xi getting rattled? – A year from now he expects to end the recent tradition &, instead of retiring as President after two five-year terms, to be named President for Life. So on November 11 the CCP officially placed him on a Mao-like pedestal as a "transformative leader" by issuing a communique that praised him for having made "historic achievements" and overseeing a "historic transformation" in a number of areas from the environment to the economy" and to "have turned crises into opportunities".

His ambition may not be universally shared by 'princelings' & others in the senior Chinese hierarchy & the above communique may be trying to 'put lipstick on a pig'; for by three important benchmarks he has been failed badly. While China's economic growth rate peaked at 14.2% in 1992 & again in 2007 and was 7.8% in 2013, his first full year as President, it was 6.0% in 2019 & 2.3% in 2020, and in the Third Quarter of this year, beset by a power crunch & property woes, fell short of expectations & grew at its slowest rate in a year (4.9% annualized) and in July only at an annualized 3.2%. The nation's "total debt " (i.e. that of governments, households & non-financial institutions) during his term in office has soared from 220% to 320% of GDP. And last but not least, the origin-, & his management-, of Covid-19 has had a negative impact on the country's international stature.

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5 Job growth has been nowhere as great as he implies; prior to the pandemic 152,523,000,MM Americans had a job & if their number had grown since as the population as a whole, today 153,862,000 Americans would have one, whereas at last report only 148, 319, 000 American had jobs. And, while the unemployment rate now is 4.6%, up from 3.5% pre-pandemic, its ethnic distribution is worrisome, for according to the BLS (Department of Commerce Bureau of Labor Statistics) among whites it has gone from 3.0 to 4.0%, for Asians from 3.0% to 4.2%, for Hispanics from 4.3% to 5.9% & for blacks from 6.6% to 7.9%

6 And, more importantly, he has failed to get domestic oil producers to 'step up to the plate' – For US domestic oil production at last report was 11.5MM bbld (down from 13.1MM in February 2020) and up only up only 6% YTD while the price of WTI is up 50%!

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SOARING METAL PRICES MAY DELAY ENERGY TRANSITION
(IMF, Lukas Boer, Andrea Pescatori, Martin Stuermer & Nico Valckx)

The world's pivot towards curbing carbon emissions will spur demand for some metals used to generate or store renewable energy in a 'net zero by 2050 scenario'; according to the IEA's Net Zero by 2050 Roadmap lithium & nickel consumption will jump more than six-fold, that of cobalt quadruple & copper double & by 2030 copper prices will have risen by roughly 60%, nickel & lithium by 150%, & cobalt by 1,000%.

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End of an era – Now in their late 70s, Henry Kravis & George Roberts are stepping down as Co-CEOs of KKR, the New York-based global investment company they founded in 1977 with US$120,000 in start-up capital that now has assets of US$200+BN in over a dozen countries. Both started their careers in corporate finance at the then upstart Wall Street firm Bear Stearns [7] under the tutelage of Jerome Kohlberg, its head of corporate finance chief, where they perfected the LBO (Leveraged Buy Out) funding of corporate takeovers [8] until they left in 1976 to create KKR (with Kohlberg being for the first K in the company name). And there is a Canadian connection. For one of their colleagues in Bear Stearns was a University of Manitoba alum, Gerry Schwartz (*whom I tutored there in First Year Math*), who left Bear Stearns not long after the other three and in 1984 founded Toronto-based Onex Corp., that, using what he had learnt at Bear Stearns (*& the Math 1 material I had tutored him in?)*, has since grown into a company with 500 employees & assets of $40BN (that at various times have included such well-known companies as BC Sugar, Beatrice Foods Canada, Husky Oil, Impark, Purolator, Tropicana Las Vegas and Westjet)

Trillion dollar coin – This cockamemie idea, to have the Treasury create a one trillion dollar platinum coin to deposit with the Federal Reserve to 'pay off' the national debt, was dreamt up by the then 53 year-old retired Army Lieutenant Colonel Bo Fritz when he was the Populist Party's fringe candidate, with the campaign slogan of God, Gus and Fritz, in the 1992 Presidential election [he actually got 106,152 votes, 0.14 % of the total cast (incl. 3.84% of those cast in Utah & 2.13% of those in Wyoming)].

It resurfaced briefly during the 2011 US debt ceiling crisis as a way of circumventing Congressional control of the debt limit & was revived in March 2020 by Rep. Raghida Tlaib (D-MI) [9] during the first COVID-19 "wave" as a way of paying for the monthly US$2,000

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7 Whose collapse in 2007, after the NewYork Fed welched on a promise to provide it with a US$25BN bailout loan, & subsequent acquisition by JPMorgan for US$2 per share, down from US$172 only months earlier, helped trigger the 2007 financial crisis & subsequent 'Great Recession'.

8 Purchasing underperforming companies using their assets as collateral for loans to pay doing so.

9 A charter member of the 'super-progressive' Democrat "Squad" in the House, that came into being after the 2018 election with four members, Reps. Alexandria Ocassio-Cortez (AOC) D-NY, Lihan Omar (D-MN), Ayanna Pressley (D-MA) & Rashida Tlaib (D-MI) whose number were augmented, after the 2020 election .by Reps, Jamaal Bowman D-NY & Cory Bush (D-MO). All are less than 50 years of age, supported by the Justice Democrats PAC and AOC & Rashida Tlaib are members of the DSA (Democratic Socialists of America).

stimulus payment program. On October 5 Treasury Secretary (& former Fed Chair) Janet Yellen told CNBC "I'm opposed to it and don't think we should consider it seriously. It's ... a gimmick", while warning a default would "likely precipitate a historic financial crisis that would compound the damage of the continuing public health emergency, as well a triggering a spike in interest rates, a steep drop in stock prices, and other financial turmoil."

And it is unrealistic. Even back in 1992, it would have only solved about one quarter of the then US$4,065TR/32% of GDP US national debt problem (which has since grown to US$27,748/129% of GDP) [10]. With the current platinum price in the US$1,000 per (troy) ounce/31.1 gramme range, the price per tonne would be US$30,000 & a trillion dollars of platinum would weigh 30,000 tonnes, thrice the amount of platinum ever produced.

<u>WOMAN LEAVES ER AFTER WAITING 7 HOURS TO BE SEEN AND RECEIVES A $700 BILL DESPITE NO TREATMENT</u> (Fox 8/Nextstar Media.Jeremy Tanner)

Last July Taylor Davis suffered a head injury & went to the 371 bed Emory Decatur Hospital in Atlanta GA. But the ER was packed and she told WAGA-TV (a Fox station in that city) "I sat there for seven hours but never heard my name called, had my vitals taken or had anyone see me about my injury"; so finally she just left. Still, a couple of weeks later she got a US$700 bill. Thinking this was a clerical error, she contacted the hospital only to be informed by email that the "hospital protocol" requires any emergency room visit to be paid for, whether someone is seen by a doctor or not & that hence "Sorry ... the balance is valid". And subsequently the hospital sent WAGA-TV a statement that "Emory Healthcare takes all patient concerns seriously and appreciates this was brought to our attention. Our teams are currently looking into this matter and will follow up directly with the individual" (although at last report it had yet to do so.)

We are so much better off in Canada with our universal version of Medicare and yet, as a society, spent in share-of-GDP terms half as much on our healthcare than the Americans do.

10 Given the Republicans' current attitude toward the debt ceiling, the historical growth of the US national debt is interesting Since 1960 Congress has raised the debt ceiling 78x, i.e. more than once a year. In the Reagan-Bush 41 era (1980-92) the national debt went from US$827BN/32% of GDP to US$4,065TR/61% of GDP, during the Clinton years (1992-2000) to US$5,074TR/55%, in the Bush 43 years (2000-09) to 10,025TR/68%, the Obama years (from 2008-2016), in the aftermath of the Great Recession, to US$19,573/105% & under Trump in four years to 27,748TR/129%.