

From Russia with Love

Since the dismantling of the Iron Curtain almost 15 years ago and the opening up of Russia and other former Soviet-controlled states to capitalism and democratic elections, we have been lulled into thinking that our once formidable political arch-enemy had been brought safely into the Western fold. Lately, there have been telltale signs that Russia, i.e., the most powerful country in Eastern Europe, is about to slam the door on capitalism and cancel its experiment with democracy, and that could mean big trouble for the US economy.

In case you missed it, Russia has now declared its own version of the War on Terrorism. The recent bloody siege of a school in southern Russia was the final catalyst. According to Russian President Putin (i.e., a former head of the KGB), this newly-adopted national priority to fight terrorism demands the centralization of most political decision-making and political appointments.

As a measure of Putin's consolidation of power, he is in the process of forcing one of Russia's giant oil companies into bankruptcy, although Putin denies it is an *ad hoc* Government takeover. Regardless of the tactical games being played in the Russian oil patch, this means that the US increasingly will have to play ball with Russia if the US wants Russian oil at reasonable prices. The ramifications of this are mind-numbing, especially since Russia is now the largest exporter of oil and presently holds \$95 billion in foreign exchange reserves.

More and more, it is becoming clear that the Islamic military strategy is designed to drive a wedge between the US and Russia, the US and China, and possibly Russia and China. Essentially, the soaring oil prices attributed to the Middle Eastern conflicts put the US and China in harm's way because of their heavy reliance on imported oil. Russia is a major player in world oil markets and is considered to be an ally of Iran, which is also a major oil exporter that is increasingly hostile to the US.

Meanwhile, the US continues to lose jobs hand over fist to China and is not happy about it. High oil prices will render the US even less competitive in world trade since China has an unbeatable low cost of labor. This will lead to greater trade and budget deficits and put an immense amount of pressure on the US Dollar as the world's reserve currency. Inevitably, it likely will lead to a political battle (i.e., trade war) between the US and China. Somewhere down the line, Taiwan will become a sacrificial lamb if China gains the upper hand in this trade war.

What are the odds that Russia and Iran have formed a very powerful secret coalition and are backing the insurgents in Iraq and Saudi Arabia? If this coalition can dismantle the status quo in both Iraq and Saudi Arabia, Russia and Iran will control the price of oil at the margin and can become masters of the energy-guzzling universe...especially since neither country is particularly vulnerable to attack by Western armies.

In my humble opinion, it is absolutely imperative that the US begin to remove itself from the oil standard by promoting the commercial development of alternative energy platforms. Our elected officials can start by underwriting a tax credit for everyone who signs up to buy an energy-saving vehicle or to use electric power generated by the elements of wind, water and sun. Fortune Magazine seems to agree. The cover of its August 23 issue is captioned “*HOW TO KICK THE OIL HABIT...America’s addiction to foreign oil has never seemed more dangerous. It won’t be easy to quit. Here’s a four-part plan that gives us a big headstart.*”

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