



Public Daily Brief



Week: 23– 29 October 2006

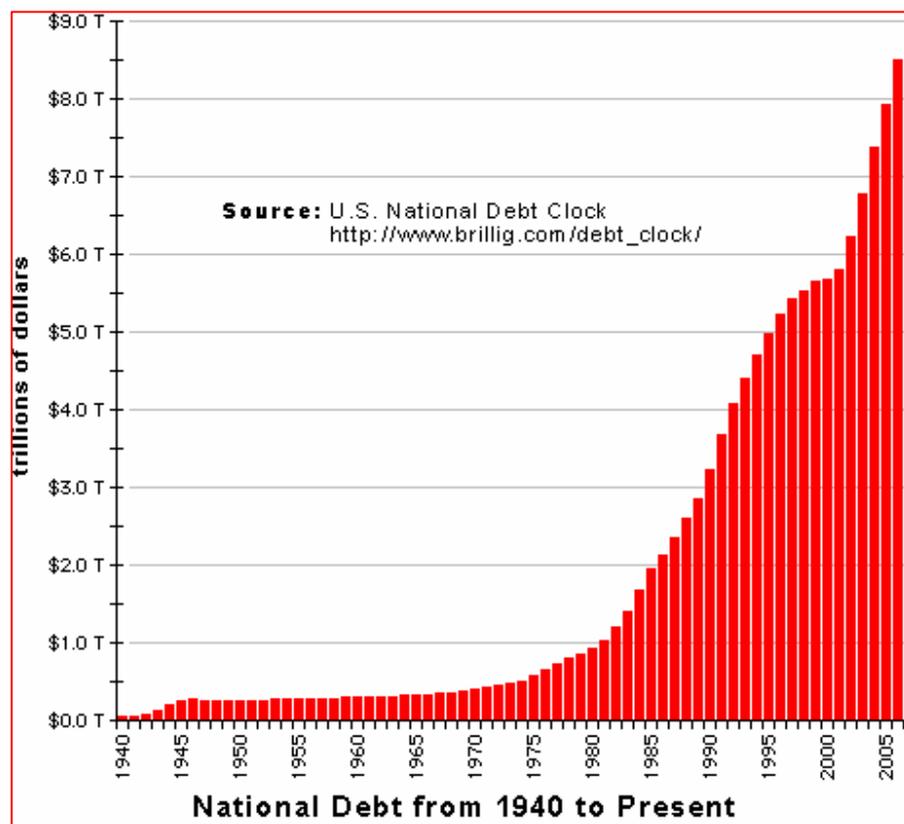
Forecast

this week: Debt

*I place economy among the first and most important of republican virtues,
and debt as the greatest of the dangers to be feared.*

-Thomas Jefferson, 1816.

Debt is not uncommon, nor unfashionable, for the governments of developed nations but the **US** has the highest debt in absolute terms among developed nations, a debt growing more than twice as fast as the national economy. **Borrowings** – which is most commonly meant in reference to the **national debt** -- are just one part of monetary quagmire-in-waiting. Given the plague of expert references to “national debt” in the media, it is a surprisingly vague term. **Borrowings**, monies needed to pay for past unfunded government expenditure, are famously at record levels in excess of \$4 trillion. But debt in the form of presently unfunded commitments to federal and military pensions is also around \$4 trillion, hence the familiar \$8 trillion quoted as the national debt, about 65% of GDP of around \$12.5 trillion. One reason this “national debt” is a compelling issue is that it has grown in absolute terms in a spectacular, almost



exponential, way in the last twenty years.

Graphing *absolute dollars* conceals some nuances of *inflation-adjusted* figures but does not hide the fact that something different has been happening in the last twenty years compared to the twenty years before that. Even if US growth had been abundant in the last twenty years (which it has not) it would not account for the rate the debt has grown. Another way to consider the debt is as a proportion of GDP. These figures (1900 to 2005) show the shocks of the 1920s and 1930s and the immense costs of the *Second World War*, then a gradual decline in debt despite the *Korean War*, the *Space Race*, and the *Cold War* settling back to

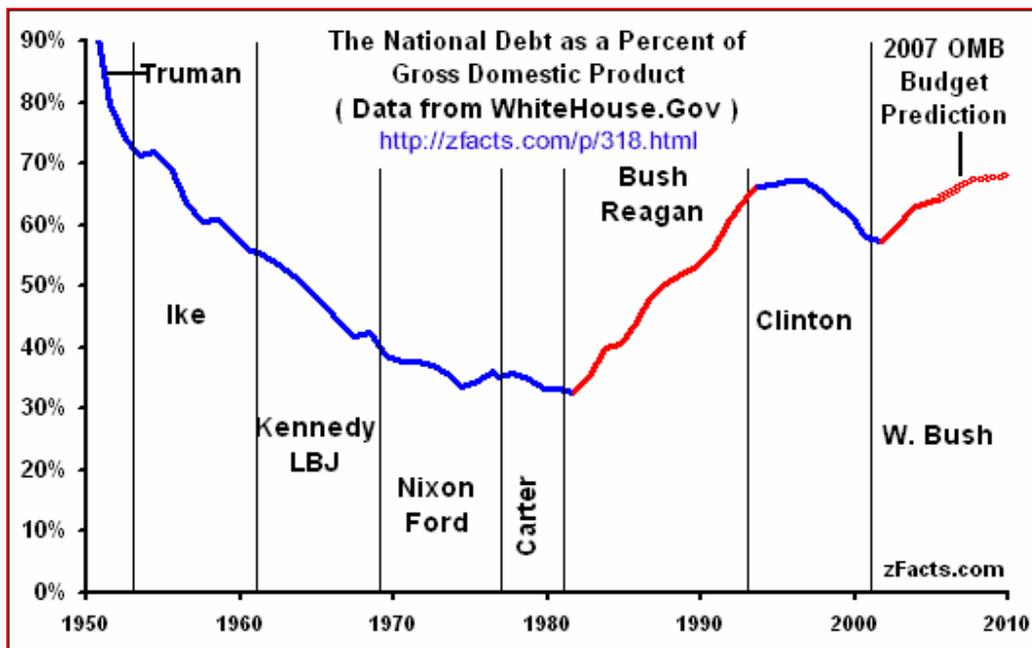
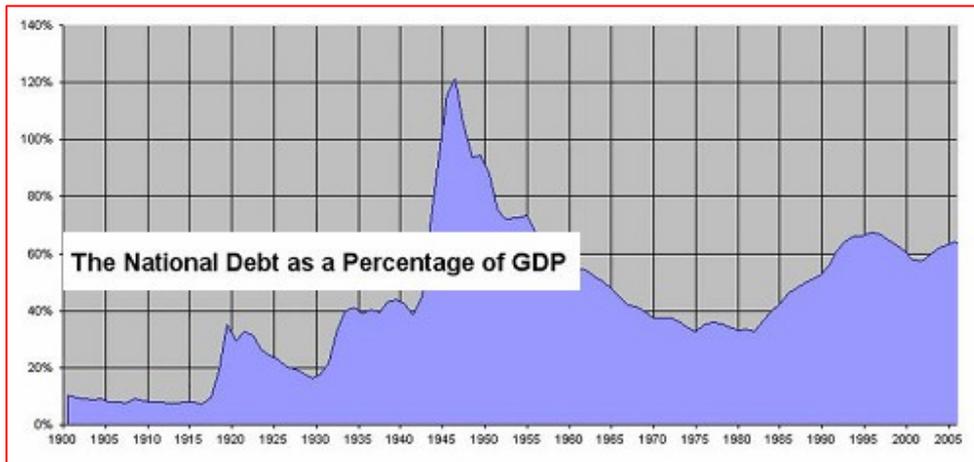
© 2006, OSS Copyright - all rights reserved to Title, Concept, Format, & Original Content.

Copyright in items cited remains property of respective copyright owners.



a “new normal” in around 1980. Displaying these figures along with the presidential terms from **Truman** to **Bush** (XLIII) shows that the most obvious event to occur when the present debt trajectory starts in 1980 is the inauguration of President **Reagan**, the small government, low-tax president.

Each of the two main polarities in US politics will read these figures in different ways. However, one observation that seems inescapable is steep increase in indebtedness occurs during the times of fervent tax cutting.



But the \$8T national debt is only a portion of real and imminent government debt. Just as real as any debt in *T-bills* there is a shortfall of almost \$13 trillion to fund forward *social security* liabilities and \$30 trillion to fund forward *Medicare* liabilities. This money does not exist at present but is required in a trust fund or some equivalent form now if federal social support obligations are to be met. Thus, in every real sense, the “national debt” is not \$4T or \$8T but over \$50T, four-times annual GDP and, if nothing is done, this increases by around \$1T each year.



When notions of retirement, pensions, and social security for older people were cast into law in the US and many other Western nations in the 1930s and 1940s, life expectancy was about 60 men for and 66 for women. Any universal benefits (“pension”) scheme was intended for the last two or three years of life. By 2000, life expectancy had increased by about 15 years. These social “safety net” schemes were also based on a demography of around 25 births per 1,000; a fresh supply of fully-employed young tax-payers that would constantly grow the tax base. Today, the US birth rate is 14 per 1,000 which, even allowing for improved infant mortality rates, will produce a smaller tax-base to support a generation of baby-boomers who refuse to die. Other nations are even worse off in this regard -- **Germany** (8 per 1,000), **Italy** (9), **Canada** (11), **Australia** (12), **China** (13).

An additional factor in this debt predicament is the now obvious fact that the world of *the future* will not be a gentle continuation of today. It is already clear – on balance of probabilities – that *energy* will be more expensive, that *water* will be more scarce and will factor into increases in almost all *food* costs, that a Pandora’s box of expensive *bio-remediation* will no longer escape attention, and that the consequences of *climate change*, although debatable in detail, are certain to have real additional costs. So human *demography* and reality of *world resources* will conspire to reduce *productivity* (and *profitability*), *disposable income* (and *tax revenue*) at a time when somebody will need to pay the government’s debts. That situation may be desperate (but not hopeless) were the international situation to be a predictable continuum of today but there is little reason to believe that all turns in international affairs over the next 10 to 25 years will be to the economic advantage of the US.

None of this discussion of the debt is theoretical. In 2008, the first wave of the 78 million “baby boomers” (born 1946 to 1964) reach 62 and qualify for early retirement *Social Security* options. This same first wave turns 65 in 2011 and will start to make demands on *Medicare*. The quoted “\$30T” shortfall in *Medicare* commitments is the calculated amount that should be in place now to meet the estimated \$200T *Medicare* will need over the next 75 years (assuming existing benefits, tax rates and premiums).

***These mythical trust funds are a financial oxymoron
— they can't be trusted and they aren't funded.***

- Peter Peterson (Commerce Secretary under President Nixon)

Some economists are deeply worried about the US debt and the sudden readjustments it may precipitate in the US economy and the wider world economy. Other economists say that the US government can’t go broke because it can *print money*. Therefore government pension schemes, *Medicare* and other government liabilities can always be met. In fact, some say it is naïve to expect the government to behave like a corporation. Mere promises will not suffice for corporations which is why they are required by law to back a pension scheme with a certain amount of hard cash funds reserved for the purpose. This is because there is no guarantee a corporation will be around to honor its promises. But the United States – and similar *sovereign* entities – are deemed to be *perpetual*. Failing presently unforeseen circumstances that lead to a *Second US Republic* that repudiates debts of the previous regime, the debts the federal government is inclined to honor can always be honored with a fist-full of freshly-printed dollars. At what fraction of a percentage point this printing leads to what level of inflation (debasement of the currency) is grist to the economist’s mill. Some economists add that the US can always increase its *tax rates* closer to the despised European rates, and/or can cut *spending* elsewhere (*defense* is often a soft target), and/or can reduce (partially repudiate) the promised *level of benefits*, and/or can reduce the actual *cost* of services delivered (following a *universal health scheme* such as Australia’s). In all events, tax-payers and/or tax-payers of future generations will be the ultimate underwriter of the US sovereign debt.

Although economics is devoid of *values*, caught as it is between the realities of the *ekonomia* and the reification of abstracts such as the “invisible hand in the marketplace”, it adopts as *a priori* human inclinations such as “*confidence*”. An unsecured debt – one

Federal borrowings	\$4.3 T	34% of GDP
Federal & military pensions	\$3.9 T	31% of GDP
Social Security liability	\$12.7 T	102% of GDP
Medicare liability	\$30.0 T	240% of GDP
Total	\$50.9 T	408% of GDP



depending on a written promise alone - is only as good as the inclination and the ability of the debtor to pay. All that stops a run on *bonds* (a disinclination to roll them over) is confidence that the US government will be good to its word well into the future and will have the ability to service and repay its debts. The OECD observes that the US debt position would be unsustainable but for this confidence. Any weakening of confidence in the future of the US economy and a drop-off in the inclination to buy bonds calls for either a rise in the interest rate offered, or to *monetize* part of the debt (i.e. *print money*). Either measure can lead into a vicious spiral of confidence, monetization and rising interest rates – barrow loads of money, and the price of bread rising hourly, or at least a subtle move in that direction. Economists warn that substituting non-interest-bearing debt (currency) for bonds does not eliminate the debt but it does shift the burden (as decreased buying power) from *future generations* to the *present generation*.

In politics – the *Art of the Possible* – the future invariably takes second-place to the present. Future voters are just that; it is the dynamic between the cynical present voter and the cynical politician that determines the *now*. Telling the emperor he has no clothes is difficult enough; telling Americans they are not as rich, as productive, as assured a future as they have been told for a generation verges on the politically impossible. Today is the first day of the Future. Economists argue how liabilities can be deferred to this Future, or brought forward closer to now, but the realities are that recent US administrations have made every effort to defer a raft of tough actions not necessarily to some abstract “future generation” but to any administration but this one -- popular (and unfunded) spending, including tax-cuts, can gain political support now, and the future can look after itself. The ultimately fatal weakness of representative democracy is that representatives will strive not for the public good but for whatever will preserve their job as representatives.

In the end, it is the liberals who save the conservatives.

- John Kenneth Galbraith (1908-2006), Economist

Some think that the US debt crisis – albeit undeclared as a crisis – provides a timely occasion to review the very nature of Federal debt. Why does Treasury take pieces of paper (promissory notes called T-bills) to the Federal Reserve Bank where they are turned into other bits of paper which, one or two steps later, are turned into promissory notes called currency? The first bank with functions like those of the present Federal Reserve, the *First Bank of the United States*, was created in 1791 by **Alexander Hamilton** (ca. 1756-1804). **Thomas Jefferson** opposed the idea. The present Bank was





Public Daily Brief



created in 1913 by the *Federal Reserve Act* in late 1913 and Paul M. Warburg (of a prominent European banking family) and others were appointed to the first Board. When an administration is honest enough to declare the debt position unsustainable and gain the support of an educated electorate it may be timely to have a thoroughgoing review of the very basis of the federal finance system. Jefferson loathed public debt and would certainly have loathed the present debt position. Now may be an appropriate time to rethink public debt from first principles.

The OECD suggests that the US has a constellation of issues that would have already caused serious loss of lender confidence in any other nation. Continuing 7% deficits adding to a \$53T national debt, and a net external debt over \$2.5T are situations that will not respond to “benign neglect” – hope is not a plan. In fact, a “*disorderly adjustment involving substantial strains in US financial markets cannot be ruled out*”. Some measures that would have a beneficial effect include policies to boost *national saving*, to move more resolutely to bring down *budget deficits*, remove obvious *anti saving biases* in the tax code such as the “egregious” *deductibility of mortgage interest payments*. The OECD also sheets home some of the blame for the debt crisis to the “underperforming” *education* system where average attainment is falling in contrast to other OECD countries. Subsidies to the agricultural sector are also blamed, as is under-investment in *transport infrastructure*, particularly *ports*.

Near-term	Mid-term	Long-term
<p>Economists are the least qualified of any to explain the US financial position. Political arguments must generally be fairly simple but the Parties or independent non-profits could contribute greatly to <i>elector education</i> by clarifying the main issues and giving an insight into how and why governments chalk up debt in their name. An increasing portion of the population understands the advantages – and dangers, evils, and ruin – of <i>credit cards</i> and will be ready to hear about how their present and future is tied to government debt. Economists are incapable of the communication necessary to achieve that clarity but many will be able. Politicians fear voters who know too much but that is how it should be.</p>	<p>Some developed countries have already been through some of the pain of educating their electorate about <i>demographic changes</i> and about how “now” and “the future” and tax and pensions and benefits and standards of living are all aspects of a single vision. The US has done little yet in this direction. The US tax-payer (or their children) is the ultimate underwriter of US debt – many voters are not aware of even that obvious fact. With education, voters can be trusted to realize that “<i>low-tax</i>” - “<i>high-tax</i>” are not policy descriptions (generally of an opponent) but labels that hide bigger issues about financial planning of the national household for now and the future.</p>	<p>The sub-text of commentators such as OECD refers to the logical possibility that the US debt position could bring grief. Two or three convergent events or trends could lead to a weakening of confidence in the US economy. <i>Energy</i> crisis, <i>diplomatic</i> crisis, <i>war-like</i> crisis are candidates, alone or together, to foul the US playing field. The EU, China, India will all increasingly close in on the US economy over the next 5 to 10 years. It will be a world where the US is not the only <i>fat kid in the canoe</i> anymore and the US will have to play nicer than it has over recent decades. The <i>American Dream</i> may no longer be there just for the taking. Worse still, it may just become a dream.</p>

.../Sources



Selected Sources

Congressional Research Service, The Library of Congress, *The National Debt: Who Bears Its Burden?*, RL30520, 20030501, <http://www.senate.gov/~hutchison/RL30520.pdf>

Deardorff's Glossary of International Economics, <http://www-personal.umich.edu/~alandear/glossary>

McGourty, Steve, "An Analysis of the Presidents Who Are Responsible For Excessive Spending", 20030706, <http://web.whittier.edu/jmiller/United States National Debt.htm> Also see <http://www.cedarcomm.com/~stevelm1/usdebt.xls>

National debt as a percentage of GDP [graph], http://en.wikipedia.org/wiki/Image:National_debt_as_a_%25_of_gdp.jpg

OECD, *Economic Survey of the United States 2005: Coping with the inevitable adjustment in the current account*, http://www.oecd.org/document/5/0,2340,en_2649_37467_35514053_1_1_1_37467,00.html External debt graph: <http://ocde.p4.siteinternet.com/publications/doifiles/302006011P1-09-01-01-g01.xls>

US Federal Reserve Board, Vice Chairman Roger W. Ferguson, Jr., "U.S. Current Account Deficit: Causes and Consequences", 20050420, <http://www.federalreserve.gov/boarddocs/Speeches/2005/20050420/default.htm>

US National Debt Clock, http://www.brillig.com/debt_clock/faq.html

USA Today, "The looming national benefit crisis", 20041005, http://www.usatoday.com/news/nation/2004-10-03-debt-cover_x.htm

Also see ...

OSS.NET Internet Link Tables (Annotated source-list for this and other topics).

http://www.oss.net/extra/document/?module_instance=3&action=show_category&id=113&language_selection=0

.oOo.



Public Daily Brief



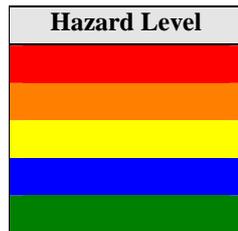
World Crises [based on monthly assessments by *International Crisis Group*]

!!! Alert Côte d'Ivoire, DR Congo, Somalia

↓ Deteriorated Afghanistan, Bolivia, Chad, Georgia, Kyrgyzstan, Thailand, Turkmenistan

↑ Improved Burundi

<http://www.crisisgroup.org/home/index.cfm?id=4296>



Change Codes
↓ Deteriorated
• Steady
↑ Improved
!!! Alert

Threats

see daily items on the web at

<http://meta2.com/PDB/pdbDetail.asp?THREATS>

Summary

Poverty	↓ The UN says 852 million people were <i>gravely, permanently undernourished</i> on this planet at the end of 2005, an increase of 11 million from the year earlier.
Infectious Disease	↓ With almost one-third of the total 1,500 cases in the world, India is a big stumbling block in struggle to eradicate <i>polio</i> . Almost 6 million Angolan children have been vaccinated against <i>polio</i> , and another vaccination campaign has been programmed for late 2006.
Environment	↓ The World Wild-life Fund says humans are stripping nature at an unprecedented rate and will need two planets' worth of natural resources every year by 2050 on current trends. In Malaysia , <i>floods</i> wrought by <i>climate change</i> have hurt <i>rice</i> production in the country's rice bowl. Indonesia is getting Russian help to the curb annual <i>smoke haze</i> that causes widespread health problems and costing economies as much as \$9B – it is caused by <i>jungle fires</i> started by <i>illegal loggers</i> and small farmers. This year's <i>Antarctic ozone hole</i> is the largest on record, and several key <i>CFC</i> substitutes are contributing to <i>greenhouse global warming</i> . Some rare good news – the Brazilian government's efforts are slowing <i>deforestation</i> of the <i>Amazon</i> forests.



Inter-State Conflict

!!! Following the **DPRK nuclear test**, the **South Korean** military conducted division-scale *landing exercises*.

Sudan accused of bombing towns in **Chad** near the border; Sudan denied the accusation. Amid rumors that **Sudan** is arming rebels in **Chad**, the BBC reported tanks had been moved to key areas in the Chadian capital N'Djamena.

Following President **Musharraf**'s example, **Afghan** President Hamid **Karzai** wrote to influential ethnic **Pashtun** politicians in **Pakistan** asking for their support to stem a growing **Taliban** insurgency. As many as 100 allegedly "innocent civilians" were killed in a **NATO airstrike** in **Afghanistan**. Deadly fighting between rival **Pashtun** and **Tajik** militias in western **Afghanistan** highlighted the layers of complexity in the conflict throughout the country.

The **US** has had a month of "second thoughts" on **Iraq** -- "In October, even many stalwarts have begun to question US policy." Some observers said **Iraq** is already "worse than civil war", experiencing at least four internal conflicts that risk spiraling further out of control. **Iraqi** President Jalal **Talabani** is insisted that the **Kurds** contribute more to the reconciliation process in the country. **UPI** reported that the **US** was fomenting a *coup* against **Iraqi** Prime Minister **Maliki** – there were no follow-up reports. The **US** Administration sought to recraft what "*stay the course*" meant for **Iraq**, accusing critics of misinterpreting the meaning.

Civil War

↓ In **Bangladesh**, opposition **Awami League** and ruling **Bangladesh Nationalist Party** (BNP) supporters fought street battles over the question of an interim Prime Minister.

No coincidence with the fierce *naval* component to **Sri Lanka**'s insurgency, **Sri Lankan** naval units conducted *joint operations* with more than 1,000 **US marines** from the Okinawa-based Marine Expeditionary Force.

Somali refugees are "pouring" into **Kenya** as the **Somali** situation becomes increasingly war-like; the **US** says if war breaks out, 12 countries could be drawn into *regional conflict*.

Genocide

↓ A **Rwandan** panel is deciding whether *genocide* cases will be brought in the **ICJ** against **France** for its part in the Rwanda genocide.

Other Atrocities

↓ **US** Vice-President **Cheney** has made reference to '*a dunk in the water*' in relation to *interrogation* of detainees; during the next White House press briefing, a frustrated reporter asked: "So the detainees go swimming?"

Proliferation

• **Egypt**'s Foreign Minister announced the country will have its first *nuclear power* station in around 10 years.

Israel has confirmed it is vague on its nuclear status as a matter of policy – "It served us and is good for the future".

Amnesty International reported the majority of the world's governments have voted to start work on an *International Arms Trade Treaty*.

The **US** will create a *nuclear forensics center* that will be able to identify nuclear and radiological materials from all over the world.



Public Daily Brief



Terrorism

- Eight "foreigners" – allegedly with *al Qaeda* links -- on **Australian** and **Danish** passports have been arrested in **Yemen** for smuggling arms to **Somalia**.
A profiler analyzing known *al Qaeda* memberships says: An engineering degree is almost a prerequisite ... When they leave the mosque and start praying in their living rooms, that is a red flag
- A **Canadian** Judge has struck down part of Canada's new *terrorism law*, saying the clause that limits the definition of terrorist activity to acts motivated by religion, politics or ideology is *unconstitutional*.
- Pakistan** and **Afghanistan** confirm their intention to both call tribal *jirgas* to form strategy on the *al Qaeda – Taliban* situation.

Transnational Crime

- ↓ Crime gangs have *hacked* customer accounts at several **US** online *stock brokers*, including e*Trade, and made off with millions.
Before joining the **EU**, **Bulgaria** recognizes it will need to make great inroads on organized crime, which account for as much as 36% of the Bulgarian economy.

↓ deteriorated	• steady	↑ improved	!!! ALERT
----------------	----------	------------	-----------



Public Daily Brief



Policy

Summary

see daily items on the web at

<http://meta2.com/PDB/pdbDetail.asp?POLICY>

Agriculture	•	[nothing significant to report]
Debt	•	[nothing significant to report]
Diplomacy	↓	To tackle extreme Islamists at source, the US will need alliances with Algeria and other states in North Africa ; European Command says "Africa, for a lot of reasons, is a place that we've got to care hugely about. We ignore Africa at our peril." Former German President Schroeder has written a book unflattering towards President Bush and praising the efforts of Russian President Putin . US Col. Oliver North has visited Nicaragua alarmed that "The anti-American <i>leftists</i> in Latin America are using <i>elections</i> to take and then solidify power."
Economy	•	[nothing significant to report]
Education	•	[nothing significant to report]
Energy	↑	Australia announced a <i>solar electricity</i> site that will serve 45,000 homes. The Appropriate Rural Technology Institute in Puna [India] has designed a system that requires <i>cow-dung</i> paste, a second-hand generator, and <i>household waste</i> to give endless <i>electricity</i> . This is the first <i>hydrogen</i> retail filling station in the US has been opened by BP and partners in southeast Michigan.
Family	•	The NJ Supreme Court ruling in support of equal rights in <i>gay marriage</i> ensures God, Gays and Guns will be again be on the agenda for the mid-term elections. On the question of scarves and veils worn by some Islamic women, the Archbishop of Canterbury [UK] has said that promoting a society where no <i>religious symbols</i> are visible in public is "politically dangerous".
Immigration	•	[nothing significant to report]
Justice	•	[nothing significant to report]
Security	↓	The US has announced achievement of a major milestone in development of an <i>airborne laser</i> -- but an expert says "an enemy would only need to put a reflective coating on the outside of its missiles to bounce off the laser beam, making it harmless." The Transportation Security Administration (TSA) said it was unable to meet deadlines on <i>cargo worker background checks</i> because there are too many of them. Devastating <i>forest fires</i> in California that killed fire-fighters were thought to be the work of <i>arsonists</i> . A <i>methamphetamine</i> ("ice") police raid turned up <i>classified data</i> from Los Alamos on a computer, worrying counterintelligence agencies. [Likely the computer was stolen in petty crime but the data should almost certainly not have been where it was.]
Social Security	↓	The Reporters Without Borders Annual Index drops the US 9 places since last year to 53 rd , with Botswana, Croatia, Tonga . [Top of the list is Finland, Netherlands, Ireland, Iceland .]
Water	•	" Wetlands are nature's amazing cleaning machines" - Phoenix [US] shows the way in water treatment using integrated natural systems. China's damming of the 2,906-km long Brahmaputra river in Tibet could trigger catastrophe warns downstream neighbors.

↓ deteriorated

• steady

↑ improved

!!! ALERT



Challengers

Summary

see daily items on the web at

<http://meta2.com/PDB/pdbDetail.asp?CHALLENGERS>

Brazil	<p>↓ 130 suspected “foreign” drug dealers from 38 countries have been arrested so far this year in Sao Paulo state.</p> <p>Of Rio’s crime rate, Amnesty International reports "It is time to put an end to a public security policy which endangers lives of all residents in Rio’s poorer communities, and does nothing to combat the growth of drug-related crime."</p>
China	<p>↑ The ASEAN + China talks in Naning will discuss Spratlys ‘code of conduct,’ the DPRK nuclear issue, and a regional free-trade zone embracing a third of the world’s population.</p> <p>Beijing is using satellites to monitor land use to crack down on illegal real estate development -- "The principle is to strengthen macro-economic control and use land resources economically."</p> <p>China is about to overtake Germany as the 3rd biggest auto producer with 5.4 million units this year.</p> <p>President Hu Jintao has appeared with his predecessor Jiang Zemin signaling there is unity in the anti-corruption purge that has implicated 50 and is netting highly-placed people.</p> <p>An uncorroborated report says the Chinese intelligence network in DPRK has been betrayed and the PLA now lacks good sources.</p>
India	• [nothing significant to report]
Indonesia	• [nothing significant to report]
Iran	<p>• Iran replaced its air force chief just before [but maybe unrelated to] the US PSI exercise. Bahrain’s participation in a nuclear smuggling exercise in the Arab Gulf marks the first time an Arab nation has joined an exercise under the three-year-old US Proliferation Security Initiative; the proximity of the exercise to Iran has been unnoticed by no-one.</p> <p>The Iranian foreign minister visits Syria -- "I carry a message ... that deals with developments in the region and issues in Iraq, Palestine and Lebanon."</p> <p>Russia has delayed work on the Bushehr nuclear power plant for “technical and management” reasons. Germany forecasts Iran could have a nuclear bomb by 2015, within the 3-10 year range of forecasts given by most international experts.</p> <p>Argentina has charged Iran over the July 1994 bombing, the worst in Argentina’s history.</p>
Russia	↓ A report claimed Russia led arms sales to the developing world in 2005 -- France ranked second with \$6.3 billion in sales, and the US was third with \$6.2 billion.
Venezuela	• The US is investigates alleged Venezuelan ties with the software on US voting machines -- "the role of the young Venezuelan engineers who founded Smartmatic have become less visible in public documents" In the face of deadlock over a rotating seat on the UN Security Council , Venezuela may throw its support behind Bolivia .
[wild-card]	• Use of Balochistan for Pakistan nuclear tests is just one of several complaints -- "Baloch locals allege that the nuclear tests have devastated the ecology of the area and their fruits do not taste as sweet as they used to prior to the nuclear tests."

↓ deteriorated

• steady

↑ improved

!!! ALERT

.oOo.