

**GLEANINGS II - 740**  
**Thursday December 14<sup>th</sup>, 2017**

**Alabama's Special Election** - What a slap in the face for President Trump! This is the fourth time in three months he has backed a losing candidate<sup>1</sup>. In the end the score was Jones - 49.9%, Moore - 48.4% & Write-ins - 1.7%. While I had engaged in wishful thinking that write-ins might syphon off enough GOP votes to beat Moore, what really beat him was a much higher than expected turnout of registered voters (38% vs 20-25%) & the massive Afro-American turnout for Jones, who won by just 21,000 votes (out of the nearly 1.4MM cast) while Republican candidates in Alabama typically win by over half a million. He had 54-43 support among college grads & Moore 52-47 support among non-grads. The older the voter, the more likely he/she was to vote for Moore (30-44 years 38%, 45-64 years 51%, and 65 years & over 59%). Afro-Americans voted overwhelmingly for Jones : 93% of the men & 98% of the women (who were 11% & 17% respectively of the registered voters. Jones' eventual win came after the initial vote count had looked bad for him; for with 30% of votes counted he had trailed Moore 41-57 (suggesting that his voter support strength lay in the suburbs & beyond).

**Cost of wind power has dropped by two-thirds in the past eight years & now, even in natural gas-rich Alberta, is competitive with natural gas-generated power** - The Alberta government has ambitious plans to have the private sector sink C\$10BN in 5,000MW renewable energy-fueled power generating facilities by 2030.. As part thereof it had an auction this week of 20-year 400MW contracts for wind-powered new capacity to come online in 2019 (much of it to replace existing coal-powered capacity that it wants to see retired). In the end it picked three winners from the 29 bidders to supply about 600MW, one a local firm, Capital Power, for 201MW, and two others from Spain & Portugal for the rest, at an average price of C\$0.0375. This caused the Edmonton-based Pembina Institute's Binu Jeyakummar to comment "the low auction price has blown old renewable energy prices out of the water" - *in 2016 Alberta's 16,525MW installed electricity-generating capacity by fuel source was natural gas - 7,324.3MW, coal - 6,273.0MW, wind - 1,490.8MW, hydro - 916.4MW, biogas/mass - 423.7MW & other (oil, diesel & waste heat) - 96.8MW* .

*Capital may well have an edge on the other two; for wind blows only intermittently, even in wind-prone regions areas like Southern Alberta. So wind power requires back-up generating capacity to pick up the slack when it doesn't (blow). And just outside Edmonton Capital has had, for a decade or so, had a natural gas-fired plant that can be turned on-, & off-, at a flick of a switch.*

**Edmonton the living proof climate change is for real?** - One of you recently was kind enough to inquire about life in Edmonton's "deep freeze". Unfortunately his timing was bad; for we have been having a sort of 'heat wave' for the past two weeks, with daytime highs well above freezing, & as high as +10° Celsius, & they are expected to remain so for at least another couple of days. And last week the high in Calgary hit +15° Celsius & further South in Alberta +20°. By comparison, back in the winter of 1971 there was a stretch of six weeks during which the daytime highs **never** went above "10 below" on the Fahrenheit scale (i.e -23° Celsius).

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<sup>1</sup> In September he backed Luther Strange in the Alabama GOP primary & Roy Moore won. On November 7<sup>th</sup> he backed Ed Gillespie & Kim Guadagno in the races for Governor of Virginia & New Jersey respectively and both were 'handed their head by their Democrat opponents. And on Tuesday it was Roy Moore's turn to illustrate Trump's grass roots' political impotence.



incl. Meals On Wheels & a program that provides nutritional assistance to pregnant low-income women; in other words, it says the tax cuts will pay for themselves only if paired with ideas that Congress has long rejected.

*Another tax 'benefit' that would bite the dust will affect the 44+MM university graduates & students who borrowed money to pay for university; for it will end the tax deductibility of interest on student loans<sup>4</sup>. And yet another one would affect graduate students engaged in research & teaching at university; for, while they have been getting their tuition & fees waived, henceforth their monetary equivalent will be added to their taxable income base; or as one MIT graduate teaching assistant puts it, "I will have to pay tax on a US\$80,000 ... when I actually earn only US\$33,000 a year" - This will 'download' costs onto universities, for many of whom as much as 75% of their teaching staff consists of low-paid 'sessionals', incl. graduate teaching assistants, & that use graduate students to do basic research at a low cost. So, in line with the whole tenor of the Trump tax 'reform' plans, this favours the well-to-do, or rather their offspring, by making it easier for them to pursue graduate studies. And one must wonder how financially stressing universities & impeding basic research will help "make America great again".*

### **FED EYES LOOMING TRUMP TAX CUTS (NYT, Binyamin Applebaum)**

- *The Fed's FOMC met on Tuesday & Wednesday for the last time this year &, as it had signaled earlier, raised its benchmark interest rate by 0.25% (for only the fifth time since the financial crisis) as it slowly continues to unwind its post-crisis stimulus campaign. But pressures are building, among others from the "robust" job creation in November & the US\$1.5TR tax cut that President Trump has called "rocket fuel" for the economy<sup>5</sup>, to start moving a little more quickly. And Wall Street is already looking beyond this rate hike (that had been widely expected) & speculating if the Fed, that soon will have a new Chair (effective February 2<sup>nd</sup>), several new governors (& District Bank Presidents), and speculating if, in light of continued strong economic growth, it may boost its earlier call for three rate hikes in 2018 & two in 2019 to four & three respectively (i.e. raise its base rate from the current 0.50%-0.75% to 2.25%-2.50%, rather than to 1.75%-2.00%<sup>6</sup>.*
- *The Fed is trying to keep growth at a 'sustainable pace'. It doesn't want the economy to grow so fast that it will drive annual inflation to over 2%, but also doesn't want to stall the economy & cause a recession. Fed officials expect the economy to keep growing in 2018 & unemployment to keep falling (despite the fact that the current 4.1% rate has been seen only twice in the past fifty years (in late 1999 & early 1970). And, while some of the Fed's regional reserve banks & independent economists believe tax cuts will only increase economic growth & inflation modestly in the short term, Fed officials think the*

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<sup>4</sup> It has more than doubled in the last decade from about US\$600BN to US\$1.45TR & is now the second largest class of consumer debt, exceeded only by mortgage debt but exceeding credit card-, & auto loan-, debt, and was the only form of consumer borrowing that never stopped growing during the Great Recession

<sup>5</sup> According to UBS Chief US Economist Seth Carpenter "most FOMC members had not ... built *growing inflationary pressures* into their September projections and progress has been much more rapid than they (or we) expected."

<sup>6</sup> A level it has not been at since May 2008.

economy is already growing at a pace likely to boost inflation over time & that faster growth *therefore* would not be welcome<sup>7</sup>.

*The Fed historically has been far more successful in throttling economic growth when it perceives a need to do so than in reviving the economy when was 'down on its heels', the current rate of growth is about twice that deemed the US economy's long-term 'trend growth rate', the current expansionary phase is already the third-longest since WW II, President Trump's 4% growth target has only been realized in ten quarters in the past decade, & in the past US corporations have more commonly used financial windfalls to "increase returns" to shareholders via dividends & buybacks, rather than to increase jobs (as the Trump reform idea surmises) - In the event, while the Fed did hike its base rate by 0.25%, it failed to message a faster pace of rate hikes in 2018 & 2019; so the US dollar went down-, & the stock market up-, (despite the fact share price valuations are at "nose bleed" levels)..*

### **TOP EU POWERS WARN U.S. ON TAX REFORM (AP, Raf Casert)**

- In a letter to Treasury Secretary Steven Mnuchin the Finance Ministers of Germany, France, Britain, Italy & Spain warned him that the US' massive tax overhaul could violate some of its international obligations. More specifically they told him they had "significant concerns" about three tax initiatives in particular & that "it is important that the U.S. government's rights over domestic tax policy be exercised in a way that adheres with international obligations to which it has signed up" and that "The inclusion of certain less conventional international tax provisions could contravene the U.S.' double taxation treaties and may risk having a major distorting effect on international trade." Their primary target is the so-called Base Erosion and Anti-abuse Tax (BEAT) Senate bill that targets the practice of some multi-nationals to avoid tax by exploiting mismatches in countries' tax rules to report their profits in countries with low-, or no-, taxes. While the Ministers lauded the measure's aim to ensure companies pay their fair share of taxes to the US, they are concerned that under the current plans, the measures would also hurt genuine commercial deals and have the "potential of being extremely harmful for international banking and insurance business".
- Meanwhile in Washington Republicans are upbeat about finalizing a tax bill from the two House & Senate versions so as to create Trump's first major legislative accomplishment in his eleven months in office (*and now have an incentive to do so before Alabama's Senator-elect Doug Jones can drop the "elect" part*), and Trump has set a Christmas deadline for him signing it into law & given the special committee that is to iron out the main differences between the two bills two weeks to do so

*It always amuses me how much politicians complain about tax 'loopholes' they had created in the first place & have the power to 'uncreate' if they only had the balls to do so.*

### **EU REBUFFS IDEA OF RECOGNIZING JERUSALEM AS NETANYAHU VISITS (WP. Lorne Cook)**

- Netanyahu this week was the first Israeli Prime Minister in 22 years to visit the EU's Brussels headquarters. While there, he told reporters that recognizing Jerusalem as *Israel's capital* merely recognized the reality on the ground & that he expected European

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Thus William C. Dudley, the President of the New York Fed (*who will retire in mid-2018*) said last month "I'm not in favour of tax stimulus at the current time because the economy doesn't really need it."

countries to follow President Trump's lead in doing so. And, when Federica Moghereni, the EU foreign policy chief, who chaired his meeting with the EU foreign ministers, told him no European leaders plan to do so, Netanyahu insisted that in recognizing Jerusalem as Israel's capital "what Trump had done was "to put facts "square on the table", saying that "Jerusalem is Israel's capital, no one can deny that." And he reiterated his belief that most EU countries will now would "move their embassies to Jerusalem, recognizing ... it as Israel's capital".

*Netanyahu made a tactical error in telling the Europeans to follow Trump's lead since most Europeans see him for what he is, a blowhard who hasn't got a clue how far out of his depth he is & who is making life difficult & dangerous for his allies. Hitler invented the 'Big Lie' concept when he wrote in Mein Kampf about a lie so "colossal that no one would believe ... someone could have the impudence to distort the truth so infamously" & his propaganda chief, Joseph Goebbels, expanded on that when he wrote in a January 12<sup>th</sup>, 1941 article "The English follow the principle that when one lies, one should do it big and stick to it ... people will believe a big lie sooner than a little one and that, if you repeat it often (& loudly?) enough, people will sooner or later (begin to) believe it". Netanyahu is peddling what Trump would call "fake news"; for the reality is that when, after WW II & the Holocaust, the UN created what is now the state of Israel in 1948, it very specifically did not include Jerusalem in it (because it is a religiously significant city not just for the world's Jews but equally so for its Christians & Muslims), the Knesset in 1950 formally approved Jordanian control over East Jerusalem (which it continued to do for almost two decades until Israel ended that forcefully in the 1967 War, following which the UNSC on November 22<sup>nd</sup>, 1967 passed Resolution 242 that among others confirmed the "inadmissibility of the acquisition of territory by war" & called for the "withdrawal of Israeli armed forces from the territories occupied in the recent conflict"; in other words, for the past half century, Netanyahu & his predecessors have been international 'scoff laws' for whom possession is not just 'nine points', but all-, of the law.*

### **PUTIN TO PULL 'SIGNIFICANT PART' OF RUSSIAN MILITARY CONTINGENT FROM SYRIA (Reuters, Andrew Osborn & AndreyOstroukh)**

- President Putin flew into Syria this week and during a surprise visit to Russia's Hmeymim air base there announced he was ordering a "significant part" of Moscow's military contingent (that first arrived in Syria two years ago to help turn the tide in President Assad favour) to start withdrawing from Syria as of December 19<sup>th</sup> because their work was largely done & the "terrorists" had been defeated.

*He wants to show the world he can be a diplomat as well as a dispenser of military power, and has ambitions to broker a peace deal in Syria to solidify his role as a major power broker in the Middle East. But Presidential elections are due next March and, while polls suggest it will be 'no contest', he wants to avoid the negative press from the periodic reports of Russian soldiers being killed in a faraway country that most Russians couldn't even find on a map, even if they tried; so he has been shifting the burden of the fighting to PMCs (Private Military Companies), many of them staffed by ex-military, who don't report casualty statistics.*

### **CHINA'S BALLOONING DEBT IS A MAJOR THREAT TO GLOBAL FINANCIAL STABILITY (Business Insider, Will Martin)**

- A December 6<sup>th</sup> IMF report, the result of a two-year study of China's financial system, said, following its *regular* annual fact-finding mission to Beijing, that, while steps have been taken to try & prevent debt levels from getting (*further?*) out of control, that "the system's increasing complexity has sown financial stability risks ... Credit growth has

outpaced GDP growth, leading to a large credit overhang. The credit-to-GDP ratio is now ... 25% above the long-term trend, very high by international standards and consistent with a high probability of financial distress ... corporate debt has reached 165% of GDP and household debt, while still low, has risen by 15% (*in absolute-, but 50% in relative-, terms?*) over the past five years ... *is increasingly linked to asset-price speculation ... and has gone hand-in-hand with a slowdown in productivity and pressures on asset quality.*" It says that this has led to tensions in three areas of the Chinese financial sector :

- **a rapid buildup in risky credit** - due to strong political pressure to keep non-viable companies alive rather than let them fail, which in recent years has caused such companies to take on more & more debt to achieve the authorities' growth targets (according to the BIS this has led to the overall debt-to-GDP ratio going from 180% in 2011 to 256% in the Second Quarter of this year);
  - **risky lending has moved from banks to the less regulated "shadow banking sector"** - which will make it more difficult for the authorities to supervise what's going on & assess the risks to the system; and
  - **a risk of "moral hazard and excessive risk-taking"** - because of a mindset Beijing will always bail out troubled SOEs & local government financing vehicles (*something it has indicated won't always be the case*).
- The PBOC *notionally* agreed with much of the IMF's assessment, saying that its findings were "highly relevant in the context of deepening financial reforms in the country", but poooh-pooohed its finding that many banks lack the ability to withstand shocks (in the face of the IMF's finding that in 'stress testing' of 33 banks had found 27 of them to be "under-capitalized"), on the grounds that the Chinese financial system is "resilient".

*China (& Japan) are also major sources of demand for Bitcoin (& Beijing has clamped down on the Bitcoin exchanges in its country.*

### **CANADA DODGED A BULLET ON CHINA TRIP (Edmonton Sun, Candice Malcolm)**

- As a graduate student my class went to Shanghai & was made aware many subjects were taboo since they made our hosts uncomfortable or embarrassed. It seems Canada's Prime Minister Justin Trudeau learnt the same lesson in his recent visit to China; for his trade mission went sideways & left China empty-handed & humiliated *after he pushed the Chinese on the human rights issue*. Beijing made it clear to him that, when it comes to bilateral trade agreements it expects to set the rules & use them to gain access to foreign markets with no regard for local laws, operating mostly through SOEs with appalling human rights records & without regard for the Western concept that free trade is based on the principles of liberalism & democracy, and that individuals having rights & society is governed by universal laws. Until China changes (& we should not hold our breaths), Canadians should be skeptical about doing business with it.

*She may well be right for the wrong reasons. For the China's heyday may well be creeping to an end as its population ages & its economy's trend rate of growth decelerates as a result thereof, and the day of reckoning approaches for a country in which politics once again seem to overrule economics, & in which the food is not fit to eat, the water not fit to drink & the air not fit to breathe. In addition, one must question the wisdom of getting too close commercially to a country in which the government controls the judiciary outright. And there are countries, including, but not limited to, India & much of sub-Sahara Africa, where our scarce trade development resources likely would be put to better use. But that is likely beyond Trudeau 2.0 to*

*comprehend; for while he is much better-looking than his father, in the brain power cum experience department he cannot hold a candle to him.*

### **GOOD AND BAD NEWS IN ALBERTA'S JOB NUMBERS (Edmonton Sun, Colin Craig)**

- Last month the Alberta government began trumpeting that the Alberta economy had seen an increase of “51,000 new jobs over the past year.” And the StatsCan data we purchased show that in the year ended October 2017 the number of full-time jobs had indeed gone up by 53,300 (made up of 3,200 government-, 23,400 private sector-, & 26,700 self-employed ones). But using May 2015, when the Notley government took office, as a base produces an entirely different picture; for it shows a 12,400 government-, job-, & an 800 self-employed-, job increase that had been overwhelmed by 73,100 fewer private sector jobs. And things get still worse if one goes back to October 2014, before Alberta's recession hit; for since then the number of government jobs has ballooned by 59,300 & that of non-government jobs shrunk by nearly 80,000.

*The writer is the Interim Alberta Director of the Canadian Tax Payers Federation & hence not a totally unbiased source. But such an increase in the provincial payroll since October 2014 would account for a significant portion of the Province's annual budget deficits (that account for about 20% of its budgets) & has been 'built into' its annual spending base for years to come, which bodes ill for the government's loose talk that the budget will be balanced by 2023.*

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### **THE IOC SENDS A STRONG MESSAGE - BUT WILL RUSSIA HEAR IT?** **(G&M, Richard Pound)**

- While it may be argued that it took it far too long to decide to ban Russia from the 2018 Winter Games in Pyongchang, South Korea, the IOC eventually did so; for if it hadn't, it would not just have been an ethical disaster but led to a total loss of its credibility. For Russia's state-sponsored doping of athletes & its manipulation of Russian samples at the 2014 Sochi Games had been established without a *shadow of a doubt* by the World Anti-Doping Agency (WADA) in 2015 & 2016. The main message the IOC sent to Russia was that no matter how large & important it thinks it is on the world stage, the rules of sport apply to it & its deliberate sabotage thereof had come at a cost. And now the IOC's decision to allow individual Russian athletes to compete but not in their country's uniform or under its flag, and only if they can demonstrate they are clean & only as “Olympic Athletes from Russia” under the IOC flag, will keep the Russian cheating scandal front & centre at the Games. And another, more broadly applicable, message to the rest of the world is that if the IOC can get away with banning Russia, no country is safe..
- The timing is not good for Putin; for he is running for a fourth term as President in next March's elections. But he has only two options : live by the IOC decision, demeaning as it may be, or launch an appeal with the Lausanne, Switzerland-based Court of Arbitration for Sport<sup>9</sup> & try & argue that, notwithstanding its behavior, it has a “legal” right to participate (which it does not).

*Russia's Olympic Committee has since announced that a majority of athletes “in all sports” had indicated they were continuing to train & willing to compete in the Games under a neutral flag*

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<sup>9</sup> That, with the games scheduled for February, could 'sit on 'making a ruling until it would be too late

as "Olympic athletes from Russia" . And while some hardliners maintain it would be "shameful" for them to do so, Putin has given notice that the government would not stand in their way if they wished to do so (presumably in the hope they will be goaded into greater than ever performances) - The writer, Dick Pound, has 'several dogs in this fight'; for a swimming champion who competed in the 1960 Summer Olympics in Rome as a teenager, he was a long-term IOC member & Vice-President, the founding President of the Montreal-based World Anti-Doping Agency (WADA) in which capacity he played a role in the downfall of Lance Armstrong's as the winningest Tour the France champion & chaired the commission that produced the November 2015 report on the (systemic) doping of athletes in Russia. His daytime job is that of a tax lawyer in the Montreal office of Stikeman Elliott, he made the 2005 Time Magazine's list of 'The Most Influential People in the World, and he riled up Canada's aboriginal community in 2008 when in response to a question if the IOC should be involved with the totalitarian regime in China, he noted "we must not forget that 400 years ago Canada was a land of savages, with scarcely 10,000 inhabitants of European origin, while in China we're talking about a 5,000-year-old civilization."