as in Burma—would have no impact on the people making the decisions. Hillary Clinton has weighed in, arbitrarily enjoining both sides to resolve this "peacefully." Such comments are gratuitous when one side is trying desperately to avoid violence and the other is determined to provoke it, and they tend to reduce, if not nullify, the ability of responsible, pro-Western Thai leaders to influence events.

Legitimate institutions are forged over time as culture and belief systems, interacting with events and personalities, produce identity, consensus, and stability. When these underpinnings of civil order fail or are destroyed, they tend to be very difficult to reconstruct—especially from oceans away. And regional actors aren't without interests of their own. Thaksin is unpopular with China, which has repeatedly demonstrated it has no time for political figures in its bailiwick braying about democracy to secure Western support. And the PRC is well aware of the threat posed by cycles of peasant violence. It is not in its political or economic interests for the turmoil promoted by Thaksin to engulf a prosperous neighbor.

I recall a conversation over 20 years ago with MR Tongnoi Tongyai, secretary to the king. We were talking about Burma and activist Aung San Su Kiy, then as now under house arrest. He noted, "These democracy and human rights people think the PRC is the devil. They will get nowhere with that attitude."

The West may have an interest in installing its institutions in Thailand, but the devil wants a quiet neighbor. At this point, after weeks of upheaval, and with the prospect of more to come, many Thais surely crave the same thing. ■

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DEEP BACKGROUND

The National Intelligence Estimate is the supreme analytical document produced for Washington policymakers, reflecting the consensus of the 16 separate agencies that make up the intelligence community. NIEs can address a country, a topic such as drug trafficking or arms proliferation, or a specific issue within a country. They do not, however, spring up spontaneously. Rather, they have to be requested by a consumer, most often the White House but sometimes Congress or the Pentagon, and have to be approved by the National Intelligence Council. Selecting what or where gets written up is a highly politicized procedure as, by definition, NIEs are supposed to address "key national security concerns." The most notorious NIE ever was the 2002 Iraq report that got nearly everything wrong about Saddam Hussein's weapons of mass destruction and was used to justify invading and occupying that unhappy land.

Currently the National Security Council, acting on behalf of the White House, is embroiled in controversy over three NIEs, one of which is underway and two of which have been proposed. The one pending, on Iran, is the thorniest, and has been in progress for nearly a year. It was originally planned for the summer of 2009, but that deadline slipped to the autumn, and has now been prorogued yet again. The problem is that the analysts involved do not want to get burned a la Iraq 2002 and are "red teaming" to challenge every bit of information. The Obama administration would like to have a free hand on Iranian policy, which depends on an NIE that strongly suggests that Tehran might be hellbent on producing a nuclear weapon. But the analysts can find no evidence that is the case, so they keep going back to the drawing board. They are also struggling with the lack of any good intelligence on Iran's decision-making process and how the mullahs' government actually works. They note ruefully that 30 years of intensive spying on Iran by CIA has not produced any insights into the issues that should concern Washington, including Tehran's capabilities and intentions.

The two proposed NIEs are on Israel and Venezuela. It is noteworthy that a report on Israel is even being suggested by the White House. This would have been inconceivable even one year ago. But that NIE is likely to be stillborn as there is no way to deal fairly with the national security implications of the West Bank settlements and Tel Aviv's nukes without running into a firestorm from Congress and the media. Venezuela was the subject of an NIE back in the 1970s but not since Hugo Chavez appeared. Several Florida congressmen with ties to the Cuban exile community are pushing for a new NIE, knowing that it will demonstrate that Chavez is tied to two terrorist groups, FARC in Colombia and ETA in Spain, making him a state sponsor of terrorism. The White House is attempting to block the Venezuela NIE because Chavez would undoubtedly react by freezing the 11 percent of imported U.S. energy that comes from Venezuela, creating an instant gas price shock that would be very bad for the 2010 elections.

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The Trouble With T-Bills

How our last export industry might bankrupt us

By Charles Hugh Smith

KEYNESIANS CEASELESSLY claim that huge deficits are not just necessary to reboot the economy, they are essentially harmless. And the bond market's acceptance of 2009's unprecedented deficit of $1.4 trillion seems to justify their complacency. Indeed, since the Federal Reserve is committed to maintaining a zero interest rate policy, then the consequences of borrowing trillions and trillions seem modest.

But the "new normal" of trillion-dollar deficits does pose potentially interesting questions: Will this vast issuance of new debt ever exceed demand? What happens if buyers of all this low-yield debt become scarce?

The usual response is that global and domestic investors can never get enough of U.S. Treasury bonds because they are liquid—that is, easy to buy and sell—and are safe, backed by the full faith and credit of the U.S. government.

But Treasury debt, like all other bonds, has two funny characteristics the Keynesians either dismiss or ignore: the government has to pay interest on that debt, and the bond market, not the Fed, sets the interest rates on Treasury bonds.

In actuality, the Fed has only a few levers to pull in controlling interest rates. It sets the Federal Funds Target Rate for interbank lending and recently it has taken to buying mortgages and Treasury bonds directly to keep those rates low. But the ultimate arbiter of Treasury yields is the global bond market, not the Federal Reserve.

If buyers don't snap up bonds with low yields, then the yield has to rise to the point that buyers are enticed to step in. If buyers become scarce, then the interest rate rises, and the federal government has to pay more interest.

Why do we care? For the same reason that the Keynesians suddenly fall silent when the topic of interest rates comes up: rising rates on trillions of dollars of debt would obligate the government to pay a lot more interest than it currently does. That would squeeze spending on other programs and raise interest rates throughout the economy, rippling into mortgages, corporate bonds, credit cards, and other consumer lending.

The Keynesians also never mention what happens to real estate and the stock and bond markets when rates rise: like all interest-sensitive markets, they tank. Real estate tanks because mortgage rates and prices are on a see-saw: when rates rise, prices must drop to maintain the same monthly "nut" (mortgage payment). Stocks tank because investors prefer the safety of high-yielding bonds to risky low-yield stocks. The market for existing long-term bonds also tanks because the market value of a bond is inverse to the yield: when rates fall, long-term bonds at high yields rise in value, and when rates rise, then long-term bonds with low yields plummet. If you can get 8 percent on a new bond today, who wants a bond paying 4 percent for ten years? Answer: nobody, unless the price of the bond falls by half, effectively boosting its yield to 8 percent.

So That Which Cannot Be Spoken among Keynesians is this: borrowing insanely large amounts of money at low yields boosts the odds that buyers will eventually hesitate, which will then drive rates higher, with dire consequences to the asset classes noted above.

In the popular imagination, Federal Reserve Chairman Ben Bernanke's fanciful imagery of helicopters strewing bundles of freshly printed cash over the parched recessionary landscape explains where the government's deficit funding comes from: when it needs more money, it just prints it.

But if it were that easy, why does the Treasury go through all the trouble of selling bonds? Because ours is a credit-based system. The federal government does not just print $100 bills to fund its stupendous deficit. It sells bonds of varying maturities and yields, and investors holding a bond to maturity get their money back—with interest.

To fund the $3 trillion deficit of the past two years, the Treasury has had to sell $3 trillion in new bonds. At the same time, it has also had to replace ("roll over") all the existing bonds that reached maturity in those years. As the old saw has it, a trillion here, a trillion there, and pretty soon you're talking real money.

But who's buying these bonds? For reasons of little interest to anyone but economists and policy wonks, the Treasury has had little trouble finding buyers for those trillions of dollars of new bonds. But as the Wall Street caveat goes, past performance is not a guide to future results, and there are legitimate reasons to ask if buyers of low-yield bonds will always be so abundant.