



## Back in the US, Back in the US.....Back in the USSR

"The system of capitalism, of the free market, is a system of freedom, of justice, of productivity, and these three virtues cannot be separated. Each flows out of each other."

Henry Hazlitt (American Journalist 1894-1993)

While all eyes are fixed on the next move by Vladimir Putin after gaining Crimea without firing a single shot, one has to wonder what the expanding implications of Russian policy are going to be. Since the previously elected Ukraine President, who was an ally of Russia, was ousted for ordering troops to fire on civilian protestors, the rhetoric and troop movements keep heating up. The Russians have regained Crimea, which should be noted was part of the Soviet/Russian empire for 200 years, and where the Russians still have major interests, including a major naval base, spreading out to the Eastern Ukraine where they have natural gas pipelines.

Many Ukrainians in the east support Putin and there are historical precedents, such as the German invasion of Sudetenland (Part of Czechoslovakia) in 1938, and that didn't end amicably. So when some investors see these headlines, they get restless. But without dismissing the impact of these events on the peoples of the affected regions, from a global economic standpoint the impact is nominal. Yes, the Russian stock market is down 30% at one recent point year over year, while the rest of the world has experienced pretty good returns, but there are precedents to guide us for these events.

A close example would be in August 1968, when Soviet troops invaded Czechoslovakia to put down an anti-Communist revolt, the S&P 500 fell immediately, but was up almost 3% one month after the invasion. That doesn't mean the Soviet invasion boosted the markets, it just

means in the broad scheme of things, the invasion had little influence on global markets.

I don't pretend to understand all the nuances, but don't be surprised if there is a negotiated "autonomy" for the Ukraine's Russian speaking areas. Ultimately, Putin will do whatever he believes is in Russia's interest, which is probably an intact Ukraine run by an ally. If he forces the issue, the Ukraine's new government will simply push the rest of the country towards the West and Europe, which is the last thing Putin wants. Fixing an election, which he has been known to do, would be much easier. That would still give Russia its military bases, pipelines, and other economic interests, without a full blown war, civil or otherwise.

In the aftermath of the October revolution of 1917, even Lenin discovered it was a lot easier to talk about a command economy than to implement one. The divisions between peasants and townspeople became problematic, and with commerce ruined in the aftermath of civil war, a barter economy evolved. What evolved were townspeople taking clothing and other items on trains to rural areas to exchange them for food supplies. As the power (and wealth) of the "Kulak" farmers grew, the Bolshevik planners decided to take over the grain and food stuff production through a harsh requisition program.

By demonizing the "rich" Kulak farmers, Lenin imposed War Communism from 1918 to 1921, a centrally planned economy that focused on the needs of the army by prohibiting private trade, and nationalizing all large industries.

By 1920, even money was replaced by a system of state rationing.

In the cities, people were going hungry, while in the rural areas the peasants were revolting against requisition. So Lenin did something outright amazing as any Socialist would do: He introduced higher taxes to replace requisition.

The abolishment of taxes had been central to the War Communism platform, but Lenin soon realized that socialism was the wrong economy to build wealth. Socialists all around the world soon learned that socialism could only make a transition from countries that had an already developed capitalism system in place.

After WWI, Stalin had hoped for a socialist revolution throughout Europe. Germany however "elected" Hitler and Italy went fascist with

Mussolini, leaving Russia as a socialist nation of one. Putin must be feeling that way right now and although Russia has somewhat built its economy on the back of energy revenues to the point that maybe Vladimir is having Russian Empire desires once again. However, it's doubtful the people of Russia will buy into that dream, despite Putin's reported 75% approval rating.

Fast forward almost 100 years to the bastion of democracy and capitalism, the United States, and despite having an approval rating with his own people that is 30 points below that of Putin's, and one of the lowest ever for a US President, it is remarkable how many similarities there are. The actions and rhetoric of the past 5 years have portrayed successful people and businesses as bloodsuckers, plunderers of the poor, where profit is a bad word, while the "state" has been busy with the de facto nationalization of large industries:

- Energy
- The auto industry
- Mortgages
- Student Loans
- Healthcare

Just as the War Communism process was expensive, the entitlement and Welfare Society expanded under President Obama has an insatiable appetite. While it has straddled outright Socialism, it also knows it needs an underpinning of wealth to succeed; wealth that only capitalism can create.

So having run up the US debt from about \$10 trillion to almost \$18 trillion ([www.usdebtclock.org](http://www.usdebtclock.org)) in a short 5 years, it still amazes me how the mainstream media has given him a pass in that area.

Now the latest message from the White House is a new assault on corporate balance sheets. Pointing to record corporate earnings, this administration, which can't get anything passed through constitutional means via Congress, has now decided to use executive orders in combination with public condemnation of these "greedy" entities. The message on the left is now that capital is being rewarded more than labour, so the people should stand up and revolt.

Currently, America wakes up each morning hearing that work isn't glorious unless it's the ideal/perfect job. We hear more and more, how the state is needed to coddle its citizens from cradle to the grave. Against this backdrop, those that drive to be extraordinary, to live by

the old values of integrity, hard work and enrichment face scorn and public belittlement led by the highest office in the land.

But a sleepy nation of malcontents and entitled citizens will not be able to compete or excel in the new modern world, where a possible war with Russia is not considered the enemy, but where global economic competition is the new war. That Utopian crowd that envisions a world where there is no rich and no poor have held sway over Europe for decades, to the point their destructive welfare societies imploded in 2011, and now will face high unemployment rates (for many youth unemployment over 50%) for decades to come until they can rebuild great economies via capitalism.

The USA is currently on the same destructive path.

The next major export that shapes wealth and opportunity into the future will be human brainpower from outside North America. According to a recent release by Citigroup, they predict India will be the globe's largest economy by 2050, and other nations like Indonesia and Nigeria will be in the top ten. Interestingly enough, no European nation, even mighty Germany, are on the list, and Mother Russia?.....in sixth place.

In the meantime, there is one thing that will keep Americans clinging to capitalism and free markets (along with their guns, bibles, and love of freedom) and it's remembering that capitalism, despite all its faults, is the only system where former "serfs" can become wealthy landowners in half a dozen years.

"The whole gospel of Karl Marx can be summed up in a single sentence: Hate the man who is better off than you are. Never under any circumstances admit that his success may be due to his own efforts, to the productive contribution he has made to the whole community. Always attribute his success to the exploitation, the cheating, the more or less open robbery of others. Never under any circumstances admit that your own failure may be owing to your own weakness, or that the failure of anyone else may be due to his own defects.....to his laziness, incompetence, improvidence or simple stupidity."

(Henry Hazlitt, on envy and Marxism)

Stay tuned,

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