

Chapter 2: Capitalism

We have become a populous that spends way more time demonizing the +/- 75% who have enjoyed access to capitalism and leveraged it for their success, than we do unlocking the chokepoints that have prevented the remaining 25% from enjoying the same opportunity. Although capitalism must be edited, it is not in of itself the problem, it is a lack of access to an edited form of it and what it can provide that must change.

As the forerunner of capitalism, colonialism was absolutely responsible for acts of genocide, theft, slave labor, and a host other “blots of the copy book” of the great experiment that was the founding of America. America did not invent colonialism and neither did it perfect it as the Gold Medals for each (post 1400), go to Portugal and Great Britain respectively. However, there is no doubt that America benefited from extending the principles of colonialism when it chose to commit genocide on its First Nations Peoples, and to continue the use of slave labor to help build economic might. The arguments that “we did not do this”, or “what we did was justifiable because other countries did it” are based on pure ignorance, prejudice, and or a sense of patriotism that is devoid of reality. However, even though our country remains far from perfect, any time millions of more people want “in” than “out”, there must be a great deal that is appealing about living here. I believe this is summed up by the daughter of a dear friend (an American hero who was a full bird Colonel in the USMC), as when asked “what is the best thing that ever came out of England”, her answer was “America”.

Today, many people believe that capitalism is a subtle way of continuing colonialism, and to many, “Aid to Africa” might be one of the most compelling examples of why. Those people rightly believe that if nations around the world stopped extracting everything from Africa there would be no need to give any aid back. What they fail to discuss however, is that most African countries are run by some of the most corrupt, genocidal maniacs on planet earth, the vast majority of who are native to their countries. Put another way, those countries are not seeing millions of people lining up at their borders to live there. A book that generally drives my liberal friend’s berserk is “The Politically Incorrect History of the British Empire”, written by American Historian, H. W. Crocker. The book does not shy away from the admitting how abhorrent many of the policies of colonialism were, but it does spend time (with specific examples) discussing many of the positive things benefits that accompanied the expansion of the British Empire.

We do not have to look very far to find numerous opinions of how bad capitalism is, and I do believe that there is a real need to edit it so that its benefits can be accessed by everyone. However, very little is spoken about the good things it has been responsible for, and how innovation and free markets have contributed to changing the world for the better. Furthermore, without the work of some amazing investment bankers and fund managers providing companies with access to affordable capital, many of the innovations in healthcare, technology, and other sectors that benefit us all would never have come to fruition. Of course, there are some bad actors in finance as there are in other industries, but I can also provide extensive lists of people who took or take their role as fiduciaries very seriously, and in the most fair, balanced, and sustainable manner possible.

The sentiment about editing capitalism is shared by some of the financial world's most successful people. For example, in 2019, Ray Dalio, the Founder of Bridgewater Associates, one of the world's largest and most successful hedge funds, wrote a brilliant article titled "Why and how capitalism needs to be reformed" ⁽¹⁾. In his article (which I highly recommend you read if you are interested in this subject), Dalio says, "I believe that all good things taken to an extreme can be self-destructive and that everything must evolve or die". He continued with "This is now true for capitalism. In this report, I show why I believe that capitalism is now not working for the majority of Americans, I diagnose why it is producing these inadequate results, and I offer some suggestions for what can be done to reform it."

Ray is not alone in his prognosis of capitalism, and in Chapter 6 (iiib), we will take a deeper dive into what many of America's most revered business owners and leaders are doing to make it more inclusive by carrying the best aspects of it forward, while leaving the worst behind. Many of these leaders have willingly signed pledges with the Business Roundtable ⁽²⁾ and joined organizations such as The Council for Inclusive Capitalism with the Vatican ⁽³⁾.

Our own research has highlighted eight aspects of capitalism that elicited the most vociferous reactions, and need be eliminated or edited:

- A. Lack of Inclusion and Access (see chapter 5)
- B. Lemon Socialism - The Privatization of Gains and the "Socialization" of Losses.

Lemon Socialism is a term used to describe Federal Government (tax payor) bailouts of private sector organizations that are going bankrupt. A recent and very transparent example of this were the bail outs of companies (financial and auto in the main) during the 2007 – 2008 market crash. What many people do not realize however, is that the Federal Government made huge profits on many of the loans and or equity positions they took ⁽⁴⁾. However, not all Lemon Capitalism is conducted by the Federal Government.

In 2006 and 2007 emails were being sent by senior executives at financial firms telling their retail conduits to "sell this nuclear waste to the public". Having enjoyed huge profits from the structured finance markets, many of the banks scrambled to sell their positions to the public once they knew that they were rapidly being devalued. In fact, financial institutions that were once seen as the darlings of Wall Street went out of business, and although many Americans lost their homes, pensions, and life savings, etc., etc., (to the extent that some committed suicide), the executives on whose watch the firms imploded walked out with huge (some more than \$100m) severance packages ⁽⁵⁾.

Other, more subtle examples are infrastructure projects that are funded by tax payor dollars and result in private companies making a great deal of money. One of the best examples of this was the High Line project in New York City. Real estate bordering the High Line benefitted from huge increases in value even though many of the owners of the properties did not contribute to the development of the project. A brilliant synopsis on this example, replete with reams of data, was written by Mr. Indy Johar and his collages at Dark Matter Laboratories ⁽⁶⁾. We can all rest

assured that huge benefits will be reaped by numerous private sector businesses and people because of President Biden's infrastructure spending.

Solutions to this do exist and are being expanded. The most efficient model I know about is the development of investment structures where a local government will provide the first loss risk capital for a project, with the balance of the required equity and or debt being provided by real estate owners, companies, or residents who stand to benefit from the likely increases in value that would be associated with the project.

C. America's Desire to Treat Non-Discretionary as a Captive Market

Right wing politicians have done a wonderful job in convincing many Americans that countries with the happiest citizens are all socialist, and we dare not allow socialism into America. The latter I completely agree with (although as you can see from B above, we already have parts of it), but I vehemently disagree with the former because those countries are not founded upon socialism. For those who think they are, if they ever ventured into a passport office so that they could travel outside of America to count the number of Billionaires and Millionaires that can be found in countries like Norway, Sweden, Finland, Germany, etc., etc., they would see the truth for themselves.

So, what is the main difference? It is quite simply, and even though not perfect, that the countries in question do their best to provide every citizen with access to things they deem as non-discretionary e.g., education, healthcare, shelter, etc., etc. America, however, sees non-discretionary as a captive market where companies can charge whatever they wish because people must have non-discretionary items. As a capitalist myself, I can clearly see that a country does not have to be socialist to remove unfettered capitalism from non-discretionary items.

To provide some perspective, I am going to pick on America's insane healthcare system, one in which we have some of the best medical professionals in the world, but again where protagonists often get to hide in plain sight while blaming others, in this case our amazing doctors and nurses, etc.

I recently had a hip replaced by a brilliant surgeon who received \$1,100 for my surgery. The facility (I was there for no more than 5-hours) received over \$10,000, and the company that supplied the replacement parts received over \$13,000.

We must also never forget the lawyers, those omnipresent denizens of the United States Tort System who are ever ready to pounce. In the medical industry alone, a lack of Tort reform costs over \$300Billion per year, and we all know where those costs get passed to.

Then, we have the insurance companies. In the first quarter of 2021, the following financial profits were reported by some of America's largest health insurance companies:

- United Healthcare \$4.1 Billion
- CVS (which owns Aetna) \$2.2 Billion
- Anthem Health \$1.67 Billion

- Cigna \$1.17 Billion
- Humana \$828 Million

Almost \$10 Billion in reported profits from just 5 health insurance companies in America for the 3-month period from January – March 2021. This is happening while more American's struggle to pay premiums and are going bankrupt over medical bills they can't afford. Over two thirds of American bankruptcies are caused by medical bills.

This is such an important issue that I am going to repeat (just so that it really sinks in) the inflation rates of non-discretionary and discretionary items since 1955:

- College has increased over 3,000%
- Healthcare has increased 2,775%
- Housing has increased 1,350%
- Food has increased 1,143%
- Most non-discretionary items, less than 300%

When I speak of removing unfettered capitalism from non-discretionary items, it also means removing the “bribes” (may as well call them what they really are) that companies in certain industries lavish on politicians to maintain the status quo. Accompanying this we also need to remove the politicians who accept the “bribes”.

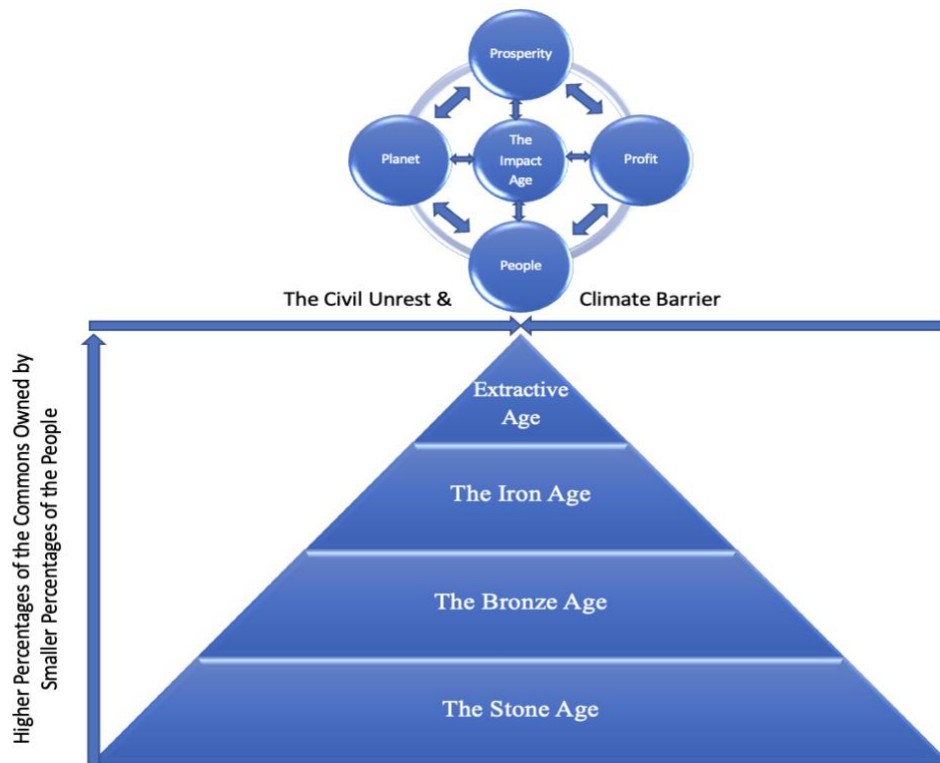
The solutions to the application of unfettered capitalism on non-discretionary items exist in countries that are simply better than we are at some things. However, greed, special interests, and our own arrogance, ignorance, and egos, stand in the way of us adopting them.

D. Extraction & Stranded Assets

Whether for need or more latterly greed, we as humans (or precursors thereof) have spent the better part of 400,000 years building our existence upon extraction. Whether natural resources from our planet, or horrifically the labor, hopes, dreams, assets, and very souls of other humans, we have cumulatively done more raping and pillaging than we have done innovating. Thankfully, the latter has now overtaken the former, but let us not sweep what many nations have done (and some continue to do) under the rug to align with a narrative that we are awesome.

Extraction has also resulted in a battle over Stranded Assets. Veiled in a narrative that stranded assets are in-ground reserves of hydrocarbons that will never be used, and as such are often fought over as either assets or liabilities on a hydrocarbon company's balance sheet, the reality is that the real Stranded Assets in America are people, and they won the 2016 election.

Stranded Assets are the people left behind when human innovation, technology, and or necessity, force change. Historically, each change of Age we have created has resulted in the line of sight between rich and poor becoming more and more opaque. This has resulted in the middle of the socioeconomic pyramid creating and distributing false narratives, and the gap between the top and the bottom widening to almost insurmountable distances.



The majority of Stranded Assets in America today (17,328,000 poor white Americans, see chapter 5) have made the electoral map of middle America look like it is covered in blood, which is ironic as the interior of our nation has been “bleeding” for decades. It does not take Einstein to correlate this back to the earlier chapter on The American Dream, and America’s Socioeconomic Pyramid. Democrats were stunned in 2016 when these real stranded assets (that the majority on the left had forgotten about) voted for someone they believed would put them first.

For decades, “intellectual elites” have convened in the hallowed halls of revered educational institutions, think tanks, NGOs, the UN, coffee shops and wine bars, and conferences and events that are expensive to attend and or get to, to “solve” the problems of the world, while self-aggrandizing about their purpose in life. They spent so much time sitting around mentally masturbating about issues that although real and important, e.g., climate, gender inequality, racial bias, LGBTQ rights, the environment, global poverty, etc., etc., that no bandwidth was left to focus on the pressing issues being faced by people living in the middle of America. It all made perfect sense, until the wakeup call of a lifetime showed that “elite” was not a term being ascribed to a person who sat on a solid gold toilet seat, and owned hotels and clubs that most of his supporters would never be allowed in to, let alone could afford to join.

For its part, the GOP has done everything in its power to promote the extraction of hydrocarbons by consistently supporting a tsunami of tax-payer subsidies (but we want no part of socialism) into the hydrocarbon industry. The Environmental and Energy Study Institute ⁽⁷⁾ reported that direct subsidies to the fossil fuel industry totaled \$20 billion per year, with 80% going toward oil and gas. In addition, from 2019 to 2023, tax subsidies are expected to reduce federal revenue by

around \$11.5 billion. Furthermore, production subsidies grew 28% between 2017 and 2019. Additionally, mainly GOP politicians but democrats are not immune to guilt, have used extraction to promote false hope.

Since the 1960s, politicians and special interests have known about the damage caused by hydrocarbons and the impending end of their Age. However, rather than being honest 30 or 40 years ago with potential voters in hydrocarbon dependent communities and investing in them to create new industries and opportunities, they have stomped through those communities promising to bring hydrocarbons back. If there had been a modicum of honesty and true caring, the current generation of job seekers would be entering new industries and creating new sources of economic vibrancy. As it is, their communities are “dying on the vine” as economic vibrancy from hydrocarbons dries up. What makes this even less palatable, is the fact that for fear of losing precious votes, the politicians are still not telling the truth, so they simply point the finger at the other party. This is a total disgrace.

What fascinates me the most about extraction, is the palpable levels of hypocrisy we see from the descendants of those who fought against it. When residents of the 13 Colonies finally had enough of the extraction levied upon them by the British Government, they quite rightly revolted. They took up arms, murdered people, burned business and government buildings, and put themselves to the sword to rightly fight the injustices being put upon them. The “Patriots” of today would have readily jumped into that fight, and or would have been the loudest cheerleaders for the cause, justifying their actions based upon the desire for freedom from injustice and extraction. In fact, so revered were the actions of the oppressed, that they are celebrated every year on the 4th of July. After defeating the British (again, for the right reasons), Americans went on to commit genocide on the indigenous people of America and continued the horrific practice of slavery. There are African American’s alive today who remember a time when they could not vote, and had to use separate bathrooms, restaurants, and schools, etc., etc.

However, when today’s oppressed Americans rise-up because they have suffered extraction of free labor, land, assets, and their very hopes, dreams, and souls, the very same “Patriots” who applauded the actions of the Continental Army become apoplectic. Their argument is that the Democrats want to extract more from them than they wish to give (wow, that would sound familiar to people back in 1770), but they pay no heed to the fact that large parts of our society had, and continue to have, so much extracted from them. On January 6th, 2021, a group of mainly white Republicans stormed the Capitol to try to overthrow an election. I do not believe they would have done this had they not been riled up by the kind of political and media pundit narratives that I have mentioned earlier. However, they did do it because they do not like having things extracted from them. The difference is that one side has felt the pain of extraction for centuries, and the other for a few decades.

We certainly can and should make the case that extraction is not a justification of burning down businesses, killing people, destroying towns, cities, and homes, or trying to overthrow a government. But this is what happens when levels of extraction become so high that the result is Stranded Assets that are humans, especially those who have reached the stage wherein they feel they have nothing to lose. There is no doubt that the signers of the Declaration of Independence

and those who fought in the War of Independence felt justified in their actions, as did those in the South who took up arms against the North.

America fought hard to rid itself of a Monarchy and the unfair extractions and injustices levied by authoritarian rule. The Founding Fathers clearly did not want America to replicate authoritarianism, or to even have +/-50% of Americans living under the totalitarian ideology of the other +/-50%. Sadly, both parties have ignored this, and are pushing for authoritarianism while using a “ready, fire, aim” mentality to get there, and the ensuing collateral damage is exactly what you would expect from such irresponsible tactics. A more detailed look at the collateral damage can be found in Chapter 6(vii).

Today, we are at the very tip of the extraction pyramid, and our choices are to create a different shape for America’s socioeconomic construct (see Chapter 7), or to implode.

E. Rent Seeking

According to the Corporate Finance Institute, rent seeking is a concept in economics that states that an individual or an entity seeks to increase their own wealth without creating any benefits or wealth to the society.

Rent-seeking activities aim to obtain financial gains and benefits through the manipulation of the distribution of economic resources, yes, very similar to “pimping poverty”. Economists view such activities as detrimental to the economy and society. The practice reduces economic efficiency through the inefficient allocation of resources. Also, it commonly leads to other damaging consequences, including a rise in income inequality, lost Federal Government revenues, and a decrease in competition. Also, it is commonly viewed that rent-seeking activities discourage innovation. Instead of developing new innovative methods for revenue generation, companies may rely on the practice to increase their own wealth.

Chapter 8 discusses numerous solutions that need to be scaled.

F. Short-termism

The CFA Institute describes Short-termism as an excessive focus on short-term results at the expense of long-term interests. Short-term performance pressures on investors can result in an excessive focus on their parts on quarterly earnings, with less attention paid to strategy, fundamentals, and long-term value creation. Corporations too often respond to these pressures by reducing their expenditures on research and development and/or foregoing investment opportunities with positive long-term potential. These decisions can weigh against companies’ development of sustainable products or investment in measures that deliver operational efficiencies, develop their human capital, or effectively manage the social and environmental risks to their business.

Federal securities laws are said to be one cause of financial-market short termism by encouraging Wall Street’s quarterly earnings fixation. The regulations’ quarterly reporting requirements

exacerbate the problem, the argument goes. Analysts predict quarterly earnings, and companies feel pressure to meet those predictions.

Financial intermediaries have shown an increasing short-term outlook in recent years. There's also an attendant tension with the owners of the money being managed, who often require a long-term investment view (a retirement fund, for example). As a result of this misalignment of interests between the two groups, significant losses for investors can arise. Transaction costs aggravate this problem: because a short-term outlook often drives high portfolio turnover, this can lead to high transaction costs, reducing returns to investors.

The stock market has not been correlated to the underlying economy for over a decade, and no longer do investors spend hours analyzing the fundamental value of a security they wish to buy as everything is driven by instantaneous, algorithmic trading. The costs involved in being a public company have skyrocketed, due much in part to over regulation, but also the "full employment act" for certain specialties of law and accounting. The answers to short-termism are clear and simple, but once again, there are too many institutions and people feeding from its trough to change it.

G. Centralized Monetary Policy

In 2018, the following appeared in the Economist:

"In 1944, Friedrich Hayek received a letter from a guest of the Claridge Hotel in Atlantic City, New Jersey. It congratulated the Austria-born economist on his 'grand' book *The Road to Serfdom*, which argued that economic planning posed an insidious threat to freedom. 'Morally and philosophically, I find myself,' the letter said, 'in a deeply moved agreement.' Hayek's correspondent was John Maynard Keynes, who was on his way to the Bretton Woods conference in New Hampshire where he would help plan the post-war economic order."

After Bretton Woods, Hayek authored "*The Denationalization of Money*", in which he suggested that governments should allow the private issuance of money, such that individuals could choose to use whichever money they want. Hayek believed that competition would be a necessity for central banks to be judicious about their issuance of money, and the danger of hyperinflation and prolonged malinvestment.

There is no doubt that we are beginning to see a road map to decentralization through the creation of DAOs (Decentralized Autonomous Organizations). DAOs are organizations represented by rules encoded as computer programs that are transparent, controlled by the organization members, and not influenced by a central government.

For those focused on decentralizing monetary policy and control, one of the most exciting creations has been the MakerDAO which seeks to decentralize a debt-based system of money and promises a stable currency. This may sound like the current system, however, in this one, policy decisions about fee rates and collateral composition are made not at the discretion of a sovereign authority, but at the discretion of a community. Although this sounds great, there are hurdles that must be overcome such as:

- A dependence upon the prudent person theory to regulate supply
- The system cannot regulate stability i.e., even though this seems to be the epitome of a free market, the issuance of new money has no economic, legal, or political leverage to set a value

In summary, central banks remain at the helm of the modern global financial infrastructure in the current economic system. An overwhelming majority of countries around the world use central banks to manage their economies. While it offers several advantages, this form of centralized structure vests excessive power on a single authority and has resulted in severe economic recessions.

Decentralized technologies rely on algorithmic trust, many have minuscule adoption rates, and their legal statuses remain vulnerable. Meanwhile, central banks are co-opting elements of design and technology to explore the case of a digital currencies issued by central banks. Because of this, at least in the short term, it is more likely that central banks will begin to introduce their own central bank digital currencies (CBDCs). As of 2021, many countries are in various stages of exploring CBDC opportunities, planning CBDC pilot programs, and some are getting ready to roll out their official CBDC.

H. Higher Risk, Higher Reward is Only for Some

As we progress through school and life, we are taught that when investing our money, the higher the risk, the higher the reward, and hence, many asset owners (including retail investors like many of us) try to allocate their portfolios accordingly.

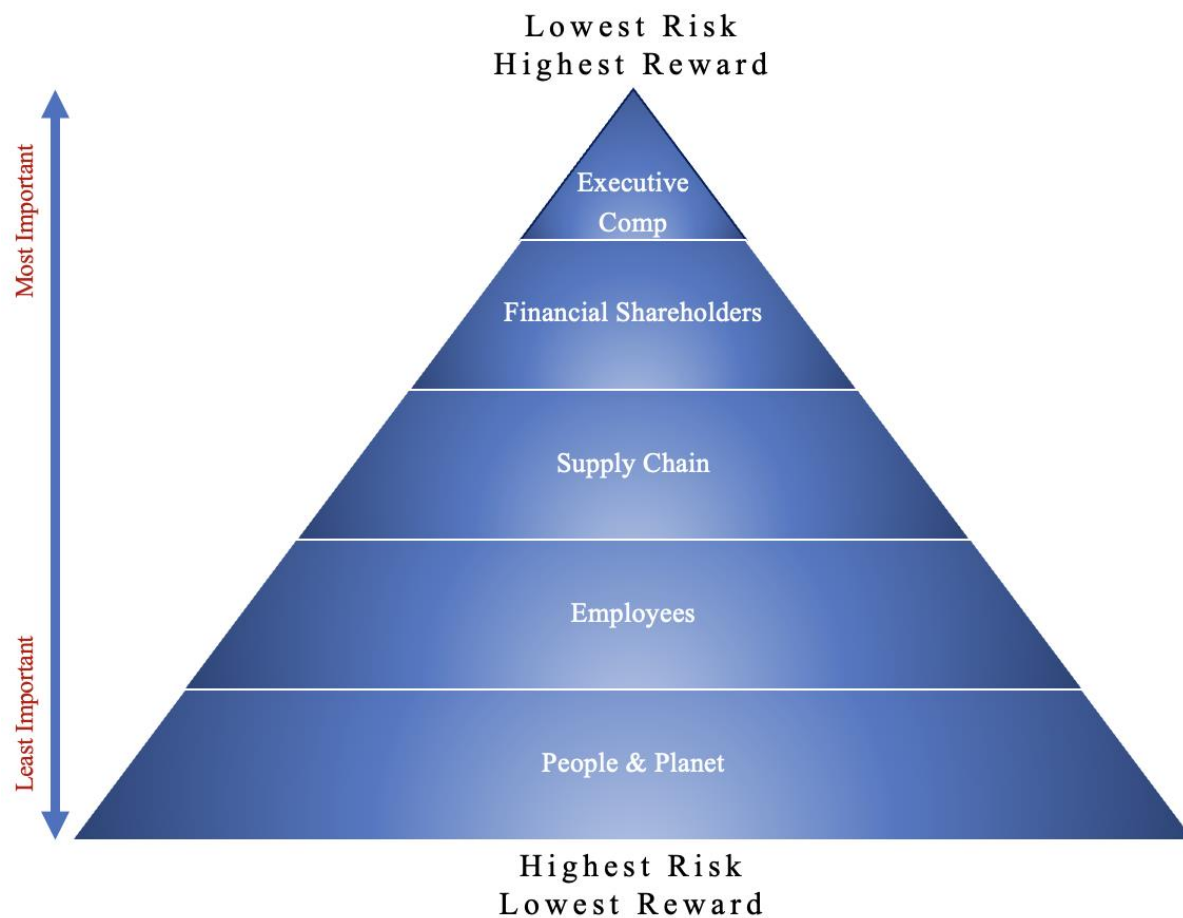
At speaking engagements, I am often asked to define (in one sentence or less) what is wrong with the current financial system, and to simplify my response, I have used the image below that turns what we have learned about "Risk/Reward" on its head.

The pyramid shows what historically has been the most important things to global financial institutions.

- Executive Compensation – that is how many CEOs of global financial institutions used to benchmark themselves against each other
- Financial Stakeholders – by keeping investors and boards happy, executives get to keep their jobs, but outside of ego, did it really matter if they had a \$100 million or above severance package?
- Institutional clients – they pay the most fees
- Retail clients – we are a valuable distribution channel, even for the “nuclear waste” that executives wanted to dump on us prior to the market crash
- People and Planet – until very recently they were not even seen as stakeholders

The pyramid then shows the levels of reward (highest to lowest) going from the apex to the base, while levels of risk (highest to lowest) going from the base the apex. In other words, many financial institutions (not all) are designed to drive the lowest risk and highest reward at the apex, resulting in the highest risk and lowest reward being found at the base.

As evidenced by the market collapse of 2007/8 etc., plus the detriment to the planet that has been caused through the "extractive age," it is now quite clear that Higher Risk/Higher Reward is not true for everyone, as in many instances the very people preaching this thesis are the ones not abiding by it.



There is always a section of the "old paradigm" that disagrees with me so at least the diagram gives everyone the opportunity to determine for themselves where vast majority of the risks and rewards truly are.

We are seeing changes to how financial institutions are embracing all stakeholders and redesigning themselves to align their interests with those of their clients. In fact, industry leaders like Ray Dalio (Bridgewater), Larry Fink (BlackRock), and Brian Moynihan (Bank of America) are leading a charge for change.

I cannot leave this chapter without once again referencing the book by H. W. Crocker, “The Politically Incorrect History of the British Empire”⁽⁸⁾, which clearly admits many of the deplorable actions that British Colonists took during its colonial period, however, it also points out what it brought to the countries it colonized. These include things like education, infrastructure, medicine, and rule of law. Finally, it factually highlights the fact that most nations that Britain left still have a great deal of their natural resources, have had home rule for decades, and are now Banana Republics. Sometimes, the truth hurts.

Capitalism is not the root cause of our socioeconomic problems, lack of access to it is. When combined with business, and in their edited forms, capitalism is our solution. It is for this reason that I am a fan and member of the Council of Inclusive Capitalism with the Vatican.

- (1) <https://economicprinciples.org/Why-and-How-Capitalism-Needs-To-Be-Reformed/>
- (2) <https://www.businessroundtable.org/>
- (3) <https://www.inclusivecapitalism.com/>
- (4) <https://projects.propublica.org/bailout/>
- (5) <https://www.businessinsider.com/7-outrageous-severance-packages-2011-12#martin-sullivan-5>
- (6) <https://provocations.darkmatterlabs.org/a-smart-commons-528f4e53cec2>
- (7) <https://www.brookings.edu/research/reforming-global-fossil-fuel-subsidies-how-the-united-states-can-restart-international-cooperation/>
- (8) <https://www.penguinrandomhouse.com/authors/2006387/hw-crocker-iii/>