

Quote of the week : “It is critical to develop now the tools needed to deal with potential future crises without injecting public funds” - Stanley Fisher (*on May 14th during the Senate hearings prior to it confirming his nomination as a Governor of the Federal Reserve Board*).

The situation In Israel saddens me on several levels. I equally unexpectedly & suddenly lost a brother of about the same age, know how it affected my parents until the day they died & have often wondered myself how he might have turned out, had he lived. I regret that Netanyahu once again has failed to act like a statesman & fallen in the same trap as some of his predecessors by overreacting to what may have been an action by a couple of individuals (thereby giving the miscreants power out of all proportion to their number). I have a deep sense that his way is **not** the way to go, and fear that it may further tarnish the IDF’s reputation & advance the day that Israel as the world has known it for the past 66 years will cease to exist. It concerns me that his adoption of collective punishment, & what many people may deem ‘bully tactics’ if not outright ‘state terrorism’, will further erode Israel’s already low status & respect in the global community. And perhaps most poignant of all for me, the action of Israeli troops ordering the families of the **suspected** kidnappers/killers out of their homes before dynamiting them to smithereens brings back memories of the day during the winter of 1944/45 that, after Resistance fighters had eliminated a German collaborator in my home town, German troops in reprisal went to a row of eight houses nearby, ordered the occupants out, set fire to the curtains & burned them to the ground, before going to the city jail, picking out a couple of dozen inmates at random & executing them in the public square.

On June 30th the IMF issued its latest report on the central banks’ aggregate foreign exchange reserves. It showed they had grown from a total of US\$1,936TR-equivalent on December 31st, 2000 through US\$5,253TR at the end of 2006 to US\$11,865 on March 31st of this year; in other words, while global GDP had about doubled during the period, FX reserves had grown about six-fold (& almost tripled from 4.7% to 14.8% of global GDP). It also showed that during the period the share thereof of US dollars & Yen had shrunk from 71.1% to 60.9%, & from 6.1% to 4.0%-, while that of the Euro & sterling had grown from 18.3% to 24.5% & from 2.8% to 4.0%-, respectively - *While, possibly intentionally, it left the yuan out of the equation, what was worrisome was the observation by one ‘too-big-to-fail’ bank that “since January speculative investors have been moving out the risk curve” ... (and) “we expect the central banks to be broadly moving in the same direction over coming quarters”*. (bolding added for emphasis; for it makes one wonder where the system is headed when central bankers start chasing yields (which they have no reason at all to do since their cost of money is zero).

A study made public on June 30th by the San Francisco Fed, Janet Yellen’s alma mater, opines that the future of inflation depends on the long-term unemployed. It says that if they are not re-integrated into the work force inflation could rise above 2% before the end of 2015, but that if they are, there will be lots of people for employers to hire without offering higher wages. While Janet Yellen expects the latter to be the case (which is at odds with her wanting to see workers’ wages grow in real terms), & hence dismissed the latest inflation figures as “noise” despite the recent big increases in the cost of non-discretionary consumer goods, a growing number of economists believe they won’t (*be re-integrated*) because their skills have eroded or they have otherwise become less employable (*or because they have voluntarily or involuntarily retired?*).

On June 13th the Senate, having approved Obama’s nomination of Stanley Fisher (age 70) to the Federal Reserve Board on May 21st, confirmed his appointment as its Vice-Chairman by an, in this day & age unusually strong, 63-24, vote for any Obama nomination. This had been six months in the making; Obama nominated him last December for the Vice Chairman’s job, long before the Senate even confirmed Janet Yellen as Bernanke’s successor effective last January

31st. Fisher is likely to become a burr under Yellen's saddle. He has a much stronger CV; having taught at the University of Chicago & MIT, he left academia in the late 80's for senior executive jobs at the World Bank (briefly), the IMF (1994-2001) & Citigroup (2001-2005), before becoming Governor of Israel's central bank (from which job he resigned in the middle of last year, midway through his second five-year term). He also has a much stronger network in the central banking conclave (for which the San Francisco Fed is a mere backwater) : at MIT he was Bernanke's Ph.D. thesis supervisor & taught ECB President Mario Draghi, and during his eight year tenure in Israel he received nothing but plaudits, & straight "A's", for his performance. And while the Fed has a tradition of taking its time reacting to new developments (*therefore often 'leading from behind'*, something Yellen seems intent on continuing, Fisher believes in being pro-active, in quickly reacting to changes in the economy's needs (he was the first central banker to cut rates at the onset of the 2008 financial crisis & the first to raise them again at the first sign of a financial recovery), & in remaining flexible & unencumbered by any policy promises (thus he has been vocal critic of the 'forward guidance' mantra that seems to have become a sine qua non for central bankers like Yellen, Draghi & Carney). And he has had "experience in managing global financial crises ever since the Mexican crisis in the 90's" - *all of this, & especially his track record in Israel, could make him a strong, if not overwhelming, counterweight to Yellen on the FOMC where, after all, she has only one vote out of twelve & must rely on her stature & her persuasive powers to get its members to follow her where she wants to go.*

A Brookings Institution survey of the GDP of 300 metropolitan economies found they generated half the world's economic output. And the Globe & Mail's Report on Business Magazine used its findings to calculate how much some major cities contributed to their countries' GDP in 2012:

Canada (\$1.8TR)	Toronto 14.0%	Montreal 8%	Vancouver 6%	Calgary 4%
China (\$8.2TR)	Shanghai 6%	Beijing 5%	Shenzen 4%	Tianjin 4%
France (\$2.6TR)	Paris 26%			
Japan (\$6.0TR)	Tokyo 25%			
Russia (\$2.0TR)	Moscow 26%			
US (US\$15.7TR)	New York 8%	Los Angeles 5%	Chicago 3%	

So in Canada it took three cities to account, & in the US & China their three or four major cities didn't even come close to accounting, for the share of GDP of the capital cities of France, Japan & Russia. And in both Canada & the US, the small populations of their capitals eliminates them from being top GDP generators.

Monday June 30th was a sad day for democracy in Canada. That day there were four federal by-elections in Canada, two in the Toronto region, and two in Alberta. In the Northeastern Alberta oilsands riding of FortMcMurray-Athabasca there was an all-time record low turnout of 15.2%-, & the Conservative candidate won the seat with the support of just 7%-, of the riding's 84,000 registered voters & in the other Alberta riding, McLeod in Southern Alberta, the turnout was only a marginally better 19.6%, the second lowest ever recorded, & the winner was elected with the support of only 13.0% of registered voters. In the two Toronto ridings, however, turnouts were not all that bad, at least not for a by-election, at 29.4% & 31.6% respectively, & both went Liberal, one each at the expense of the Conservatives & the NDP. If the Prime Minister had

expected the ploy of scheduling the by-elections for the Monday of a super-long weekend (Tuesday was Canada's National Holiday, & therefore many people took Monday off to give themselves a four day weekend), he must have been disappointed. And it is beginning to look as if more & more if Canadians have so tuned out Prime Minister Harper that, no matter what dumb comment or thing Liberal Party Leader Justin Trudeau makes or does, they see him as the lesser of two evils.

Chinese President Xi Jinping will visit South Korea this week, primarily for talks with its President (whom he has so far met five times). In doing so he is breaking a 20-year tradition by not going to Pyongyang first (in fact he is not going there at all & has never even met its leader, Kim Jong Un). For the latter has gotten himself in Xi's bad books by failing to recognize who is the alpha male in their relationship & by not being deferential enough to his sole ally (& protector). Last year North Korea carried out its third nuclear test despite Beijing advising it not to. Earlier this year Kim had his uncle, Jang Song Thaek, who had been pushing for closer commercial relations with China, executed. Recently he has been angling for greater Russian & Japanese investment (to reduce his undue reliance of China). And finally, a week or so ago, in what can only be interpreted as an "up yours" gesture, North Korea fired two Scud-type missiles off its East Coast, following that up a few days later with a trio of shorter range ones.

In Seoul Xi's primary objective will be to try & exploit the friction between Seoul & Tokyo, the US' closest allies in the region, over overlapping territorial claims in the East China Sea, Prime Minister Abe's visit earlier this year to the Yasukuni Shrine¹, and the long-festering anger among all Koreans about the treatment of their countrymen by Japan prior to, & during, WW II (especially those forced to be "comfort women for Japanese soldiers). But he will also try & assuage South Korea's concerns about his regime's more assertive posture in the region, and smooth its feathers over the recent clashes between Chinese fishermen & South Korea's Coast Guard in the Yellow Sea².

Under the terms of the agreement by which Hongkong reverted back to China, the Chief Executive for the "Hongkong Special Administrative Region" is elected every five years, most recently in 2012, by a special 1,200 member group *stacked with Beijing sympathizers & acolytes*. While in 2007 Beijing promised the people of Hongkong that in the 2017 election they could elect him/her by universal suffrage, it has since become clear that it intends to retain control by giving Hongkong voters only a choice between candidates it will have & approved. July 1st is the anniversary of the end of the British era in Hongkong, & usually a day for protest rallies. This year in advance of that date the pro-democracy movement conducted an unofficial

¹ the memorial to Japan's 2½MM war dead, incl. over a thousand convicted war criminals.

² The focal point thereof is near the Yeonpyeong Island so close to the international border between the two Koreas & to the North Korean coast that in 2010 North Korea subjected it to an artillery bombardment. It started when Pyongyang leased some crab fishing rights just North of the Island, but on its side of the international line, to Chinese fishermen. But some may have found the fishing on the other side of the line more to their liking & have been found fishing as close as 500 meters from the island's coast line, with South Korean Coast Guard vessels chasing them away, or arresting them if they could (as of May 12th, 80 Chinese vessels had been arrested & fined a total of US\$1.2MM). But since the April 14th Sewol ferry accident, most Coast Guard vessels have been deployed at the accident site to look for bodies, & the number of Chinese fishing vessels grown exponentially, according to one observer retreating across the line when a (now rare) Coast Guard vessel shows up until the coast is clear again.

referendum that ended on June 29 in which 787,767 voters (22% of those eligible) voted in favour of free elections. This prompted an editorial the next day in the Global Times, a Beijing mouth piece, saying pro-democracy activities are a “bad idea” & warning Hongkongers against being “kidnapped” by radicals, and an article in the China Daily that autonomy for Hongkong “ignored economic realities”. After that, the annual July 1st rally was the largest in a decade, with estimates of the size of the crowd ranging from the organizers’ 510,000+ to the police’s 98,600.

All this pro-democracy stuff is making Beijing antsy³, concerned any concession in Hongkong could spread to nearby Shenzhen or Guangdong, & from there to who knows where. This increases the probability of another Tiananmen Square-like moment when the PLA units stationed in the city to ‘restore order’. These units have, quite deliberately, been kept away from life in the city & sequestered in their barracks, with no access to the Internet & no cell phones, and only one phone call a week to their families on the mainland, so as to avoid them developing empathy with the locals that would make them less reliable if ever needed for forceful intervention. So they spend their days training & studying Marxist theory & their evenings watching China’s state TV (that portrayed the July 1st pro-democracy rally as “300,000 people celebrating the anniversary of Hongkong’s return to the Motherland”).

The “one country, two systems” idea, which was the basis for the UK-China agreement on the 1997 transfer of power, was the brainchild of Deng Xiaoping who saw it as a way to entice Taiwan in due course to rejoin the Motherland. And using the concept in Hongkong a decade later was seen by the Chinese leadership of the day as a test case (that now appears to have backfired). So China’s State Council recently put the cat among the pigeons with an hardline “Authoritative White Paper” that envisages a major redefinition of Deng Xiaoping’s one country, two systems idea that would relegate Hongkong’s status to that of the Tibet Special Administrative Region (i.e. with tight control over its governance by Beijing) - *this is part of Beijing’s increasingly more overt tendency to throw its weight around (which over the medium term may prove counter-productive if the US were to play its cards right but that in the short may make the East-, & South-, China Seas more of a tinderbox than if Beijing’s foreign policy had stuck closer to the old adage that one “catches more flies with honey than with vinegar”)*, although Xi Jinping et. al. may feel so beset with domestic challenges as to believe they have no option but to stoke the Han population’s, & repress everyone else’s, latent nationalist fires.

In Australia the average temperature during the year ended June 30th, 2014 was the “solid-highest” on record, with the average temperature being 1.08 degrees above the long-time average & 0.18% over the previous record high set in the year ended June 30th, 2010 (which had been an El Nino year). As its Bureau of Meteorology reported this result, it also reported fresh new signs in the past month of another El Nino developing in the Pacific, with water temperatures in the Central & Eastern Pacific ‘unusually warm’, & conditions generally being very similar to those in the previous El Nino year. And in Australia it has not only been unusually warm but in June rainfall was 32% below the long-term average for the month.

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BIS WARNS COUNTRIES RISK BEING CAUGHT IN A “DEBT TRAP” IF LOW INTEREST RATES CARRY ON FOR TOO MUCH LONGER (Daily Mail, Ruth Sutherland)

³ Especially when some banners at the July 1st rally said “Chinese colonists, GET OUT”

- On June 29th it said that those who have tried to boost their economies by cutting base rates to rock bottom levels could find themselves in a downward spiral, as such rates encourage ever more borrowing. According to its General Manager, Jaime Caruana, persistent low rates can create a “highly undesirable” combination of high debt, anaemic growth & low productivity, *total* debt levels in the advanced countries now are 275% of GDP, & are still growing, & ‘dangerous’ over-confidence in financial markets, based on the belief rates will stay low for a long time, have blinded them to the reality of weak investment in the real economy & the political tensions around the world.

While past performance isn't necessarily a harbinger of future performance, a decade ago the BIS was one of the few major financial entities to warn of a sub-prime crisis in the making. And the maker of that call, a former Bank of Canada staffer & then the BIS' Economic Adviser, who today in 'retirement' heads the OECD's Economic and Development Review Committee (that coordinates peer reviews of its member countries' economic & fiscal policies) last fall told the London-based journal Central Banking that the world economy is still out of balance & warned against putting undue faith in the “science” of monetary policy.

INEQUALITY IS NOT INEVITABLE⁴ (NYT, Joseph Stiglitz)

- Our brand of capitalism is of the ersatz variety. During the Great Recession we socialized losses & privatized gains. Our economic landscape is littered with oligopolies & CEO's with incomes 300x that of their average worker. While Americans don't like the Scandinavia's brand of political thinking, *the reality is that* their brand of capitalism has delivered more growth in per capita incomes **and** greater equality than ours.
- We have lost our post-WW II/*Pearl Harbour/Going to the Moon* sense of national solidarity. The end of the Cold War removed the need for us to prove that our system is better than the other. The pendulum has swung from too much government there to too little here. Many of the scrapped regulations protected our health & environment, and our economy. The same banks that pushed laissez-faire economics had no qualms about taking hundreds of billions in government handouts. Growing economic inequality begat political inequality, which spawned more economic inequality. Picketty⁵ correctly attributes the wealthy's ability to have their wealth grow disproportionately to their ability to their political influence; thus Congress maintained subsidies for rich farmers as it cut nutritional support for the needy, & threw money at banks that caused the global financial crisis while doing little for its victims. The *über*rich now have such a sense of entitlement, & perception of their privileged position as a natural right, not unlike that of the kings of yore, that venture capitalist Tom Perkins could call criticism of the 1% ‘Nazi

⁴ He expands on this theme in the July-August edition of Politico entitled The Myth of America's Golden Age (which also contains an article, The Pitchforks are Coming for Us Plutocrats, by Nick Hanauer, the first outside investor in Amazon, & in a string of other companies, incl. one sold to Microsoft for US\$6.4BN, which can be summarized as “Our country is rapidly becoming less of a capitalist society and more of a feudal society. Unless our policies change dramatically, the middle class will disappear, and we will be back to the late 18th century. Before the Revolution ... So I have a message for my fellow filthy rich, for all of us who live in our gated bubble world : Wake up people, it won't last.”

⁵ While he opines that “Things will just go from bad to worse”, over time things tended to ‘revert back to the mean’ & those who say “This time it's different” have almost invariably been proven wrong. His popularity with Americans is due to his explanations fitting their view of the world today, but then most of them are history-challenged.

fascism', & private equity titan Stephen Schwarzman⁶ compare expecting him to pay tax at the same rate as working stiffs to 'Hitler's invasion of Poland'.

- The true test of a political system is how well off its citizenry generally is, not how much some can squirrel away in offshore tax havens. The US median income today is lower than 25 years ago⁷ as the wealthy have pre-empted much of the *benefits of* economic growth since the 1980's⁸ &, instead of having it 'trickle down', moved it to the Caymans. In what once was the greatest democracy in the world 25% of children under age 5 now live in poverty⁹, the young that aspire to join the middle class are frustrated, the cost of education has soared & those with only a high school diploma have seen their incomes shrink by 13% in the past 35 years, while Wall Streeters used highly-priced lawyers to ensure they didn't have to 'do time' for the damage they had caused¹⁰, as they foreclosed on the recession's home owner victims (some of whom didn't even own any money) & *used shareholders' money to pay the fines levied for their sordid misdoings*.
- America has become a country with major inequities in access to health care (& education), and in life expectancy & health status & *one in which its once much-vaunted upward social mobility is seriously compromised*. But this is a matter of politics, not economics. We must ensure all Americans pay their fair share of taxes & must end the politics (*or should it be economics?*) of greed. But since this means engaging citizens to fight to restore a fairer America, we must first make them aware that our widening & deepening inequality isn't due to immutable economic laws but to legislation they allowed their lawmakers to write.

His overall theme is hard to argue with¹¹, even coming from an economist. He teaches at Columbia but doesn't fit the typical economist's mold. He doesn't hesitate to 'kick over the traces', challenge the common wisdom & call a spade a spade, for which he credits his upbringing in the, then grimy steel mill, town of Gary, Indiana (which produced other well-known economists, incl. fellow Nobel Laureate Paul Samuelson) & his experience in Kenya where he saw first hand that "inequalities in the distribution of wealth mattered in ways that conventional economics appeared unwilling to acknowledge, ... and that economic theory was in some important respects at variance with what could be observed ... in real markets in the developing world." In 1997 he became the World Bank's Chief Economist but was fired in 2000 for publicly disagreeing with some of its policies (which didn't stop him from getting the Nobel Prize for

⁶ Now age 67, he founded the Blackstone Group in the 1980's, is worth US\$10BN & last year took home US\$465.4MM (although he says he still gets the same US\$350,000 salary as when the firm went public in 2007), in part due to the 22% of the Blackstone shares he owns pay a 13½% higher dividend than US\$1.34, than everyone else's.

⁷ He presumably means in 'real' terms.

⁸ In 1980 the top 1% accounted for 8% of the US national income (as a "flow" this is more relevant on a day-to-day basis than wealth, which is a "stock"), the bottom 50% 18%, *and the middle 49 % therefore 74%*, whereas today the numbers are 20%, 12% & 68%.

⁹ Personally I am always a bit dubious about the social scientists' poverty line definition.

¹⁰ While the rate of incarceration of hoi polloi, often relatively minor infractions of the law, is by far the highest in the Western world.

¹¹ Although he may underestimate the extent to which the Baby Boomers' sense of entitlement has pervaded US society from the very bottom to the very top.

Economics in 2001) & was the first to fault Alan Greenspan for contributing as Fed Chairman to the 2007 sub-prime crisis. While he has advised Obama, he also branded the designers of his bank rescue program¹² as “either in the pockets of the banks or ... incompetent.” Last month’s Tri-Annual World Congress of the International Economic Association in Amman, Jordan ended his three year term as its President.

FOOD PRICES + GAS PRICES = STRESSED CONSUMERS (CNBC, Jackie DeAngelis)

- Summer is here. But as Americans hit the road & fire up their grills, they are noticing they’re paying more for many things this year. According to the BLS (Bureau of Labor Statistics) beef & pork prices are up 4% since February & the USDA just upped its forecast for fruit & dairy prices, now expecting them to jump 5-6% & 3-4% this year respectively. Starbucks raised its prices. The national average gasoline price is up 4% YoY (& 10% YTD)¹³, with Deutsche Bank having calculated saying each 1¢ (i.e. about 0.25%) increase in gasoline prices costs consumers US\$1BN they otherwise could have spent on other goods..

This, not Janet Yellen’s “ current inflation is noise” is the real world for Jack & Jill American Consumer (especially coming, as it does, after years of non-discretionary spending accounting for a growing share of their household income).

EXTREMISTS IN IRAQ ATTACK SHIITE SHRINE (NYT, Rod Norland)

- The city of Samarra, about 80 miles North of Baghdad, is home to the Askariya Shrine, built in 944, that is one of Shia Muslims’ most sacred shrines. So the city was so strongly defended by the Iraqi security forces that the ISIS forces resorted to firing mortar shells at the shrine : two hit the golden dome & slightly damaged it, while two others fell in its courtyard where worshipers had gathered to celebrate the first day of Ramadan, killing two & injuring 23 more.

In 2006 much of the dome was destroyed when Sunni extremists blew it up with explosives placed under it, although it was since rebuilt. In so doing they succeeded to trigger a civil war that took years to calm, & ISIS now seems to be targeting, & hoping for a similar outcome.

LEW URGES YUAN GAINS (Bloomberg, Kasia Kaminsky)

- After appreciating by 9.1% over 3½ years, YTD the yuan has declined 2.4% (although most recently it has been a bit stronger as *fears about its economic growth prospects have begun to wane a bit*). On July 9th & 10th Treasury Secretary Jack Lew will be in

¹² First & foremost, Timothy Geithner (who, prior to becoming Secretary of the Treasury had been President of the New York Fed, where his salary was paid by Wall Street) & Larry Summers (who during the Clinton Administration pushed for revoking the Glass-Steagall Act revoked (generally held to have led to global financial crisis a decade later), and by implication Henry Paulson, the ex-Goldman CEO who as Bush 43’s Treasury Secretary , created a policy framework for dealing with it that the other two basically perpetuated.

¹³ *To levels > US\$4.00 all along the Westcoast & < US\$3.50 in Mississippi, Alabama, Arkansas, Kentucky, South Carolina & Virginia.*

Beijing for talks with Chinese leaders in the context of the annual US-China Strategic and Economic Dialogue. While there, he is expected to urge them to let the Yuan appreciate further.

If he does, his words will likely fall on deaf ears, if not outright infuriate the Chinese who, with some justification, will ask why the US treats China differently than Japan (that it has let aggressively drive down the Yen without as much as “Boo” from Washington).

CHINA ARAB MARCH (CNBC)

- The Middle East is becoming an ever-greater focus of China's foreign policy. At the just concluded Sixth Ministerial Conference of the China-Arab States Cooperation Forum, President Ji Jinping called on his Arab counterparts to upgrade their strategic relationships with China by deepening their bilateral cooperation in areas ranging from finance through energy to space technology. Their bilateral trade in the past decade soared almost ten-fold to US\$240BN (& is expected to grow further to US\$600BN over the next decade). China is now the Arab world's second-largest trading partner, & the largest for nine Arab states, in part due to the fact that China's oil imports from the Arab states have grown at an average 12% annual rate to 133MM tons/2.6MM bbl/d/year.

*China intends to fill the void in the Middle East created by the us 'pivot strategy' & its greater energy independence. In 1980 China consumed 2MM bbl/d & the US 10MM, by 2005 that had changed to 6½ & 20bbl/d, today it is 12 & 18, and by 2020 at the latest China's oil consumption will exceed the US'. And China's oil imports, that **rose** from 2½MM bbl/d between in 2005 & 2012, are expected to rise to 9.2MM in 2020 as those of the US **decline** from 10.1 to 6.8MM bbl/d.*

TOP CHINESE GENERAL EXPELLED FROM COMMUNIST PARTY (CNN, Steven Jiang)

- On June 30th President XI presided over a leadership meeting that expelled four senior party members for accepting bribes. The highest profile one, who is to be court marshaled, was Gen. Xu Caihou (age 71), a former Vice Chairman of the Central Military Commission **and** until late 2012 a member of the all-powerful Central Politburo Standing Committee of the Communist Party of China, while the others were a former Minister in charge of State Assets, a former Vice Minister of Public Security & a former Deputy Head of CNPC.

According to the Party's Disciplinary Committee last year 182,000 party officials were disciplined & 23,000 tried in court. But XI's witch hunt & targeting “Tigers” may have more to do with consolidating his power & gaining control over the PLA, than with seeking to exterminate the control the endemic corruption as long as public demands for all officials to be required to disclose their assets are ignored & those voicing such demands flung in jail.

UKRAINE : A PRIZE NEITHER RUSSIA NOR THE WEST CAN AFFORD TO WIN **(Brookings Institution, Clifford G. Gaddy & Barry W. Wicks)**

- The West sees itself as defending Ukraine against Russia while Putin views the situation as the front in a war being waged by the West against Mother Russia & by his actions seeks to tell the West not to use Ukraine as a staging ground for operations against it. But knowing that the aggregate GDP of the NATO & EU countries is 15x greater than Russia's, he is resorting to 'asymetric measures', of which Ukraine is one, with the attitude that 'if the West wants to use Ukraine against us, let's show it how much that will

cost'. For when Ukraine was an integral part of the Soviet Union, its economy was subsidized by it to the tune of as much as US\$10BN/year, & not just by supplying it with cheap gas but also by hidden subsidies for its 'dynosaur' heavy industries, that have been, & remain, almost exclusively dependent on Soviet/Russian exports markets, and most of which is located in Eastern-, & Southern-, Ukraine, & now largely shut down. While it is hard to put a number on the possible cost to the West of propping-, & building-, up Ukraine's economy, Germany's re-unification cost 2TR Euros (US\$2.76TR) over 20 years (likely a low ball number for Ukraine); on the other hand while Russia can afford losing Ukraine, it cannot afford continuing to subsidize Eastern Ukraine **and** the rest of the country as well.

*They are confusing the West's **ability** to bear the cost of bailing out Ukraine with the possible **lack of the political will** to do so; for even 3x the average annual cost of German reunification would be little more than 1% the aggregate NATO cum EU GDP, & 2% of the latter's.*