



# *Harry's Take*

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## **Capitalism and Democracy Are Opposites!**

There is one thing I have noticed for decades now, not just for years. Most people tend to see democracy and free market capitalism as twin brothers, but that couldn't be farther from the truth. They are much more a classic play of opposites, like dark vs. light, right vs. wrong, high vs. low, hot and cold, heavy vs. light, and the ultimate classic pairing of opposites, male vs. female.

Opposites attract and tend to complement each other. That's why they form the deepest relationships, typically. Free market capitalism and democracy emerged at the same time—in 1776, to be exact. That was when the Declaration of Independence was penned and published and was when Adam Smith, the first real economist, wrote his famous book, *The Wealth of Nations*. He basically invented and was first to espouse free market capitalism.

The only thing capitalism and democracy have in common is that they both work from the bottom up rather than the top down. Similarly, if you look at nature, it clearly tends to function more from the bottom up. The lion is not the king of the jungle; instead, it tends to be the most powerful predator. Nature exists as a dynamic system of organisms that largely feed on each other in a grand hierarchy. **No one's in charge!**

It is the “from-the-bottom-up” quality that makes nature so unique and effective. The stock markets are like that. Someone rings the bell at 9:30 AM and then runs to get the hell out of the way; then, every stock is repriced and revalued constantly until the closing bell. Businesses are both started in high

numbers and fail at high rates; each one is tested to see if it is worthy. The worthy ones grow, build on economies of scale, and become more efficient, creating a win-win situation both for company owners and their customers. Let me paraphrase George Gilder: capitalism's triumph secretly owes as much to allowing failures as to the freedom to pursue success and happiness.

Hence at heart, capitalism and democracy clearly are opposites. In its purest form, capitalism rewards people according to what and how much they create and contribute; this system of rewards maximizes innovations, especially radical innovations that create whole new ways of doing things. Conversely, democracy allows one vote per person, regardless of the contributions of each individual. That creates inclusion and makes everyone feel like part of the system, allowing people to see that system as fair and just. The U.S. was the first nation to combine these two opposing models successfully; consequently, it became the largest and most dynamic economy in the world.

The countries that crave power and control and thus fight against free market principles almost never are as successful. Among countries with both large populations and vast resources, Russia (the U.S.S.R.) provides the most obvious example of a second-rate economy. The Chinese government blends capitalism and communism to remain in control; that "compromise" has left China with about a sixth of the GDP per capita of the U.S.

For over a decade beginning in the 1970s, the U.S. faced the challenge of high rates of inflation. The governments of the U.S. and other countries were not able to resist tampering with the markets through price controls and similar measures. Those interventions didn't mess up the free-market pricing system too badly. But over the past 16 years, the central banks and governments have made the ultimate error by manipulating the markets through fiscal stimulus and artificially low interest rates. They've done so to fight deflation, the economy's means of shaking out weaker competitors after the times of massive innovation during which many companies tend to be created and grow. We have been in such a time since microcomputers and software hit our economies in the 1970s.

That brings me back to George Gilder, my favorite economist of recent decades. He and I agree that governments are killing the golden goose. Even the U.S., beacon of free market capitalism, has been fighting recession and depression for just over 16 years now by escalating fiscal and monetary stimulus, to a cumulative total of \$27 trillion and still rising. Ultimately, the stimulus has been perverting the U.S. economy, not allowing it to rebalance as it historically has done so well.

In response to overstimulating the economy during COVID, the Fed finally was forced to subject the economy to 525 bps of rate hikes along with balance-sheet tightening. Hence, my hope now for returning to free market economics is that the economy will reassert itself and fail even harder than many would like or expect, exposing the futility of using endless stimulus to create productive growth instead of productive investment and appropriate consequences for businesses that fail. That's the heart of capitalism.

**As citizens, we need to raise our voices to ensure our central bankers and politicians allow this failure to happen and don't keep making the same grave mistakes again! I'd like to see a constitutional amendment to this effect: "Thou shalt not stimulate artificially to block the economy from cleaning its own house naturally!"**

Harry

*Got a question or comment? You can contact us at [info@hsdent.com](mailto:info@hsdent.com).*