

GLEANINGS II – 886
Thursday June 24, 2021

Quote of the week – “We live in a country where, if you want to go bomb somebody, there is remarkably little discussion about how much it might cost. But when you have a discussion about whether or not we can assist people who are suffering, then we suddenly become very cost-conscious” – Prof. Andrew Bacevich (*now aged 73, he has a PhD from Princeton, is a history professor emeritus from Boston University who specialized in US national security-, foreign policy-, and diplomatic & military history, and previously taught at West Point & Johns Hopkins. As a “Catholic conservative” he was a critic of Bush 43’s endorsement of ‘preventive wars’ as “immoral, illicit & imprudent” (in part because his son, Andrew Jr., was killed in Iraq in 2007?). A graduate from West Point, he served in the Army’s Armour branch from 1969-1992, when, with the rank of colonel, he retired into academia at age 45.*

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Apple Daily is no more – It was founded in 1995 by the then 47 year-old Jimmy Lai who had come to Hong Kong from the Mainland as a 12 year-old stowaway on a ship and, once there, found work as a child labourer for the equivalent of US\$8 a month, but by then was well on his way to becoming a billionaire. Over the years it became one of the largest circulation Chinese language newspapers and, along with Jimmy himself, thorns in the authorities’ side because of their very vocal advocacy of, and support for-, the pro-democracy movement.

For obvious reasons both incurred the ire of the increasingly totalitarian President Xi. In August 2020 its offices were raided by 200 police, an event that was live streamed by the Apple staff on the premises, despite police warnings to stop doing so. Last December the then 72 year-old Lai, a practising Catholic, was detained on charges of conspiracy to collude with foreign forces for calling for foreign sanctions to protest against the Hong Kong government’s anti-democratic activities (now an offence under its *new* National Security Law) and is now serving time in jail. Then on June 17 its offices were raided again, this time by 500 police that confiscated equipment, froze its financial assets & arrested five of its executives. And on June 24, alas, it went to press for the last time.

Meanwhile the WSJ had reported the day before that Jack Ma’s Ant Group was in talks to create a ‘credit-scoring’ company that would give the state access to its proprietary consumer data (a first step Beijing’s years’-long endeavour to gain access to corporate credit information data. For the rudimentary nature of the official credit history information base has held back the growth of domestic consumer spending that Beijing wants encouraged to cut its economy’s over-dependence on exports.

Britain five years after the Brexit vote – According to the Daily Mail, in the five years since the Brexit vote, Britain has proven the naysayers incl. France’s Christine Lagarde, then the Head of the IMF & now of the ECB, and HM’s Treasury ¹, wrong, as well as the one time consensus view was it would not just hurt the UK economy but the global economy as well.

¹ In May 2016 it had predicted that Brexit would push the UK economy into recession, increase unemployment by 500,000 & cut GDP by 3.6%.

While last year, *because of the coronavirus*, the UK economy suffered a 9.6% setback, the worst among the G-7 nations, the forecast double-dip recession never materialized and Britain is now expected to have, this year, the most rapidly expanding economy among them. And the numbers speak for themselves. Last month 197,000 new jobs were added to the payroll, the most in any month since 2014. In the first three months of this year the UK unemployment rate was 4.7%, vs. 7.3% in the EU. British trade with non-EU countries has exceeded that with the EU for the first time since records started being kept in 1997. The overall UK trade deficit with the world has been shrinking. And some 66 trade deals with third countries previously negotiated by the EU have now been rolled over or replicated.

And anecdotal evidence suggests that Britain continues to be seen as a good place to do business. For the number of IPOs coming to London has been surging and JPMorgan, Goldman Sachs, BNP Paribas, the Mitsubishi Financial Group & UBS have expanded their London-based staff. Overall, the shadow of Brexit does no longer seem to lurk so darkly.

Fed thinking shifting? - On Wednesday June 23 Atlanta Fed President Rafael Bostic & Fed Governor Michelle Bowman both noted that, while they *still* believe price pressures will be temporary, they now think inflation will remain higher longer than previously anticipated. Bostic even went as far as pulling forward his projection of an interest rate hike to next year, telling NPR (the Washington-based National Public Radio organization) “Temporary is going to be a little longer than we expected initially ... Rather than two to three months, it may be six to nine months.” (and he now expects one a rate increase in late 2022 & two more in 2023 ²) ... and “I think it is fully appropriate to be planning to start the tapering process” (*to exit the Fed’s US\$120BN monthly bond buying program*).

Bostic (age 55) has a BA from Harvard and an MA & PhD from Stanford and is unique among members of the FOMC (Federal Open Market Committee) in that he is its only a) black-, & b) openly gay-, member. Bowman (age 50) has a BA in Advertising & Journalism from the University of Kansas & a JD from the Washington University School of Law, and is a former Kansas Banking Commissioner. Both are Trump appointees and this year have a vote on the FOMC, Bowman because that’s her due as a Fed Governor & Bostic because of the rotation among Fed Bank Presidents. He is deemed to be among the more hawkish-, & Bowman among the more dovish-, members of the FOMC.

India’s COVID-19 situation - According to Adam B. Ellick in the NYT, while pandemic restrictions are being lifted in the US, Europe is slowly reopening & the Caribbean beaches are again filling with sunbathers, tragedy is unfolding in India. For its government has, through neglect & denial, turned the nation into an epicenter of COVID infection & death.

In January Prime Minister Narendra Modi declared Covid-19 all but defeated (reminiscent of Bush 43 prematurely declaring “Mission Completed” in Iraq on May 1, 2003 on the USS Abraham Lincoln). And, ignoring conventional scientific wisdom & the soaring coronavirus case count in his country, he held mass political rallies & promoted a Hindu festival that drew millions to the banks of the Ganges River to wash away their sins. As a result Covid infections continued to swamp his country (& *gave the now ‘Delta Variant’ a headstart?*), even as the rest of the world began to manage the pandemic better.

² Whereas, after last week’s FOMC meeting (that left rates unchanged), Fed officials indicated that rate hikes could come ‘as soon as 2023’.

And now the political climate in India is one of intense fear. Critical TV channels have been pulled from the air. Journalists work with trepidation. Amnesty International has halted its work in the country. Activists have been threatened & jailed. Twitter has been ordered to block all tweets critical of the government's COVID policy. And the new coronavirus case count hit 400,000, although most recently it has declined some. And the biggest irony is that India is such a big contributor to the global vaccine supply³.

The above observation that “recently it has declined some” is a misrepresentation, for, while the number of daily new cases hit 401,078 on May 7, by June 22 it had declined 84% to 56,515. And that may be only be part of the story. For as of June 23, India's reported Covid case load was 29,977,861 out of a global total of 178,503,429 (i.e. relative to its population size and that of the world as a whole, its case load was almost ‘spot-on’ proportionate). And its reported number of deaths per million was 284, compared to Brazil's 2,381, Italy's 2,111, the UK's 1,910 & the US' 1,826 (and, while the general belief is that India's case-, & death-, rates are underreported, a factor of up to 8 tseems too high to be credible).

Trump's 'political roof' caving in? - On Wednesday June 23 there were press reports that Jared Kushner & his spouse, Bianca Trump, were 'distancing themselves' from the former President and the very next day the State of New York's Supreme Court announced Rudy Giuliani's license to practice law had been suspended for making “demonstrably false and misleading statements about the 2020 election”.

Water levels in the St. Lawrence contributing to Canad's inflationary surge? - “Especially low” water levels in the river have prompted marine shipping companies to impose special fees on cargo moved by sea to & from Montreal. For this forces them to lighten their vessels' loads (by an estimated 3,000 metric tonnes for every 10 centimetre drop in its water level?) And to make matters worse, the Baltic Exchange Dry Index, the London-based benchmark indicator of the cost of moving goods by sea has YTD more than doubled (and 80% of all world trade by volume, & 70% by value, is moved by sea)!

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NORWAY SIGNALS FOUR RATE HIKES BY MID-2022 **(Reuters, Terje Solsvik & Victoria Klesty)**

- On Thursday June 17, the day after the Fed signalled its rates would start increasing in 2023, not 2024 (and *just* raised the issue as to how & when it should end its crisis-era bond-buying), the Norges Bank, Norway's central bank, announced it had kept its key rate at 0%, but likely would hike it in September. And Gov. Oeystein Olsen told a news conference “Given the rate path we see now, rates will be raised by 0.25% in [each of] the next four quarters” & later told Reuters the announced delays in vaccine deliveries to Norway had not shifted “the big picture” economic recovery.
- The Norwegian economy seems to be rapidly recovering *from the pandemic*; while the Norges Bank maintained its 2021 3.8% GDP forecast, it raised its call for 2022

³ At last count India was fourth in the absolute number of doses produced (after China, the US & Germany). But relative to the size of its population it was a laggard; for Germany has produced almost one dose for each citizen, the US & Netherlands 1 for 3, China for 1 ior 10, Russia 1 for 15 & India 1 for 30.

from 3.4% to 4.1%. Part of this is due to the *rapidly increasing* house prices after the bank last year cut its key rate three times to combat the impact of COVID-19 and people took advantage of the cheap credit. So core inflation last year went to 3.0%, well above the bank's 2% goal (but is expected to decline to 1.7% this year, even though house prices are expected to rise by 9.2%, over twice last year's 4.50%.

- And also on Thursday, while the Swiss central bank signalled that its monetary policy stance would stay ultraloose for the foreseeable future & the projected higher inflation was no reason to change course, Norway's Finance Ministry announced that it would make its banks hold 1.5%, rather than 1.0%, of their balance sheet in 'supplementary buffer capital' (to 'boost their solidity' & 'make less capital available for lending')

This was not entirely unexpected; for previously local economists polled by Reuters had been almost evenly split on whether there would be a rate hike in September or in December. On the other hand, few had predicted two rate hikes by yearend.

I WAS TAUGHT FROM A YOUNG AGE TO PROTECT MY DYNASTIC WEALTH **(The Atlantic, Abigail Disney)**

- When Pro Publica published its report last week on the tax profiles of 25 of the richest Americans, jaws dropped all over the United States. What sneaky sleights of the pen, what subterfuge, what acts of turpitude could have led to this result? But the disturbing reality is that the radical minimization of their tax obligations by these people was not illegal, *but just attest to the fact the country's political-, & financial heavyweights practise "You scratch my back, & I'll scratch yours?"*
- The more interesting question is not how the few reported were able to avoid paying much, if anything, in federal income taxes, but why. What motivates people with so much money to try to withhold every last bit of it from the public reach?
- One common factor is a belief that government is bad & cannot be trusted with money. Far better for the wealthy to keep as much of it as possible for themselves and use it (or *a fraction thereof?*) to do benevolent things through philanthropy. My grandfather Roy O. Disney, a co-founder of the Walt Disney Company, was a fervent believer in this. He was so determined to prevent the government from taking away any of the money he wanted to leave to his family, that he created generation-skipping trusts (that would be illegal today) to end-run the IRS.
- So, at age 21, I came into a significant amount of money, and now at age 61, have been the recipient for four decades of tax advice from men who kept me from doing anything stupid with what I had been given. And that has included many of 'tax optimization' methods outlined in the Pro Publica report.
- In deeply conservative families like mine, you are taught other bits of doctrine. Philanthropy is good but too much of it unseemly. Marry people of your own class to avoid the complexities that come with a broad gulf in income. And, as one of my uncles told me one day during the Reagan era (*i.e. when she was in her 20s & still single?*), it's best to leave the important decision-making to those who are "successful" (*in making money?*), rather than in the pliable hands of those who aren't.
- As time has passed, I have realized the dynamics of wealth are like those of addiction. The more you have, the more you need : while once a single beer was enough to achieve a feeling of calm, now you can't stop at six. And, once you have flown on private planes, wild horses couldn't drag you into a public airport terminal again.

- As to the ethical part of all this, for those most deeply embedded into having money, this is an abstract set of principles that can't possibly stand up to the rigors of a life lived fast, business conducted efficiently, and competition devoured & cast aside.

To give credit where it's due, she has been married for 30-odd years, and gave birth to, & raised, four children, has degrees, incl. a PhD, from Yale (where she met her husband, Pierre Norman Hauser), Stanford & Columbia (although she has always wondered whether they let her in because of who she was), and has made a name for herself as documentary film maker. And a few years ago when Disney CEO Bob Iger US\$65.6MM compensation package (1,424 times the US\$46,000 of the average Disney employee) was an issue, she told CNBC that "Jesus Christ himself isn't worth 500 times the median workers' pay" (making allowances for her not knowing the difference between the statistical "average" & "median" concepts).

OUTTING HONOURS PROGRAMS AND KEEPING SMART KIDS DOWN PROVES SILLINESS OF INCLUSIVITY (NP, Rex Murphy)

- The Vancouver School Board is cutting all sports programs and all sports competitions; for they do not comply with its equity & inclusivity goal of ensuring that all students can participate in every aspect of the curriculum. And for the same reason it will also end all coaching services for those students who show special skills at various sports. For, says one staff member who demanded to be kept anonymous since otherwise every one would think him/her a total moron, "sports competitions are an especial (???) plague because ... two or three participants always end up in the winners' circle, while others are left in shame out in the bleachers cheering their 'superiors' ... It is simply not fair ... and therefore deeply at variance with equity and inclusive goals, which are, after all the only true purpose of education ... that young people who are already good at some things, who are faster, stronger, quicker than others, are allowed, even given special training, to get *still* better".

This is 'political correctness on steroids'! In this context, it is interesting to note that BC is one of three provinces whose share of private school students ⁴ (19.6% of its total K-12 school enrolment) far exceeds that of Canada' as a whole (13.2%). I feel sorry for today's parents who must deal with a public school system that operates on the basis that "equity and inclusive goals are ... the only true purpose of education". For such "pandering to the lowest common denominator" seldom, if ever, produces positive real life results. And the consequent 'dumbing down' of the system may fall victim to the 'Law of Unintended Consequences' by making children from disadvantaged families even more disadvantaged and making all children even less resilient to adversity than they already are and may create anger in them as young grown-ups when they 'cannot have it all right now'!

At last report there were 1,700 private/independent schools in Canada with 350,000 students (6.4% of its total school population, a percentage that has been rising since classes are smaller & parents believe it will prepare them better for post-secondary education ⁵).

⁴ The others being Ontario (38.3% vs 34.2%) and Manitoba (4.1% vs. 3.6%).

⁵ In the August 13, 2019 Forbes Mike McShane noted "private schools are not just for rich kids. Both historically and currently a substantial portion of private schools serve low-, and middle income students, although the number of them has been declining since the share of Catholic schools has been declining from 35% in 1992 to 25% in 2019.

I am a great believer in anecdotal evidence. Hence two samples. In my youth in Holland, when there was a pickup game of team sports and the two captains picked their teams, I was always among the last to be chosen and this never ever bothered me, I just accepted it as a fact of life (and nobody told me I should feel "shame" for that). And the wife of one of my bosses in my career was a supply teacher, who did most of her infilling for a principal who did double duty as the home room teacher for a Grade 5 class. There was one student in his class that had such serious behavioural problems that during school hours a social worker sat in the hall outside the class room, reading a book. So when he became hard to handle, all the teacher had to do was open the class room door and beckon the social workerteacher to come & get him, and she wouldn't have to put with him up for the rest of the day. Her husband's observations was "Too bad they don't apply the same resources to the smart kids who may turn out to be the real movers and shakers of tomorrow's society".