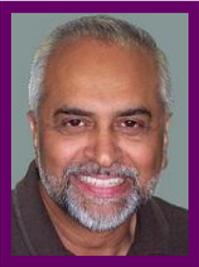


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Ashok Dhillon has over 40 years of front-line business experience in Canada and International markets. His extensive experience gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends.

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Rhetoric and Wild Promises – Paucity of Depth and Reason



In watching the recent Republican nomination debates, one is struck by the similarity in the political rhetoric of all hopeful candidates promising 'real' change in governance from the incumbent government, which had also come in based on promises of real change. So every election, everybody promises real change. And then, to stand out from each other and to catch public attention, they promise ever more radical solutions to correct age old problems of wealth inequality, unfair tax regimes, inefficiencies and waste in government. The fact that age-old problems never seem to change, regardless of who is elected, doesn't seem to bother the new batch of hopefuls as they recklessly take up, afresh, the chant of change.

Rationality and logic are abandoned, as wildly improbable actions are proposed, such as better public service with less government and smaller budgets, tougher international stance and manhandling of other major powers such as Russia and China, more bravery in the face of the enemies than the cowardly sitting government, more support for small business, and the bringing to account the abuses of big corporations and powerful financial institutions, and so the fantasy list goes on. And, they all promise to clean up the corruption and rot that has been in the Capital (*Washington City*) government after government, Republican or Democrat, even when they themselves have been there as Congressmen and Senators, as part of the establishment, for years, and did nothing much toward that end. The fact that every electioneering politician before them had promised the same thing decade after decade, and couldn't do it, doesn't prevent them from claiming to be able to do it, however improbable it may sound.

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All of a sudden, somehow, being on the election trail they all seem to become super humans: fail-proof, anti-big government, anti-complex tax regimes, pro-middle class, pro-the average American, anti- lobbyists, anti- special interest, anti- Wall Street, anti- big corporations and anti- corruption crusaders, and certain to succeed where all others before them have failed. All these promises, while accepting sponsorship and funding by 'super-PACs' and other special interest groups, knowing full well that there are strings attached to that money, and once in power favours-in-return will be expected. Yet, bald faced, they try to convince the American people that they have always had their best interest at heart, even though, through the past decades, all the causes that they now espouse have gotten worse.

Additionally, this new crop of hopefuls are avowed debt busters and budget balancers, even though they know (*or should know*) that most American governments over the past decades have run deficits during their terms, including practically all Republican governments.

Bill Clinton (*a Democrat*) was the only President in the past 70 plus years, who turned a large deficit under Reagan and Sr. Bush, into a substantial surplus, during his Presidency.

George W. Bush (Jr. Bush, a Republican) turned the very substantial surplus, left by Bill Clinton, back into another large deficit, by starting the two most expensive and unjustifiable wars, further reducing taxes and regulations, and ultimately ending his term with the biggest financial crash and the resultant 'Great Recession', since the 1929 Depression, which, not only America but the rest of the World is still trying to recover from. The resultant crisis, financial, economic, and foreign policy, was left for Obama to deal with, along with racist, blatantly partisan, country damaging, prolonged willful obstruction from the Republicans, who caused it all, but now seem to have collective amnesia and blame it all on the Obama Administration.

Over all, in the debates, hopeful candidates promise to do so much, once elected, that it would give our ever intrepid superhero - 'Superman' - serious pause.

And yet, these most ordinary human beings have no compunctions in portraying themselves as super-human in their desperate attempt to sway opinion, with their most outrageous and at times outlandish proposals.

For instance, the proposal from Mr. Trump to the problem of keeping illegal migrants from Mexico out of America, apart from shipping millions back, is by building a 1000 mile wall (*the rest of the distance being taken care of by "natural barriers"*), between Mexico and the U.S. [*the real distance being over 1,933 miles (over 3000 kilometers)*]. His justification for the physical do-ability of such a 'middle ages' act being, 'the Chinese have done it'.

The Chinese had built a wall 13,000 miles long. Starting some 250 years before Christ, they had built it over centuries, and as to how effective it was is

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still debated as the wall was breached and China was conquered a number of times over the ages, after it was built. But, Trump thinks it is a good solution for a 21st Century America and its increasingly important trading partner, that also supplies millions in cheap factory and farm labour to America, to help it be more competitive. While illegal immigration is a problem and needs a long term solution, a 1000 plus mile wall doesn't sound like a well thought out plan, more of a desperate one as historically walls have always been breached and/or circumvented. Besides, America will have vast coastlines on both sides of the proposed wall that simply cannot be sealed.

And he wants Mexico to pay for it.



As for the question of how he would make the Mexican government agree to pay for it, his reasoning is that Mexico has a multibillion positive trade balance with the U.S. and that somehow that would be reason enough for him to force them to pay for it. Of course, the fact that under the North American Free Trade Agreement (NAFTA), of which Mexico is a signatory, Mexico is granted access to 'free trade' with the U.S., under existing negotiated rules, and therefore would object to 'pay for the wall or else' being injected as a new condition of trade, isn't addressed Mr. Trump as a possible impediment.

The more common and predictable theme from a number of front running candidates, Trump, Carson, Cruise etc. was the idea of a 'flat tax' regime of approximately 15% or so (*Carson's idea, admittedly, being analogous to the 10% tithe, and when questioned, it became vaguely "closer to 15%"*).

The 'flat tax' is not a new idea. It was put in practice in the U.S. in the late 1800s, then changed to the progressive tax system, and repeatedly proposed since then. And as recently as 2011, former Republican candidates Newt Gingrich, Rick Perry and Herman Cain had run on the proposals of a flat tax rate, and lost. Additionally, many countries in the World (*over 40 - mainly small*) have adopted some form of a flat tax regime with a wide variety of tax rates and varying degrees of complexities.

Understandably, each country that has adopted the various forms of the flat tax regime (*some are very complex*) have had varying degrees of success and failure with it. The flat tax structure by itself is by no means a guarantor of economic success. Russia for instance chose a flat tax regime after the fall of USSR, as did most of the other countries in Eastern Europe that had been its satellites. Russia and most of the Eastern European countries are still struggling economically, due to a number of factors. They had all adopted the flat tax regimes to give a signal to the rest of the World that they were done with the past communist system, and were embracing the West's 'Market

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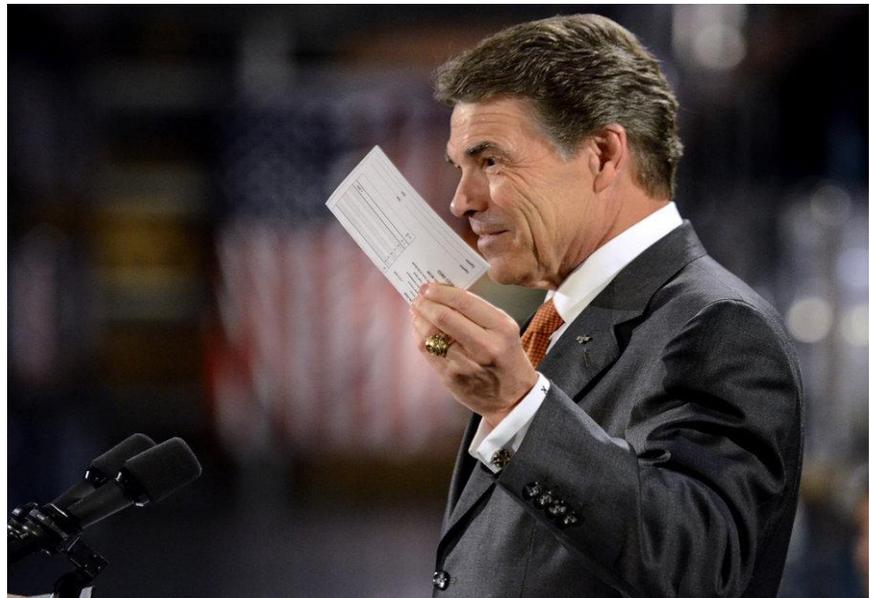
Economy' system. By doing that, they had hoped for increased 'Foreign Direct Investment' and for faster growth. But the flat tax rate structure wasn't enough to overcome all the other problems, such as corruption, outdated systems, bureaucracy, and political risk. In Russia's case, apart from those problems, it was also the current low oil prices.

At the time of the great 'Flat Tax Revolution' in Eastern Europe, Western European countries declined to change their tax systems, and stayed with the traditional progressive tax systems, and inarguably, they are by far more economically developed, and are considered more advanced.

For America to change its vast and complex progressive tax system to a 'flat tax' regime would be a monumental challenge, not to mention the opposition from the professionals that are involved in the tax business and make their living from it: the army of IRA bureaucrats, the big and small accounting and legal firms, the extremely highly paid and politically connected specialists, the lobbyists, and last but certainly not the least, the very-very rich, who fund the Republican Party, and for whom the growing complexity of the tax system works wonderfully.

But that does not seem to detract the Republican candidates, as they vie for attention with ill thought out and ill explained simplistic statements. Carly Fiorina went on to insist that she would, if elected, reduce the *73,000 page American Tax Code to 'three pages'!*

While it is not the same thing exactly, but the idea is the same, it is reminiscent of Newt Gingrich and Rick Perry in their 2012 election bid, waving a post card, and insisting that it was all an American tax payer would need to file their taxes, if they got elected. They didn't get elected. Below is a picture of Rick Perry, the Republican hopeful, in 2011, holding a sample 'post card' during his bid.



Source:npr

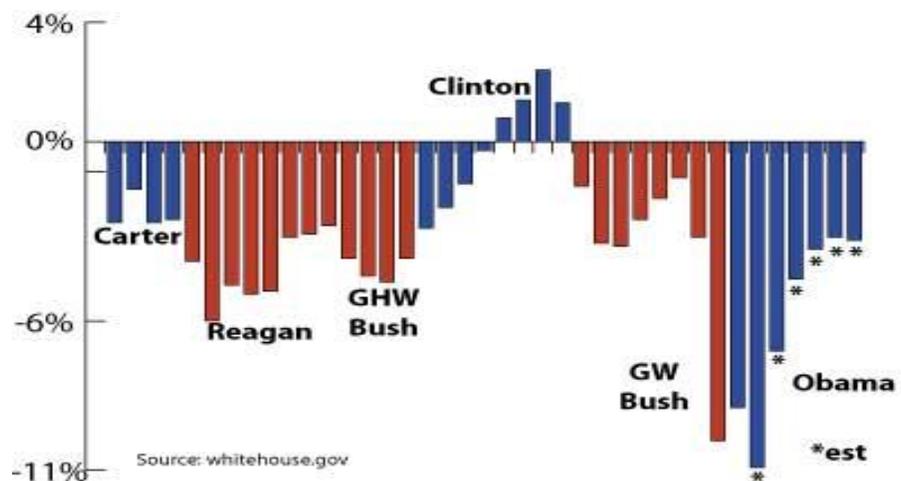
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There is no argument from us that a simpler tax code in any country is a boon to its economy and a massive relief to the average citizen. But for America the issue of having a flat tax regime is obviously complex and fraught with serious hurdles, otherwise it would have been implemented long ago, *as there have been more Republican governments in the history of the U.S., than Democrat ones.*

And Ted Cruz, after also rolling out a 'flat tax' plan (10% for individuals and 16% for big corporations), and to justify it said, "Growth is the answer. And as Ronald Regan demonstrated, if we cut taxes, we can bring growth." He of course forgot that to 'bring back growth' while cutting taxes, Ronald Regan dramatically increased deficit spending from the previous government of Democrat Jimmy Carter.

Presidential Budget Deficits as a % of GDP



Spending by the Democrats is a favourite whipping post of the Republicans, something that all the current candidates railed against in the entire debate, totally ignoring, as usual, that practically every Republican government has run deficits and increased the national debt, while dramatically increasing wealth inequality of the American people. Such facts didn't surface in the debate, nor were they flagged.

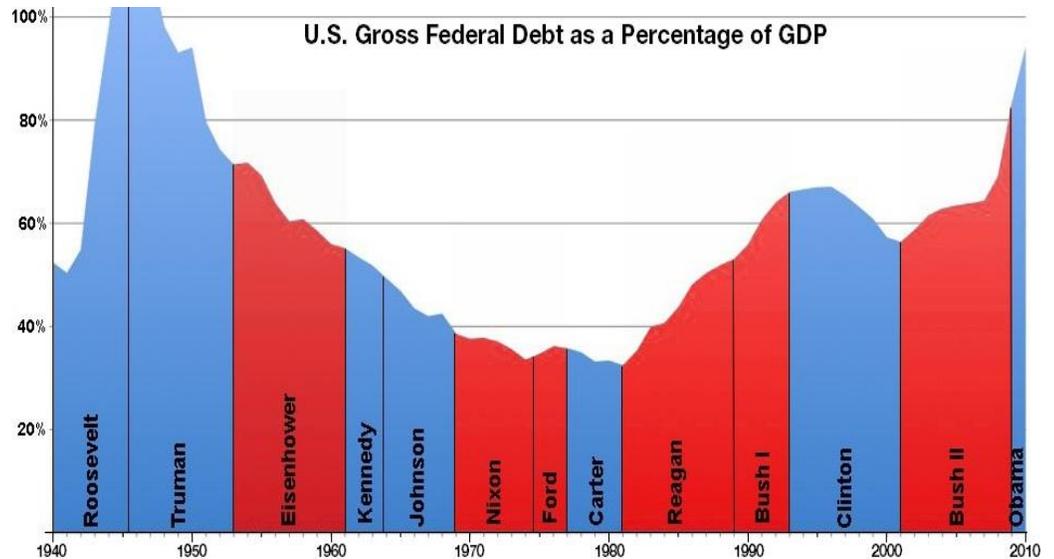
It is interesting to note that while the Republicans portray themselves as financially more responsible, it would seem from the Chart on the next page, that except for times of crisis, Roosevelt and Truman during and after the Second World War, and Obama post 2008 financial crisis, when deficits were inevitable and necessary, the Democrats have done an overall better job of managing the U.S. budgets (*see Chart on next page*).

Another interesting fact to note, among all this pre-election fired up Republican rhetoric, is that the two greatest financial disasters in the history of America happened when the Republicans were in government, the 1929 financial crash, followed by the Great Depression, and the 2008 financial crash, followed by the Great Recession.

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Source: Wikipedia.org

From 1923 to 1933 the Government was Republican, President Calvin Coolidge, followed by President Herbert Hoover. In 1929 when the stock market crash took place that triggered the Depression, Republican, Herbert Hoover was President.

When the 2008 financial crash took place, Republican George W. Bush was President.

In both cases, it took deficit spending and a Democrat President, to pull America out of its Republican 'looking after the average American, responsible financial management' induced market excesses, crashes and resultant economic tail spin.

The Republican candidates are always for significant de-regulation, claiming that the less the regulations the better it is for the American people. Yet in the past, some of the worst abuses by big business and big finance have been in the aftermath of Republican gutting of regulations (*Ronald Reagan's de-regulation bonanza*).

Dr. Carson, Carly Fiorina, and others stressed the benefits of de-regulation for the 'little guy', and the ills of too many regulations that favour big business. We don't think that any big corporation in America will agree that a heavy regulatory environment benefits them in any way. In fact, big business consistently spends serious money in constantly lobbying for reduced regulations and the gutting of existing ones. The Republican candidates know this, yet in this bizarre period of pre-election make-believe world, as former Federal Reserve Chair, Ben Bernanke, recently put it, Republican "know-nothingness" prevails. All historical and current facts are forgotten, ignored and distorted just to score points and gain recognition, at the cost of truth and reality. And then, if they are elected, they usually fail to carry out such changes just as miserably as their equally verbose predecessors did, once elected to government.