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How To Start A War, And Lose An Empire

A year and a half I wrote [an essay](#) on how the US chooses to view Russia, titled The Image of the Enemy. I was living in Russia at the time, and, after observing the American anti-Russian rhetoric and the Russian reaction to it, I made some observations that seemed important at the time. It turns out that I managed to spot an important trend, but given the quick pace of developments since then, these observations are now woefully out of date, and so here is an update.

At that time the stakes weren't very high yet. There was much noise around a fellow named Magnitsky, a corporate lawyer-crook who got caught and died in pretrial custody. He had been holding items for some bigger Western crooks, who were, of course, never apprehended. The Americans chose to treat this as a human rights violation and responded with the so-called "Magnitsky Act" which sanctioned certain Russian individuals who were labeled as human rights violators. Russian legislators responded with the "Dima Yakovlev Bill," named after a Russian orphan adopted by Americans who killed him by leaving him in a locked car for nine hours. This bill banned American orphan-killing fiends from adopting any more Russian orphans. It all amounted to a silly bit of melodrama.

But what a difference a year and a half has made! Ukraine, which was at that time collapsing at about the same steady pace as it had been ever since its independence two decades ago, is now truly a defunct state, with its economy in free-fall, one region gone and two more in open rebellion, much of the country terrorized by oligarch-funded death squads, and some American-anointed puppets nominally in charge but quaking in their boots about what's coming next. Syria and Iraq, which were then at a low simmer, have since erupted into full-blown war, with large parts of both now under the control of the Islamic Caliphate, which was formed with help from the US, was armed with US-made weapons via the Iraqis. Post-Qaddafi Libya seems to be working on establishing an Islamic Caliphate of its own. Against this backdrop of profound foreign US foreign policy failure, the US recently saw it fit to accuse Russia of having troops "on NATO's doorstep," as if this had nothing to do with the fact that NATO has expanded east, all the way to Russia's borders. Unsurprisingly, US - Russia relations have now reached a point where the Russians saw it fit to issue a stern warning: further Western attempts at blackmailing them may result in a nuclear confrontation.

The American behavior throughout this succession of defeats has been remarkably consistent, with the constant element being their flat refusal to deal with reality in any way, shape or form. Just as before, in Syria the Americans are ever looking for moderate, pro-Western Islamists, who want to do what the Americans want (topple the government of Bashar al Assad) but will stop short of going on to destroy all the infidel invaders they can get their hands on. The fact that such moderate, pro-Western Islamists do not seem to exist does not affect American strategy in the region in any way.

Similarly, in Ukraine, the fact that the heavy American investment in "freedom and democracy," or "open society," or what have you, has produced a government dominated by fascists and a civil war is, according to the Americans, just some Russian propaganda. Parading under the banner of Hitler's Ukrainian SS

division and anointing Nazi collaborators as national heroes is just not convincing enough for them. What do these Nazis have to do to prove that they are Nazis, build some ovens and roast some Jews? Just massacring people by setting fire to a building, as they did in Odessa, or shooting unarmed civilians in the back and tossing them into mass graves, as they did in Donetsk, doesn't seem to work. The fact that many people have refused to be ruled by Nazi thugs and have successfully resisted them has caused the Americans to label them as "pro-Russian separatists." This, in turn, was used to blame the troubles in Ukraine on Russia, and to impose sanctions on Russia. The sanctions would be reviewed if Russia were to withdraw its troops from Ukraine. Trouble is, there are no Russian troops in Ukraine.

Note that this sort of behavior is nothing new. The Americans invaded Afghanistan because the Taleban would not relinquish Osama Bin Laden (who was a CIA operative) unless Americans produced evidence implicating him in 9/11 - which did not exist. Americans invaded Iraq because Saddam Hussein would not relinquish his weapons of mass destruction - which did not exist. They invaded Libya because Muammar Qaddafi would not relinquish official positions - which he did not hold. They were ready to invade Syria because Bashar al Assad had used chemical weapons against his own people - which he did not do. And now they imposed sanctions on Russia because Russia had destabilized and invaded Ukraine - which it did not do either. (The US did that.)

The sanctions against Russia have an additional sort of unreality to them, because they "boomerang" and hurt the West while giving the Russian government the impetus to do what it wanted to do all along. The sanctions infringed on the rights of a number of Russian businessmen and officials, who promptly yanked their money out of Western banks, pulled their children out of Western schools and universities, and did everything else they could to demonstrate that they are good patriotic Russians, not American lackeys. The sanctions affected a number of Russian energy companies, cutting them off from Western sources of technology and financing, but this will primarily hurt the earnings of Western energy companies while helping their Chinese competitors. There were even some threats to cut Russia off from the SWIFT system, which would have made it quite difficult to transfer funds between Russia and the West, but what these threats did instead was to give Russia the impetus to introduce its own RUSSWIFT system, which will include even Iran, neutralizing future American efforts at imposing financial restrictions.

The sanctions were meant to cause economic damage, but Western efforts at inflicting short-term economic damage on Russia are failing. Coupled with a significant drop in the price of oil, all of this was supposed to hurt Russia fiscally, but since the sanctions caused the Ruble to drop in tandem, the net result on Russia's state finances is a wash. Oil prices are lower, but then, thanks in part to the sanctions, so is the Ruble, and since oil revenues are still largely in dollars, this means that Russia's tax receipts are at roughly the same level as before. And since Russian oil companies earn dollars abroad but spend rubles domestically, their production budgets remain unaffected.

The Russians also responded by imposing some counter-sanctions, and to take some quick steps to neutralize the effect of the sanctions on them. Russia banned the import of produce from the European Union—to the horror of farmers there. Especially hurt were those EU members who are especially anti-Russian: the Baltic states, which swiftly lost a large fraction of their GDP, along with Poland. An exception is being made for Serbia, which refused to join in the sanctions. Here, the message is simple: friendships that have lasted many centuries matter; what the

Americans want is not what the Americans get; and the EU is a mere piece of paper. Thus, the counter-sanctions are driving wedges between the US and the EU, and, within the EU, between Eastern Europe (which the sanctions are hurting the most) and Western Europe, and, most importantly, they drive home the simple message that the US is not Europe's friend.

There is something else going on that is going to become more significant in the long run: Russia has taken the hint and is turning away from the West and toward the East. It is parlaying its open defiance of American attempts at world domination into trade relationships throughout the world, much of which is sick and tired of paying tribute to Washington. Russia is playing a key role in putting together an international banking system that circumvents the US dollar and the US Federal Reserve. In these efforts, over half the world's territory and population is squarely on Russia's side and cheering loudly. Thus, the effort to isolate Russia has produced the opposite of the intended result: it is isolating the West from the rest of the world instead.

In other ways, the sanctions are actually being helpful. The import ban on foodstuffs from EU is a positive boon to domestic agriculture while driving home a politically important point: don't take food from the hands of those who bite you. Russia is already one of the world's largest grain exporters, and there is no reason why it can't become entirely self-sufficient in food. The impetus to rearm in the face of NATO encroachment on Russian borders (there are now US troops stationed in Estonia, just a short drive from Russia's second-largest city, St. Petersburg) is providing some needed stimulus for industrial redevelopment. This round of military spending is being planned a bit more intelligently than in the Soviet days, with eventual civilian conversion being part of the plan from the very outset. Thus, along with the world's best jet fighters, Russia is likely to start building civilian aircraft for export and competing with Airbus and Boeing.

But this is only the beginning. The Russians seem to have finally realized to what extent the playing field has been slanted against them. They have been forced to play by Washington's rules in two key ways: by bending to Washington's will in order to keep their credit ratings high with the three key Western credit rating agencies, in order to secure access to Western credit; and by playing by the Western rule-book when issuing credit of their own, thus keeping domestic interest rates artificially high. The result was that US companies were able to finance their operations more cheaply, artificially making them more competitive. **But now, as Russia works quickly to get out from under the US dollar, shifting trade to bilateral currency arrangements (backed by some amount of gold should trade imbalances develop) it is also looking for ways to turn the printing press to its advantage.** To date, the dictat handed down from Washington has been: "We can print money all we like, but you can't, or we will destroy you." But this threat is ringing increasingly hollow, and Russia will no longer be using its dollar revenues to buy up US debt. One proposal currently on the table is to make it impossible to pay for Russian oil exports with anything other than rubles, by establishing two oil brokerages, one in St. Petersburg, the other, seven time zones away, in Vladivostok. Foreign oil buyers would then have to earn their petro-rubles the honest way—through bilateral trade - or, if they can't make enough stuff that the Russians want to import, they could pay for oil with gold (while supplies last). **Or the Russians could simply print rubles, and, to make sure such printing does not cause domestic inflation, they could export some inflation by playing with the oil spigot and the oil export tariffs.** And if the likes of George Soros decides to attack the ruble in an effort to devalue it, Russia

could defend its currency simply by printing fewer rubles for a while - no need to stockpile dollar reserves.

So far, this all seems like typical economic warfare: the Americans want to get everything they want by printing money while bombing into submission or sanctioning anyone who disobeys them, while the rest of the world attempts to resist them. But early in 2014 the situation changed. There was a US-instigated coup in Kiev, and instead of rolling over and playing dead like they were supposed to, the Russians mounted a fast and brilliantly successful campaign to regain Crimea, then successfully checkmated the junta in Kiev, preventing it from consolidating control over the remaining former Ukrainian territory by letting volunteers, weapons, equipment and humanitarian aid enter—and hundreds of thousands of refugees exit - through the strictly notional Russian-Ukrainian border, all the while avoiding direct military confrontation with NATO. Seeing all of this happening on the nightly news has awakened the Russian population from its political slumber, making it sit up and pay attention, and sending Putin's approval rating through the roof.

The “optics” of all this, as they like to say at the White House, are rather ominous. We are coming up on the 70th anniversary of victory in World War II - a momentous occasion for Russians, who pride themselves on defeating Hitler almost single-handedly. At the same time, the US (Russia's self-appointed arch-enemy) has taken this opportunity to reawaken and feed the monster of Nazism right on Russia's border (inside Russia's borders, some Russians/Ukrainians would say). This, in turn, makes the Russians remember Russia's unique historical mission is among the nations of the world: it is to thwart all other nations' attempts at world domination, be it Napoleonic France or Hitleresque Germany or Obamaniac America. Every century or so some nation forgets its history lessons and attacks Russia. The result is always the same: lots of corpse-studded snowdrifts, and then Russian cavalry galloping into Paris, or Russian tanks rolling into Berlin. Who knows how it will end this time around? Perhaps it will involve polite, well-armed men in green uniforms without insignia patrolling the streets of Brussels and Washington, DC. Only time will tell.

You'd think that Obama has already overplayed his hand, and should behave accordingly. His popularity at home is roughly the inverse of Putin's, which is to say, Obama is still more popular than Ebola, but not by much. He can't get anything at all done, no matter how pointless or futile, and his efforts to date, at home and abroad, have been pretty much a disaster. So what does this social worker turned national mascot decide to do? Well, the way the Russians see it, he has decided to declare war on Russia! In case you missed it, look up his speech before the UN General Assembly. It's up on the White House web site. He placed Russia directly between Ebola and ISIS among the three topmost threats facing the world. Through Russian eyes his speech reads as a declaration of war.

It's a new, mixed-mode sort of war. It's not a total war to the death, although the US is being rather incautious by the old Cold War standards in avoiding a nuclear confrontation. It's an information war - based on lies and unjust vilification; it's a financial and economic war—using sanctions; it's a political war - featuring violent overthrow of elected governments and support for hostile regimes on Russia's borders; and it's a military war - using ineffectual but nevertheless insulting moves such as stationing a handful of US troops in Estonia. And the goals of this war are clear: it is to undermine Russia economically, destroy it politically, dismember it geographically, and turn it into a pliant vassal state that furnishes natural resources to the West practically free of charge (with a few hand-outs to a handful of Russian oligarchs and criminal thugs who play ball). But it doesn't look like any of that is going

to happen because, you see, a lot of Russians actually get all that, and will choose leaders who will not win any popularity contests in the West but who will lead them to victory.

Given the realization that the US and Russia are, like it or not, in a state of war, no matter how opaque or muddled, people in Russia are trying to understand why this is and what it means. Obviously, the US has seen Russia as the enemy since about the time of the Revolution of 1917, if not earlier. For example, it is known that after the end of World War II America's military planners were thinking of launching a nuclear strike against the USSR, and the only thing that held them back was the fact that they didn't have enough bombs, meaning that Russia would have taken over all of Europe before the effects of the nuclear strikes could have deterred them from doing so (Russia had no nuclear weapons at the time, but lots of conventional forces right in the heart of Europe).

But why has war been declared now, and why was it declared by this social worker turned national misleader? Some keen observers mentioned his slogan "the audacity of hope," and ventured to guess that this sort of "audaciousness" (which in Russian sounds a lot like "folly") might be a key part of his character which makes him want to be the leader of the universe, like Napoleon or Hitler. Others looked up the campaign gibberish from his first presidential election (which got silly young Americans so fired up) and discovered that he had nice things to say about various cold warriors. Do you think Obama might perhaps be a scholar of history and a shrewd geopolitician in his own right? (That question usually gets a laugh, because most people know that he is just a chucklehead and repeats whatever his advisers tell him to say.) Hugo Chavez once called him "a hostage in the White House," and he wasn't too far off. So, why are his advisers so eager to go to war with Russia, right now, this year?

Is it because the US is collapsing more rapidly than most people can imagine?

This line of reasoning goes like this: the American scheme of world domination through military aggression and unlimited money-printing is failing before our eyes. The public has no interest in any more "boots on the ground," bombing campaigns do nothing to reign in militants that Americans themselves helped organize and equip, dollar hegemony is slipping away with each passing day, and the Federal Reserve is fresh out of magic bullets and faces a choice between crashing the stock market and crashing the bond market. In order to stop, or at least forestall this downward slide into financial/economic/political oblivion, the US must move quickly to undermine every competing economy in the world through whatever means it has left at its disposal, be it a bombing campaign, a revolution or a pandemic (although this last one can be a bit hard to keep under control). Russia is an obvious target, because it is the only country in the world that has had the gumption to actually show international leadership in confronting the US and wrestling it down; therefore, Russia must be punished first, to keep the others in line.

I don't disagree with this line of reasoning, but I do want to add something to it.

First, the American offensive against Russia, along with most of the rest of the world, is about things Americans like to call "facts on the ground," and these take time to create. The world wasn't made in a day, and it can't be destroyed in a day (unless you use nuclear weapons, but then there is no winning strategy for anyone, the US included). But the entire financial house of cards can be destroyed rather quickly, and here Russia can achieve a lot while risking little. Financially, Russia's position is so solid that even the three Western credit ratings agencies don't have the

gall to downgrade Russia's rating, sanctions notwithstanding. This is a country that is aggressively paying down its foreign debt, is running a record-high budget surplus, has a positive balance of payments, is piling up physical gold reserves, and not a month goes by that it doesn't sign a major international trade deal (that circumvents the US dollar). In comparison, the US is a dead man walking: unless it can continue rolling over trillions of dollars in short-term debt every month at record-low interest rates, it won't be able to pay the interest on its debt or its bills. Good-bye, welfare state, hello riots. Good-bye military contractors and federal law enforcement, hello mayhem and open borders. Now, changing "facts on the ground" requires physical actions, whereas causing a financial stampede to the exits just requires somebody to yell "Boo!" loudly and frighteningly enough.

Second, it must be understood that at this point the American ruling elite is almost entirely senile. The older ones seem actually senile in the medical sense. Take Leon Panetta, the former Defense Secretary: he's been out flogging his new book, and he is still blaming Syria's Bashar al Assad for gassing his own people! By now everybody else knows that that was a false flag attack, carried out by some clueless Syrian rebels with Saudi help, to be used as an excuse for the US to bomb Syria—you know, the old "weapons of mass destruction" nonsense again. (By the way, this kind of mindless, repetitive insistence on a fake rationale seems like a sure sign of senility.) That plan didn't work because Putin and Lavrov intervened and quickly convinced Assad to give up his useless chemical weapons stockpile. The Americans were livid. So, everybody knows this story—except Panetta. **You see, once an American official starts lying, he just doesn't know how to stop. The story always starts with a lie, and, as facts emerge that contradict the initial story, they are simply ignored.**

So much for the senile old guard, but what about their replacements? Well, the poster boy for the young ones is Hunter Biden, the VP's son, who went on a hookers-and-blow tour of Ukraine last summer and inadvertently landed a seat on the board of directors of Ukraine's largest natural gas company (which doesn't have much gas left). He just got outed for being a coke fiend. In addition to the many pre-anointed ones, like the VP's son, there are also many barns full of eagerly bleating Ivy League graduates who have been groomed for jobs in high places. These are Prof. Deresiewicz's "Excellent Sheep."

There just isn't much that such people, young or old, can be made to respond to. International embarrassment, military defeat, humanitarian catastrophe - all these things just bounce off them and stick to you for bringing them up and being overly negative about their rose-colored view of themselves. The only hit they can actually feel is a hit to the pocketbook.

Which brings us all the way back to my first point: "Boo!" - *emphasis, zero hedge* -