

GLEANINGS II - 879
Thursday April 8th, 2021

Quote of the week - "Money will be especially tight for the next two years, and there are many pressing needs. These include immediately rolling out vaccination programs and getting schools going. Many need to spend more on transport infrastructure and on education. Governments are piling up debts they will have to service (*and interest rates are rising worldwide!*). Reformers propose a plan whereby new social protection measures and taxes and other reforms take effect ..." - *From an article on Latin America a couple of months ago in the Economist. The opening sentence rang a bell. For the outlook is for money to be 'tight' for some time to come. This will come as a total-, & unpleasant-, surprise to those who expect that, once the coronavirus is under control, their world will return to "normal". For the 'new normal' will be unlike anything they remember, or are mentally equipped to deal with. There will have a permanent loss of two years of economic growth & thus a serious risk of **both** cost-push-, **and** demand-pull inflation. And the social inequality rift will continue to widen, giving further impetus to an already existing, (& surging?) wave of populism (not unlike that which led, nearly a century ago, to national socialism in Germany?)*

Might this be good advice? - Roy Blunt (age 71) was Missouri's Secretary of State in 1985-1993 & a member of the US House of Representatives in 1997 - 2011, and has been a (conservative) US Senator from Missouri since 2011 (& currently its fourth most senior member). He announced last month he won't run for re-election next year and at President Biden's January 20th inauguration made a brief but stirringly positive speech well worth anyone's time listening to.

On Sunday April 4th he said on Fox New with regard to Biden's US\$2.2TR 'infrastructure' proposal that "If we'd go back and look at roads and bridges and ports and airports, and maybe even at underground water systems and broadband, you'd still be talking about less than 30% of his entire package." - *Both parties are now as much, if not more, seized by intra-, as by inter-, party warfare, in the Democratic Party between the Bernie Sanders'/ Alexandria Alickio-Cortez-type of firebrands & the more pragmatic centrists who know their leftist views don't resonate with the majority of American voters, and in the GOP between the more traditionalist Republicans & what former Speaker John Boehner (who once was deemed a "firebrand conservative" himself & who spent his time as House Speaker focused on trying to undo Obamacare), called the "noisemakers", those who are "more interested in making noise than in doing things on behalf of the country".*

So, to keep the voting support of its 'outlier' party members the Biden Administration's strategy seems to be to come up with what Fortune calls "grab bag" (omnibus) bills that include lots of goodies to keep their support (including in this case US\$400BN for homecare ¹?) that give Republicans multitudinous reasons for negativity. And getting them through Congress via the reconciliation route has its limitations; for the Congressional Budget Act of 1974 that was passed to circumvent the Senate 60% majority cum filibuster hurdle has its limitations, for it allows its use only for spending-, revenue-, & debt ceiling purposes (and then only once a year for each) and can be frustrated by a 'Vote-a-Rama', an unending series of amendments.

So what Sen. Blunt suggests seems like an eminently common sense alternative, what used to be known in the Army as "KISS"(Keep It Simple, Stupid) that he is in a rare position to suggest

¹ *That would have better fitted in the "social infrastructure" bill that the White House is now rumoured to be working on. Sales reboiu*

since for him personally voter support is no longer matters), namely to focus on key legislative initiatives with broad popular support in bite-sized single purpose bills that, while they may not please the Sanders 'think-alikes', would have a good chance of going through the Senate like s*** through a goose with the support from traditionalist Republicans (and the passage of which likely would benefit the Democratic party in the 2022 mid term elections?²)

Money supply data series “DISCONTINUED” - In March the US “Headline” CPI was up 0.6% & YoY 2.6%, prompting both Fed officials from Chairman Jerome Powell down-, and the White House CEA (Council of Economic Advisers), *whose salaries have kept coming in the past year*, to start nattering about this being “transitory”(and *nothing worth worrying about because the prices of many ‘want’ consumer goods like telephones remain soft?*). Nevertheless, on April 13, 2021 the St. Louis Federal Reserve, for many years the nation’s keeper of all kinds of useful economic & financial data, announced that the M1, M2 & M3 data series it had maintained since February 1975, November 1980 & January 1981 respectively had been “DISCONTINUED” - *M2 money supply has grown by 30% in the past 12-, i.e. as much as in the preceding 90-, months*, leading some to wonder if this might be a harbinger of significantly higher-than-expected inflation over the foreseeable future (while the Fed continues to maintain it will be a “transitory” phenomenon, while historically once it gets a foothold, it has tended to be ‘self-feeding’).

Pandemic-driven lost output - The IMF’s estimate thereof is US\$28TR by 2025. In 2019, aggregate global GDP was US\$88TR, so, if the IMF is anywhere near close to the mark, by 2025 the size of the global economy will be well below what it would have been if COVID-19 had not interrupted the post-Great Recession recovery, such as it was - *this could set the stage for ongoing widespread social unrest in the developed world (where the younger generations have similar expectations as those over-indulged single children the Chinese call “Little Emperors”*.

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US RETAIL SALES SURGE; WEEKLY JOBLESS RATES CLAIMS DROP TO ONE YEAR LOW (Reuters, Lucia Mutikani)

\$ Retail sales rebounded more than expected as pandemic relief checks from government allowed more economic re-engagement & boosted 1Q growth expectations despite the closing of non-essential businesses to check the spread of the virus. Retail sales were up 9.8% MoM (vs. 5.9% expected) after the February rate was revised from -3.0 to -2.7%. Among the top performers were motor vehicle sales (up 15.1% after declining 3.5% in February) & sales at clothing stores (+18.3%), and restaurants & bars, up 13.4% (but only to a level down 1.8% YoY), while those at food & beverage stores were up just 0.7%.

\$ This came the day after the Fed’s “Beige Book” had reported economic activity had “accelerated to a moderate pace from late February to early April ... as consumer spending strengthened” (but also had noted that “hiring remained a widespread challenge, particularly for low wage or hourly workers, restraining job growth in some cases” - *in other words, where there had been pain before, there was more pain?*

²Biden might do well to learn about brevity from the old story about the college student who, when she had to write a short story in as few words as possible but touch on three subjects, religion, sexuality & mystery, got the only A+ in her class with “My God, I’m pregnant; I wonder who did it”

Fourth Quarter 2020 4.3% annualized growth prompted expectations, in part due to the estimated US\$19TR in 'excess savings'³, of 9.8% annualized First Quarter growth & a post-1984 record 7.0% rate for 2021 as a whole (after a post-1984 record 3.5% decline last year).

YELLEN CALLS FOR GLOBAL MINIMUM TO TAX FIRMS (FP, David Lawder)

§ In a April 5th talk to an online event hosted by the Chicago Council on Global Affairs US Treasury Secretary Janet Yellen said the administration's global 21% minimum tax proposal (a key pillar of Biden's US\$2TR infrastructure spending plan that calls for an hike in the US corporate tax rate to 28%)⁴ could help end a "30 year race to the bottom on corporate tax rates" (and she was working with the G20 countries to achieve this). And she pledged that restoring U.S. multilateral leadership would strengthen the global economy & advance U.S. interests, and to use the April 5th-11th IMF & World Bank (*virtual*) Spring meeting to advance discussions on climate change & improve vaccine access for poor countries and push countries to do more to support a strong global recovery from the pandemic.

The Trump TCJA (2017 Tax Cuts and Jobs Act) set a 21% corporate tax rate, down from top 39.1%-, average 29.0%-, & 18.6% effective-, rates. Individual countries' corporate tax rates range from 50% in the Comoros, 36% in Surinam, and 35% in Chad & Democratic Republic of Congo to 5.5% in Barbados, 7.5% in Uzbekistan, 8% in Turkmenistan & 9% in Hungary. She might use her time to greater advantage on more fruitful pursuits (like the above-mentioned latter three).

ISRAELIS AND AMERICANS, BOTH ARE ASKING WHOSE COUNTRY THIS IS ANYWAY? (NYT, Thomas L. Friedman)

§ A TV report noted that a rabbi who is the spiritual leader of the ultra-orthodox UTJ (United Torah Judaism) Party would prefer a Netanyahu-led coalition government⁵ to be propped up by Israel's Ra'am Islamist party rather than a leftist secular one. For then it would be less likely to 'turn everything secular'. This pretty well summarizes the polarization of Israeli-, & for that matter American-, politics.

§ According to Dov Seidman, author of How : Why We Do Anything Means Everything, Israel & America⁶ both "gave truth to themselves in the name of self-proclaimed ideas and ideals... *and* when your country is a grand, aspirational human project like that, it requires sharing some very deep ... foundational principles like liberty and justice for all and an animating ethos like America's e pluribus unum. Right now in both countries

³This is based on the "wealth effect" that traditional economic theory says boosts consumption. But this may not apply in this case. For personal savings are only a tiny fraction thereof & most of it is accounted for by the well-to-do (who have a low 'propensity to consume') & corporations that use their 'extra cash' to buy back their own shares (by US\$1.3TR in 2017 & 2018 alone).

⁴Which calls for a minimum 21% corporate tax rate and for the elimination of exemptions on income from countries that do not enact the minimum tax.

⁵For on April 6th Israeli President Reuben Rivlin mandated Netanyahu to try a cobble together a coalition, an endeavour that few, if any, people expect to succeed .

⁶Now age 54, he was born in California, but lived for ten years until age 13 in Israel. Being dyslectic did not stop him from getting bachelor's & master's summa cum laude degrees in philosophy from UCLA, graduating from Oxford's PPE program as a Newton Tatum Scholar & from Harvard Law in 1992. An "author, columnist & businessman, he has a daytime job as CEO of NYC-based LRN (Legal Research Network), a now 250 employee ethics & compliance firm he founded in California in 1994, two years out of law school, that now has clients all over and offices in London & India.

those deep things not only have been fractured ... *but* they are actively being fractured by a polarization industry that assaults the truth and trust necessary for these projects to flourish”.

§ This is prompting Americans to ask “What is the unifying basis for our shared association going forward? What worthy journey are ‘we the people’ truly on together?” And with the Second Half of the 20th century-defining threats, the Cold War & the Arab-Israeli conflict having (*in the latter case largely?*) disappeared and nothing remotely as compelling having replaced it to cement national solidarity, “we are turning on one another”. And in Israel, says Dan Ben-David, a Tel Aviv University economist & Head of the Shoresh Institution for Societal research, it’s exploding Ultra-Orthodox population is now its greatest threat.

While some Americans worry that within the foreseeable future whites will become a plurality rather than the majority in “their” country, the Jews in Israel are already there. For in 2016 did the Israeli Central Bureau of Statistics reported that there were 6.44M Jews & 6.50MM Muslims between the Jordan River & the Mediterranean. And according to the Israel Democracy Institute, while Israel’s population in 2020 was 8.8MM, up 17% from 2009, the Ultra-Orthodox Jewish share had grown 50% to 1.2MM [due to to a fertility rate of 7 among Haredi Jewish women], the Arab share 22% to 2.0MM & that of “Other Jews” just 8% to 5.7MM.

There is a really interesting article in a not dissimilar vein in today’s Ha’aretz Israeli newspaper that can be googled as “Israeli Settlements Could Be Headed For Self-Destruction And It Has Nothing To Do With The Occupation”. It reports on the concerns of a 38 year-old architect & town planner who grew up in a non-Jewish East German atheist family but converted & now lives with his wife & three young children in the 4,000 inhabitant West Bank settlement of Tekoa, 16 kms South of Jerusalem.

CANADA’S VACCINE MESS (The Atlantic, Tracey Lindeman)

§ By now at least 25% of Americans have received one dose of vaccine. But to our North, in Canada, where people are smug about their healthcare program & now are so compliant with public health directions, wearing masks, limiting social interaction & washing their hands, according to the Johns Hopkins University Immunity Tracker per capita vaccination rates are lagging those of countries like Brazil, Chile, Turkey & much of Europe. For getting vaccines approved & into people’s arms has everywhere in Canada been problematic.

§ But its problems run deeper. For too much bureaucracy & legislation caused it to lose its domestic drug makers & hence its own capacity to prepare for potential pandemics & its federal clout to organize national strategies for pandemic emergencies. Thus for Robert van Exan, *after more than three decades in it a lifer in Canada’s pharma industry*, the reason for its *acute* vaccine shortages are that it “has watched its pharmaceutical industry slowly move out for decades because it created an environment not conducive to investment in this country”, singling out three policy environments as responsible : patents (*not enough protection time-wise*), prices (*not high enough*) and procurement (*too ‘monopsonistic’, i.e. centralized government buying*).

Be that as it may, what really matters is the per 100,000 COVID-19 fatality rate; it is 608 in Canada,, vs US’ 1,668 & UK’s 1,890, ranking it 52nd in the world vs. the UK’s 6th-, & the US’ 12th.

THE BAN ON HUAWEI HELPED REVIVE ERICSSON BUT LANDED ITS CEO IN A TOUGH SPOT (Market Screener/Dow Jones News Wires, Stu Woo)

- \$ In 2000 Sweden's Ericsson led the world in 3G telecom equipment production & cell phone sales. But then, along with Motorola & *Canada's* Nortel, it lost ground to China's Huawei & ZTE that undercut their prices, prompting an industry consolidation that cut the field to just four, China's Huawei & ZTE, and Ericsson & Finland's Nokia. But by 2020, while Huawei was still the world's largest cellular equipment maker, Ericsson had a 35% market share in China & was gaining ground on Huawei. And last January it reported one of its best financial years in a decade, increasing its market share in all its markets, incl. those in which there were no restrictions on Huawei.
- \$ For in 2016 Ericsson had asked one of its Board members, Börje Ekholm, an electrical engineer, to become its CEO & overhaul the Company. But he declined. For at age 58, after 10 years running Investor AB (a 23.3% Wallenberg-controlled & Stockholm-listed investment company, as its share price grew six-fold), this Swedish-born, naturalized US citizen lived near Vail CO and enjoyed life skiing & fishing, and serving on the Board of Jack Ma's Alibaba ⁷ (that he had joined at the behest of Joe Tsai, the cofounder-, & now the second-largest shareholder &, since 2013 the Executive Vice Chairman, of Alibaba ⁸).
- \$ But when told he could continue living in the US, he relented & soon decided Ericsson was spread too thin. So he cut much existing staff but created thousands of new R&D jobs to help the Company compete in sectors where it had fallen behind. Then, in 2018, geopolitics started invaded its corporate strategy making when Trump accused Huawei of being a national security threat by letting Beijing use its networks & employees as spies, launched a campaign to persuade its allies around the world to ban Huawei & cripple its global supply chain and banned Chinese 5G equipment in the US even if made in the West.
- \$ Ekholm had expected Sweden to adopt the EU cybersecurity approach that excludes Huawei from its 5G network but doesn't name China or Huawei specifically. But sentiment on China had hardened in Sweden after the China-born Swedish citizen Gui Minhai a year ago was sentenced to ten years in prison for espionage in what his daughter called 'political prosecution'⁹. So last October Sweden's telecom regulator went a *big* step further by singling out Huawei & ZTE.
- \$ His fear, the millisecond I got the press release that tis "was not good" was born out the very next day when the Chinese Foreign Ministry said Sweden should "correct its mistake and avoid the negative impact *thereof* on China-Sweden cooperation and the Swedish businesses operating in China", the Chinese Ambassador to Sweden that Ericsson "could face consequences" & three Chinese state-controlled media outlets that

⁷Which will win him no brownie points with Beijing; for Jack Ma mightily upset it last October 24th by publicly criticizing China's financial regulators & state-controlled banking sector to the point it cancelled the IPO of Ma's Ant Group, *the world's largest that had already been well over-subscribed*, more recently fined Alibaba US\$2.75BN (4% of its 2019 revenue) for "abusing its market dominance" (by not allowing its merchants to use other online e-commerce platforms), and most recently halted new enrollments at the Hudan Academy in Hanzhou (where Alibaba is located) that Ma had founded in 2015 "to train the next generations of entrepreneurs".

⁸Born in Taiwan from parents who had in 1949 fled China, he was at age 13 sent to the US for his education & earned Economics & Law degrees from Yale and along the way he a Canadian citizen & amassed a Net Worth of US\$11.5BN. He first met Ma while working at Investor AB and quit his US\$700,000/year job there to join him in the then fledgling Alibaba for US\$600/year.

⁹Born in China in 1964, he went to Sweden for a Ph.D. at the University of Gothenburg. But after Tianmen Square he became a Swedish resident & later a citizen. He wrote many books on Chinese politics & politicians and was part-owner of Causeway Bay Books a Hongkong bookshop Beijing didn't like. So in late 2015 he, & several others involved in it disappeared (he in Thailand) and in February 2020 was sentenced to 10 years for "illegally providing intelligence overseas"

the Wallenbers had pushed the Swedish government to ban Huawei & had major shareholdings in big companies in China, like the Swiss firm ABB, Sweden's Electrolux & Britain's Astra-Zeneca. And last month China removed all mention of the *very popular* Swedish fashion giant H&M Hennes and Mautitz AB from all e-commerce aps, erasing access to some of the country's most popular online services, after a social media frenzy over its decision to quit sourcing cotton from a region in China (i.e. Xinjiang) accused of using *Uighur* forced labour.

So now Ekholm, after Beijing threatened to retaliate against his company (that has one major factory in China & derives 8% of its sales from China, vs. only 1% from its home market) is in the unenviable position of having little choice but to lobby the Swedish government to end the ban on Huawei equipment in Sweden's 5G network.

PHILIPPINE DEFENSE CHIEF SAYS CHINA INTENDS TO OCCUPY MORE SOUTH CHINA SEA AREAS (Reuters)

§ On April 4th, for the second time in two days, Philippine Defense Secretary Delfin Lorenzana publicly declared the continued presence of Chinese militia-crewed vessels in the South China Sea "revealed China's intent to occupy more areas in the Philippine Sea" (that part of the South China Sea within the 200 mile Phippine exclusive economic zone that includes the Whitsun Reef that he has repeatedly told Chinese vessels to leave. But Chinese diplomats maintain they were on the Reef (in numbers that Philippine sources say have been as high as two hundred plus) to seek shelter from rough seas without any military intent, to which Lorenzana's response was "I am no fool. The weather has been good ... so they have no reason to stay there ... They have done this before (i.e. *occupied disputed areas*) at the Panatag Shoal or Bajo de Masinloc and at Panganiban Reef, brazenly violating Philippine ... sovereign rights under international law."

China created a '9 dash line out of whole cloth' to claim sovereignty as an "inland lake" over virtually the entire South China Sea, complete with its energy resources, fishing rights & shipping lanes (through which as much as 25% of the world's seaborne freight moves) despite the fact that much of it is 100s-, and close to 1,000-, miles from the nearest Chinese landfall and built several (weaponized) artificial islands in it. In so doing it severely encroached upon the sovereign rights under existing international law of the other riparian nations, Brunei, Malaysia, Philippines, Taiwan & Vietnam. The Philippines took its case to the highest arbitration body in the world, the Paris-based, nearly 100 years-old International Court of Arbitration of the International Chamber of Commerce that on July 12, 2016 ruled there was no legal basis under the 1982 UN Law of the Sea Convention for the 9 dash line claim. But Being basically told it & the Philippines 'to get stuffed' since it did not recognize the Court's jurisdiction in this matter. This is part of President Xi's hyper-active, bullying foreign policy (the aggregate effect of which may well, later if not sooner, backfire on him, especially since in his domestic economic policy he is increasingly enhancing the role of the Communist party, i.e. taking the path that led to the downfall of the Soviet Union, whereas China's rocket-like rise to major power status in the last four decades was built on Deng's unleashing of the latent potential of the Chinese entrepreneurial spirit.).

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THIRD OF ANTARCTIC ICE SHELVES WILL COLLAPSE AMID 4C GLOBAL HEATING (The Guardian)

\$ Ice shelves are permanent floating sheets of ice connected to the Antarctic land mass & according to Britain's Reading University's Meteorology Department's Ella Gilbert are "important buffers preventing glaciers on land from freely flowing into the oceans and contributing to sea level rise ... If temperatures continue to rise at current rates, we may lose more ice shelves in the coming decades."

\$ And in the Geophysical Research Letters, a peer-reviewed bi-weekly journal published by the now nearly one half century-old, Washington D.C.- based American Geophysical Union (that has 62,000 members in 144 countries), UK scientists warn of an 'unimaginable', one half MM square kilometres-worth of water flowing into the oceans if there were to be 4° Celsius of global warming while, according to researchers at Reading University if that could be limited to 2°, *the present target that looks, however, as if it will likely be exceeded*, it would halve the area at risk & create a less drastic rise in sea levels

As things stand now conservative estimates of the possible rise in sea levels by 2100 are in the 6+ feet/2 metre-, & that of the US NOAA (National Oceanic and Atmospheric Administration) in the 10-12 feet/3-4 metre-, ranges, while some scientists now have started warning of possible multiples thereof. The US cities most directly affected by that include Houston, New Orleans, Miami, Charleston, Virginia Beach, Atlantic City, New York & Boston.