Business Briefs

U.S. Budget Deficit

'$44 Trillion' Fraud Aims at Social Security

London's *Financial Times*' May 28 article, "U.S. faces future of chronic deficits," asserted that the Bush Administration shelved a report to the U.S. Treasury Department that shows Federal budget deficits totalling at least $44.2 trillion over the next 75 years. The report, co-authored by Kent Smetters, a former deputy assistant Treasury Secretary for economic policy, and by Jagdesh Gokhale, a former Treasury consultant, is a large-scale concoction. In the fight over the most recent tax cuts, a faction of fascist monetarists pushed them through, led by former Council of Economic Advisors chairman Glenn Hubbard. There was opposition to the cuts inside the Bush Administration, some led by relatively sane people, and some led by a group who were equally fascist monetarists. This second group wanted immediate, intense austerity, as well as to steal the Social Security Trust Fund, by privatizing it and investing it in the stock market. A crusader of the second group is Kent Smetters.

While the feature article of the *Financial Times* makes it appear that the Bush tax-cut is the major problem, Smetters makes clear in an accompanying interview, that in his view, the overwhelming problem is the underfunding of Social Security and Medicare: "Our calculation of a $44,000 billion present value shortfall is actually very conservative. Our estimate of the Social Security liability is around $7,000 billion. . . . Our Medicare number of over $36,000 billion is calculated under very conservative health-care growth assumptions. . . . It's very clear that almost all the problem are S[ocial] S[ecurity] and Medicare."

The $44.2 trillion figure is a fraud. Since, the 1980s, the financier oligarchy-controlled promoters of privatization have been saying that Social Security and Medicare are insolvent. First, they said that the Social Security Trust Fund would run out of money in 2016, then in 2023, now after 2030. The enormous figures as to the Social Security Trust Fund's unfunded liabilities, used by Smetters, are pure fabrication. Were economic growth policies put into effect, the Social Security Trust Fund would be solvent throughout the 21st Century.

Dollar

Russian TV Questions Bush

The first question for President George W. Bush, in an interview on May 31 with Russia's RTR-TV, was on the fall of the U.S. dollar.

Q: "Let me start with the people's question. In my country, for many people, America is associated first and foremost with the U.S. dollar. You bring the muscle. What's going on? Is it going to stay as weak as it is now? And what's your forecast?"

Bush: "The policy of my Administration is for there to be a strong U.S. dollar."

Q: "Which it is not at the moment."

Bush: "Well, I understand that. And the marketplace is making decisions as to whether the dollar should be strong or not. Our policy is a strong dollar. And we believe that good fiscal and monetary policy will cause our economy to grow and that the marketplace will see a growing economy and therefore strengthen the dollar. But you're right, the market, at this point in time, has devalued the dollar, which is contrary to our policy."

Currencies

South Africa Looks To China and Japan

"What we need is a permanently stable and competitive exchange rate," wrote veteran investment analyst David Gleason in Johannesburg's *Business Day* on May 29. He continued, "This must be managed so that it is not foolish. The best examples are provided by China and Japan. There was a time when the yen stood at 400 to the dollar and that massive undervaluation produced continuously rising reserves. The Chinese take a no-nonsense approach and they do not employ foreign [Western] advisers.

"The experiences of Europe and North America do not provide a template on which to build the management of monetary policy for South Africa. China, marching along its own route, has delivered 8% growth for some years now, with minimal inflation. . . . There is now a perceptible move towards a return to fixed exchange rates around the world."

Even before writing this column, Gleason had been called controversial, because he has insisted for some time that the South Africa Reserve Bank (central bank) could lower interest rates without incurring inflation—a step that would greatly benefit the poor and the jobless.

Markets

BIS Sees 'Unusual Divergence'

The Bank for International Settlements quarterly report, released June 2, says that April and May 2003 saw an "unusual divergence" in market views about global economic prospects. On the one side, investors in the main government bond markets revised downwards their overall economic expectations again and again, with "a series of disappointing macroeconomic announcements" concerning the U.S., European, and Japanese economies, including "the surprisingly weak U.S. non-farm payroll figures in March and April." As a consequence—because investors expect more rate cuts by central banks—"long-term interest rates in the major markets fell to historical lows in May." For example, "the nominal yield on the 10-year U.S. Treasury note stood at 3.31%" on May 22, "its lowest level since 1958 and approximately 50 basis points lower than its end-2002 level. The yield on 10-year German government bonds fell by a similar magnitude to 3.54%, its lowest level in decades."

"By contrast," remarks the BIS review, "investors in equity and credit markets discounted the weak macroeconomic data," and actually started a big buying spree in respect to stocks, corporate bonds and emerging market bonds. And at the same time, investors moved large amounts of money into emerging market bonds like those from Brazil, Argentina, Turkey or South Africa. The rush into stocks and secondary debt was of course driven by the much higher yields that these types of investments were promising. However, these investors are also betting that the world economy will soon improve, that corporate balance sheets might soon show "robust earnings growth," and that the period of large private and public defaults is essentially over. "Such forecasts," the bank notes, "have in the past consistently proved to be overly optimistic."

Peru

Strikes Against IMF Spread

Peruvian President and former World Bank employee Alejandro Toledo made a big mistake at the end of May, when he declared a 30-day "state of national emergency" and called out the troops to repress striking teachers, state health workers, and agricultural producers whose demands, he claimed, were putting his government's austerity pact with the International Monetary Fund (IMF) "at risk." Like pouring oil on a fire, the result of Toledo's gesture on behalf of his nation's international creditors was to trigger a national strike June 3, against the IMF's despised free-market policies.

The initial strike begun weeks earlier by teachers and state health workers was for a living wage; by the farmers, against an open imports policy which has bankrupted the agricultural sector; and by various regional civic associations and labor federations to protest an insupportable tax burden and a privatization policy that is fast stripping the nation of its most valuable resources. But when Toledo declared the strikers a threat to the IMF program, and deployed troops using tear gas, water cannons, riot sticks, and eventually guns against the protesters, the rest of the nation cried "enough!" The national strike was called by the leading trade union umbrella formation, the CGTP.

The Toledo government offered to cancel its state of emergency decree in exchange for suspension of the national strike, but the teachers and others showed no interest in returning to continued suffering under IMF austerity prescriptions. A bargaining round on June 2 thus ended in failure, and tens of thousands of Peruvians poured into the streets of Lima in defiance of the ban, while many thousands more held "pots-and-pans" demonstrations, marches, and vigils in over 20 cities and towns. The second-largest city of Arequipa was shut down by a regional "sympathy strike," as were other regions of the country.

Electricity

Malaysia Supplies Power-Short Indonesia

Indonesia's state-owned electricity company, PLN, will team up with two electricity companies in Malaysia's Sarawak and Sabah states, PLN general director, Edi Widiono, said on June 2. The Sarawak Electricity Supply Corp (SESCO) and Sabah Electricity Board (SESB) will supply power stations in Indonesia's West Kalimantan province and Sumatra island, respectively, Widiono said during a meeting of officials from Southeast Asian electricity companies.

SESCO will supply power stations in West Kalimantan beginning Fiscal Year 2006-07, and SESB will supply power stations in Sumatra starting 2008, he said. "We have been discussing the commercial aspects and regulations with the Malaysian government." The two Malaysian electricity companies have an oversupply of power that they are ready to use to help ease the electricity crisis in West Kalimantan and Sumatra, Edi said. PLN wants to buy at least 50 megawatts (MW) of power from SESCO during the initial stage, he said.

Indonesia has been unable to get Western firms to build power plants, even those that had been started before the Asian crisis in 1997, without pledging impossible costs and conditions. Parts of East Java province suffered rolling blackouts in May.

Briefly

THE STRIKE of France's public workers on June 3, the second in a month, led the Chirac government to warn of "dramatic consequences" for the economy. The protests oppose the government's planned overhaul of France's retirement system, which would require public sector workers to work 40 years to retire with full benefits, rather than 37.5 years. Demonstrations took place in more than 100 towns and cities.

FRANCE has proposed to Malaysia to build the longest bridge in Asia, Penang Island's second bridge to the mainland, according to *Utusan Malaysia* on June 3. The proposal involves local companies and is for $650 million, after the Japanese government failed to provide a $1.4 billion soft loan. The four-lane second bridge spanning about 20 kilometers is expected to ease Penang Bridge's 100,000-vehicle daily traffic flow.

AIRLINES are still shrinking after huge wage cuts. Despite more than 400,000 U.S. airline industry layoffs since Sept. 11, 2001, as well as wage givebacks, furloughs, and work rule changes, the airlines continue to lose money due to fallen revenue. United Airlines, in Chapter 11, has not made money despite $2.56 billion in givebacks over six years. American, thrice on the verge of bankruptcy, is losing money after $1.8 billion in givebacks. The layoffs have gutted one of the last remaining bastions of the skilled workforce in the U.S.

THE ASEAN+3 meeting June 30 will likely initiate transfer of dollar reserves to local currencies. Combined with the initiation of the Asian Bond structure, intended to pool reserves in Asian securities for development, the "Chiang Mai Initiative" report to the Asian Development Bank (ADB) Board of Governors at the June 30 meeting is expected to rapidly reduce the amount of surplus being reinvested in the United States. Citigroup reports the ASEAN+3 countries hold 95% of the world's surplus in currency accounts, and 90% of all dollar reserves worldwide.