

market-based economies turned out to be a superficial adoption in many nations. Since the financial crisis, we have seen a steady rise of variants of authoritarianism.⁴

China, although nominally Marxist, is an authoritarian regime, in reality. Chairman Xi is offering China as an alternative to Western democracy, arguing that single-party domination can be more stable and lead to stronger growth.

Under normal circumstances, this trend would not be a major risk. The Cold War was won by capitalist democracies, in part, by offering a better life to their citizens. However, as the income share chart above shows, once communism fell, U.S. leaders allowed the economy to evolve in such a way that it weakened the claim that capitalist democracies could provide a better lifestyle. China still endures significant poverty and rural “immigrants,” which lack urban *hukou*, or residency permits, can lead uncertain lives on the margins of society. On the other hand, China can argue that the

trend is improving, which isn’t really the case in the West.

Although this development coincides with the rise in populism, the difference is that an alternative system can inspire nationalist feelings that can destabilize global security. In other words, history shows that competing visions for government and society lead to either hot or cold wars. If China offers an alternative organizing principle relative to democratic capitalism, the potential for war does increase. Obviously, war is inflationary and bullish for the defense sector and commodities.

Ramifications

Although we offer market comments at the end of each section above, rising price levels are common to all these issues. While we don’t expect runaway inflation to emerge in 2018, a steady rise in price levels is likely in the coming years and the aforementioned issues are likely to support higher inflation over time.

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⁴ <https://www.economist.com/graphic-detail/2018/01/31/democracy-continues-its-disturbing-retreat>

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