

Investors and traders are always looking for the NEXT trend. For the high frequency trading platforms, there is no consideration of a trend, since scalping thousands of times each day is the objective. If you manage a mutual fund, pension, or hedge fund, or if you are a retail investor who owns stocks, bonds and mutual funds, then you are relying on a longer view, which in today's world has become the next few brokerage statements. This article is about a trend that spans generations, yea centuries, and seems to have gone widely unnoticed as we continue to discuss where we have been and where we are going. In October 2009, I released a paper titled "[Jerusalem: City at the Crossroads of History](#)", where I listed the following three themes. Before you go any further in this article, you need to consider these three themes. If you agree, continue reading the remainder of the article. If you do not agree, then save it, and return to it in a year or two when I am confident they will have become much clearer.

- Money has brought us to a point where we are globally connected than at any other time in human history;
- Morality, especially at the foundational level of our financial system, continues to erode; and
- Power continues to shift into fewer hands.

China: State Capitalism

Recently, I returned to my copy of [The Global Economic Crisis: The Great Depression of the 21st Century](#), a work edited by Michel Chossudovsky and Andrew Gavin Marshall. The book was released in 2010, and is an excellent collection of writings by several writers. One of the articles mentioned a report released in November 2008 by the National Intelligence Council and the Office of the Director of National Intelligence. The report, [Global Trends 2025: A Transformed World](#), presents what the authors believe had been contributing factors to China's recent financial success. The following was taken from chapter one, page 8, under the heading, *State Capitalism: A Post-Democratic Marketplace Rising in the East?*

“The monumental achievement of millions escaping extreme poverty underpins the rise of new powers – especially China and India – on the international scene but does not tell the whole story. Today, wealth is moving not just from West to East, but is concentrating more under state control. In the wake of the 2008 global financial crisis, the state’s role in the economy may be gaining more appeal throughout the world.

With some notable exceptions like India, the states that are beneficiaries of the massive shift of wealth – China, Russia, and Gulf states – are non-democratic and their economic policies blur distinctions between public and private. These states are not following the Western liberal model for self-development but are using a different model – ‘state capitalism’. State capitalism is a loose term to describe a system of economic management that gives a prominent role to the state.”

To be more specific, the report addresses the business forms that have contributed to the success of “state capitalism”.

“Having amassed huge assets, Gulf Cooperation Council (GCC) and China officials have increasingly used forms of sovereign investment. States entering private markets are doing so partly for the prospect of higher returns. SWFs (Sovereign Wealth Funds) are the most publicized but only one of many sovereign investment vehicles. ...

In the 1990s, many economists predicted that SOEs (State Owned Enterprises) would be a relic of the twentieth century. They are wrong. SOEs are far from extinction, are thriving, and in many cases seek to expand beyond their own borders, particularly in the commodities and energy sectors. SOEs, especially national oil companies, are likely to attract investment for the surfeit of ready capital that these states are accumulating. Much like SWFs, SOEs serve a secondary function as pressure valves, helping to relieve inflation and currency appreciation pressures. They also can act as vehicles for increased political control. To extent state-owned firms reach across state borders, they may become vehicles geopolitical influence, particularly those dealing in key strategic resources such as energy.”

Let's pause for a moment and consider what we just read from this major study on global trends produced every five years by the United States Office of the Director of National Intelligence and the National Intelligence Council. First, we learn that global wealth has moved from the west to the east (specifically China), and that this success is due to their economic model that is "concentrating more {wealth} under state control" rather than "the Western liberal model for self-development". Next, Sovereign Wealth Funds, money controlled by the state, have "amassed huge funds". Last, the opinion of this major US intelligence report is that economists who thought State Owned Enterprises were a relic of the past have not only been "wrong", but that these structures have been "thriving" and "seek to expand beyond their own borders". They have helped China economically by "helping relieve inflation and currency appreciation" and politically, since they have served as "vehicles for increased political control."

Am I crazy, or has this national intelligence report, released by the highest levels of intelligence in the United States, supported a view that Communist China is a role model for future wealth in the world? What about the need for less government intervention, self-determination, and free markets?

Clearly there are others who do not support the views of this high level US intelligence document. Let's start by examining a few problems that the "state capitalism" model has fostered; sadly, something that the United "Socialist" States of America, and the European "Soviet Socialist" Union have allowed because of their own central government planners, addicted to ever accelerating loans from global central bankers.

"There is a crisis of confidence that is unfolding in China that is likely to end in a full scale capital flight and a disorderly collapse in both political and economic cohesiveness. The lowering of reserve requirements for Chinese banks, while reported in the media as a loosening of credit, is more likely a sign of early capital flight....

The exponential growth in Chinese debt and mal-investment and the very unlikely return of Western demand means the system will become insolvent in the short to medium term.

The number of investors who have losses due to widespread fraud is growing exponentially and the list of those that have racked up substantial losses includes some of the leading investors of the world. The list includes investment legend Anthony Bolton, one of Europe's most well-known fund managers, and legendary investment icon John Paulson. They have been the victims of financial fraud, the scale of which has never been seen in history...

These frauds are extremely sophisticated and have gone undetected by the large audit firms.

One of the central players in uncovering Chinese investment fraud is the research firm Muddy Waters, who recently published a white paper entitled Frauducation Part 1. In this paper the author outlines how Chinese businessmen are taught and sponsored by experts, who sponsor and coach experts who then sponsor and coach fraudsters in subjects like falsifying records, accounting assets, and various methods needed to pull off grand frauds. When a character like John Paulson gets taken for nearly half a billion, there is a lot of motivation on the criminal side to get things right." [[Why China is likely to end in a disorderly economic collapse](#), by Craig Tindale at DebtWatch in thebull.com.au, April 6, 2012]

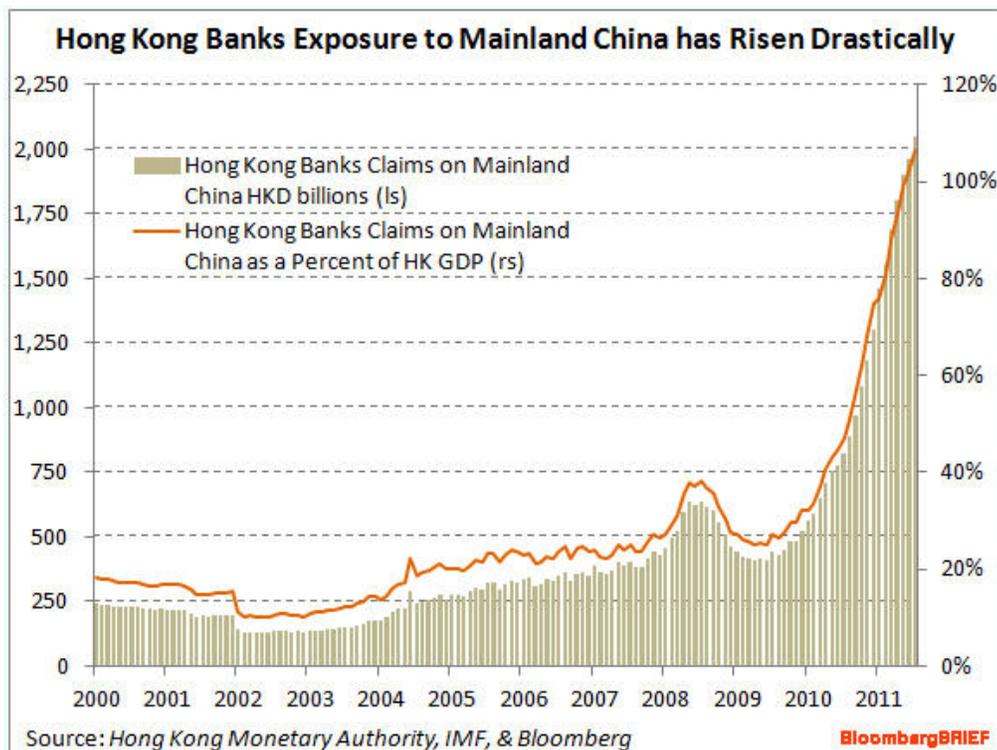
"Zoomlion, a construction machinery company on the frontline of China's slowing economy, is seeking Rmb140bn (\$22bn) in fresh credit, fuelling fears that the company is at the centre of a growing debt bubble.

The complex web of financing in the concrete sector highlights the ways in which the property and infrastructure sectors in China are developing to avoid the authorities' attempts to restrict their access to credit as Beijing battles to deflate a property bubble and rebalance the economy.

Hunan-based Zoomlion, which is listed in Shenzhen and Hong Kong, told shareholders on Sunday that they would be asked to approve the new borrowing facilities – much bigger than its \$12.3bn market value – at its annual meeting at the end of June.

However, concerns around its use of debt to sell construction and concrete machinery and its exposure to the property and infrastructure sectors have already made Zoomlion the most shorted stock on the Hong Kong exchange for several months, according to DataExplorers.

Zoomlion has grown extremely rapidly in recent years with total sales of Rmb46.3bn in 2011, more than five times the level of 2007. The concern is that increasingly it is funding such sales with loans to customers who are becoming less likely to be able to repay their debts.” [[Zoomlion Fuels Fears Over China Debt Bubble](#), FT, June 4, 2012]



And consider these comments, released by Gordon Chang on State Owned Enterprises from his work, [The Coming Collapse of China](#) (2001). While the book is now 11 years old, the structure of “state capitalism”, as shown by the DNI report in November 2008, is still firmly in control.

“State-Owned Enterprises or SOEs, the product of Stalinist notions of economic development and Maoist ideas on social planning, are

uneconomic. The state-owned banks are hopelessly insolvent, as a group the weakest in the world. ...Corruption eats away at the fabric of the economy, and foreign currency flees the country. (pg xvii)

SOEs have been called 'one of the world's biggest and best collections of obsolete factories and equipment'. (pg46)

SOEs are also resistant to change because they are run for the benefit of the state, or, more precisely, as extensions of the state. (pg48)

The city (of Leshan, China) forced Golden Summit (a state-owned business) to take over Dada River Steel in late 1997, when that company, also state-owned, could not pay rioting workers. That was after Golden Summit was required by a ministry in Beijing to absorb three cement factories in faraway Shandong Providence. (pg 49)

"SOEs are the primary provider of social services, they are run as extensions of the state, and they are the target of Party meddling. There is yet another reason, more important than the rest, why SOEs are resistant to change. These enterprises, especially the larger ones, exist in a system in which they cannot fail.....SOE managers know that Party cadres cannot let important enterprises collapse...SOEs are the "public assets" that give the legitimacy to the 'Party of Public Assets', the literal name of China's leading political organization. China did not develop the concept of moral hazard; it just enshrined it as permanent policy" (page 50).

"After more than two decades of growth and cascading foreign investment, China produces too much of most manufactured goods. Yet the old system and thinking continue. These days, yearly overproduction accounts for perhaps two to three percentage points of growth of gross domestic product. Overproduction, however, carries a real cost. It is uneconomic, even irrational. Nonetheless, the central government encourages it to create employment. Subsidies keep the grossly inefficient system going."(pg51)

So I asked you, whose view of “state capitalism” more accurately reflects the history of central planners seeking to protect their own power, both politically and financially, while wasting vast sums of money by always bailing out those who are “too big to fail”, thus guaranteeing the public will move deeper and deeper in debt until failure is the only alternative left. Frankly, I am appalled by the silence in the financial industry and the public regarding the constant Marxist principles that have taken over the capital markets in the West. Did the socialist central planning bankers in the West teach the Chinese about “too big to fail” policies, or the other way around? Either way, the problem with always rescuing the businesses most closely aligned with “the Party”, is that too big to fail eventually becomes too big to possibly save, both leading to extremely negative consequences. What honest thinking individual believes that adding trillions more in debt to save us from the trillions we should never created will lead us back to “stability” and a global economic “recovery”?

At this stage, what I have written may sound so preposterous to the individual who still believes that the US and Europe represent capitalism and China represents communism, that they can not see a connection over generations between the East and West. Yet, I believe the following explanation from Dr. Antony Sutton, in his work, **Wall Street and the Bolshevik Revolution** (1974), helps us almost 40 years later to grasp why the concentration of money continues to move into fewer hands, the deterioration of morality in the system continues to decline, and why power to protect the “monopolists” has moved from the national to the global level.

“..one barrier to a mature understanding of recent history is the notion that all capitalists are the bitter and unswerving enemies of all Marxists and socialists. This erroneous idea originated with Karl Marx and was undoubtedly useful to his purposes.... The open-minded reader should bear two clues in mind: monopoly capitalists are the bitter enemies of laissez-faire entrepreneurs; and, given the weaknesses of socialists central planning, the totalitarian socialist state is a perfect captive market for monopoly capitalists, if an alliance be made with the socialists powerbrokers.” (pg17)

“But Doug, with all the brilliant people across Western Society, the decline of capitalism to be replaced with “state capitalism” could never happen in the US and Europe.”

I would LIKE to believe that idea, however the EVIDENCE does not support this theory. At this stage in this article, I could easily argue that the most powerful political/financial ideas fostered in the West and East over the last century have been a movement toward a global form of “state capitalism”, with money controlled at the global level, the concept of national sovereignty repeatedly under attack, and capital markets moving toward “vehicles for increased political control”. However, this public article must come to an end. However, a plethora of history can be found in the archives of The Investor’s Mind back to its origination in January 2006, [still accessible today to all paid subscribers](#) of current newsletters and trading reports.

While I have found only a small group of individuals willing to discuss such a possible development in history even as enormous developments in the world of money and politics take place before us ever month now, there has been a theme constantly repeated to me over the last year; “they will keep the markets up until the election”. This idea reflects a clear understanding of the fact that the state is interfering in our markets on a regular basis, and they do so for public perception, and it is deceptive. Is it not then amazing to see how headlines from the financial press continue to groom us for MORE state intervention, to the point we can no longer fathom a time when the state will NOT manipulated debt and equity markets for “our good”?

[Dow Surges Past 13,000 on Hopes for Stimulus](#), MSNBC, 7/27/12

[Bernanke Hints at More Stimulus, Market Rallies](#), CBS Money Watch, 7/16/12

[Markets Rally After Comments from ECB’s Draghi](#), Morningstar, 7/26/12



Sadly, the view that politically it is always beneficial for “the state” to foster rallies does not help explain why the current administration in Washington, voted into power in November 2008, saw the massive decline of 2008 in global markets and the CRISIS as beneficial.

[In Crisis, Opportunity for Obama](#), WSJ, Nov 21 '08

“As the economic signs grow ever more grim, the opportunities for the Obama administration to drive through its agenda actually are getting better.

This opportunity isn't lost on the new president and his team. ‘You never want a serious crisis to go to waste,’ Rahm Emanuel, Mr. Obama's new chief of staff, told a Wall Street Journal conference of top corporate chief executives this week.

He elaborated: “Things that we had postponed for too long, that were long-term, are now immediate and must be dealt with. This crisis provides the opportunity for us to do things that you could not do before.”

While Rahm Emanuel's comments are certainly appropriate in light of the massive collapse of financial asset prices and the rapid stalemate in an attempt to hold anything considered liquid in the fall of 2008, is it possible that the expansion of "state capitalism" that could be used as "vehicles for increased political control" was also part of his thinking and others who took positions in the executive branch in early 2009?

In 3 months, it will have been 4 years since that date, and for an answer to the question I just posed, I would encourage you to watch a short video released by retired Lieutenant General Jerry Boykin, "[Marxism in America](#)", and make time to review the documentary, [Agenda: Grinding America Down](#).

No matter what level of leadership you take in the world and in our markets, let me also encourage you to consider the answer given by Niki Raapana and Nordica Frederich on their website, to the question, "[What is the Hegelian Dialectic?](#)" [developed by Frederick Hegel, who along with Karl Marx wrote the Communist Manifesto in 1848]. For those who have come to understand that our financial markets are more of a battlefield than a Sunday picnic between the private sector and the "state monopolists", then you will see why this idea is so essential for managing money in today's new financial order.

"The Hegelian dialectic is the framework for guiding our thoughts and actions into conflicts that lead us to a predetermined solution. If we do not understand how the Hegelian dialectic shapes our perceptions of the world, then we do not know how *we are helping to implement the vision*. When we remain locked into dialectical thinking, we cannot see out of the box." [Italics mine]

May we never forget, trusting in a political/financial structure that moves toward socialism, which Lenin said was the first step toward communism, only needs to have men turn over their thinking and the "success" of their financial decisions to "the few".

"More accurately, the law becomes what a few people in some branch of government think will promote the present sociological and economic good. In reality, the will and moral judgments of the majority are now influenced by or even overruled by the opinions of a small group of men

and women. This means that vast changes can be made in the whole concept of what should and should not be done. Values can be altered and at almost unbelievable speed.” [**Whatever Happened to the Human Race?** (1978) Francis A. Schaeffer & Dr C. Everett Koop, pg 25]

If you are interested in our most comprehensive research and trading commentary, consider a subscription to [The Investor's Mind: Anticipating Trends through the Lens of History](#). I cannot think of a better time to develop one’s thinking, and to consider ideas outside the generally accepted box.

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