

Capitalism Works, Don't Change It

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“Wealth creation” versus “the redistribution of wealth” is an age-old political/economic battle. And once again, Senator Elizabeth Warren - among others - has capitalism in the crosshairs.

Adam Smith defended capitalism in 1776. Karl Marx attacked it in the 1800s. William Jennings Bryan attacked it; Grover Cleveland defended it. FDR attacked it; Ronald Reagan defended it. And, today, the battle goes on, with many Democrats openly promoting socialism.

Elizabeth Warren wants her own “new deal”, employee-elected board members and companies responsible to communities over shareholders. She complains about “short-termism” – quarterly reporting that makes companies only worry about the bottom line in three-month periods. Even President Trump has weighed in; after talking with the CEO of Pepsi, he has suggested six-month reporting cycles.

We don't disagree that some companies make decisions to “hit” quarterly earnings targets. Many believe privately-held companies often make better long-term decisions because they aren't kowtowing to analysts. But, Warren Buffet downplays his quarterly reports and the stock market hasn't punished Berkshire Hathaway. And don't think private companies ignore their monthly, or even weekly, results. They don't.

We're not arguing that freedom shouldn't be applied. If companies want to report every six months, let them. But, our bet is that the market wouldn't like that. Investors deserve timely information. Even today, companies are free to say “we aren't managing to quarterly data.” Let the market decide what matters. Let companies experiment. But more information, not less, is almost always better.

Over the years, political attacks on companies for short-termism have come and gone. We find this disingenuous. Washington DC, and many state capitals, make a complete mockery of fiduciary responsibility. Budgets haven't been balanced in decades, and after eight years of economic recovery (and even before the recent tax cut) the budget deficit in 2017 was still over \$650 billion. Not even Keynes would stand for that.

And Congress isn't on a quarterly reporting cycle. Politicians report to the people in 2-, 4- and 6-year cycles. Yet,

Congress can't balance its budget, or in many recent years, even produce a budget. We find it fascinating (to put it nicely) that politicians who have shown such incredible fiduciary irresponsibility would even attempt to reform a system – The Capitalist System – that has produced unfathomable wealth and higher standards of living for so many. Before the nation debates a takeover of corporations by political fiat, maybe Congress should get its own house in order.

Senator Warren has proposed The Accountable Capitalism Act. Her Act would allow “stakeholders,” which include employees, and unstated others, to sue companies if they think they are not sharing profits equally with other stakeholders.

This is a terrible idea. Corporations provide products to consumers, and profits are simply a sign they are doing it effectively. As long as there is freedom for capital to move, for people to change jobs, and for investors to choose what to invest in, then the system holds no one hostage. As long as contracts are fairly enforced, the system remains equitable.

Profit signals opportunity. Profit signals growth. Some are complaining that corporations are returning too much of their profits to shareholders, but without these investors there would be no company in the first place – and far fewer jobs. In fact, today there are more unfilled jobs in America than there are unemployed Americans. In other words, workers have choices and companies must work hard to attract labor.

Senator Warren, and others, complain that profits are up while wages are stagnant. In her Wall Street Journal Op-Ed, she said “In the early 1980s, large American companies sent less than half their earnings to shareholders, spending the rest on their employees and other priorities. But, between 2007 and 2016, [they] dedicated 93% of their earnings to shareholders.”

The data doesn't support this. Real average hourly earnings fell 7.3% from January 1980 to January 1995, while they rose 7.3% from December 2006 to December 2017.

Profits are the lifeblood of capitalism. Reporting them, earning them, and returning those profits to shareholders creates more investment, more wage growth, and more wealth creation. Politicians can't balance a budget. Why would a sane electorate give them even more control of private wealth?

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-22 / 9:00 am	Existing Home Sales – Jul	5.400 Mil	5.390 Mil		5.380 Mil
8-23 / 7:30 am	Initial Claims – Aug 18	215K	215K		212K
9:00 am	New Home Sales – Jul	0.647 Mil	0.639 Mil		0.631 Mil
8-24 / 7:30 am	Durable Goods – Jul	-0.7%	-1.2%		+0.8%
7:30 am	Durable Goods (Ex-Trans) – Jul	+0.5%	+0.7%		+0.2%