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A Defense of Free Market Capitalism

Capitalism is defined as a free market economic organizing system based on the private ownership of property and resources controlling the means of production. The *Law of Supply vs. Demand* dictates transaction prices in goods, services, resources, property, labor, capital markets, and other things of value. Free market trade occurs when a mutually agreeable price is determined for a certain quantity. Earnings or profit is the difference between selling prices and cost. Minimizing costs encourages resource conservation and efficiency in pursuit of reward or earnings, as ell as limiting inflation indicates increasing inefficiency often due to poor policy changes. A critical question comparing the wealth of nations and economic world order is the consequences of economic, political, and social systems of organization under natural rights and rule of law. We discuss the *State of Capitalism*, why its economic efficiency yields higher average potential growth, productivity and profit margins—thus greater prosperity—yet, also whether it needs to be reformed.

Beyond assured natural rights of liberty, private property, capital, and freedom to pursue happiness, efficient Capitalism relies on fair competition and free market enterprise to promote innovation, creativity, and entrepreneurial risk-taking. Both parties to a transaction have vested self-interests, so outcomes balance what both desires, just as game theory predicts. Capitalism yields better quality products at lower prices by incentivizing free market competition to promote greater productivity and limit inflation with growth in productivity, thereby increasing prosperity and raising the standard of living for society.

Publication of *The Wealth of Nations* in 1776 by Adam Smith was the first broad conceptualization of Capitalism spanning economic organisation of labor, wages, resources, trade, education, money, trade, enterprise business, and government, as well as inequality and ethics (*The Theory of Moral Sentiments*). It explained the robust miracle of how unrelated free-thinking individuals pursuing their independent desires of an *invisible hand*[1] promotes economic prosperity for the greater good. John Locke (1690) argued that the role of government is to protect natural rights of *Lives, Liberties*, and *Estates*. The *Law of Supply vs. Demand* within competitive free markets and free trade endured for centuries, benefiting from innate self-correction, adapting to innovation, to maintain economic balance. Capitalism prevailed for too long for some better alternative or reform to now emerge.

The remarkable breadth of pivotal truths in this economic operating manual for meritocratic capitalist societies remains as relevant today as it was 245 years ago. Simple organizing principles and values of Capitalism are unchanged, even as some still hope to reform it. Publishing *The Wealth of Nations* coincided with shaping America's founding principles, values, and beliefs, including individual freedom, liberty[2], and property rights *in the pursuit of happiness*. Adam Smith postulated even then that income inequality is an expected consequence of profit seeking incentives in competitive free markets. Divergences in income and wealth naturally increase, compounding over time—different outcomes with equal opportunity are not something to fear, instead reflect incentivized effort in pursuit of happiness.

Values of *Free Market Capitalism* were bold and novel, coinciding with America's founding in 1776, and helped shape a nation in need of unique revolutionary direction. It has proven robust, uncontested, and unreformable over generations. The *Law of Supply vs. Demand* enables efficient function of free markets coexisting with rule of law and prudent regulation to ensure fair competition. The *market* judges unlawful, improper, and prohibited activities, as well as poor operating performance and ruinous decisions in the impartial courts of consumer choice and capital markets.

> *It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest*.
> –Adam Smith, Wealth of Nations, 1776.

The butcher, brewer, and baker aren't simply pursing greedy *self-interest*, but are virtuous incentivized agents acting according to consistently predictable behaviors.

[1] We refer to the *invisible hand* as the unbiased free market force guiding independent decisions of buyers *and* sellers exchan` ging goods and services for their own best interest.

[2] Liberty (def.): Freedom of choice, given natural social, or economic rights without arbitrary political or despotic control.

S*elf-interest* may be a bad choice of words, but it was 1776, not 2022. Implicit was the notion free-market commerce is a two-sided exchange that both seek self-interested benefit from trade—so there is deeper meaning to the choice of words than to convey selfishness or greed of a capitalist *seller* alone. *Self-interest duality* of a buyer and seller implies capitalizing differing objectives of independent decision makers. Unfortunately, we lost sight of the game theoretic notion of *dual self-interest—that of buyer and seller*--required for efficient price discovery, innovation, product development, and efficient production with free market competition governed by prevailing *dual self-interest*.

Reliance on instinct of self-interest wasn't meant to imply proprietor's selfishness. Misconception of *self-interest* as selfishness of capitalists began with Karl Marx for pollical advantage (*without regard for other men, independently from society, the right of selfishness?)*, and continued through Barack Obama (…*who would dare to make a virtue out of selfishness,* **and** *…If you've got a business—you didn't build that. Somebody else made that happen.*). Recasting *self-interest* as *selfishness* is meant to conjure images of corrupt immoral behavior serving oneself at the expense of others.

Political recasting of *self-interest* as *selfishness* or *greed* was deceitful, yet American Capitalism has endured for over two centuries by virtue of judgement of its efficiency and effectiveness as an economic organizing system. While *self-interest* may not seem the best choice of words, *selfish greed* was never a primary motivation. A business owner's first thought likely begins with how to support a decent living for one's family, hoping to be competitive enough to stay in business, only then to increase growth.

Altruism of *Dual Self-Interest* isn't selfishness if both parties act in their own best interest. So, the moral logic for reforming Capitalism is flawed, although held to a higher moral standard than its alternatives. Respect and trust are key to operating a successful business. The *invisible hand* guides our morality in need for one's reputation to be trustworthy and offer consumer value, or otherwise jeopardize future opportunities. Trust and goodwill are critical to business success in reinforcing ethical and prudent guardrails.

Interestingly, the US Constitution mentions *Right* just once, other than in the *Bill of Rights*:

> To promote the Progress of Science and useful Arts, by securing for limited Times to **Authors** and I**nventors** the *exclusive Right to their respective Writings and Discoveries –US constitution, Sec. 8*

In other words, freedom to reap reward or benefit from hard work or effort, taking risk, or being creative and inventive is just, aligned with the *pursuit of happiness and* support of equal opportunity. America is *built back better* everyday due to the incentive of capitalizing on ownership of property or capital. The right to benefit from our effort, intuition, invention, risk-taking, and talent naturally results in different individual outcomes. The *Right to Work* allows individuals to decide how and where to spend their time and engage talents. So, are we otherwise willing to limit natural rights and sacrifice liberty, freedom, equal opportunity, and pursuit of happiness to increase *outcome equality* or *social justice,* as Collectivism does?

Capitalism defines an economic organizing system of values and principles, but is silent on social and political organizing principles. Capitalism rewards enterprises that provide better products and services by incentivizing competition, risk-taking, or sacrifice ("sweat" equity, effort, time), investment, and innovation. Capitalism's *invisible hand* encourages efficiency with conservation of resources, energy, effort, and labor to order to bolster return on capital and increase productivity.

Capitalism has promoted greater global prosperity, wealth creation, and upward mobility than any other economic organizing philosophy. Incentivized entrepreneurialism fosters *competition* and *creative destruction*[3], while conserving energy, labor, and resources, thereby increasing productivity growth and limiting inflation to reinforce real potential growth and operating margins. Innovation and creative product development occurs through the reinvestment of profits, rightly anticipating consumer choices, needs, and desires. Capitalism is best at motivating relentless progress, innovation, and learning with greater reward for creativity, invention, and hard work, but Socialism is terrible making any progress or promoting innovation. Therefore, Capitalism is more compatible with democracy, and American founding principles without defining political or social organization as collectivism requires.

Capitalism is reinforced by natural rights of: life, liberty, pursuit of happiness, free speech, free assembly, and equal opportunity. Every individual has equal opportunity and the right to work, but may quit at will or take another job for better pay, benefits, or opportunity. Business competes for talent, just as workers compete for job opportunities. Meritocracy is economically more efficient and stable rather than relying on corruptible bureaucratic central planning to redistribute equity or pick winners and losers, as they would direct. Labor and business practices adapt to evolving business needs.

Capitalism is the most fair, moral, righteous, and noble economic organizing system of enterprise conceived, as consistently guided by discipline of the *invisible hand* of free market competition. It is not about greed, nor does it co-exist in a zero-sum world, as collectivism assumes.

[3] Schumpeter, Joseph, *Can Capitalism Survive*, 1942, and *Capitalism, Socialism, and Democracy*, 1942

The free market's unforgiving judgement may seem ruthless, but it is fair and unbiased reinforcing equal opportunity. American Capitalism has endured for centuries because it is most compatible and stable economic organizing system for Democracy and our Constitution, respecting individual natural rights. It is the only system that rewards entrepreneurialism and is game theoretic efficient, yet supports equal opportunity with accountability to the *Rule of Law*.

> *A society that puts equality—in the sense of equality of outcome—ahead of freedom will end up with neither equality nor freedom. The use of force to achieve equality will destroy freedom, and the force, introduced for good purposes, will end up in the hands of people who use it to promote their own interests, On the other hand, a society that puts freedom before equality will get a high degree of both."* -Milton Friedman

Economist Milton Friedman was one of the most articulate in advancing the principles of Liberty, Free Market Competition, and limited government intervention. He stood on the shoulders of Adam Smith and others who in the 18th Century first theorized novel economic ideas that America embraced in its *US Constitution* and *Declaration of Independence*. He observed in 2001: "*Those of us who were fortunate enough to live and be raised in a reasonably free society tend to underestimate the importance of freedom. We tend to take it for granted. It has made us in the West more complacent*." His books (inc. *Free to Choose*, 1979 and *Capitalism & Freedom*), papers, and many debates live on as a testament in support Free Market Capitalism.

America's economy prospers from a higher level of private ownership, free market competition, liberty and freedom to manage the means of production without price controls. These fundamental principles and natural rights under rule of law are necessary conditions for efficient Capitalism. It also innately reinforces ethical behavior of individuals and business, surely more so than collectivism of Socialism, Marxism, and Communism reliant on state planning and regulatory control of industry, including price controls. Trust among customers and other stakeholders must be earned in Capitalism, and is critical for viable business. Nothing maintains discipline of economic interests, increases productive efficiency, and limits chaos more then the invisible hand of Capitalism.

Capitalism assumes thriving free market competition, free trade, fair play, limited government intervention, modest barriers to entry, and freedom to free exercise of property or capital (investment or human) in productive ways. Individuals are free to act rationally to live well and prosper to the best of their ability, and may not be impeded from pursuing goals or opportunity by government or others. Only then can Capitalism promote equal opportunity and upward mobility, yet doesn't promise or ensure outcome equality. Government authority and retaliatory action exists only to protect individuals or businesses from undue harm or hostile force of others.

Under Socialism, government forces businesses and individuals to act in contradiction to their best judgement or self-interest., which is why collectivism has repeatedly failed. Economic consequences of varying degrees of anti-capitalist organization are observed below.

GDP per capita	2020	2000
United States	63,593.	36,335.
Euro Area	37,967.	20,165.
World	10,919.	5,531.
Latin America	7,245	4,400.
China	10,435.	959.
Russia	10,127.	1,772.

Source: World Bank--National accounts data (current US$)

This is not to say we don't need laws, rules, and regulations to promote fair dealing, rule of law, and level playing field without collusion or oligopolist behavior to bolster equal opportunity. Promoting trust and respect among customers are incentivized behaviors, while discouraging exploitive, unethical, immoral, illicit, or illegal behavior—human behavior is difficult to manage, but bad behaviors are not a consequence of Capitalism, and inconsistent with its principles. Rule of law, smart rules and regulation of limited government, fair enforcement, consistent tax law, and free trade globally can promote competitive fair play for all.

Invention and innovation limits long-term inflation, as does conservation in lowering resource, energy, and labor intensity. The essence of *disinflation* (<2% CPI) over the last two decades was a consequence of globalization, expanding free trade of comparative advantages (i.e.: lower labor costs or resource access), industrialization of developing economies, internet price transparency and ubiquitous information, cost rationalization, and hyper-competition. Globalization with hyper-competition of industrializing emerging market countries yielded lower cost consumer goods and services by leveraging *outsourcing, machine automation, innovation, and* comparative advantages including regulatory and labor cost differentials, *as* discussed in implications of our *Future Themes* work over the last two decade. *Disinflation* was a feature of the now maturing *Fourth Industrial Revolution*, but was not a secular change. We expect disinflation will likely subside giving way to higher average inflation globally. We remain concerned about the Federal Reserve's misdirected declining long-term inflation target or cognitive recency bias (favoring memory of recent events or giving greater importance to recent events) since the Financial Crisis.

Capitalist innovation drives productivity and restrains inflation, thus motivates real potential growth—the well-known economic relationship is: productivity growth plus workforce growth equals long-term real potential growth. Thus, Capitalism limits inflation by embracing competitive free market incentive that promotes

innovation and creativity, which increases conservation of energy, resources, and labor. Central planning and price controls can't do that, resulting in higher average inflation and lower productivity—lower potential growth marginalizes prosperity fostering social and political instability. Why do collectivist economies require greater authoritarianism, experience more political corruption, and are less productive with higher inflation, with even greater outcome inequality and recurring currency devaluations given their utopian benevolence?

Relative to the rest, America enjoys higher operating margins and greater productivity growth that also provides lower cost of capital with lower risk versus other developed nations—maybe exceptionalism is a consequence of rejecting progressive collectivist values and principles. Productivity growth is limited by anti-competitive or free market limiting institutional frictions and government policies—including regulatory and tax policy—bestowing unfair advantages that may benefit larger companies (cronyism) or sway market power, including monopolistic/oligopolist effects or collusion.

Capitalism doesn't need reform, nor is possible to do so. Yet, political, monetary, fiscal, tax, education, and government institutions do need reform, and we believe would offer better outcomes many seek. Better anti-trust enforcement and policies or regulations that otherwise undermine competitiveness (lobbying, crony capitalism, anti-competitive acquisitions or mergers, and policies benefiting those with greater scale) might improve competition, more so than breaking up companies. Society would be well served limiting too-big-to-fail concerns long before strategic industries become too concentrated. Too many smaller companies in "accretive acquisitions" end up supressing remarkable innovations or inventions without the scale or wherewithal to overcome barriers to entry (ref: Michael Porter's *Competitive Advantage*), including misguided regulatory, fiscal, or tax policies.

Beyond education reform, government policy reforms are needed to restore US free market competition and global competitiveness, including limiting increase in monopolies and oligopolies or collusion (cloaked as strategic partnerships). We observe that US and global competition has declined with misguided tax, fiscal, and regulatory drift. Trade (inc. bilateralism) and tax (global corporate tax rates) policy reforms of the prior Administration improved US competitiveness globally.

We believe certain government policies and regulations, including our overly complex tax code, tends to widen the fixed cost gap between smaller company innovators and larger peers, favored by their lobbying efforts. Acquisitions of smaller nimble pacesetters are more likely when rising relative regulatory costs become too great a burden, thereby reducing competition Society sees the rise of *market power* of larger companies as an evil consequence, but its not due to Capitalism itself.

Below we suggest various ways to improve economic outcomes and expand beneficiaries of Capitalism. Regulatory, governance, monetary, fiscal, commerce, and political policies, as well as education, welfare, and other social policy reforms are needed.

Education Reform: Initiative to improve public education outcomes in math, science, reading comprehension, writing, history, and even economics, as well as bolster college enrollment, including limiting tuition cost inflation that has far exceeded average inflation for decades. We should increase awareness of non-traditional education such as MOOCs (open-online courses), including Coursera (coursera.org) and EdX (edx.org) that provide free or low-cost alternative and life-long access to university courses at top colleges.

Commerce Reform: Define national strategic industries, products, and basic materials to secure supply for manufacturing and domestic consumption. Adapt patent awards to align with modern innovations.

Government Research & Development Funding: Basic research in strategic industries should be accessible to all American companies, but has declined sequentially for decades. Government funding modeled on 1980s Defense IR&D awards, and was one of the few things that the federal government did well—discovering many key technological breakthroughs over the last 40 years.

Government Policy Reform: Regulatory, fiscal, tax, and monetary policy reforms that preserve and increase free market competition. Reassert anti-trust objectives to limit further industry concentration and foreign dependency in key strategic industries (technology, heath, materials, defense, energy, essential services, etc.).

US Government spending expanded significantly since 2019 due to the global pandemic, but it will take effort and belt-tightening to restore limited government, if not initiative to at least balance our federal budget. Welfare reform needed to reduce fraud and waste as well as improve effective outcomes that reduce poverty. The US federal deficit exceeded $2.6 trillion, in excess of $3.8 trillion in tax revenue in FY2021—waste and fraud of the largess was astounding. The FY2022 budget ending September 30th projects a still unsustainable fiscal deficit of $1 trillion, added to $24 trillion in US Treasury (public) debt, exceeding 100% of GDP, excluding massive off-budget liabilities that include Social Security, Medicare, and federal pensions. State liabilities also are significant—California's pension liabilities nearly doubled in just a decade, and are approaching $1 trillion, for example. Despite capitalism's resurgence, Socialism would seem to have little future, if not for a global crisis of a pandemic that afforded opportunity to suspend individual liberty and many freedoms, even compromising law and order.

Root causes of widening income and wealth inequality, beyond simple compounding of income growth and invested savings (i.e., retirement plans, invested wealth),

is a decline in opportunity, which we believe is a consequence of declining educational opportunity through college.

Reading, writing, math, and science are very important, but so are history, economics, logic, even speech and debate. The ability to communicate thoughts and express beliefs has been hampered by smart phones, social media, and email that replaced critical thinking, Socratic debate, and verbal communication. Progressives and Collectivists have long understood the importance of controlling media and education to hold and expand political power.

Correcting financial and economic illiteracy with curriculum reform can limit further drift toward perilous lack of creative thinking and practical understanding about how the world works, including understanding of economics. Economics also should be offered as a core elective, if not required in high school. If only 40% of 24-year-olds have a college degree, have we prepared high school graduates adequately for life on their own given the rapidly changing needs of employers during the Fourth Industrial Revolution?

College degrees are increasingly essential for a modern workforce, but degrees are also more unaffordable as costs increase or provide narrow educational benefit beyond checking a box. University of California finally prioritized enrollment of California residents as a public land-grant institution subsidized by California taxpayers. UC limited non-residents to 18% (not including many exceptions) after soaring from just 5% a decade ago. Why wouldn't wealth and income inequality increase given lagging US university education opportunities?

Economic illiteracy leaves us ill-equipped to appreciate forces of real economic growth, including productivity, operating margin, cost of capital, supply vs demand, inflation, comparative advantage, learning (education), entrepreneurialism, and risk. It is a myth that reforming Capitalism offers a modern kinder and gentler alternative, while maintaining our rise in prosperity.

The US ranks in the bottom fifth of developed nations in PISA test scores. Decline in US public education is a more intuitive and logical cause of inequality, slowing upward mobility, and diverging individual economic outcomes than naive blame of Capitalism. How is any of this a consequence of Capitalism, rather than social or political policy choices? Cost of college education has soared beyond the means of too many households, while growth in college enrollment stalled with less construction to expand enrollment and increasing foreign students limiting educational opportunities. Consider University of California built just one new campus since 1965 at UC Merced.

How did America's once great university system, come to accept such poor public education outcomes? High tuition cost inflation, lower relative achievement, slower growth in college enrollment capacity, and increasing share of foreign students. Foreign students were more willing to pay full cost, as foreign college students soared over 1 million in 2019—51.6% of international students pursued coveted STEM studies, including Math and Computer Science by 2018/19. More than 53% of foreign students are from China and India, as their share of American college graduating classes increase. Foreign college students soared over 1 million in 2019, with 51.6% of international students pursuing coveted STEM studies, including Math and Computer Science by 2018/19. More than 53% of foreign students are from China and India. American businesses are increasingly reliant on highly trained and college educated workers, particularly services-oriented jobs, but manufacturing too.

After more than two centuries of America Capitalism, exceptional prosperity and global comparative advantages are not the recent cause of narrowing beneficiaries of Capitalism. US and global poverty declined in the last 30-50 years, but poor public educational outcomes may be the single greatest cause of limiting equal opportunities and narrowing upward mobility.

Thomas Jefferson wrote: *We hold these truths to be self-evident, that all men are created equal, that they are endowed by their creator with certain unalienable rights, that among these are life, liberty and the pursuit of happiness--that to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed.* Life is not fair, nor are equal economic outcomes moral or justified. Indeed, only rights of equality under the law or equal opportunity are Constitutional—meaning all individuals will be judged equally, based only on their character and talents, not by where they live, who they associate, what they believe, color of their skin, or their family name.

Shareholders vs. Stakeholders

Businesses are owned by shareholders—their interests vs. stakeholder interests are not mutually exclusive, but shifting accountability toward new stakeholder objectives compromises basic property ownership rights afforded shareholders. Free market competition governs prices and production more efficiently for products, labor, and resources, yet generally precludes collusion, oligopolies, or monopolies. Some seek instead greater government control of prices and production that tends to undermine liberty, property rights, and competition, as well as limit potential growth, innovation, and prosperity with higher inflation and scarcity. Stakeholderism can be costly to Shareholders for little, if any, long-term benefit to collectivist stakeholders.

The Business Roundtable, a lobbying organization of CEOs representing larger companies, has championed principles of corporate governance. Its *Purpose of a Corporation* since 1978 was rooted in primacy of *shareholder value*—the primary corporate governance duty of officers, management, and the Board of Directors

was to grow shareholder value, but not at the expense of stakeholders. Society benefits from increasing jobs and prosperity of mutually beneficial trade, according to the theory of *comparative advantage*, but only if shareholder value is increasing with earnings.

The Purpose of a Corporation followed Economist Milton Friedman's immortal NY Times article in Sept. 1970, over 50 years ago: *The Social Responsibility of Business Is to Increase Its Profits.* Shareholder primacy had stood the practical test of time long before Milton Friedman's article in 1970. Strong financial performance increases financial flexibility, securing employee income, benefits, and retirement plans or profit sharing. If a company is failing, it is more likely to compromise its ethical or cultural values, sacrifice governance, suspend benefits, limit pay increases, or skirt paying taxes to survive. Customer trust and business reputation are thereby jeopardized.

Milton Friedman concluded:

> *The difficulty of exercising 'social responsibility' illustrates, of course, the great virtue of private competitive enterprise—it forces people to be responsible for their own actions and makes it difficult for them to 'exploit' other people for either selfish or unselfish purposes. How can management be held accountable if objectives aren't clearly defined?*

Professor Friedman wasn't anti-stakeholder, but instead concerned about inefficient or misdirection of other people's money or resources inefficiently favoring other than shareholder benefit. Owners desire value in operating their company efficiently but management may not be similarly incentivized. Optimizing shareholder value[4] is key to corporate governance and accountability of enterprise goals, but benefits of free market competition may be compromised without *optimizing shareholder value*.

In August 2019, the Business Roundtable, representing the largest US companies, updated its "Purpose of a Corporation" published in 1978, and compromised its long-standing assertion of shareholder primacy, although implicitly aligned with well-being, needs, and desires of stakeholders. This *pivot* implied new multi-objective accountability, which is more difficult to manage and assess performance, particular as stakeholder values may not align well with each other or even conflict, if not compromising shareholder value. The Corporate Purpose Statement of 2019 did little more than clarify practical relationships between stakeholders and shareholder value. *Shareholder value* objectives remain unchanged, as embedded in corporate charters for generations. The Business Roundtable represents the largest publicly listed companies, but why should shareholders rights be any different than smaller private company ownership rights.

This appeared to be a departure from Friedman (1962):

> *There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.* --Capitalism and Freedom (1962)

Implicit in the "rules of the game" are constraints on profit-maximization that we'd highlight:

1. Importance of *fair competition* by law-abiding and prudent individuals or businesses.
2. Shareholder value is a function of earnings growth (or book value), rather than speculative stock prices.

Capitalism isn't anti-stakeholder, but Stakeholderism can be anti-Capitalism, if not at least limiting shareholder value given divergent objectives of various stakeholders. Who decides which stakeholder interests among employees vs. community vs. customers vs. suppliers vs. environment vs owners are most important? Decision makers or management should not spend other people's money or allocate resources contrary to respecting property rights. Thus, Stakeholderism presents ethical challenges in managers prioritizing one constituency over another with different objectives, even who is a legitimate stakeholder. Rules and regulations can limit the extent of adverse operational externalities, but Stakeholderism lacks efficient adaptive control that incentive-governed Capitalism enjoys. Capitalism will always eclipse any other economic collectivist approach for this reason.

Businesses are collaborative organizations by design, whose derived competitive advantages leverage constructive stakeholder relationships. Stakeholder happiness is essential to sustaining and growing profitability, but it is impossible to satisfy all constituents equally well. How can management be held accountable if multiple objectives—often in conflict—aren't clearly defined, as simple shareholder value?

Reputation, trust, and other implicit values are key to long-term earnings growth. So, optimizing shareholder value requires constructive stakeholder relationships. Corporate culture enshrined in beliefs and values is central to securing stakeholder trust. Thus, illicit behavior is no more associated with Capitalism than any other governing systems, instead bad behavior is costly, if not severely penalized in competitive free markets.

Delaware law, governing most US public companies, requires corporation directors to fulfill their fiduciary duties to the corporation and its shareholders, instilling shareholder primacy. Thoughtful informed operating

[4] *Optimizing* Shareholder Value broadens our definition of maximizing profit to include risk thereof over long-term.

decisions that consider the well-being of employees, vendors, community, or reputation are constructive and consistent with good corporate governance, which can promote long-term growth, without compromising shareholder primacy. Alternatively, statutory *public benefit corporations* were created to allow deviation from shareholder primacy for agreed owner-preferred objectives of an organization, but imposing this requires support of majority of shareholders. We believe the largely rhetorical and unnecessary new Corporate Purpose Statement fell short of undermining shareholder primacy, which remains fundamental to Delaware corporate law and fiduciary duties of officers and Directors of the Board.

Shareholder Value vs. diverse Stakeholder ideals is a false dilemma—businesses can't succeed without its stakeholders. By undermining fiduciary accountability, the Business Roundtable increased confusion resulting from the *Multiple Masters Problem* of conflicting objectives to satisfy different and varied expectations. Business leaders know well the age-old issue of multi-objective problems, or difficulty serving multiple masters. We believe Shareholderism is a misguided economic theory discredited for decades. It disincentivizes entrepreneurial risk-taking, rather than be governed by the *invisible hand* of free market competition.

Stakeholderism seeks to reset corporations favoring desires and interests of stakeholders, potentially to the determent of shareholders. *Stakeholder Capitalism* is a ridiculous misleading oxymoron, borrowing credibility of "capitalism", yet seeking alternative statist governance or government managed production and price controls. This allows corporate officers and directors to arbitrarily elevate chosen conflicting interests of discordant stakeholders. Insulated from shareholder oversight, decision makers would be less accountable for substituting their business objective preferences or own interests ahead of shareholders. Ironically, adopting Stakeholderism could stall legislative or regulatory reforms that otherwise would enhance stakeholders' well-being, including reforms in lobbying, incentive pay, taxes, proxy voting, regulation, and even governance.

The World Economic Forum released its updated *Davos Manifesto* in 2020 authored by Klaus Schwab, founder and executive chair of the WEF. As a supporter of so-called *stakeholder theory* since 1973*, Dr. Schwab hoped* to enshrine so-called *Stakeholder Capitalism* advocating a *Great Reset* of greater stakeholder accountability or Stakeholderism. *The Great Reset* envisions a new world order of managed global economic, political, and social objectives enforced by greater government control and regulation of the means of production, including price and wage controls. This agenda compromises individual liberty, undermine meritocracy, undercut free market competitiveness, and particularly repudiate shareholder capitalism, even diminish sovereign government control with the power to redistribute wealth and income both within and between countries. A Great Reset won't extend investor horizons, increase accountability, nor change immoral or unethical human nature. There is no free lunch that stakeholderism and collectivism assume.

America's exceptionalism and competitive advantage has resulted from prioritizing Shareholder Values over Stakeholder objectives, which limit profit margins. Academic studies analyzing the value of alternative objectives has fixated on volatile relative share prices, rather than long-term shareholder value, because its easier to measure stock prices than sustained shareholder value of earnings and book value. Given enough attempts with different factors[5] over infinitely many horizons, we'd expect a few statistical examples to confirm, but stakeholder objectives (inc. ESG) struggle versus any rigorous statistical significance. Lagging performance indicate wasted scarce resources, which were not conserved or managed efficiently.

Companies are created for a purpose. The universal objective is to maximize long-term shareholder value. This can be achieved with growth in productivity and profitability, incentivized by return on invested capital, yet companies are still subject to discipline of financial or other risks. Higher operating margins, invention, and productivity bolster long-term profit growth, which increases stakeholder value. Growth is dependent on the ability to leverage potential opportunities, measured in terms of sales, earnings, product demand, or market share. Return on capital enriches communities and welfare of employees with better wages, benefits, and job security, while encouraging reinvestment. Asset managers of other people's money[6] may not sacrifice fiduciary responsibility of shareholder primacy or bully companies with threats of divestment—only a majority of shareholders, not asset managers or management, have the right to choose alternative enterprise objectives.

Misguided Leaps of Logic in Criticizing Capitalism

Broad generalizations that Capitalism *doesn't work for many* offers no hint of how reforms of Capitalism will correct social justice or inequality without limiting individual freedom, rights, or liberties. Critics with a naïve zero-sum mindset suggest capitalist meritocracies[7] are immoral, unethical selfish, and increases inequality at the expense of others. Such critics may prefer idealistic central planning of bureaucratic masters, presumed

[5] Harvey, Campbell R., and Yan Liu. Aug 2021. "Lucky Factors." Journal of Financial Economics AND Harvey, Campbell R., and Yan Liu. 2019., "A Census of the Factor Zoo"

[6] *Net Zero: A Fiduciary Approach*, Blackrock, 2021, and *A Fundamental Reshaping of Finance*, Blackrock, 2020

[7] Meritocracy (def): a system, organization, or society in which one is elevated into positions of success, power, or influence based on demonstrated effort, abilities, talent, or merit.

more humane and compassionate than the impartial self-correcting and adaptable *invisible hand* of free markets.

American Capitalism has existed for generations, coinciding with many crises affecting both capitalist and socialist economies. Economic or financial crises are often a consequence of various underlying causes unrelated to Capitalism's enduring fundamental values and principles. Such instability can be a consequence of fraud, collusion, reckless speculation, cognitive biases, policy mistakes, fiscal intervention, illegal or unethical behavior, and governance or enforcement lapses. Is every *Crisis* a *Failure of Capitalism* or is it a myth that Capitalism is failing after centuries and needs reform?

There is no avoiding economic business cycles for any economic organizing system, but Socialist countries tend to experience lower potential growth and margins with higher inflation, if not currency devaluation, as well as longer and deeper recessions. Weaker economic performance tends to increase political instability. Government control of production and price fixing of labor (minimum wage), resources, property use, or price controls doesn't encourage conservation, efficiency, innovation, or prudent risk management.

Capitalism also tends to bolster faster and more robust recovery from economic and financial crises. Business and financial market cycles or recessions aren't caused by Capitalism, but occur naturally over time. Financial or economic instability are often caused by misguided government policies, intervention, enforcement lapses, agency mismanagement, or failure to adapt policies to innovation. Socialism is more likely to destabilize economic conditions (inflation, growth, employment), currencies, or even democracy due to the necessary state control or restricting liberties and natural rights, even limiting equal opportunity in favor of social equity.

So, why must every economic or extreme financial volatility be cast as a *Crisis of Capitalism, if not perceived instability,* even if such periods tend not to linger more than a few quarters? Capitalism is subject to business and capital market cycles, just as any other organizing philosophy. Most such crises were at least partly a consequence of misguided government intervention and poor policy reforms limiting free market competition. Capitalism is more judicious and morally defensible

Economic and financial volatility is often mistakenly labeled as yet another *Crisis of Capitalism*. Despite the success of Capitalism and dismal repeated failures of Socialism, Marxism, and Communism, Americans still seem to perceive Socialism as kindlier and fairer than meritocratic free market Capitalism. However, general business cycle volatility or economic recessions and financial market crises are not a consequence of Capitalism, but instead ordinary occurrence exacerbated by bad policies and failures to adequately enforce rule of law, regulations, or anti-collusion/anti-trust. There is no inherent instability, weakness, or general inequity to reform in Capitalism. Rather, what is needed is to bolster weakened competition and free markets, impeded by zealous government intervention, anti-trust oligopolist forces, illegal behaviors, inadequate enforcement, or destabilizing fiscal, regulatory, and monetary policies. Every financial or economic calamity can't be a Crisis of Capitalism.

Shared economic prosperity is not a zero-sum game to be divided up or redistributed. Political populism exploits this apparent notion of a zero-sum outcomes with limited understanding of how national wealth (prosperity) grows or created as a function of incentivized meritocracy yielding more than the sum of the parts.

We live in a time that enduring fundamental values and beliefs are being questioned, or under ideological attack. Collectivists seem to believe every crisis is a consequence of Capitalism, but overlook dismal cyclical (deeper, longer lasting recessions) and secular (lower real potential growth) performance of all forms of collectivism. than any alternative. Capitalism need not be reformed, instead the individual pursuit of happiness and equal opportunity must be allowed to flourish. America should not be crippled by limiting its Constitutional principles and founding values. It is time to expose the insidious vilification of Free Market Capitalism.

US financial market crisis and economic recessions or instability are transitional. They reflect failures of clumsy *Statism* with dismal imprudent policies, needing smarter adaptive regulation, or consistent enforcement, but weren't a *Crisis of Capitalism*. What most financial or economic crises have in common is imprudent speculation, excessive debt, or extended leverage. Speculation is often driven by low interest rates (negative real rates), easy credit, regulatory enforcement failures, or misunderstanding of inherent risks—often the result of cognitive bias, but such behaviors are not unique to Capitalism—such human behavioral weaknesses suggest monetary, regulatory or political policy reforms are needed, but are not a flaw of Capitalism.

The 2008 Financial Crisis was caused by a rapid decline in housing prices after extreme speculation coincided with new financial derivatives that triggered defaults of insufficiently collateralized mortgages. Housing prices soared on excessive exuberance with low interest rates, misguided housing policies, and regulator enforcement failures that allowed home buyers extend beyond their means. Banks failed to maintain prudent underwriting and engineered new overly complex financial products. Economic or financial market instability are often a failure of financial risk management, governance, leverage, or prudence, as well as insufficient enforcement and deficient regulator oversight. Too often regulations are unable to adapt to changes and innovation.

Naïve criticism of Capitalism overlooks failures endemic to human nature or misguided government policies (inc. bailouts, intervention, regulation, etc.), not Capitalism itself. Incentives that lead to reckless business risk-taking is often a consequence of *too-big-to-fail* mindset

of policymakers ready with monetary or fiscal bailouts, rather than letting free markets deal with bad behavior through bankruptcy or disappointing shareholders. Earned trust and respect are key to the moral guardrails of Capitalism. Repeated bailouts and cheap money policies eroded liability consequences and entrepreneurial responsibility in key industries like banking, health, and energy. It is not capitalism that needs reforming, but the political, fiscal (inc. tax), monetary, regulatory, and social policies that need reforming, and is key to equitable and efficient Capitalism, improving economic and financial stability.

Defense of Capitalism also gets bogged down in how to correct economic inequality, correctable by redistribution of wealth or income to achieve outcome equality—no seems concerned about poverty specifically anymore. Society instinctually abhors "inequality", but income or wealth equality is not a constitutional right. Correcting it through redistribution requires indefensible compromise of equal opportunity and usually other natural rights. Outcome inequality is a consequence of any meritocratic society with differences of competitive advantage and freedom of choice. Outcome differentials of incentivized decisions yield excess earnings, profit, or other value (inc. fame, power, or popularity) that reward risk taking. Income and wealth inequality need not be corrected, instead are necessary to the economic function of incentives derived from free market competition.

French Anti-Capitalist Thomas Piketty published *Capital in the Twenty-First Century* in 2014. The book suggests that global inequality is a consequence of Capitalism, without distinguishing between how wealth differences were derived. Piketty believes a global tax is necessary to redistribute wealth more "fairly", however that is defined. Piketty's repeated noteworthy statistical blunders and bias discredit his thesis that inequality must be radically eradicated, even if the consequences of ever greater inequality are impossible to quantify. Will society be willing to sacrifice greater national prosperity, conveniences, economic efficiency, individual liberties, and better living standards so long as the rich pay their "fair share" of increasing costs of government services?

The Top-10% of US households paid 47.3% of their income in taxes for 2019 providing 71% of income tax revenue, yet critics still argue the *wealthy don't pay their fair share.* Every year there are always a few outliers that appear egregious, particularly when it is just a matter of timing regarding long-term capital gains—maybe if we simplified the tax code, it all would appear more rational.

Ironically, French President Macron (Socialist Party breakaway Renaissance/En Marche) abolished the ISF (Impôt de solidarité sur la fortune) s*olidarity wealth tax* in Dec 2016—just two years after *Capital* was published—to slow rapid departure of wealthy investors and business owners. Although replaced by a basic real estate tax, the French have shown that wealth taxes are miserable public policy.

Outcome differences results from *competition or trading on differences* between material things, resources, or property differentially with individual effort, inventions, knowledge, abilities, or talents, even a little luck. Inequality is undesirable, Effort and hard work are an individual choice, whether working longer hours, pursuing higher education, or risking starting a business. Compounding growth of even small differences in income or wealth become much larger differences over time. Economic inequalities may become socially or politicly destabilizing when envy or jealousy are exploited for political gain, and often observed.

Defined contribution retirement plans, employee stock ownership, and educational savings accounts have enriched household nest-eggs as reliance shifts away from pensions, which offer better retirement security as life-expectancy extends. Younger generations are more likely to avoid equities after growing up witnessing the difficult Dot-com era of 2000-2001 and Global Financial Crisis of 2008. This also has impacted younger households, which haven't yet compounded equity returns in their savings accounts. Chronic underutilization of company matching contributions in retirement savings and all other tax advantaged savings plans have drive an even greater divide in wealth differentials.

Where is the accountability for individual choices that can result in lagging performance due to misguided asset allocation decisions or how certain groups choose to invest, instead of seeking to capitalize investment value, which should at least track broad equity indices? Collectively these forces likely will drive greater wealth differences in savings given our increasing reliance on self-sufficiency (401k and similar plans) and managing our financial choices (i.e., savings rate, discretionary spending, household income, job, education, retirement age, debt, having children etc.), rather than dependency on pensions, social security, and various entitlement programs. If home equity and retirement savings are the greatest share of household net worth, why do so few consider consequences of realized investing and financial management success given greater self-reliance of retirement savings and accountability for individual choices. Are differences in household wealth really unfair or immoral considering life-long choices or wide dispersion between younger vs. older households?

Both virtuous and bad origins of wealth and income inequality are observed. We believe distinguish between earned and unearned or appropriated inequality, as inequality measures can't differentiate between sources of inequality. *Inequality* was perpetuated in regimes of aristocracy, dynastic privilege, fascism, and caste systems--one's fate was determined by birthright, familial favoritism, or other traits, rather than one's character, talent, or ability. Poverty once mattered, but global poverty has declined significantly, particularly in capitalist countries, but not so much for Socialist nations, which tend to experience higher politically-inspired (bad)

inequality. Capitalism doesn't threaten Democracy, instead it reinforces it.

Accumulated wealth can serve both good purposes (charity, foundations) or have adverse consequences. It was remarkable that creation of first generation earned wealth has never been more dynamic—not one individual in the 2021 Forbes 400 Top-10 ranking of the richest billionaires is a beneficiary of dynastic wealth, but were incentivized to earn their fortunes in ownership as founders. Yet, successful individuals and businesses are scorned today at time we lack heroes and good role models as public figures. Founders' earlier sacrifice of austere beginnings, limited pay, and financial risk in pursuit of entrepreneurial success is misunderstood and overlooked. Reforming Capitalism can't protect democracy from deceit, corruption, immorality, or other regrettable behaviors, and since when did government become more effective or efficient doing anything, let along managing complex decisions about economic production and prices? Desire to reform capitalism is nothing more than a method of resetting basic fundamental economic organization in America.

Market Fundamentalist or *Laissez Faire Capitalism* was never practical given the need for supporting political and social structure, if not certain government protections. Ownership can vary across differing forms of Capitalism. Nations feature varying degrees of free markets, free trade, regulation, property ownership rights, basic or natural resources, and other comparative advantages dictating global competitiveness.

There are many practical challenges with Capitalism. Cronyism, collusion, insider trading, nepotism, and collusion, as well as various other illegal, immoral, and unethical behaviors are observed all too often, although antithetical to Capitalism. While special interest lobbying is political behavior, many try to wrap such deviancies in the capitalist's cloak of incentives or shareholder value. The invisible hand of Capitalism is like a virtual game theory optimizer maximizing utility that is a function of reward vs. risk considering hundreds of variables—far more complex and many times over than any policymaker could conceptualize such trade-offs.

Max Utility = Σ_i *f* (Reward – Risk Aversion x Risk)

Among others, Ray Dalio (Bridgewater), Larry Fink (BlackRock), Warren Buffet (Berkshire), and Bill Gates (Microsoft) as blessed billionaires seek a kinder and gentler way forward in reforming Capitalism to reduce social or economic inequalities with unspecific desired reforms. Beyond just increasing already highly progressive tax rates. Economic organizing alternatives to date were irrational in undermining equilibrium of incentivized free market outcomes (reward vs. risk or cost) as directed by an efficient invisible hand of Capitalism. Consider millions of opposing two-player games (each individual decisions) simultaneously unfold to determine bargained outcomes as each player naturally express their own self-interests.

Anti-capitalist rhetoric seeks to discredit 245 years of remarkable economic prosperity. Socialists believe Capitalism is incompatible with freedom, equality, morality, and stability, yet collectivism is actually incompatible with our natural rights and human nature. Prosperity is too often taken for granted while overlooking destructiveness of Socialism's economic failures and Communism's chronic futile social engineering. Censorship, political repression, restricted rights, totalitarianism, price controls, and even jailing or death of opposition are required to make it even function. Capitalism is not the problem, but bolstering competition with smarter regulation, education reform, and more prudent fiscal policy could increase opportunities. Social media has also had a diabolical effect on elections too, but it will take time to sort out various needed reforms.

Capitalism can't flourish without unimpeded free-market competition and individual freedom to pursue happiness. Constructive limited government policies and rule of law with individual liberty and freedom to pursue happiness strengthens the economic and financial stability of intrinsically moral and humane Capitalism. Securities markets can behave badly with unchecked regretful human behaviors. The essence of Capitalism is choice and individual freedom to exercise one's property, not profit at any cost. The risk of loss, bankruptcy, or other failure, including reputation and trust, disciplines owners better for society's greater good than government can.

Two Dozen Failed Sociopolitical Experiments

Over the last century, more than two dozen attempts to build Socialist societies have failed—Venezuela is the latest. Socialism, Marxism, and Communism are political and social organizing systems, as well as dictating economic organization—Capitalism is only an economic organizing system, in contrast. Adopting Socialism requires stifling individual liberty, freedom, and right to pursue happiness. It chooses equity and social justice objectives over equal opportunity. Central planning impedes correction or adaptation to innovation and progress of free market-driven economies that are naturally more responsive to dynamic change. Economic inefficiency, instability (higher inflation, unsustainable debt, currency devaluation), and depressed economic activity limits productivity, real potential growth, operating margins, and earnings growth. Authoritarian statism and loss of liberties were the leading causes of collectivist society's demise from necessary government control of media and education in central planning limit free speech, liberty and debate property rights.

Socialism relies on many flawed assumptions of collectivist beliefs and values, which are incompatible with human nature, including natural ambition and desire to compete. Competition for scarce resources—even companions—is inherent to life for all creatures, including the human race. The assumption society can

mange its needs, from inefficient production and price controls to rule of law, rather than compete motivated by self-interest, is fatally flawed. To maintain optimal productivity, all workers must willfully produce at a high level commensurate with their ability without additional financial incentive—rather large leap of faith to bet the wealth of a nations. Socialism results in inferior product quality and output with little if any incremental motivation to work as hard as a worker's full potential. Lower potential productivity growth ensures higher average inflation. Political authoritarianism and violence are often necessary for collectivist regimes to enforce their rules and manage economic controls by limiting individual liberty, private ownership, and freedom of choice, if not rights of pursuit of happiness and equal opportunity. Productivity suffers when equal outcomes are imposed on society, and any incentive to work harder, excel, educate oneself, or innovate is supressed.

Businesses behave badly, just as individuals behave badly, irrespective of the governing organizing system—this is a consequence of human nature, not a *Crisis of Capitalism*. Those that engage in fraud, corruption, false marketing, unfair practices, oligopolies, collusion, or incompetence soon find themselves out of business. Market judgement is swift and harsh under Capitalism. Bailouts and low rates for extended periods allow zombies to muddle through for awhile, but eventually the business cycle normalizes, and they will fail with out a bailout or cheap junky debt. Capitalism's swift unbiased judgement reinforces moral and ethical guardrails providing swift and effective discipline of business, but punishment is never as swift for manipulative politicians, bureaucrats, or non-profits.

Falling real potential growth with lower productivity, higher inflation, and greater cost of capital, including higher interest rates, increases government indebtedness, and household dependency, even as tax revenues struggle. Economic repression or economic inefficiency of such dismally run countries tend to miserably lag Capitalism. Is it more enlightened to be governed by unbiased market forces of individual liberty, free choice, self-determination, and market competition ***or*** micro-managed by corruptible central planning bureaucrats setting prices and quotas, while picking winners and losers among friend and foe?

Progressive fixation on *outcome equality* and *social justice equity* for political gain are destructively misguided. Economic redistribution efforts through fiscal and tax policy have proven economically destructive and undermine economic incentives that promote productivity and disinflation that are key to sustaining real potential growth. Inequality is more easily targeted as a political wedge, marshalling envy for policy ends and stirring up social unrest. Government has no constitutional right or responsibility to normalize outcome equality (income or wealth equity), whether targeting redistribution, quotas, or entitlements. Inequality need not be managed in a Capitalist Democracy, but unearned inequality or cronyism is problematic, but ironically is more prevalent in collectivist or statist societies where government controls prices and the means of production—consider China, Russia, Brazil, Iran, South Africa, Turkey, and Venezuela.

Politicians often leverage envy of wealth or income inequality for greater political control and dependency of society, if not to justify income, wealth, or property redistribution. Limiting influential power of wealth and corporate lobbying lies within campaign finance reforms, which has nothing to do with Capitalism. Outcome Equality isn't a constitutional right and redistribution is incompatible with American freedoms of life, liberty, and property rights that reinforce equal opportunity.

Socialism is guilty of *The Fatal Conceit* (Hayek, 1988) presuming government can make good and impartial decisions with better outcomes than free will of self-interested individuals. Efficient governance is beyond abilities of technocrats, and Socialists require a utopian view of economic organization and universal morality. Utopian beliefs guided by presumed uncorruptible central planners eventually devolves into corrupt tyranny, if not rise of oligarchies and monopolies. Government intervention and control tends to depress economic prosperity, which also increases social instability. Society may abhor general inequality, but income or wealth equality are not natural rights—correcting outcome inequities by redistribution of wealth or income compromises liberty, free choice (happiness), property ownership, and equal opportunity.

Socialist societies suffer financial and economic crises at least as often, yet are more prone to sovereign defaults and currency devaluations, as well as lower credit ratings, higher cost of capital, and debilitating hyperinflation. Following each financial crisis, inclination is to question the economic value of free-market Capitalism, rather than consider a breakdown in free-markets, competition, rule of law, speculation, cognitive biases, or human error. Economic imbalances and financial crises are often the result of poor fiscal, regulatory, trade or monetary policies, including failing enforcement oversight.

Ills of Socialism manifest in wrenching depression and sustained miserable poverty without prosperity persists with economic inefficiency of poor policies. *Alternatives to Capitalism* fail miserably because they misallocate capital, labor, and resources. Presumed moral superiority of collectivism eventually gives way to loss of individual freedom and liberty for a more similar slice of a smaller pie allocated by controlling corruptible government bureaucrats. Many Socialist, Marxist, and Communist ideologies failed miserably in the 1980s, but when some embraced property rights and free market competition, some became economically more stable and prosperous as millions of people were lifted from poverty in Eastern Europe, Asia, and Latin America.

Collectivism relies on government control, enforcement, and compromise of liberties or natural rights to maintain order, fairness, and lawfulness, yet can't ensure equal opportunity or even social justice. Inefficiencies increase inflation, limit innovation, and reduce productivity, resulting in lower potential growth. Collectivism provides no incentive to innovate, but requires higher income taxes to finance government needs and entitlement dependency to curry populist favor, at least for awhile.

Basic rights are compromised, and prosperity is limited with economic inefficiency under Socialism, Marxism, or Communism. Capitalism has failed repeatedly because it is incompatible with aspirational human nature (right to happiness). Collectivists' populism parlays fairness, morality, and equity, yet they seek unbiased fiscal, economic and social policy control through political power, redistributing income, wealth or property to promote outcome equality and social justice.

Alternatives of Socialism, Marxism, and Communism are not immune from immoral or unlawful behaviors. If reform is needed, it is a crisis of rising statism and increasing oligopolies undermining free market competition. Capitalism more efficiently limits lawless, immoral, rule-braking, and unethical behaviors than Marxist or Socialist control of production and prices, indeed less susceptible to potential bureaucratic corruption that can increase political and social inequality in its *enlightened utopia*. Over generations since Karl Marx (*Das Capital*, 1867), many have attempted to write the obituary of Capitalism.

America never will be, nor should ever flirt with becoming a Socialist society or pursue a Great Reset. Statist reforms likely will lead us down the abysmal path of serfdom with increasing government dependency. Statism and government interventionism that ends in Socialism, just as Ludwig von Mises concluded. Outcome equality is an impossible utopian dream. Without property rights, there is no effort to maintain, use productively, or improve property—similarly for investment capital. Anti-capitalism rhetoric seeking greater social justice fails to differentiate between justified and unjustified inequality, but the source of inequality matters. Earned inequality of incentivized capitalism is quite different than unearned inequality derived from political bureaucratic, monarchial or aristocratic (familial dynastic power transfer), oligarchist, or fascist authoritarianism.

The Only Alternative to Dismal Collectivism

Capitalism is an economic organizing system in which the means of production and distribution are privately owned. Capitalism reinforces individual liberty, free choice, and equal opportunity, but other alternatives are incompatible with natural rights and human nature including aspirational pursuit of happiness. Decisions about property, resources, capital, investment, and stakeholder relationships (inc. vendors, employees, and community) are managed for the benefit of owners or shareholders. We must never allow weakening of liberty and property rights, or even equal opportunity due to policy reforms that compromise economic stability and robust prosperity of free market Capitalism. Thus, Capitalism is more economically and financially stable. It is not responsible for greater adverse unearned *inequality*[8]*,* than collectivist alternatives.

There is no alternative or able reform to free market Capitalism to ensure fair competition governed by the *invisible hand*. Trust in the beautiful complexity of decentralized coordination of Capitalism is the foundation of exceptional economic performance, but logic and consistency of implicit market knowledge faithfully guiding efficiency and productivity are difficult to observe versus deliberate intervention of alternative central planning or Statism.

A century of repeated economic failures of *Marxism*, *Socialism*, *Communism*, *Oligarchism*, *Theocratism,* and *Fascism* are well known. Failure is inevitable given incompetent and corruptible government bureaucrats must set prices and manage industrial production without the *invisible hand*, ignoring the fundamental *Law of Supply and Demand.* Reforms compromising Capitalism require more government intervention and control that eventually destabilize social and political institutions, while increasing unearned appropriated inequality.

Government should preserve fair market exchange and competition, rather then seek power to control commerce and set prices. Prudent enforcement of regulations and rules with consistent application of laws is needed more than ever. Consumer protection requires smarter regulatory adaptation to innovation, particularly during the *Fourth Industrial Revolution* given changing needs of labor and resource demand. Equal opportunity provides individuals no limit to upward mobility, determined by only their own character, effort, and talent, as long as the government is limited in its regulatory power and control.

When society embraces meritocracy, individual freedom and liberty, equal opportunity flourishes and incentivized individuals foster remarkable prosperity. Individuals, exercising free will should be hired and compensated (inc. bonus, benefits, job security) based on merit of their character, ability, effort, talent, and education, rather than fulfilling quotas, enabling upward mobility. Rising income or wealth inequality can benignly coexist in a meritocracy without adverse consequence, unless emotional jealousy is triggered by pollical populism to incite discontent (…*never let a good crisis go to waste*). Those who believe that they deserve better or entitled to more are too easily exploited by the pious politics of

[8] Bad sources of inequality: autocracy, oligarchism, theft, kleptocracy, theocratism, fascism, fraud, misappropriation.

envy, social justice, and equity at the heart of controlling political power in Marxism, Socialism, or Communism.

Crisis of Capitalism or Free Market Competition?

Capitalism is an economic organizing system founded upon principles of freedom, liberty, and right to pursue happiness, providing equal opportunity to all. Every organizing system requires rule of law and consistent enforcement thereof, but we can't escape existence of unethical, immoral, or criminal behavior. There is no need to reform Capitalism, but fiscal, regulatory, and anti-trust policies need updating to accommodate social and political organization shortfalls and other modern inadequacies. Consistent enforcement is needed to maintain competitive markets so smaller companies are not disadvantaged by costly regulation that unfairly advantages incumbents or dominating market share.

Capitalism is not a social or political organizing system, thus is silent about equality, morality, and rule of law, but is reinforced by America's founding principles enshrined in the Declaration of Independence, US Constitution, and Bill of Rights. Rarely do geoeconomic experiments offer such clear lessons across many countries and over many decades. When society embraces meritocracy, individual freedom and liberty, equal opportunity flourishes and incentivized individuals tend to foster remarkable prosperity. Suggesting Capitalism needs to be reformed serves efforts to install utopian government dependency and control over the means of production, market prices, or property.

The *invisible hand* of self-interest in free market competition with limited government is a far more powerful commercial arbitrator than government enforcing production and price controls. By interfering with price and other market signals, profit motives are supressed stifling innovation and driving higher inflation, if not scarcity. Low inflation and higher profit margins for the last decade recently gave way to higher inflation, scarcity, soaring energy and commodity prices, labor shortages, and supply chain disruptions with poor policy decisions, excess monetary and spending stimulus with increased regulation.

Social and economic benefits accrued to capitalist economies for centuries benefited from economic liberty, property rights, and free markets as a proven force for prosperity and common good. Government should limit regulation necessary to maintain fair competition, while limiting fraud, consumer risks, unfair business practices, negligence, or market collusion, if not monopolies, oligopolies, or cartels. Industry competition is limited if mergers purge upstarts, novel patents, or innovative processes that challenge status quo of market leaders. Naïve regulation unfairly favors those with greater market share to spread costs.

The *Invisible Hand* of mutual self-interests is far more competent, trustworthy, reliable, consistent, and unbiased than corruptible government bureaucrats struggling to prudently manage decisions governing means of production or prices, including resources and labor. Owners, shareholders, or Board of Directors with vested economic interests are more likely to hold officers responsible for fraud, misconduct, incompetence, or just bad decisions, than conflicted technocrats or politicians managing competing interests of stakeholders. It is not surprising collectivism fails repeatedly and *stakeholder capitalism* is an oxymoron.

A global shift toward greater individual liberty, property ownership, and free market competition increased global trade and prosperity, America still enjoys the greatest broad-based benefit from productivity growth. Success of Capitalism depends on: individual liberty, private property, freedom, equal opportunity, and free market competition under rule of law. Yet, its greatest challenge may be anti-trust regulation of collusion, oligopolies or monopolies, and cartels.

America has benefited from pioneering founding values and basic rights of life, liberty, and pursuit of happiness (inc. property ownership) for centuries. Meritocracy emboldens America's culture in pursuit of excellence needed to remain globally competitive, government dependency or entitlements only weaken society. Pursuit of excellence by incentive-based free-market competition must govern means of production, market prices, and allocation of resources, including labor. Yet, good relationships with stakeholders have always been key to success—there is no define or mandate it. Creative destruction levies a high cost of losing market share to bankruptcy for inferior effort, laziness, or resting on laurels. Free markets will always allocate better than bureaucrats—there is no serious practical alternative.

Capitalism is responsible for the greatest accumulation of wealth in human history and skuttled many forms of bad inequality rising up from fascism, oligarchies and feudal aristocracies to debilitating collectivism of Socialism, Marxism, and Communism. Seeking to boost potential growth, Socialist and Communist countries experimented with *State-guided Capitalism*, but were still susceptible to bureaucratic corruption and economic weaknesses due to government production and pricing controls limiting real potential growth, operating margins, and productivity, while boosting inflation expectations. Thus, many collectivist and statist experiments over the past century have failed. Reforms that seek to increase entitlement dependency and social equity to shore up political power end up limiting liberty, freedom, and pursuit of happiness, as well as equal opportunity. Its long-term consequence is reduced real potential growth.

So, what is the American Dream and why do so many from other parts of the world still seek to live in America? This question reinforces how and why success of Capitalism, rooted in our founding values and principles 245 years ago, is so resilient and became an example for other nations turning their back on collectivism. Alternatives to Capitalism are fundamentally flawed and

incompatible with aspirational human nature. America remains a better place to do business and offers liberty to pursue happiness, which attracts immigrants seeking the *American Dream.* Rooted in the *Declaration of Independence* is the idea "all men are created equal" with natural rights of "life, liberty, and the pursuit of happiness." The US Constitution bestows freedom to "secure the Blessings of Liberty to ourselves and our Posterity". Together these foundational ideas define the political and social organizing elements, which are most compatible with economic organization with Capitalism.
