

## **Capitalism vs. Socialism** *as in* **China vs. Venezuela**

This post is not about politics, and it is relevant to your portfolio. Hence, moving ahead, to get a good recent example of capitalism vs. socialism one needs to go no further than a brief comparison of the living standards in Venezuela and China over the past 20 years.

Soon after I returned to Conoco in the late 1990s I was looking at the possibility of a transfer to Venezuela, home to some of the world's biggest oil reserves. Production was increasing, living conditions were improving and the country was close to the world's number one economy, the U.S.A. Venezuela seemed to have enormous potential.

Not long thereafter the Venezuelans elected Hugo Chavez and the country took a hard turn toward socialism. Today, Venezuelans have trouble getting essential staples to living such as food and toilet paper. Gangs and violence are widespread and the country is total chaos.

About the same time as Venezuela's hard turn to socialism, Pam and I went to interior China twice, in 2003 and 2005, each time to adopt a daughter. Although China still had a communist government, the economic momentum from capitalistic reforms enacted in 1978 was becoming more evident by the day.

Still jet lagged, I remember speaking with a middle age Chinese man on Tiananmen Square in 2005 prior to catching a flight to Nanchang the next day. He told me that not many years before one was considered "rich" (by Chinese standards) if he owned a wristwatch. With the economic growth propelled by capitalism, the standard for being "rich" then moved from owning a wristwatch to owning a bicycle. And in 2005, not only bicycles, but motor scooters were everywhere. Of course, in 2005 cell phones were ubiquitous, even in Nanchang.

I then asked him: "What is today's standard for being 'rich' in China? A car? A home?" His answer? A passport, because it meant one had the means to travel abroad and see the world. Interesting. In the space of a generation capitalism had lifted more hundreds of millions of Chinese out of poverty than any church or socialistic government ever dreamed of doing.

In the meantime, Venezuela had gone from a potential "up and coming" country to one of the poorest countries on the planet. The difference? Capitalism in China vs. Socialism in Venezuela. And before you say: "But Venezuela is in South America....", take a look at the improvement in Venezuela's next door neighbor, Columbia, in the last 20 years.

So how does this apply to your portfolio? With or without the U.S.A. (remember that less than a year ago Bernie Sanders, an avowed socialist, won 23 of the 50 states in the Democratic presidential primary), I believe capitalism will continue to spread and flourish around the world. Governments, including China, may be able to censor Facebook, but they can't control the mouths speaking into those world-wide cell phones.

People want to prosper and the truth always has a way of bubbling to the top. News of prosperity versus adversity will move quickly, and everyone will push for and support what's in their own best interest. It's just human nature, and your investment portfolio will benefit accordingly.