The Assault on Capitalism:

Be Careful What You Vote For

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As at least some who read my columns will probably recognize, inasmuch as I try to leave my political ideologies out of these market/business related articles, every now and then I let my right leaning mantra sneak into the discussion. To be fair, much of my ideology, at least from an economic perspective, is based on my affinity for capitalism, which I view as the most efficient, and frankly the "fairest" allocator of capital of the prevailing alternatives. To edify, in the purest form the alternative to capitalism is government ownership and allocation of resources ("factors of production" in economic parlance), which is perhaps most often described as "socialism". The reality is that most of the world deploys some sort of collaboration of the two, with some countries incorporating a larger portion of one versus the other, and most vacillating between the two as the political winds dictate. From a practical standpoint, while constituencies on each side of those ideologies spend a great deal of time extolling the virtues of their own (and rebuking those of the other), the fact is we don't have a great deal of historical data to back test regarding a pure approach to either because, as I said, most of the world operates within the confines of some sort of combination of the two. With that said, I would submit, the economic track record of those employing a greater balance of capitalism than socialism is clearly better. I think the United States provides the best defense of that view. For all the criticism of the "American Way", in its relatively short 243-year history, the United States has become the most prolific, and arguably innovative economic power in the history of the world. Folks can deride the shortcomings and weaknesses of capitalism's all they want, but its benefits in creating economic growth and corresponding innovation are in my view indisputable. In fact, its hard for me to imagine that there are those who still reject that view. If people want to attack capitalism's "eat what you kill" elements that is fine, but to suggest that governments do a better job of growing economies than the free market is nonsense.

On the other hand, as I said, the world (including the U.S.) generally operates under systems deploying varying degrees of free markets and government intervention, and those variations are typically a function of prevailing political power. The struggle over those variations are being played out across the globe, with some governments trending towards more of one versus the other. There is perhaps nowhere that those struggles are more pronounced than in the U.S. today. I think many would agree that Americans are more divided than they have been for many years, and much of that division centers on regulating the creation and maintenance of resources as well as their ultimate allocation. The outcome of those struggles; more or less government regulation and more or less government control of the allocation of resources, will have a profound effect on entire industries and in turn individual investments for years to come. Again, one need look no further than talking points of democratic presidential hopefuls for a glimpse of where this may be headed.

Perhaps the highest profile struggle between free-markets and government is in healthcare. Succinctly, www.fivethirtyeight.com notes that "*in the 2018 exit polls, 41 percent of voters said health care was the* *most important issue facing the country, up from 25 percent in 2014 and 18 percent in 2012".* I could go on about this for a very long time, but generally, Democrats are calling for a single payer system. While the government already pays for the insurance of between 35%-40% of all insured Americans, estimates suggest a transition to a mandated single payer system would cost over 1 million existing healthcare jobs in insurance, billing etc. Moreover, it would effectively shutter a multitude of companies large, small, public and private. Obviously, that would have major implications for many publicly traded companies.

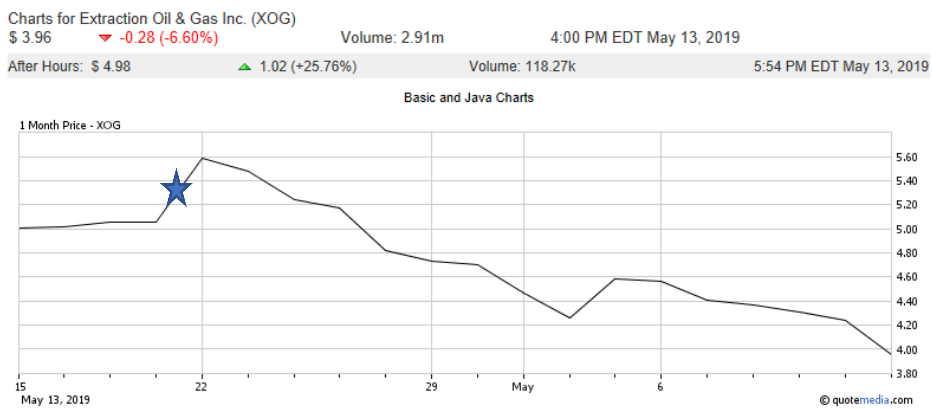
In addition to the discussion of *who* should pay for healthcare, candidates have also zeroed in on *how much* should be paid for healthcare. Specifically, politicians on both sides of the isle have raised the issue of rising drug prices and along the same lines, the disparity between domestic drug prices versus those paid by others around the world for the identical drugs. If people haven't realized by now that Americans effectively subsidize lower drug prices for others around the world (largely single payer governments) they should really get up to speed. The examples are countless. The trouble is, without *someone* paying exorbitant prices for breakthrough drugs, there won't be any breakthrough drugs. If the U.S. goes to a single payer system, we can kiss the biotech industry goodbye along with the other a fore mentioned healthcare entities, because if no one is going to pay the price for successful new therapies, investors will stop taking the risks associated with their development. There is a reason most of the world's breakthrough drug development comes from the U.S. Ironically, in that case, some of the same people with the pre-existing conditions the ACA was designed to protect may die despite the coverage because the drugs they were waiting for to cure them might never get developed. Make no mistake, there are major portions of the healthcare debate that are effectively a zero-sum game. That is, what the government plans to give to some it will have to take from others, and some of that has major implications for investments in the space.

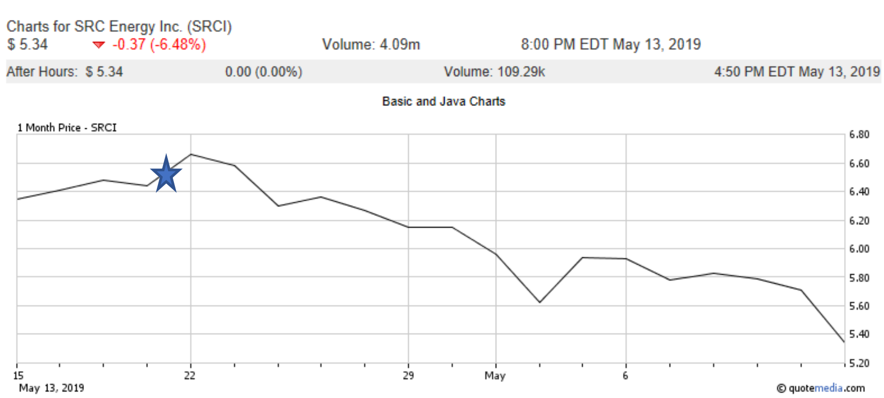
Unfortunately, healthcare is not the only industry that has attracted the ire of politicians, as some have set their sights on our most successful technology companies as well, suggesting the some of them need to be "broken up". Presidential candidate Kamala Harris recently noted, *"I think we have to seriously take a look at that (breaking up Facebook), yes," Harris said in an interview with CNN's Jake Tapper. She said very few people can get by in their communities, business or commerce without somehow using Facebook. "So we have to recognize it for what it is. It is essentially a utility that has gone unregulated."* Did she really just compare using Facebook to turning the lights on or heating your home? Has anyone told her that using Facebook is completely *voluntary*? **Its also free**, and anyone worried about Facebook violating their privacy can simply delete the app. By the way, I know plenty of people, myself included, who do not have a Facebook account, and many of them are quite successful without. Further, Facebook didn't exist 16 year ago, so its hard to argue that the world couldn't somehow get along without it. Here again, we can certainly debate some of the unsavory aspects of social media, but, if the endgame for successful technology ventures suddenly becomes forced government divestiture, one must wonder how that will impact future investment in technology and by extension the continued advances of the same. The longer term "unintended consequences" of tearing down successful technology enterprises because they are… successful… is chillingly Orwellian. Moreover, Harris is hardly the only candidate pressing such ideas, as Elizabeth Warren has also vowed to break up the likes of Facebook, Amazon and Google if elected.

…I won't even dignify getting rid of airplanes and flatulating cows.

Of course, national politics are not the only place where government regulation is beginning to impact public companies. In Colorado, the legislature recently passed a bill restricting oil and gas development in the state, despite voters overturning a similar ballot initiative just a few months earlier. That legislation was passed in the face of an industry that according to estimates *"contributes nearly $1 billion in tax revenue to Colorado and accounts for 89,000 direct and indirect jobs and makes up $13.5 billion of Colorado's gross domestic product (GDP)".*

The impact on Colorado oil and gas producers since the passing of the legislation has been considerably negative and strikingly similar;





The above begs the question, what will the future impact be on Colorado's budget and finances be if they eradicate one of the state's largest taxpayers? That will likely be a problem that has to be solved by people in the future rather than those making the laws today.

In addition to legislation like the above, we are seeing more and more local jurisdictions (states and cities) adopt new minimum wage laws that will ultimately impact businesses reliant on lower skilled labor. Unfortunately, those will inordinately be the small businesses that most politicians provide a great deal of lip service to in terms of wanting to help their plight. For many small business owners, the ACA has been a disaster and minimum age laws will be another layer of costs they will need to figure out how to absorb. The result, which we are already seeing will likely be the replacement of those jobs with AI enabled machines. One of the presenters at our recent conference has technology in beta that replaces the order takers at QSR drive throughs. Minimum wage laws improve the ROI of those technologies *on the face* and expedite their development and adoption.

While much of the above push for more government control has come from the usual suspects on the left, the right has provided its own version of assault on free markets. Inasmuch as I agree with some of Trump's lines in the sand, his pressure on the Fed to continue to reduce interest rates is troubling. When he was running for office the Fed was "creating a bubble in everything" with its easy money policy, but now that he is in the driver's seat he can't seem to get enough of the same policy. Further, while the fight he has picked with the Chinese (and others) over trade has some basis in fact, especially in my view as it pertains to the protection of international IP, tariffs are almost always bad in the longer term. Unfortunately, to reiterate, the negative impact of bad rules, regulations and decisions of politicians are often not realized until after those politicians have retired and are comfortably collecting their pensions. The reset of us however, investors included, must live with those bad decisions, and worse yet figure out how to fix them in the future. Moreover, when those rules include gutting the engine of capitalism, there ends up being less growth and less prosperity left to fix them with.

If the assault on capitalism is allowed to continue, this will not end well: not for workers, not for investors, not for companies, not for communities and not for our country. Further, the impact of that posture may happen sooner than we think. Be careful what you vote for.