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Guest Column-by. Gaurang Bhatt

Ever since the invention of coinage, the sly tendency of those in charge of minting the coins has been to debase their value secretly, so that those in the know could purchase their desires before the worthless currency lands in the hands of the ignorant masses and loses its purchasing power as excess money chases scarce goods. The story of Muhammad Bin Tughlak forging leather coinage to replace silver and gold and the Weimar Republic printing paper marks till one needed a billion marks to buy a pack of cigarettes are ample proof of these tendencies. More recent episodes of hyperinflation and currency devaluation in Argentina, Brazil and Turkey recount their sorry tales. Argentina declared bankruptcy and Brazil is in a straitjacket. They have huge foreign debts denominated in dollars. Any rise in interest rates may make debts unserviceable. A minor rise in Australian interest rates is deflating its housing bubble and similar fates await housing in Ireland, UK and probably even the US.

America runs half a trillion dollar trade, current account and budget deficits each, and needs to borrow two billion dollars a day to support its profligate spending and lifestyle. Currently Asian countries provide this. They often end up as losers because they get low interest on their dollar holdings, which depreciate in value as the dollar sinks. Japan gets the nuclear umbrella and military protection for holding nearly a trillion dollars as reserves. Taiwan and South Korea hold nearly 200 billion dollars each and for that they get military protection. China holds nearly 500 billion dollars but protects itself by holding its own currency at a fixed exchange rate to the dollar and not permitting free movement of capital. It tolerates the disadvantage because it wants to provide employment to its teeming masses of unemployed and those being laid off from bankrupt state enterprises producing shoddy, useless and excess goods of no value. These are the reasons for the rise in price of gold, oil and other commodities. Additional reasons are increased consumption by China and India and the disasters in Iraq and Afghanistan. This is why the Euro has gone up against the dollar unlike manipulated currencies like the yen and yuan.

To counter the collapsing bubble in stock prices in 2000 and because of abandonment of sane policies for political support of the Bush administration tax cuts, the Federal Reserve had opened the spigots of money supply. This re-inflated the stock market and produced a bubble in home prices. The Fed is already behind the curve and the inflation genie is out of the bottle. The Fed's job is to take away the punch bowl as soon as the party livens up and becomes rowdy (raise interest rates). Under ordinary circumstances it does that to preserve the purchasing power of the haves who are the lenders. William Greide's book 'Secrets of the Temple' explains it well. The problem this time is, America is the world's largest debtor and a good deal of its debt is owed to foreigners (nearly two trillion dollars of treasury securities). Japan has a larger debt to GDP ratio but its debt is owed to Japanese nationals. Furthermore the current Administration's fiscal and military misadventures ensure large deficits in perpetuity. The low savings and high consumption rates of the American public perpetuate the need to borrow from abroad. Rising interest rates would raise the interest cost of servicing the national debt. What makes it even worse, is the high home equity, adjustable mortgage and credit card debt of the American public. A rise in interest rates would put sharp brakes on consumer spending on which the bulk of US economy depends. It would put a damper on the feel good state of many a consumer feeling rich due to rapidly risen home prices. The rising interest rates would burst the housing bubble. Greenspan has irresponsibly encouraged new homeowners to take adjustable rate mortgages to be able to afford the payments on overpriced homes. This is why the Fed keeps repeatedly reassuring the markets that interest rate increases will be measured (meaning small) and gradual. This is also why the government changed the way it measures inflation so it can understate it and thus give smaller raise in social security payments and less adjustment upward to the face value of Treasury Inflation Protection Securities (TIPS). Credit card debts and medical bills of the uninsured are the predominant causes for the 1,500,000 persons who file for personal bankruptcy each year. Incidentally this number exceeds that of the annual college graduates.

To eliminate the trade deficit one needs to have a long run of huge trade surpluses. This means consume less and export more. The US have hollowed out manufacturing so one cannot run a manufacturing surplus. Even the near monopoly in airplanes is being lost. This year Airbus may beat Boeing. This is why US B is fighting so hard for TRIPS (intellectual property and financial services) at the WTO meetings in Doha, Cancun etc. To help exports, grain and meat have to remain high priced, which will add to domestic inflation. Foreigners have

reduced the purchase of American stocks and bonds and even the buying of American businesses. Even the flow of domestic money in American stock and bond funds is decelerating. The massive but inappropriate and misdirected Keynesian tax cut stimulus is over. If Bush is re-elected there will be no further tax cuts and reduction in social and entitlement spending. The accelerated investment tax credit for businesses has front-loaded business investment into the current year with a sharp reduction likely in the second half and next year. Year to year profit comparisons will look anemic from now on. If Kerry is elected the cancellation of future tax cuts will reduce discretionary corporate and rich peoples' income and thus savings and investment. The recovery with reduced job growth compared to prior recoveries is showing tachyphylaxis and further monetary stimuli have the same effect as flogging a dead horse.

To add fuel to the fire, no pun intended there is the political uncertainty in Saudi Arabia causing high oil prices. The mess in Iraq and Afghanistan coupled with the boiling cauldron of Pakistan and the belligerent nuclear arming North Korea and Iran bode ill. The more autocratic Russia after America's destruction of its economy by privatization, capitalism and criminal oligarchy manipulation and a bristling nationalistic re-arming China add greater uncertainty and adverse variables to the world economic equations. The political uncertainty of the American elections creates anxiety and the US markets sooner rather than later are headed down significantly, if not sharply.

One of the most ignored realities likely to lead to a crisis and even wars is the disparity between supply and demand of crucial liquids. These are oil and water. There is a finite and limited supply of oil and gas and the rising demands and expectations of China and India with their burgeoning economies and the unfulfilled expectations of their nouveau riche are likely to lead to a supply crunch in the near future. France and to a lesser extent Belgium are two countries that have effected a concerted policy of deriving a large proportion of their energy needs from nuclear power. Many other European countries have chosen a visceral regression by voting for referendums eliminating or reducing nuclear power plants. Others geographically advantaged have opted for wind or wave power.

India in its characteristic fashion has chosen to ignore problems by sweeping them under the rug or hesitating like Trishanku. It is critical for India to exploit its hydroelectric potential to the maximum and to link up its rivers to provide inland waterways to facilitate its commerce and utilize its hydroelectric potential. Unfortunately India does not yet have sufficient production of hydrocarbons for potential self-sufficiency. Fortunately this has prevented it from being a victim of manipulation by energy hungry great powers. Thus it has fortunately escaped the manipulation and exploitation that is the misfortune of many Gulf States, Trans-Caspian and Central Asian victims. This happenstance does not insulate it from the vagaries of fluctuating oil and gas prices. It is therefore critical for India to place its bets on nuclear power and further plan on using its almost inexhaustible resources of Thorium to achieve self-sufficiency in power.

Another advantage that it should exploit is that of linking its nuclear power generation to desalinization of seawater. This will remedy the chronic shortage of water in much of India and forestall the potential war likely to occur with Pakistan over the waters of the Indus and that with Bangladesh over the waters of the Brahmaputra and Ganges. It would also protect India from adverse policies of China as some of the Indian water supply originates in Tibet. Furthermore the nuclear power plants which should be placed in South and South-central India would decrease the Indian dependency on foreign oil and gas, which come from less than friendly and politically unstable states around the

Persian Gulf. Thus they would permit India to pursue an independent foreign policy without being held hostage to Islamic states with unstable internal problems and overt or covert Islamic leanings favoring the unstable, radical and likely failed state of Pakistan.

There is not a shadow of doubt that India's two major deficits are energy, as manifested by oil and gas and potable water. These are two crucial essentials that governments of different spectra and philosophy have failed to provide to the detriment of the common citizen and one of the prime reasons for the justifiable anti-incumbent backlash. Fortunately a desalination program linked to a nuclear power plant, though not ideal or completely cost effective is likely to provide potable and safe drinking water at a lesser cost than an independent desalination plant. The higher investment is likely to be repaid and compensated by diminished expenditure of foreign exchange and a learning curve for a new and important technology. The riparian problems sooner or later are likely to lead to a war with Pakistan and Bangladesh and thus it behoves India to counter the problem to nip it in its bud or postpone it to the distant future. A failure to do so is likely to lead to a devastating war.

Beyond the liquid crisis of oil and water there is a potential for a liquidity crisis. America in the past has borrowed needed capital from other surplus capital rich nations of Europe to fund its own expansion and then reneged on its debts as in the history of the railroads. Its profligate tendencies ensure some form of default or wipe out of its huge and unsustainable debt. Right now developing Asian countries by choice or necessity are willing recipients of these questionable IOUs, but the appetite for them is on the verge of satiation for those countries not guaranteed protection by the American nuclear umbrella. This Ponzi scheme rests on the thin edge of a wedge and the loss of faith in the American dollar and its government debt are teetering on the edge. Any other country except the military bully would have had its currency and debt devalued as Argentina and Brazil prove. Economic mills grind exceedingly slowly at times but delay is not to be misunderstood as destiny forestalled.

(The author is a retired neurophysician and an occasional writer. The views expressed are his own. Email- gpbhatt1@yahoo.com [1].)

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