

In the past, we discussed how "Capitalism" was distorted by Wall Street. We've also reviewed some of the "myths" of capitalism, which are used to garner "votes" by politicians but are not really true. **Most importantly, we discussed the fallacy that "more Government" is the answer in creating equality as it impairs economic opportunity.** I want to conclude this series with a discussion on the fallacy of socialism and equality, and provide a some thoughts on how you can capitalize on capitalism. <https://twitter.com/ThomasSowell/status/1184958612856344576?s=20>

Socialism Requires Money

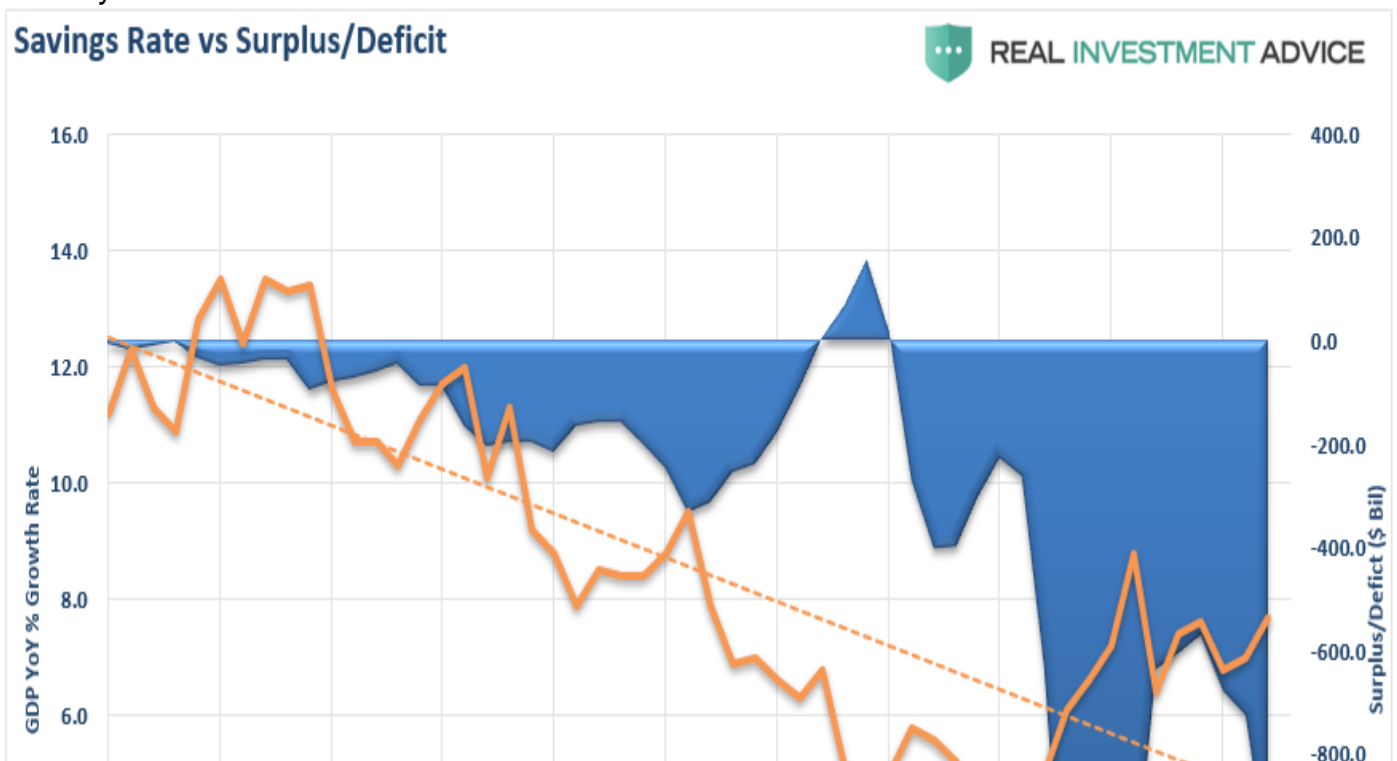
The "entire premise" of the socialist agendas assumes money is unlimited. Since there is only a finite amount of money created through taxation of citizens each year the remainder must come from the issuance of debt. Therefore, to promote an agenda which requires unlimited capital commitments to fulfill, the basic premise has to be "debt doesn't matter." Enter "Modern Monetary Theory" or MMT. Kevin Muir penned "Everything You Wanted To Know About MMT" which delves into what MMT proposes to be. To wit:

"Modern Monetary Theory is a macroeconomic theory that contends that a country that operates with a sovereign currency has a degree of freedom in their fiscal and monetary policy which means government spending is never revenue constrained, but rather only limited by inflation."

In other words, debts and deficits do not matter as long as the Government can print the money it needs, to pay for what it wants to pay for.

"Deficits are self-financing, deficits push rates down, deficits raise private savings." ? Stephanie Kelton

It is the proverbial "you can have your cake and eat it too" theory. It just hasn't exactly worked out that way.



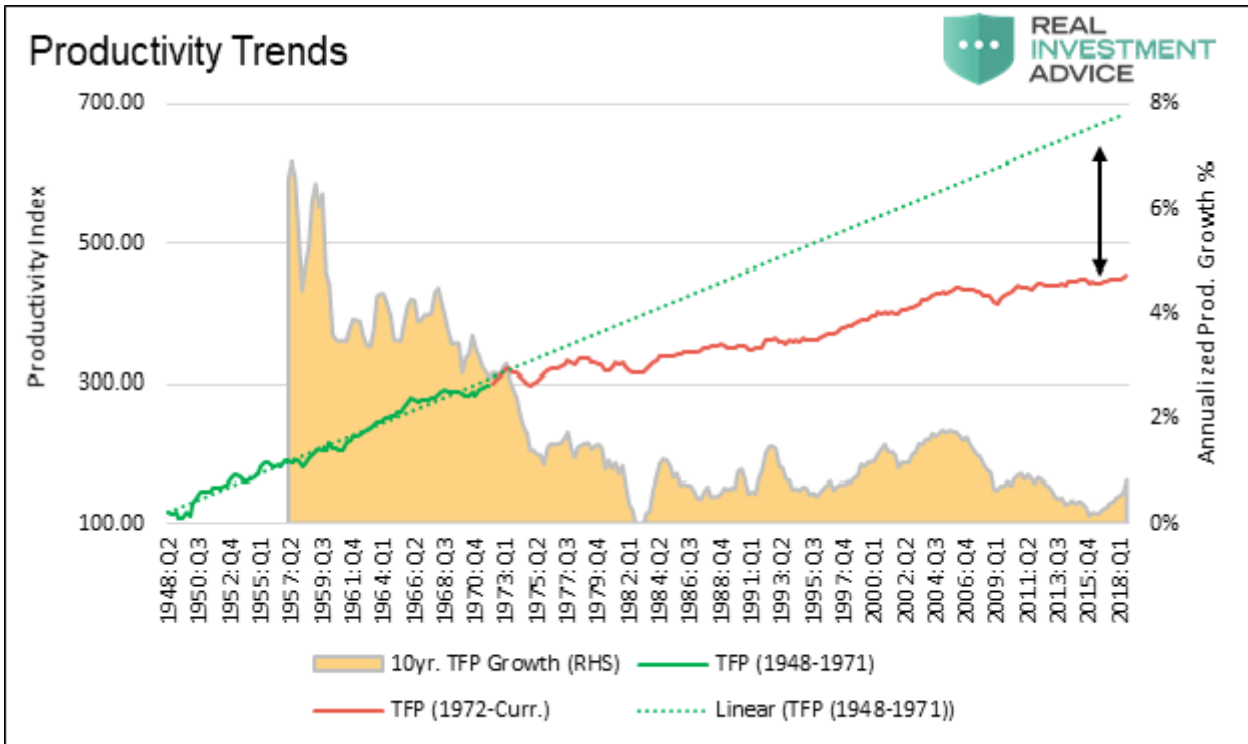
Deficits Are Not Self-Financing

The premise of MMT is that government *deficit* spending is not a problem because the spending is into *productive investments* that pay for themselves over time. But therein lies the problem ? what exactly constitutes *productive investments*? For that answer, we can turn to Dr. Woody Brock, an economist who holds 5-degrees in math and economics and is the author of *American Gridlock* for the answer.

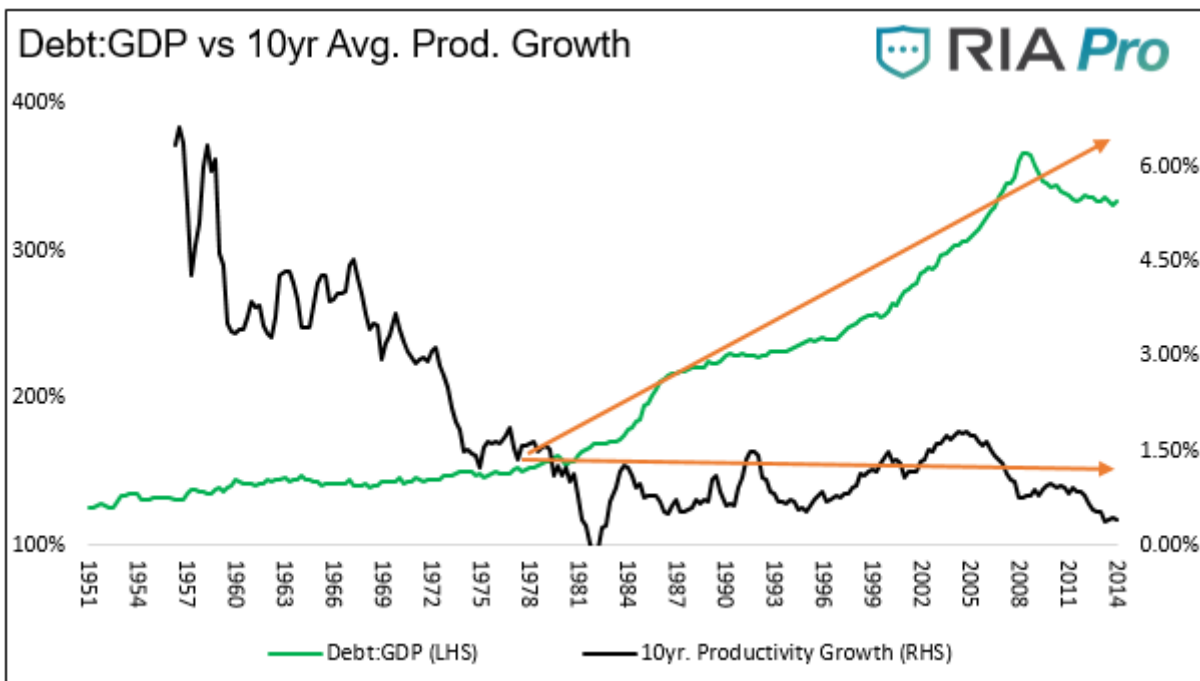
?The word ?deficit? has no real meaning.?Country A spends \$4 Trillion with receipts of \$3 Trillion. This leaves Country A with a \$1 Trillion deficit. In order to make up the difference between the spending and the income, the Treasury must issue \$1 Trillion in new debt. That new debt is used to cover the excess expenditures, but generates no income leaving a future hole that must be filled. Country B spends \$4 Trillion and receives \$3 Trillion income. However, the \$1 Trillion of excess, which was financed by debt, was invested into projects, infrastructure, that produced a positive rate of return. There is no deficit as the rate of return on the investment funds the ?deficit? over time.? There is no disagreement about the need for government spending. The disagreement is with the abuse, and waste, of it.

For government *deficit* spending to be effective, the *payback* from investments made through debt must yield a higher rate of return than the interest rate on the debt used to fund it. The problem, for MMT and as noted by Dr. Brock, is that government spending has shifted away from productive investments, like the Hoover Dam, which creates jobs (*infrastructure and development*) to primarily social welfare, defense, and debt service which has negative rates of return. In other words, the U.S. is *Country A*. However, there is clear evidence that increasing debts and deficits **DO NOT** lead to either stronger economic growth or increasing productivity. As Michael Lebowitz recently showed:

?Since 1980, the long term average growth rate of productivity has stagnated in a range of 0 to 2% annually, a sharp decline from the 30 years following WWII when productivity growth averaged 4 to 6%. While there is no exact measure of productivity, total factor productivity (TFP) is considered one of the best measures. [Data for TFP can found here.](#)
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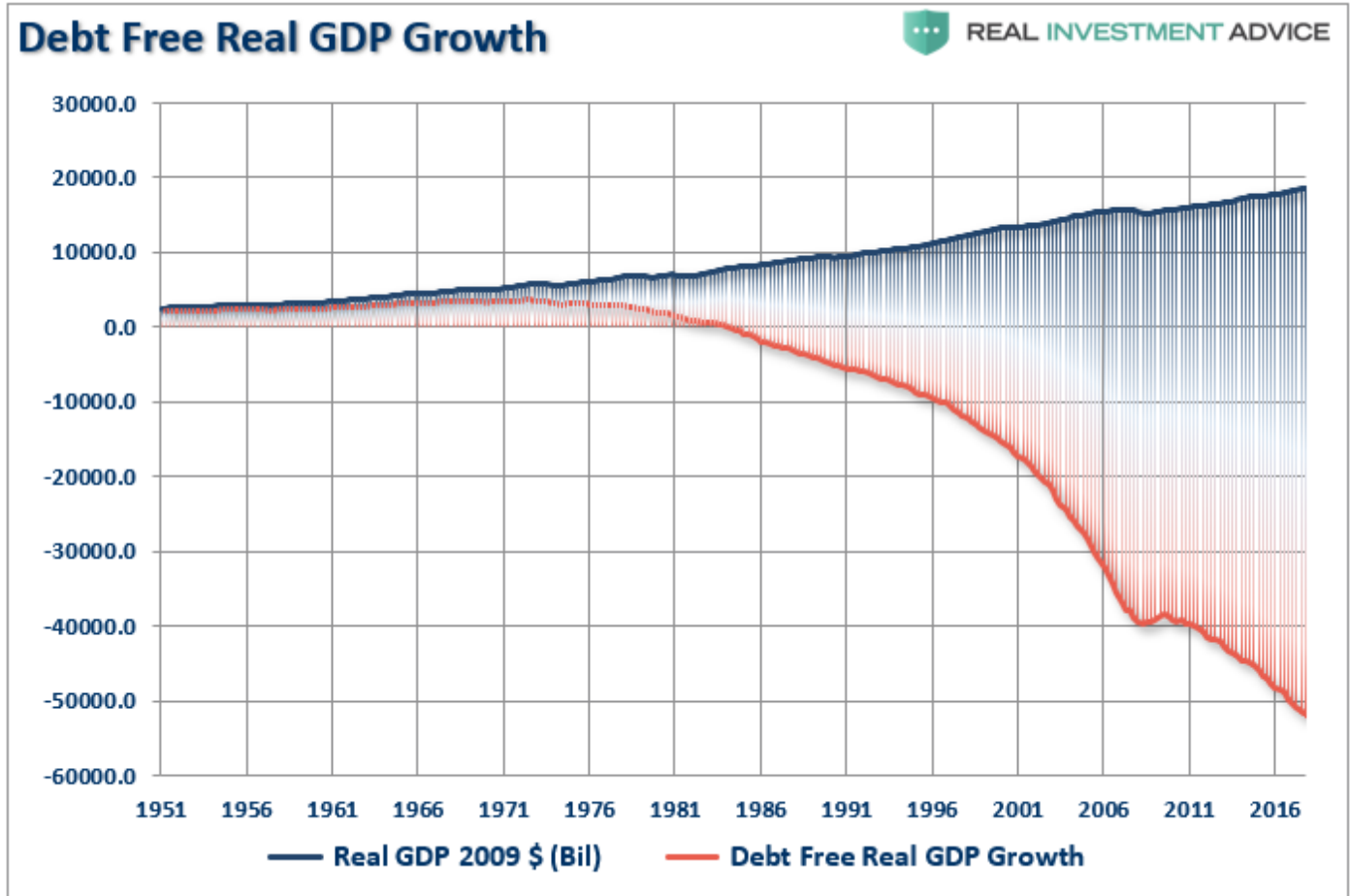
?The graph below plots 10-year average productivity growth (black line) against the ratio of total U.S. credit outstanding to GDP (green line).?



?This reinforces the message from the other debt related graphs ? over the last 30 years the economy has relied more upon debt growth and less on productivity to generate economic activity."

As noted above, since the bulk of the debt issued by the U.S. has been unproductively squandered on increases in social welfare programs and debt service, there is a negative return on investment. **Therefore, the larger the balance of debt becomes, the more economically destructive it is** by diverting an ever-growing amount of dollars away from productive investments to service payments. Another way to view the impact of debt on the economy is to look at what **debt-free? economic growth would be** in other words, without debt, there has been no organic economic

growth.



For the 30-years from 1952 to 1982, the economic surplus fostered a rising economic growth rate, which averaged roughly 8% during that period. **Today, with the economy expected to grow at just 2% over the long-term, the economic deficit has never been greater, and continues to grow. MMT is not a free lunch.** MMT is paid for by reducing the value of the dollar, and is a hidden tax by reducing the purchasing power of everyone holding dollars. The problem is that inflation tends to harm the poor and middle class, but benefits the wealthy. **While MMT promises ?free college,? ?healthcare for all,? ?free childcare,? and ?jobs for all?with no consequences, it will deliver inflation, generate further wealth/income inequality, and greater levels of social instability and populism.** How do we know this? Because it is the same outcome seen in every other country that endeavored in programs of unbridled debts and deficits. MMT sounds great at the conversational level, but so does ?communism? and ?socialism.? In practice, the outcomes have been vastly different than the theory.

Why Wealth Inequality Is A Good Thing

Just recently, Aaron Back accidentally made the case for why we should foster "*capitalism*" over "*socialism*." <https://twitter.com/AaronBack/status/1179009081383772167?s=20> What Aaron exposed in his rush to jump on the "*inequality bandwagon*" was what capitalism provided. Let's break down his statement:

1. *Introduction of capitalism lifts millions out of poverty. (This is a good thing)*
2. *Yes, inequality was created as those that took advantage of capitalism prospered versus those that didn't. (How capitalism works)*
3. ***If capitalism lifted millions out of poverty, which suggests everyone was poor under communism.***

Point 3 is the most important.

"Capitalism gets its power?and has created the greatest increase in social welfare in history?from embracing human ingenuity and the positive forces of innovation, open markets and competition. Perhaps the greatest strength of free markets is their ability to nimbly adjust to new ideas and situations and find the most efficient system. Markets are always looking to do things better. We can apply that same logic to capitalism itself to improve capitalism further so that it can provide even greater social welfare." - [Daniel LaCalle](#)

Let me clarify something for you.

The 'American Dream' isn?t going into debt to buy a home. The 'American Dream' is the ability for ANY person, regardless of race, religion, or means, to achieve success, and in many cases great success, through hard work, dedication, determination, and sacrifice.

Capitalism Is The Worst, Except For All The Rest

One thing is for certain. Life isn?t fair.

?The rich have everything, and all I have is a mountain of student debt and a crappy job.?

Capitalism isn?t perfect as Howard Marks recently noted:

?Capitalism is an imperfect economic system, because differential performance in the pursuit of economic success ? as well as luck ? results in there being (a) some people who are less successful as well as some who are more and (b) a few who are glaringly successful. I?m 100% convinced that the capitalist system has produced the most aggregate gains for our society, exceptional overall progress, and a better life for most. In the same way, I?m convinced that capitalism is the worst economic system . . . except for all the rest.?

Capitalism is the only system that will provide you the ability to achieve unbridled success. Yes, the Government can pay for anything you want. The problem is that it requires those who are succeeding to pay for it. Think about it. **Do you want to work hard, sacrifice, and take on an exceeding amount of risk to achieve success only to pay for those who don?t?** This is why socialism always fails.

" The greater good can only be achieved by making the good greater. " - Daniel LaCalle