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Why the Capitalist World Needs To Move (A Little to the Left)

WRITTEN BY: ASHOK DHILLON



Ashok Dhillon has over 40 years of front-line business experience in Canada and International markets. His extensive experience gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends.

Mr. Dhillon has been invited to speak on international business at various forums, including as an Expert Witness for the Standing Senate Committee, Government of Canada, on "The Rise of Russia, China and India".



*"Capitalism is a social system based on the principle of **individual rights**. Politically, it is the system of **laissez-faire** (freedom). Legally it is a system of objective laws (**rule of law** as opposed to rule of man). Economically, when such freedom is applied to the sphere of production its result is the **free-market**."*

Source: Capitalism.org

Corruption of all human institutions - political, social, economic and religious - has been the universal hallmark of humanity since time immemorial. And, those who corrupt these institutions the most are usually the 'insiders' of such institutions. Add to them their most fanatic believers that without question buy into the propaganda, the outright lies and misinformation of the insiders, and are willing to defend these institutions and beliefs with a closed mind, and you have the current global reality, in politics, society, economics and religions, each polarized, and unwilling to consider more balanced views.

In economics, currently, 'Capitalism', as defined above - '*individual rights, political freedom, rule of law, and the free market*' - is corrupted by the increasing power and wealth of oligarchies (*concentrated power in the hands of a few*) for their personal enrichment at the expense of the majority, in spite of the fact that over the past 30 years, most governments have turned to some form of 'Capitalism' in an effort to grow their economies and bring prosperity to the masses, or at least to the middle classes (*every government's favourite voting block, during elections*).

To assert that 'capitalism' is corrupted by its practitioners is perhaps to state the obvious. But, severe damage was done to the global financial and

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economic system at the end of 2008, by capitalism's most ardent supporters in America, through outright fraud and pervasive corruption. And now, serious damage is being inflicted on the global economies, and the masses, by endless QE (*Quantitative Easing*) policies that are demonstrably and overwhelmingly favouring the very few at the top, to the exclusion of the majority, and burdening the systems with debt that the world's average tax payers, and not the rich, will ultimately pay.

Economies are made up of the masses, and not the privileged few. Seems obvious? Apparently not.

The simple fact, that economies are the cumulative effort of the majority, and not the brilliance or exceptionalism of the very few, is ignored by the policy makers and their controllers, as they constantly jig the policies to favour the wealthy. Policies, regulations and tax regimes that favour the privileged are not true capitalism, but a corruption of its core principles of equality.

Until the average person gets the same 'breaks' as the elite, and not have to wait for the anemic trickle-down from the 'top-down-wealth-effect' policies being pursued by the Federal Reserve and the other major Central Banks, the economies cannot recover or prosper.

Capitalism is 'the last man standing' of the modern economic systems and thus adopted in varying degrees, and in various models, all over the World. Socialism and communism are the others, but are now thoroughly discredited by their consistently abysmal performance as economic systems, and therefore largely abandoned by most major governments (even by most communist and socialist governments) over the past decades.

In its uncorrupted form, capitalism is the surest way of creating and distributing wealth, and the ultimate economic system for allowing people to live better and more prosperous lives, regardless of political/religious ideologies, and social status. Therefore globally, capitalism is more pervasive today than perhaps at any time before.

CAPITALISM



SOCIALISM



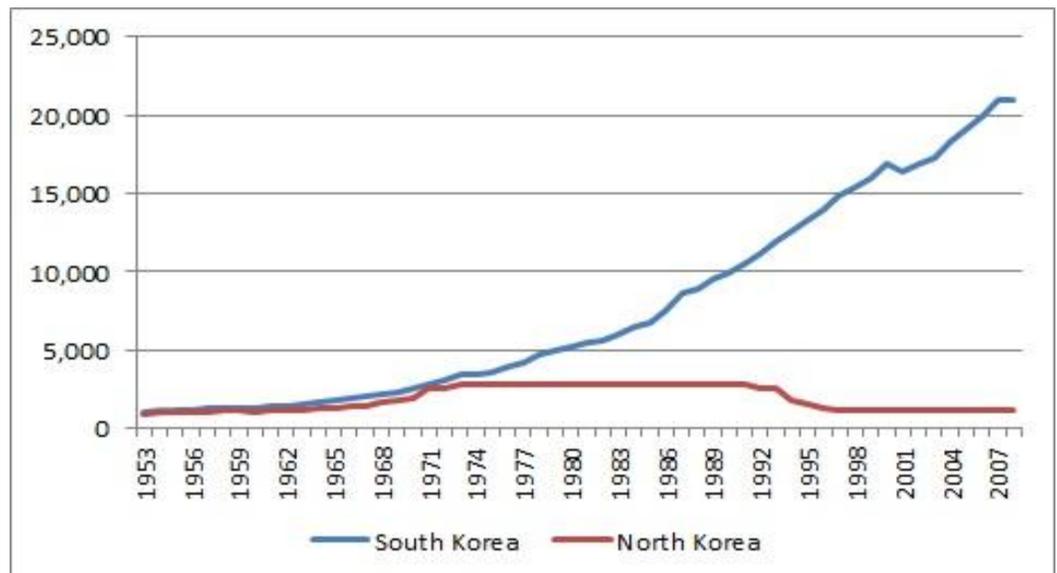
The last few decades have certainly proven that, as major and minor communist economies collapsed or languished, like the Soviet Union, China,

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Venezuela, Cuba, Vietnam, North Korea; and socialist systems like India and dozens others in Asia, Africa, Latin and South America wallowed hopelessly in inefficiency and poverty; until they embraced some degree of capitalism into their national economic policies. It is only when most of the underperforming economies turned towards capitalism, at least in the 'free-er' movement of capital, goods, and services, even while staying communist or socialist politically, that their economies started to grow fast enough to make an appreciable difference in the life of their people.

In the last three decades, China and India are the two largest and most obvious examples of such transformation, to a greater and lesser degree, while Russia never got there, after the collapse of communist Soviet Union (USSR), because its economy got hijacked by oligarchs, and today it is a quintessential oligarchy under President Putin. Communist Vietnam opened itself to some capitalistic practices and started to grow, while North Korea held on to its hardcore dictatorial and communist model and is still poverty stricken. South Korea is economically and socially light years ahead of North Korea, because it is capitalist and democratic. The Chart below shows the dramatic divergence in the rate of growth of the two countries as a result of the different institutions adopted by them, democratic vs dictatorial, and capitalist vs communist (oligarchy).



Source: Naked Keynesianism

Therefore it is not arguable that the 'capitalist' *economic system* is superior to communism and socialism, and the past decades have certainly proved it, as the others failed. But the last decades have also proven capitalism to be vulnerable to gross excesses and blatant abuses by the very people that carry its torch most vociferously, the major developed economies, particularly America. That is why the 'capitalist' economic systems (*countries*) need to shift 'a Little to the Left', regardless of their political reality (*communist*,

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socialist or democratic, or shades of in-between), to preserve the best wealth generating system in the World. And when we say 'shift a little to the left' we do not mean shifting towards socialism or communism. We point to policies being in place over the recent past that are increasingly skewing all benefits disproportionately towards a privileged few at the expense of the majority, under supposed capitalistic practices. Under these policies oligarchies are being created and strengthened, which endanger capitalism itself. Of course, to the privileged few (*the 10%*), regardless of the country or political system they belong to, this is the best kind of capitalism, even if unsustainable.

But we know that this is not capitalism, as it will not produce a sustainable egalitarian society with equal individual rights and freedoms, rule of law, and economic and financial markets ruled by free market principals. In fact, most government and economic policies of the past decades, especially in the U.S., through the influence of the top 10%, have produced the opposite, the diminishing of individual rights, subversion of the political process, circumvention of the rule of law, the lessening of wealth for the average person through continuous massive subsidies to the rich, through direct cash bailouts, tax breaks, QE (*artificial asset price inflation - "the wealth effect" - of course the more assets you own the better*), and worst of all, the continuous suppression of market forces through rate cuts and money printing.

Today's political and economic elite, the fabled 1% to 10%, as they amass unprecedented and easy riches through political and economic mechanisms that overwhelmingly favour them, are forgetting that without a relatively prosperous and growing population of consumers there is little to no economic growth, regardless of repetitive rounds of QE and record low interest rates, efficiency and cost effectiveness of production, distribution and marketing, or the brilliance of innovation, and the superiority and efficiency of technologies. We have all observed that fact and phenomenon over the past 7 years as Trillions in 'quantitative easing', years of near zero interest rates, and factories in the most cost effective and efficient jurisdictions, has continued to produce an ongoing economic downturn, massive job losses, extreme wealth inequality, record global public debt, and contracting economies. These are not the results expected from the best economic system in the World after the expenditure of Trillions in stimulus spending over the past 7 years alone. This is the current global economic reality as the Federal Reserve, the European Central Bank, Bank of Japan and the Peoples Bank of China, Bank of Canada, Bank of Australia, Reserve Bank of India, most other major Central Banks, continue to 'ease', and lose.

If the corruption of capitalism, through policies and regulations primarily favouring the few, is allowed to take the current unbalanced global financial and economic system to its logical conclusion (*another major financial/economic crash*), the consequences will be dire; the possible collapse of the global financial/economic system, and the serious damaging of the only known economic system that works. And the World, once again, will crash back into a larger economic and social disaster.

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So where did it go so wrong with capitalism? It started to go wrong in America, one time the home of true capitalism, as it had the most egalitarian society and where everyone could aspire to be the President. Not anymore, as Hundreds-of-Millions, and Billions, of dollars are required and mobilized by “Super PACs” for the support of favourite candidates through mass advertizing and propaganda, to influence voter thinking and win the elections.

DEMOCRAT

“
THE TIME HAS COME TO SAY
LOUDLY AND CLEARLY:
ENOUGH IS ENOUGH.
THIS GREAT NATION AND ITS
GOVERNMENT BELONG TO ALL OF
THE PEOPLE, AND NOT TO A HANDFUL
OF BILLIONAIRES, THEIR
SUPER-PACS AND THEIR LOBBYISTS.

”
SEN. BERNIE SANDERS (I-VT.)

REPUBLICAN

“
I GUARANTEE THERE WILL BE A
SCANDAL,
THERE IS
TOO MUCH MONEY
WASHING AROUND POLITICS, AND
IT'S MAKING THE CAMPAIGNS IRRELEVANT

”
U.S. SEN. JOHN McCAIN - 2012 Quote

America is equated with ‘Capitalism’. And is it’s most vocal defender (*perhaps no longer its best practitioner*). But over the recent past, American capitalism has been setting bad precedents and is influencing similar economic behavior all over the World. And like America’s other institutional claims, of democracy, equality and ‘peace’, America ‘capitalism’ has been corrupted by its 1% subverting its key processes. And its Central Bank (*the privately owned Federal Reserve, under the control of its 1%*), is systematically destroying its free markets, arms length price discovery, business cycles, and thus its economy.

American capitalism is suffering from its own complete, indisputable and crushing economic victory over its rivals, communism and socialism. And, without any real competition to keep it ‘honest’, it has become complacent, careless, has had hubris set in, and has been deeply corrupted by its own success.

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America started to weaken when it became the undisputed 'super power' of the World after the deterioration and destruction of its arch rival, the USSR, its main and only real competitor in geo-political power post World War II. After the dissolution of the USSR, America had no real competitor to keep it disciplined and 'in-check', and started to morph into an over-confident, self-obsessed - political and economic oligarchy. Source: David Brin (*below*)

**Oligarchy has always been
the chief enemy of
markets, enterprise,
science, truly competitive
capitalism and freedom.**

Never has political and economic power been so concentrated in the hands of so few in America today, to the detriment of so many of its people. Even its current President, Barack Obama, a Democrat, who wants to change the economic landscape, has been severely hamstrung, and at times rendered helpless in being able to carry out his Administration's economic policies to try and 'balance' the inequalities, by the few, in whose hands rests the real political and economic power (*Republicans mostly*). Additionally, Obama is dependent on his 'Experts and Advisors', who have been ex-Wall Street executives who looked after their own. Today, the Federal Reserve through its Federal Open Market Committee (*FOMC*) and not the President, is responsible for the America's economic trend setting policies, through the key interest rate and QE, and FOMC is still looking after '*Wall Street*' over the barely visible '*Main Street*', while advising the President how good it all is looking.

Through the extreme concentration of wealth, and through it, the control of the Congress and the Senate, both of which institutions are under the control of the Republicans, who in turn are controlled by big business and big money, act as a foil to the President's social and economic agenda, which has been trying to right some of the wrongs and excesses of the 'pure Capitalists' in the past decades. But the top 10%, through the control of most of the Country's resources, prevent such necessary balancing change, and see the need of it as an assault upon their 'God-given-right' to exploit all the Country's resources, political, economic and human, for their sole personal gain. They like to believe they are inherently self sufficient (*conveniently forgetting of course the recent bailouts and the endless favourable policies*), and do not need the majority's well being for their own to be sustaining.

They are mistaken; historically oligarchy is one of the essential ingredients that has always led to the downfall of most great empires.

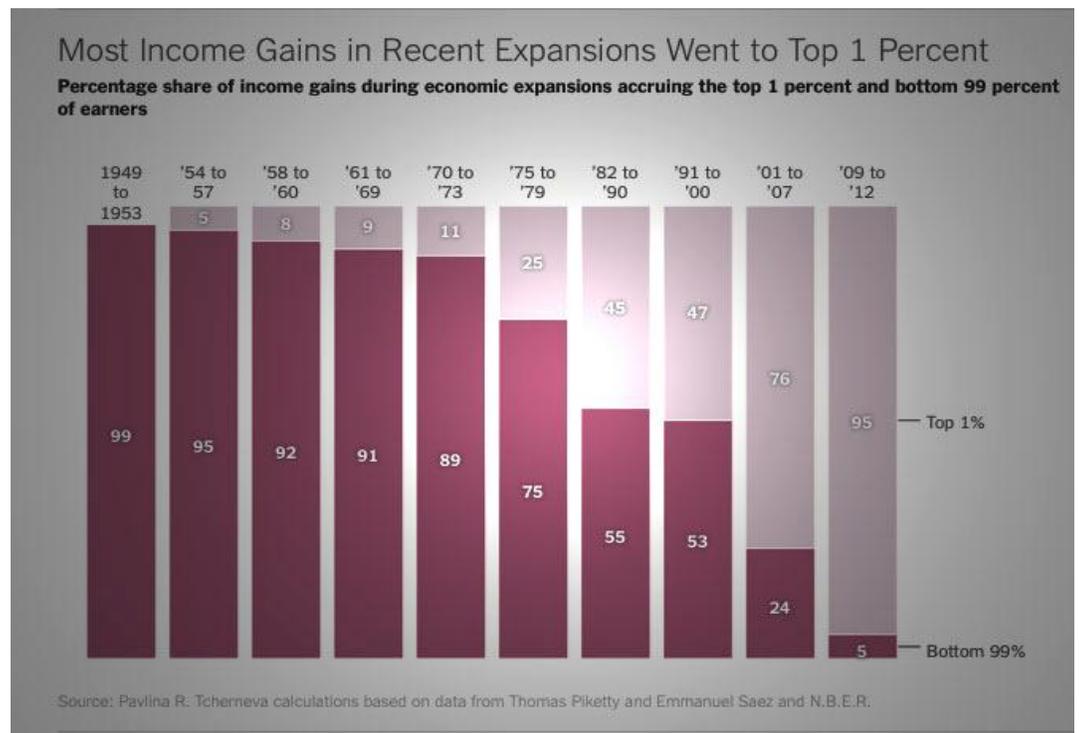
More recently, the supposed omnipotent USSR, and the former pre-capitalist China, where all the power and resources of the two countries were

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concentrated in the hands of their governments (*the 10% elite*), and the public suffered increasing hardship and deprivation, the countries could not sustain their 'self sufficient' communist economic models, and had to turn toward capitalism to merely survive and grow. And grow they did, as they loosened some of their absolute control, adopted capitalistic practices into their economies and let a little more of the power and wealth of the countries flow down to the masses (*China having done a far better job than Russia, but at least there are no bread and shoes lines*).

These two countries epitomized the least political and economic freedom for their people, while America stood for the freest of all people, in all categories, and that was its overwhelming strength. Today, America is heading in the opposite direction, from its people holding most of the political and economic power post-World War II, to currently, less than 1% to 10% holding almost all. As power gets increasingly concentrated in the hands of the very few, America's economic, political and social fabric is threatened, as the average American struggles to hold economic ground and political relevance, unsuccessfully.



Source: Pavlina R. Tcherneva based on data from Thomas Piketty and Emmanuel Saez and N.B.E.R.

Unless the U.S. changes its course and brings back its former truly egalitarian society, it will suffer similar economic damage to its economy, and society as other major authoritarian societies in the past once did.

(Very recently Canada has made a bid to change course from the last decade of U.S. style, short-sighted, alienating, inequality creating, right-wing policies of

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the Harper Government, towards the more egalitarian vision of Prime Minister designate, Justin Trudeau. Similarly, America will have to turn - a little to the left – to bring back its truer form of capitalism, and thus its sustainability.)

Since WWII, and especially since the fall of the USSR, the abuse and corruption of power in politics (*particularly the G.W. Bush years*), and as a true sign of self-indulgence, over-confident fearlessness and hubris, America increased its over-seas adventurism dramatically, which resulted in the longest running and most costly wars of Iraq and Afghanistan. Those adventures ultimately turned out to be predictable and inarguable failures. But these setbacks and failures are not only costing America and its people a lot, and weakening them, but have destroyed and displaced millions in the Middle East and destabilized the entire region, and added to global insecurity. In business, in the 1990s, the hubris, and corruption of values, grew ever more pronounced, as the collapse of WorldCom, Enron, Arthur Anderson, Lehman Brothers, Bear Sterns, and many more marquee names, attest. Plus in 2008, Banking/Investment Banking, and Insurance corporate fraudulent practices, resulted in crashes and bailouts, and Hundreds-of-Billions in penalties for active banking fraud that continue till today. The 2008 financial crash, its origin, scale and aftermath (*all made in America*), damaged the global financial and economic system heavily. And as the U.S. Government stepped in to bail out its biggest and best, by handing out Hundreds-of-Billions of dollars in the most interventionist, communist/socialist way, it gave 'American-style capitalism' a bad name, with its critics for the first time having legitimate reasons for their very vocal criticisms.

It was not 'capitalism' that was at fault, but the corrupt practices of its practitioners. Thanks to the policies of Federal Reserve Chairs, Alan Greenspan and Ben Bernanke, and the accompanying financial deregulation by successive Governments starting with Ronald Reagan, the initiatives, excess liquidity, and deregulation, including tax breaks which heavily favoured the wealthy, allowed for greed and blatant corruption to highjack capitalism. And the undue pervasive corrupting influence of the very few, in economic, political and foreign policies, is still very obvious today.



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Without a real and imminent outside threat, the politically and economically powerful in the U.S. have gone on an uncontrolled self-enrichment program from which America is still burdened, with unprecedented concentration of wealth in the hands of the few. Those ultra rich few, are fueling and funding destructive and bitter internal political divisions amongst the two political Parties and their die-hard adherents, and have thus essentially split America in-two, politically and economically, thereby grotesquely deforming American democracy and capitalism.

In a strange twist, America is emulating some of the practices of its former arch rival (*the former USSR*), in ways which are influencing its internal and external characteristics that define and weaken it today. Its external undisputed 'super-power' military status is making it act unilaterally on the international stage (*in spite of its efforts at times to mask it under outlandish versions of various coalitions*), and the internal concentration of political and economic power in the hands of the very few, are making its business and financial community less than ethical, breeding large scale corruption, and damaging its economy and reputation internationally.

The widespread fraudulent behavior in America's financial community almost brought the global financial system to a collapse in 2008, and the continuing excesses in speculation in its financial markets, have once again brought the system to the edge of potential crisis. The American economy thus is weak and vulnerable in spite of its traditional inherent strengths and resilience. It is being weakened from within by its insanely partisan politics, and its equally insane economic policies of massive and continuous Federal Reserve interventions in circumventing market forces. These continuous interventions are the ultimate corruption and distortion of capitalism, whose ultimate core premise that differentiates it from other economic systems is to allow market forces to dictate economic trends, activity, and price discovery. Deep rot has set into America's political and economic institutions that the candidate for the 'Democratic Nomination', Senator Bernie Sanders, is railing against, in his current campaign.

Being the bastion of global capitalism, America's ways and means of conducting business over the past decades has been setting the precedents, and for the most part not very good ones, for the rest of the global economies and financial markets to follow.

The decoupling of the U.S. dollar from gold, by Richard Nixon, a Republican, in August 1971, allowed the unending temptation and the ability for '*All Governments*' to '*print*' money. In 1987, President Ronald Reagan, also a Republican, appointed Alan Greenspan as Chairman of the Federal Reserve, who began the era of unprecedented liquidity that was carried on by his predecessor Ben Bernanke, and has not abated till even now, under the current Federal Reserve Chairperson, Janet Yellen.

This ability for governments to '*print*' endless amounts of money, *without the requirement to create equal value*, has been the bane of the global economic



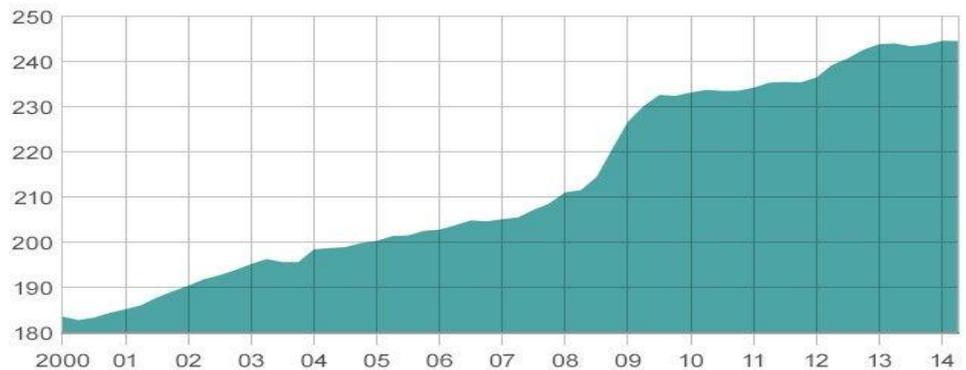
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and financial systems, since then. Most governments have gone on unprecedented money printing binges, especially in the past 7 years, when tens of Trillions were added to the total global debt that now stands at just under US\$250 Trillion, leaving the World drowning in public debt, the benefits of which were minimal to the public, and maximum to the global elite.

Global total debt outstanding

Percent of GDP, GDP weighted average



Source: Institute of International Finance

And it is by no means over. As the economies in Europe, China and America continue to contract, more 'stimulus' is being contemplated by the Central Banks which will add to the existing enormous debt burden, the majority of which is already un-payable. The ever greater leverage is making the economies of these countries, and the global financial system, more vulnerable again to additional and serious corrections. But the financial market speculators, globally, don't care about the dangers of excessive leverage, the underlying economic fundamentals, or the condition of the struggling masses (*the critical consumers*), but are euphoric at the possibilities of even more cheap money from the Central Banks to speculate with, in the financial markets, driving them ever higher, despite the deteriorating fundamentals.

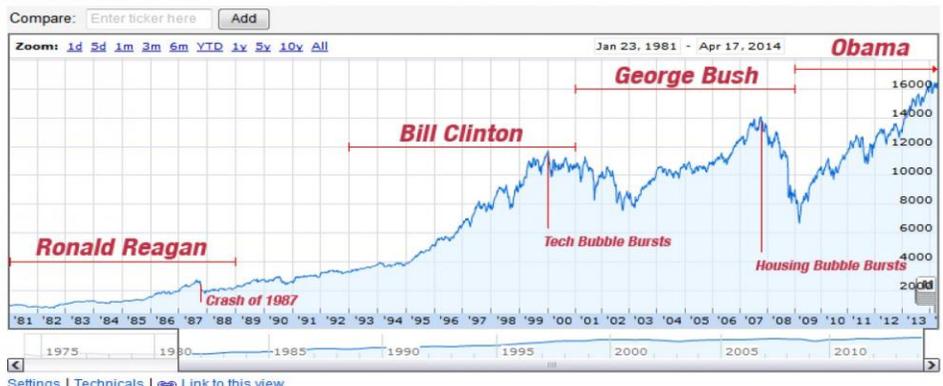
Ever greater expansion of money supply, through Central Banks, results in ever climbing financial markets in spite of greater and deeper crashes, as the market forces try to self correct the aberrations. But the markets are no longer 'free' (*capitalism*) but are being "guided" by Central Banks through repetitive and heavy handed interventions (*communist and socialistic central planning*).

16,408.50 -16.35 (-0.10%)

Real-time: 12:11PM EDT
INDEX:DJX real-time data - Disclaimer

Range 16,368.14 - 16,460.49
52 week 14,444.03 - 16,631.63
Open 16,424.14
Vol. 62.10M

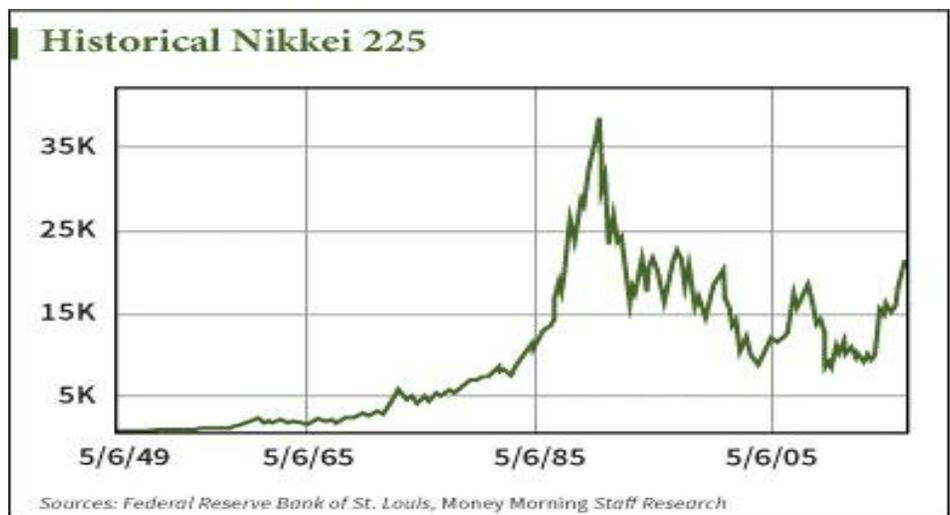
Source: Marketcall



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Easy money feeds growing greed, and breeds expectations of more easy money through activities and habits that lead to excesses that the market then purges through ever greater crashes. As governments, under increasing influence of the few, with disproportionate power and wealth, try to rectify the damage done by markets trying to 'correct', by printing more money and easing credit, most of the advantages of which again go to the very few at the top, the damaging cycle starts all over again. We have seen this all unfold first hand in the recent past in America, the World's largest economy (*last Chart on previous page*), and also in Japan (*next Chart below*), and most recently in China (*2nd Chart below*), the World's 2nd and 3rd largest economies.



The Shanghai Composite Index So Far This Year

The index at one point today suffered its worst decline since 2007

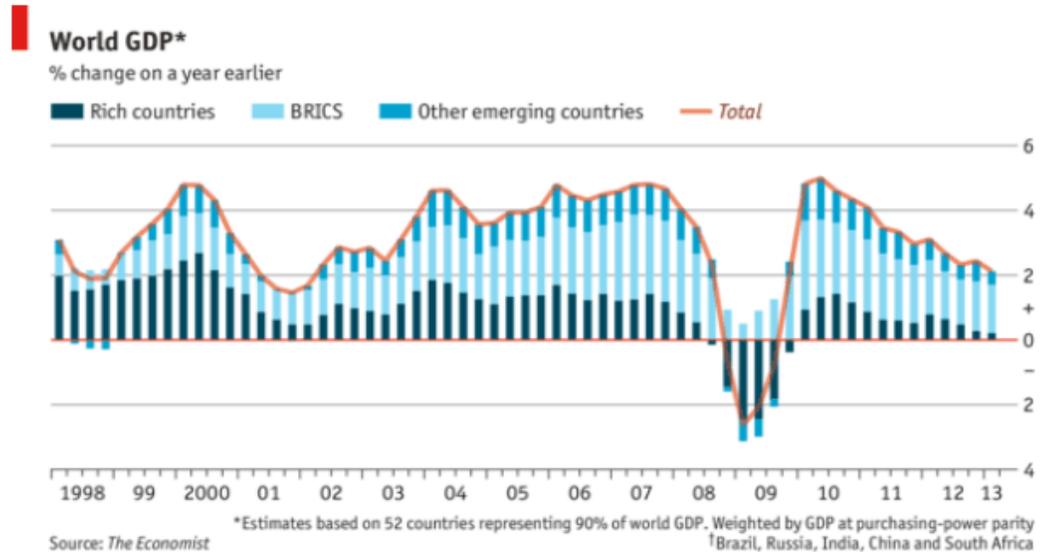


With most major economies embracing some form of 'capitalism' in practice, and with Central Bank's 'easing' at an all time high globally, yet economic growth and jobs languishing at best and regressing at worst, while wealth inequality rises dramatically, it all points to some serious problem with the practice of 'capitalism'. The recent decades have seen an enormous and steady growth in global debt. But, since the global recession of 2008, the pace and volume of global debt growth has taken on unprecedented proportions, where the debt today is over 240% of the global GDP. If this incredible growth in debt had produced an equal and proportionate growth in World economic

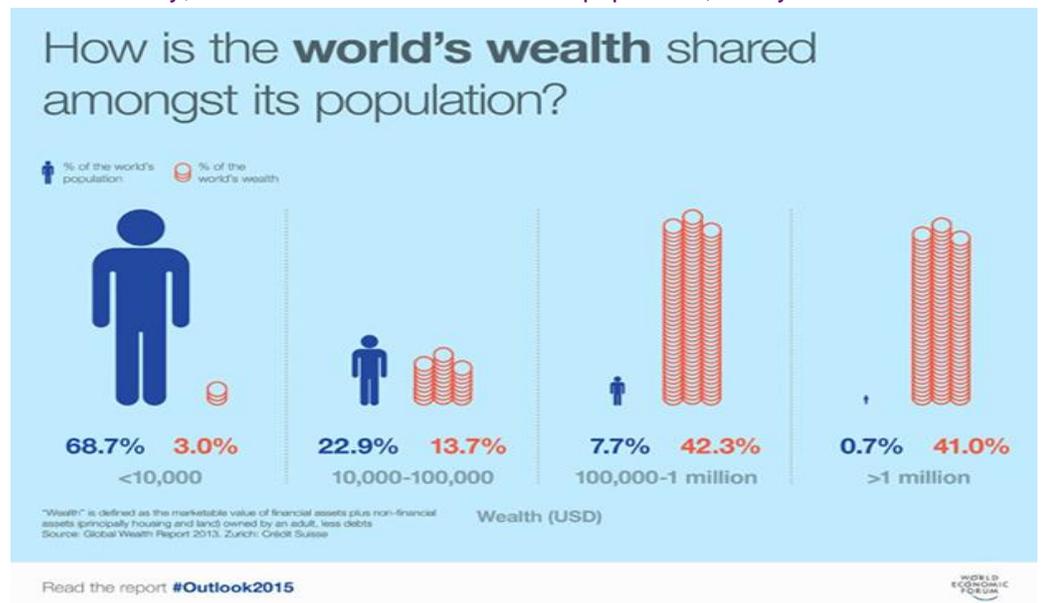
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output as measured by global GDP growth rate, it would be justified, but as the Chart below shows, with the ever rising tide of debt, the global GDP is steadily contracting, resulting in greater economic uncertainty, job losses and lack of economic opportunity for the global populations, and another potential devastating global financial catastrophe.



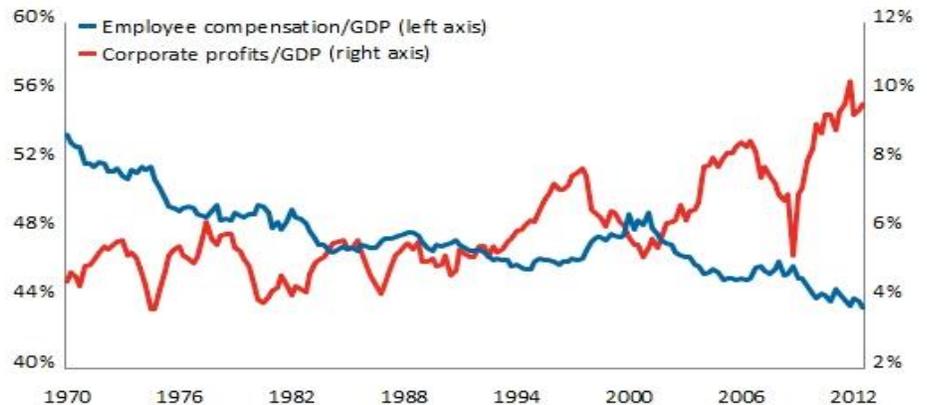
As the global debt climbs and the economic output contracts, less than 10% of the world's population get richer, owning over 80% of global wealth; showing that 7 plus years of QE and low interest rates benefited the very wealthy almost exclusively, and the over 90% of the World's population, hardly at all.



Humans being what they are, when things go well, they tend to believe in their own infallibility, forgetting or ignoring the fact that regardless who they are they had plenty of 'support' from others on their way up. No industrialist or tech genius got rich without lots (*if not armies*) of support workers. No financial speculator got rich without easy credit, favourable tax rules, and financial

regulations skewed in their favour. To believe otherwise would be the height of hubris and personal vanity, which the ultra rich seem to cultivate in equal proportion to their growing wealth and power. We are capitalists and therefore believe in the enrichment of people through individual efforts, but we have been also in the front lines of business long enough to know that the World's rules and regulations favour the wealthy and powerful disproportionately. We are also acutely aware that unless the underlings (*workers*) are looked after, and their economic well fare is considered, there can be no sustainable prosperity even for the wealthy and the powerful. Without a gainfully employed, healthy, prosperous workforce, there can be no robust economy.

Corporate profits continue to grow as a share of the US economy while wages decline



Source: Federal Reserve



Extreme economic disparity eventually results in political and social upheaval that forcibly tries to 'balance' the growing extreme inequality. Before that point is reached, governments and the financial elite need to 'Move a Little to the Left' and try and recreate the former American style truly egalitarian society, globally.

That is the only way true capitalism can survive these days of growing inequality.

Those in the past that have believed that their wealth and power alone is sufficient to insure survivability and sustainability have been always been wrong.