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Obama is crushing the Reagan link— and Putin knows it

Larry Kudlow

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Across his remarkably successful presidency, Ronald Reagan repeatedly made the link between the U.S. economy and U.S. international security and defense. He consistently argued that weakness at home leads to weakness abroad.

U.S. President Barack Obama, right, listens to Russian President Vladimir Putin after their bilateral meeting in Los Cabos, Mexico.

Reagan was aiming at the dismal Carter years. But he understood for all times that economic strength at home sends a powerful signal for international security overseas.

When Reagan went to Reykjavik to meet with Mikhail Gorbachev, he believed the resurgent American economy would hammer the nails on the coffin of Soviet communism. And he explained to Gorbachev that if the Soviets didn't come to the negotiating table with nuclear weapons, the U.S. would out-produce them on nukes and with technological superiority. Similarly, Reagan would not give up his vision for strategic missile defense.

And in both cases — building nukes and SDI — Reagan knew the American economy had the resources capable of achieving these goals, while the sinking Soviet economy couldn't match us.

In the end, the Soviet system imploded in one of the greatest reversals in world history. Freedom won. Communism lost.

Now, circumstances are somewhat different today. But the horrible Malaysia Airlines crash in Ukraine highlights some worrisome facts about American-Russian relations. Mitt Romney was right. Russia is our biggest threat.

We know that the Malaysian plane was brought down by a ground-to-air missile fired from Russian-made SA-11 weapons run by pro-Russian Ukrainian rebel terrorists. We also know that Russia is fighting a proxy war with the U.S. in Ukraine, and that Russian special forces are leading the terrorist movement in Ukraine. We can add to this the proxy war fought by Russia in the Middle East, with its main ally Iran, and the fact that Russia is engaging in state-sponsored terrorism.

Whether President Obama understands all this, I don't know. His policies have been alternatively passive (Libya, Egypt), incoherent (Russian reset), and feckless (Syria). But the fact that the current U.S. economic recovery is the slowest in post-WWII history — spanning 70 years — is surely a key factor in Vladimir Putin's adventurism.

This brings us back to Reagan's link. Putin may recognize that Russia's economy is a thin deck of cards. But he surely doesn't fear the weak American economic position. Ditto for the broken economic dictatorships in North Korea, Iran, and Venezuela, and the rising economic dictatorship in China. They don't fear us.

In fact, America's economic weakness is so worrying, one suspects our friends are losing respect for us too. Whether in Europe, Asia, Latin America, or Israel, our allies know that America has been the backstop for freedom. If not us, who?

But can they say that now?

As I testified this week before the congressional Joint Economic Committee, at 2.1 percent average real growth, the U.S. is lagging far behind the 4.1 percent average recovery pace of the post-war business cycles. The Reagan recovery averaged 5 percent annual growth at the same point as the Obama recovery.

<p>Kudlow: Growth half what it should be</p> <p>CNBC's Larry Kudlow addresses the Joint Economic Committee regarding the U.S. economy. Things are better, but the recovery is too slow, he says.</p>

Obama's stock market, from the depth of the meltdown, does beat Reagan's market and the post-war average for equities. But here's a very worrisome trend: Over the entire post-war period, average yearly growth has been 3.2 percent. And in the 1980s and '90s, growth was 3.7 percent. Since 2001, however, under Republican and Democratic presidents and congresses, as the dollar lost over a third of its value growth has dropped to only 1.8 percent annually. Something has clearly gone very wrong.

For payrolls, Obama's five-year recovery has averaged annual job growth of 1.2 percent (7.9 million jobs). Reagan's was 3.1 percent (14.6 million jobs). Even with the recent jobs improvement, record numbers of Americans have dropped out of the labor force, part-time employment is replacing full-time, wages are abnormally low, and middle-class real incomes are falling.

The massive federal spending stimulus of 2009-2010 did not work. There were no so-called fiscal multipliers. The **Federal Reserve's** near-\$3.5 trillion of balance-sheet creation also failed, with money multipliers and velocity rates collapsing. **Obamacare** has thrown a wet blanket over business hiring, hours worked, and full-time jobs. Business investment and housing have not really recovered.

Over-regulation has stifled Main Street businesses and start-ups. The highest corporate tax rate among developed countries is forcing American businesses to flee to lower-tax nations, taking their cash and jobs with them. Tax hikes on personal income, capital gains, dividends, and payrolls are reducing growth incentives.

Ronald Reagan's free-enterprise growth model of easier taxes, limited government, lighter regulation, and sound money strengthened America both at home and abroad. Barack Obama's model of heavy-handed government, income redistribution, punishing success, and cheap money has diminished us at home and weakened us around the world.